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Trade Promotion Council of India

Forex Market Insights

Newsletter

Volume 129 → Aug 24 to Aug 30, 2024

Welcome

Dear Stakeholders,

I'd like to share my insights on recent currency market developments. The US Dollar has faced significant challenges, reaching new yearly lows below 101.00. This decline is largely driven by expectations of potential rate cuts by the Federal Reserve later this year, a sentiment reinforced by Fed officials and Chair Powell's dovish tone at Jackson Hole.

The Dollar Index hit a 13-month low around 100.70, reflecting these rate cut expectations. In the coming week, we'll be watching key economic indicators including Durable Goods Orders, Consumer Confidence, and the PCE. The Euro and British Pound have both shown strength against the Dollar, with EURUS$ approaching 1.1200 and GBPUS$ surpassing 1.3200. Meanwhile, US$JPY has resumed its downtrend, nearing 144.60.

Looking ahead, I anticipate continued volatility in the US$, especially as markets digest upcoming economic indicators. The Euro and British Pound have shown resilience, while the Japanese Yen and Australian Dollar are also experiencing significant shifts. Monitoring these developments will be crucial as we navigate the evolving economic landscape.

Thank you
Vijay Gauba
Additional Director General
Trade Promotion Council of India

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Key Takeaway Summaries

₹ INR

The rupee touched a 2-week high of 83.755 this week as the Dollar index fell 1.68% to an 8-month low of 100.67, pressured by Fed members signaling support for a September rate cut.

€ EUR

The EURUS$ pair reached 1.1200, settling at 1.1189, driven by a weaker US dollar index and mixed ECB rate cut signals.

£ GBP

The Sterling surged to a 2-year high of 1.3230, supported by dovish Fed Powell's comments that weakened the dollar to a 1-year low and UK Strong PMI data also bolstered the pound.

¥ JPY

The yen gained 2.16% this week, rose to 144.38 mark, driven by BoJ hawkishness and a weaker dollar index.

₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.50%	1.9%	3.54%	9.2%	$-23.5B

Events to WATCH

Aug 30, 15:30
Federal Fiscal Deficit (Jul)

Aug 30, 17:00
FX Reserves, US$

Aug 30, 17:30
GDP Quarterly (YoY) (Q1)

Aug 30, 17:30
Infrastructure Output (YoY) (Jul)

Some degree of volatility in the US$INR pair this week as the rupee recovered slightly in the middle of the week to test its 2-week high level of 83.755 last touched in the initial trading sessions of the August month. The pair made a significant range of almost 20paisa this week. The Dollar index continues to remain under pressure amid rising chances of an interest rate cut by the US Fed. The dollar index fell by 1.68% throughout the week to its 8-month low level of 100.67 last traded last year in December. Two Fed members also showed support for the upcoming rate cut in the September meeting. According to Boston Fed President Susan Collins, she is likely to back a September rate decrease, while Philadelphia Fed President Patrick Harker stated on Thursday that he was in favor of one as long as the data performed as he projected. Moreover, on Friday Powell stated, "The time has come for policy to adjust," citing a decrease in the upside risks associated with inflation and an increase in the downside risks associated with employment.

According to the CME watch tool, the probability for the September rate cut has rose to almost 70% after the Powell's speech. On the Indian front, fundamentals continue to remain strong as the manufacturing as well as services PMI numbers both came in the expansion zone. The Monetary Policy Committee (MPC) meeting minutes were released by the Reserve Bank of India (RBI) on Thursday. The minutes pointed out that in order to keep inflation stabilized at its target range, the policy must be strongly disinflationary. Our Fx reserves again rose by $4 billion summing up at $674.66 billion which shows that the central bank might have capped the rupee gains by intervening into the markets. The pricing in of rate cuts have resulted in increased as the 1 year premiums are back above 2% now and we might see more increase in the premiums as more rate cuts starting to price in.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.5%	2.8%	2.9%	4.3%	$-73.1B

Events to WATCH

Aug 26, 18:00
Durable Goods Orders (MoM) (Jul)

Aug 27, 19:30
CB Consumer Confidence (Aug)

Aug 29, 18:00
GDP (QoQ) (Q2)

Aug 29, 18:00
Initial Jobless Claims

Aug 30, 18:00
Core PCE Price Index (MoM) (Jul)

Aug 30, 18:00
Core PCE Price Index (YoY) (Jul)

Aug 30, 19:15
Chicago PMI (Aug)

The pair continued to trade close to its all-time high levels but showed some degree of volatility in this week. It made a slightly bigger range of 20 paisa as the rupee recovered to its 2-week high level of 83.755 amid declining dollar but ultimately ended weaker at 83.9025.

