Forex Market Insights

Newsletter

Volume 138 → Oct 28 to Nov 01, 2024

Welcome

Dear Stakeholders,

Let me share my analysis of recent market movements in the currency space. The US Dollar has shown remarkable strength, marking its fourth consecutive week of gains. This persistent uptrend brings the Dollar Index to around 104.25, representing a healthy three-quarter percent increase week-over-week.

Looking at next week's calendar, we're facing several crucial events. The European time change will affect market schedules, but more importantly, we'll see significant economic data releases. I'm particularly focused on Thursday's US core PCE Price Index and the Bank of Japan's rate decision. The EURUS$ struggled below 1.0800, continuing its decline from September's peak above 1.1200. The Japanese Yen has also shown notable movement, with US$JPY testing above 152.00 for the first time since July.

Looking ahead, I expect market volatility to continue as we approach key US labor market data, including ADP Employment Change and Nonfarm Payrolls. We're anticipating moderated job growth, with NFP forecasted at 140K, down from last month's 254K.Let's stay alert to these developments as they'll likely shape our market strategy moving forward.

Thank You
Vijay Gauba
Additional Director General
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Key Takeaway Summaries

₹ INR

The rupee faced ongoing challenges due to sustained foreign outflows from Indian equities, with Foreign Institutional Investors (FIIs) net sellers for the 19th consecutive session

€ EUR

EURUS$ fell to its 3-month low level of 1.0760 on Wednesday but managed to recover the 1.0800 mark at the end of the week.

£ GBP

GBPUS$ moved closer to 1.3000, bouncing back from a 2-month low after reports hinted that Finance Minister Rachel Reeves might permit more borrowing in the upcoming budget.

¥ JPY

Markets stayed alert for a potential intervention after the yen weakened past 150 per dollar

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.50%	1.3%	5.49%	7.8%	$-20.8B

Events to WATCH

Oct 30, 17:00
Infrastructure Output (YoY)

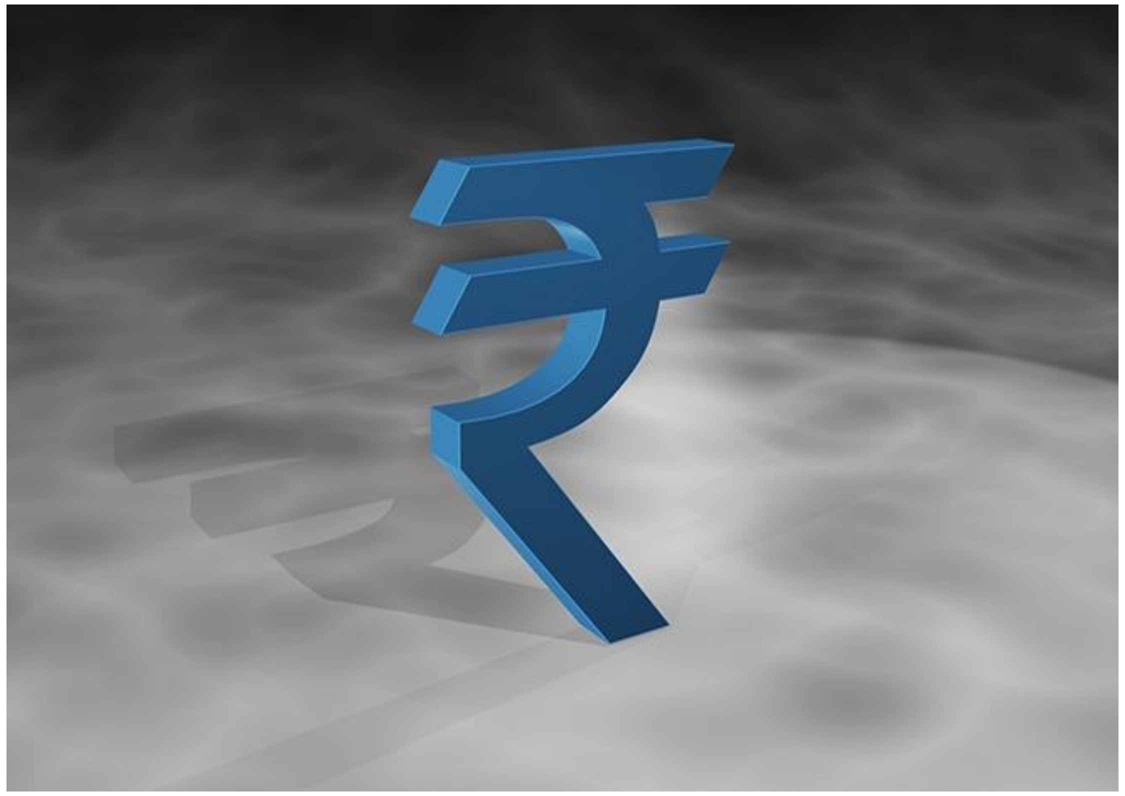
Oct 31, 15:30
Federal Fiscal Deficit (Sep)