Analyzing the one-day frame chart, the 2-month old ascending channel seems to be broken from its lower band flagging towards more downside potential. The RSI has also dropped towards the 50 midline again flagging towards the upcoming downtrend in the pair. Though the long-term bullish trend stays intact with the price consistently staying above the crucial 100-day Simple Moving Average (SMA). The 84.00 level will continue to provide significant resistance point for buyers, but if the pair breaks through, the next target is 84.24, the Non-Deliverable Forward (NDF) all-time high. On the downside, initial short term support coinciding with the 21-day SMA is places around 83.80. If the price drops further, the next support level is 83.51, where the 100-day SMA is located.

Given the pair's all-time high levels, exporters have a favorable opportunity, though it's recommended to hedge only 50-60% of their positions above 83.93 level. Importers face challenges with the pair's continuous upward movement, and it's advisable for them to hedge even on small dips of 5-8 paisa for near-term payments. Using plain vanilla options for hedging is also suggested at this time.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.25%	0.3%	2.6%	6.5%	€22.335B

Events to WATCH

Aug 26, 13:30
German Business Expectations (Aug)

Aug 27, 11:30
German GDP (QoQ) (Q2)

Aug 28, 11:30
GfK German Consumer Climate (Sep)

Aug 29, 17:30
German CPI (MoM) (Aug)

Aug 30, 11:30
German Retail Sales (MoM) (May)

Aug 30, 14:30
CPI (YoY) (Aug)

Aug 30, 14:30
Unemployment Rate

The EURUS$ pair surged to a highest point since july2023 reached the 1.1200 mark, before settling the week around 1.1189 on Friday. The euro's strength is driven by a weakening in the US dollar index near to its year low due to the increased expectations of upcoming interest rate cuts by the Federal Reserve post soften US payroll data release. Early in the week, the pair retreated slightly to 1.1070 after reaching an eight-month high of 1.1088, due to a modest rebound in the dollar amid cautious trading ahead of significant Fed events and due to ECB policymaker Olli Rehn indicated a potential cut due to ongoing economic weakness. However, the focus shifted to the Jackson Hole Economic Symposium, where Fed Chair Jerome Powell indicated in his speech that it's time for Fed to cut rates now. Markets are pricing in a 76% chance of a 25 basis-point rate cut by the Fed in September, while 24% chances for 50 bps rate reduction. In contrast, the European Central Bank remains non-committal on future rate cuts. Although, the EURUS$ pair closed the week higher, buoyed by renewed dollar weakness, despite mixed PMI data from the Eurozone and concerns over potential ECB rate cuts. Market participants are likely to stay focused on upcoming economic data and central bank statements for further direction.

The EURUS$ pair started the week on a bullish note at 1.1025, maintaining its upward momentum from the previous week. The pair successfully held the 1.1000-1.1200 range, marking a 13-month high, largely supported by a weakening U.S. dollar. The recent downtrend in U.S. CPI has led markets to price in a 50 basis point rate cut by the Federal Reserve in September. Key resistance is anticipated above the 1.1100 level. A break above 1.1200 could propel the pair further towards the 1.1250-1.1300 range. Conversely, if EURUS$ dips below 1.1100 heading into next week, it may find support at the 1.1000 level, which previously served as resistance. The pair's direction will be significantly influenced by ongoing economic data and market sentiment around the Federal Reserve and Eurozone rate cut expectations. Traders should keep a close eye on these levels and remain alert to shifts in economic indicators and overall market conditions, as the current weak dollar trend seems to be taking hold.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5%	0.6%	2.2%	4.2%	£ -5.324B

Events to WATCH

Aug 30, 11:30
Nationwide HPI (MoM) (Aug)