Oct 31, 17:30
Infrastructure Output (YoY) (Sep)

Nov 01, 10:30
Nikkei S&P Global Manufacturing PMI (Oct)

Nov 01, 17:00
FX Reserves, US$

The US$INR remained mostly flat this week, trading within an exceptionally narrow range of just 3 paisa in each session. Hovering near its all-time highs, the pair offered exporters a favorable window for hedging and converting receivables. It was a relatively quiet week for economic data releases from both the US and India. The Dollar Index continued its rally from the prior week, rising in four out of five sessions and reaching an 11-week high of 104.57. Market sentiment has shifted strongly towards a smaller 25bps rate cut by the Federal Reserve, now priced at a 95% likelihood, with only a 5% chance of unchanged rates, per the CME FedWatch tool. Similarly, U.S. bond yields have reacted to this shift, with the 2-year yield up 15bps to 4.10%, and the 10-year yield climbing 14bps to 4.24%. The dollar's momentum was further fueled by a perceived advantage for Trump in the U.S. presidential race, with expectations that he may increase tariffs and import duties.



The rupee faced ongoing challenges due to sustained foreign outflows from Indian equities, with Foreign Institutional Investors (FIIs) net sellers for the 19th consecutive session on Thursday, redirecting investments to China amid stimulus measures and more attractive valuations. However, potential Reserve Bank of India (RBI) intervention helped contain further depreciation. India's foreign exchange reserves declined for the third consecutive week, falling by $2.16 billion to $688.26 billion as of October 18, according to RBI data. The combination of a strong dollar rally and significant outflows from Indian markets is expected to continue pressuring the rupee.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5%	3%	2.4%	4.1%	$-70.43B

Events to WATCH

Oct 29, 19:30
JOLTS Job Openings (Sep)

Oct 30, 17:45
ADP Nonfarm Employment Change (Oct)

Oct 30, 18:00
GDP (QoQ) (Q3)

Oct 31, 18:00
Core PCE Price Index (YoY) (Sep)

Nov 01, 18:00
Average Hourly Earnings (MoM) (Oct)

Nov 01, 18:00
Nonfarm Payrolls (Oct)

Nov 01, 18:00
Unemployment Rate (Oct)

The US$INR pair moved within a narrow range of less than 3 paisa over the week, with the dollar strengthened by rising expectations for a smaller rate cut from the Federal Reserve. This dollar momentum, combined with equity outflows, is placing pressure on the Indian rupee.

In the daily chart, US$INR shows an ascending trend channel, marking higher highs and lows since the start of the month. The pair is currently testing the lower boundary of this channel, and a break below could signal a potential shift from the bullish bias. The 14-day Relative Strength Index (RSI) sits at 62, further reinforcing the bullish trend. Immediate resistance remains near the all-time high at 84.08, while support aligns with the lower channel boundary and the short-term 9-day EMA (white line).