Aug 30, 11:30
Nationwide HPI (YoY) (Aug)

The Sterling had the best week so far as the pair continued to gain for the second consecutive week. The pair touched a 2-year high of 1.3230, after the highly awaited speech of the Fed governor Powell. He emphasized that it's necessary to adjust monetary policy, stating that they do not favor additional weakening in labor market conditions. He added, "We will take all necessary actions to sustain a robust labor market as we continue to make progress toward achieving price stability." These dovish comments sent the dollar to 1 year low of 100.60. The whole week , the dollar remained under pressure due to dovish comments from Fed members like Kashkari, Goolsbee, and Harker and the lower revisions of the Non-Farm Payrolls benchmark, which was favorable for the pound. On the other hand, the strong PMI data, both the Manufacturing and Services in the expansion zone further bolstered the pair. Overall, the pair benefits from the divergence in both the central banks, with now a likely Fed rate cut in September, while the chances of a BoE rate still remain below 30%. US GDP and OPCE Price Index will be eyed for further cues.

It was a blockbuster week for sterling as the pair gained by 2.1% this week. The consecutive formation of green candles highlights strong buyer interest. The pair broke through the resistance at 1.3044 (the previous high) and reached a two-year high of 1.3230.The formation of a huge candle at the end of the week along the MACD line marching towards the significant 0.01 level shows the bullishness in the pair. The close near the high of the last candle suggests that bulls have dominated the market, further reinforcing the bullish outlook. If the bullish momentum continues the pair might test the level of 1.3437(March 2022 high). However, a retracement is also possible given the upsurge in the pair, the pair might decline to 1.3044(previous resistance).

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.25%	0.8%	2.8%	2.5%	¥ -622B

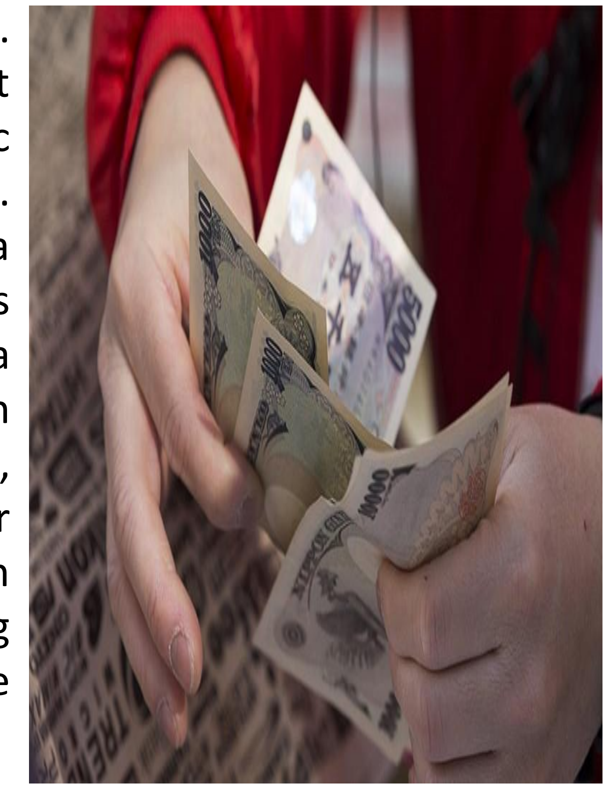
Events to WATCH

Aug 27, 10:30
BoJ Core CPI (YoY)

Aug 30, 05:00
Tokyo Core CPI (YoY) (Aug)

Aug 30, 05:20
Industrial Production (MoM) (Jul)

The Japanese yen experienced a notable gain of about 2.16% throughout this week against the US dollar. However, it started the week around 146.00 mark, the yen's strength is attributed to hawkish sentiment surrounding the BoJ and a weakening of the dollar index. Recent data underscored Japan's economic resilience, with second-quarter GDP growth at 0.8% QoQ and 3.1% YoY, surpassing expectations. Additionally, June's machinery orders rose 2.1% MoM, exceeding the forecasted bolsted speculation of a BoJ interest rate hike. On the other hand, the US dollar faced downward pressure following dovish remarks from Federal Reserve officials and soften Payroll data. Although, by mid-week the yen's rally faced a setback with Japan reporting a widening trade deficit of 621.84 billion yen in July, contrasting sharply with the previous month's surplus and missing forecasts. Despite this, Japan's core inflation held steady at 2.7%, and BoJ Governor Kazuo Ueda's support for a potential rate hike in October provided further support for the yen. Consequently, the yen strengthened to 144.38 per dollar by the end of the week, buoyed by dovish comments from Fed Chair Powell. Looking ahead, market focus will remain on Governor Ueda's upcoming testimony and forthcoming domestic inflation data, which will be pivotal in determining the yen's future direction.