In line with the previous advice, as the pair hovers near historic highs, exporters are encouraged to continue hedging their unhedged exposure with a 50-60% hedge ratio. Importers should wait for smaller dips to start hedging for short term receivables.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.40%	0.2%	1.7%	6.4%	€4.584B

Events to WATCH

Oct 30, 14:30
German GDP (QoQ) (Q3)

Oct 31, 15:30
CPI (YoY) (Oct)

Oct 31, 15:30
Unemployment Rate (Sep)

The EURUS$ pair started the week on a negative note as it fell continuously for 3 straight trading sessions before retracing a bit towards the end of the week. The downtrend in the pair was primarily fueled by the dollar strengthening for the 4th consecutive week and touching its 11-week high of 104.57 amid rising expectation of a smaller rate cut by the fed in its upcoming meeting as the inflation and the US labour market continues to show robustness. On the other hand, the EURUS$ also fell to its 3-month low level of 1.0760 on Wednesday but managed to recover the 1.0800 mark to set a handful of pips above the level at the end of the week. The macroeconomic calendar had little relevance to offer this week, albeit Eurozone figures indicated that the economic setback continued at the beginning of the last quarter of the year. Amidst the bleak data from the Eurozone a few ECB policymakers also spoke this week, opting for a cautious approach ahead in cutting the interest rates and kept shifting the focus from inflation to growth. Future outlook of the pair seems a little positive in the short term as a little retracement is expected towards 1.0850.

The EURUS$ pair opened the week at 1.0859, near a high of 1.0871, continuing its fourth consecutive weekly decline. The pair faced steady selling pressure, closing below the 1.0800 level, which now stands as a critical support in the short term. This downturn is largely due to the dollar's strength, driven by mounting expectations of a Trump victory in the upcoming U.S. election and stable views on the Federal Reserve's monetary policy, with a smaller rate hike already factored in. Key resistance levels are set at 1.0900 and 1.1000, while a major resistance zone lies between 1.1100 and 1.1200; surpassing this could see targets of 1.1250-1.1300. If EURUS$ breaks below 1.0800, it may further drop to the 1.0650-1.0700 support zone. Future movement will likely depend on evolving Middle East tensions and key economic data from the Eurozone, which could shed light on the region's broader economic trajectory.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5%	0.5%	1.7%	4%	£ -0.955B

Events to WATCH

Nov 01, 15:00
Manufacturing PMI
PMI (Oct)

The GBPUS$ moved closer to 1.3000, bouncing back from a two-month low after reports hinted that Finance Minister Rachel Reeves might permit more borrowing in the upcoming budget. This move could push back any potential rate cuts by the BoE. Reeves aims to adjust fiscal rules to focus on public sector net financial liabilities, which might make room for tens of billions to be spent on capital projects. The Institute for Fiscal Studies noted that this approach could have allowed an extra £53 billion in borrowing as of last March, though the Treasury stated it won't use this capacity right away. Bank of England Governor Andrew Bailey expressed concerns about ongoing inflation, highlighting that while inflation has eased, underlying issues in the economy and high service costs still pose challenges. As a result, market confidence in a rate cut by November dropped to 86% from 100%. Additionally, initial PMI data revealed slower-than-expected growth in UK manufacturing and services for October. The GBPUS$ stance will remains cautious, with potential upside limited by delayed BoE rate cuts and economic challenges, while fiscal flexibility could lend modest support depending on policy actions.

Sterling remained under pressure this week, marking its fourth consecutive weekly decline and falling roughly 0.67% overall. The pair reached a fresh 10-week low at 1.2906 before recovering some ground, closing slightly higher at 1.2952. The GBP/US$ pair tested the near-term support at 1.2900 but managed to hold above it, suggesting resilience at this level. The MACD remains in negative territory, indicating potential for continued downside in the near term. Should the pair sustain its position above the key 1.3000 mark, it faces resistance at 1.3045, which could limit further losses. A bullish candle formation next week could signal a reversal, allowing the pair to potentially recover losses from the previous weeks. Traders will be watching for momentum signals as the pair attempts to stabilize or possibly retrace its recent declines.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.25%	0.7%	2.5%	2.5%	¥ -294B

Events to WATCH

Oct 29, 05:00
Unemployment Rate (Sep)

Oct 31, 05:20
Industrial Production (MoM) (Sep)

Oct 31, 08:30
BoJ Interest Rate Decision

Nov 01, 06:00
Manufacturing PMI (Oct)