The US$JPY pair began the week higher at 147.55, with the 145-146 range serving as a crucial support zone. The U.S. dollar's recent weakness has lent some strength to the Japanese yen, further supported by the Bank of Japan's outlook on potential future interest rate hikes. Notably, the pair recently broke below a long-term support region around 147-149, a critical area now likely to act as resistance. Currently, the pair has re-entered the 147-149 range, which could present some resistance. Technically, short-term pullbacks are expected to attract buyers, with the 145 level (S1) being a key area to watch for potential support. Additionally, the 141-142 zone could serve as further support if the yen continues to strengthen amid a weakening dollar. This week's movements suggest limited downside potential for the pair, especially as the unwinding of large carry trades has already occurred. Traders should closely monitor these key levels and remain vigilant to shifts in market dynamics as they navigate potential changes in the broader market environment.

BLOG

Mastering Forex Risk Management Effective Hedging Strategies for Treasury and Foreign Currency Management

In today's interconnected economy, businesses can't afford to ignore the impact of currency fluctuations on their bottom line. Whether it's a multinational corporation or a small business dipping its toes into international waters, forex risk management should be at the top of the financial agenda.
Forex risk management is about identifying and mitigating potential losses from currency exchange rate fluctuations. This isn't just some theoretical concept - it's a make-or-break issue for many businesses operating in the global marketplace.

The Treasury's Role: More Than Just Bean Counting
The treasury department plays a crucial role in managing forex risk. These often unsung heroes balance risk and reward while keeping a company's financial ship afloat.

Hedging Strategies: Financial Armor
When dealing with the rollercoaster of forex markets, businesses need some tricks up their sleeve. Here are a few key strategies that have proven effective:
1. **Forward Contracts:** These act like a financial crystal ball, allowing companies to lock in a future exchange rate, providing much-needed certainty in an uncertain world.
2. Currency Options: Offering more flexibility than forward contracts, currency options are like an insurance policy for currency transactions. Companies pay a premium for the right to exchange at a set rate but aren't obligated if the market moves in their favor.
3. Currency Swaps. : For those playing the long game, currency swaps can be invaluable. They're particularly useful when dealing with both exchange rate and interest rate risks.
4. Money Market Hedging: This strategy involves creating a synthetic forward contract by borrowing in one currency and investing in another. It's more complex but can be a lifesaver in markets where traditional forwards are hard to come by.

Making It Work: Implementing Forex Risk Management
Having a bag of hedging tricks is great, but it's not enough on its own. A comprehensive approach is needed to make forex risk management work. Here are some crucial elements:
1. Know Your Exposure: Before starting to hedge, companies need to know exactly what they're up against. This means taking a hard look at cash flows, balance sheets, and future transactions in foreign currencies.
2. Have a Clear Policy: Establishing a clear hedging policy that outlines risk tolerance and approved hedging instruments keeps everyone on the same page and prevents costly mistakes.
3. Keep Your Eyes on the Prize: Forex markets are always moving, so it's impossible to just set it and forget it. Regular monitoring and reporting are key to staying on top of forex risk.
4. Embrace Technology: In the 21st century, it's crucial to leverage technology. Advanced analytics tools can help understand exposures better and optimize hedging strategies.

Beyond the Banks: Forex Risk Management for All
While banks and financial institutions are often at the forefront of forex risk management, it's becoming increasingly important for businesses across all sectors. Whether it's an exporter worried about future receivables or an importer concerned about rising costs, there's a hedging strategy out there for everyone.

Challenges and Future Trends
Forex risk management isn't without its challenges. Market volatility, regulatory compliance, hedging costs, and operational complexity can all throw a wrench in the works. However, the benefits often far outweigh the costs.

Looking ahead, the future of forex management is exciting. There's increased use of AI and machine learning, greater integration with other risk management disciplines, and even the emergence of block chain in cross-border transactions and hedging.

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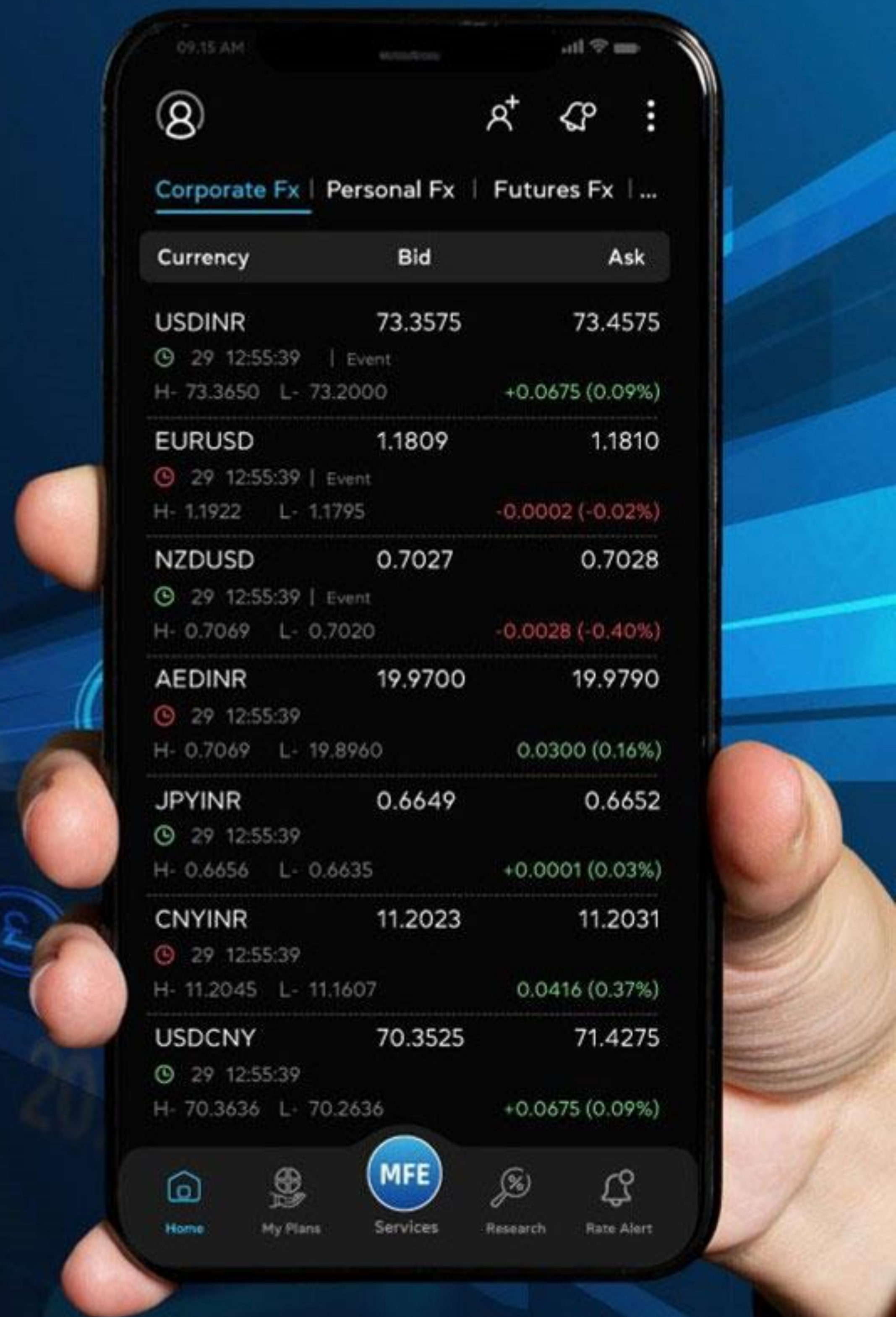

THANK YOU

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