US$JPY ended its fourth straight week of gains, closing Friday with bids testing above 152.00 for the first time since July. This comes as Japan heads into a general election, where the coalition government risks losing its majority, adding political uncertainty that could affect the Bank of Japan's plans to adjust monetary policy. On the economic side, Tokyo's core inflation—a key indicator for nationwide prices—dropped to a six-month low of 1.8% in October, below the BOJ's 2% target. Japan's Economy Minister Akazawa mentioned the mixed effects of a weak yen but didn't comment on specific exchange rates. Markets stayed alert for a potential intervention after the yen weakened past 150 per dollar. The yen also faced external pressure from a strong dollar, driven by expectations of cautious Federal Reserve rate cuts and bets on Trump's win in November. US$JPY may see continued upward pressure due to political uncertainty in Japan, subdued inflation, and potential Bank of Japan delays in policy changes. However, intervention risks remain if the yen weakens further amid a strong dollar environment.

The US$JPY pair saw an upward extension this week, reaching highs of 152 and even touching 153, establishing this range as a significant resistance zone. With a peak of 153.18, US$JPY is now at its highest level in nearly three months. On the downside, the 150 level is expected to serve as immediate support (S1), while the previous resistance at 147 (S2) should now act as a key support level in case of a pullback. In the near term, the pair faces strong psychological resistance around 150-152, and a sustained breakout above this area could drive the pair towards the 155 target. Traders should watch these levels carefully, especially with Japan's upcoming elections, as the outcome could influence Japan's monetary policy outlook and potentially impact US$JPY movements, depending on shifts in economic priorities under the winning administration.

BLOG

Strategies for Hedging in Foreign Exchange and Managing Currency Risk

As companies expand internationally, engage in cross-border trade, or invest abroad, they face challenges from currency movements that can significantly affect their financial results. The unpredictable nature of exchange rates presents both opportunities and risks, making the management of foreign currency exposure essential for business strategy.

From large multinational corporations to small exporters, all organizations must consider how currency fluctuations can affect their profits, pricing strategies, and overall financial stability. Effectively managing foreign exchange risk can be the difference between thriving and merely surviving in a volatile market. Therefore, financial managers, treasurers, and business leaders need to grasp and implement solid forex risk management strategies to succeed internationally.

Understanding Foreign Currency Risk Management

Foreign currency risk management involves identifying, assessing, and mitigating the impact of exchange rate fluctuations on a company's financial performance. This process includes strategies designed to protect against negative currency movements while allowing for potential gains from favorable ones. Effective forex risk management is vital for businesses operating in multiple currencies, as it helps maintain financial predictability in a changing global economy.

The Importance of FX Risk Management

Managing FX risk is crucial for safeguarding a company's profitability and protecting shareholder value. Without proper risk management strategies, businesses can suffer substantial losses due to unfavorable exchange rate changes. By adopting effective FX risk management practices, companies can:

1. Reduce earnings volatility
2. Enhance budgeting and forecasting accuracy
3. Boost investor confidence
4. Optimize pricing strategies in international markets5. Safeguard profit margins on cross-border transactions

Strategies for Hedging Forex Risk

Hedging forex risk is a key element of effective currency risk management. Various hedging techniques help businesses minimize their exposure to exchange rate fluctuations, creating a more stable financial environment. Here are some popular strategies for hedging in foreign exchange:

Forward Contracts

Forward contracts are among the most commonly used tools for hedging forex risk. These agreements allow businesses to lock in a specific exchange rate for a future date, effectively eliminating the risk of unfavorable currency movements. By using forward contracts, companies can ensure predictable cash flows and protect their profit margins.

Currency Options

Currency options give businesses the right, but not the obligation, to exchange currencies at a set rate within a specified timeframe. This flexibility enables companies to benefit from favorable exchange rate movements while guarding against potential losses.

Currency Swaps

Currency swaps involve exchanging cash flows in one currency for another over a specified period. This strategy is beneficial for businesses with long-term foreign currency exposures, as it allows them to manage both exchange rate and interest rate risks simultaneously.

Best Practices for Currency Hedging

To optimize currency hedging strategies, companies should follow these best practices:1. Create a clear hedging policy2. Align strategies with overall business objectives3. Regularly review and update hedging policies4. Diversify risk by using various hedging instruments5. Monitor and assess the performance of hedging strategies

THANK YOU

Disclaimer:- TPCI and Myforexeye are not responsible if one takes a decision based on the contents of the newsletter

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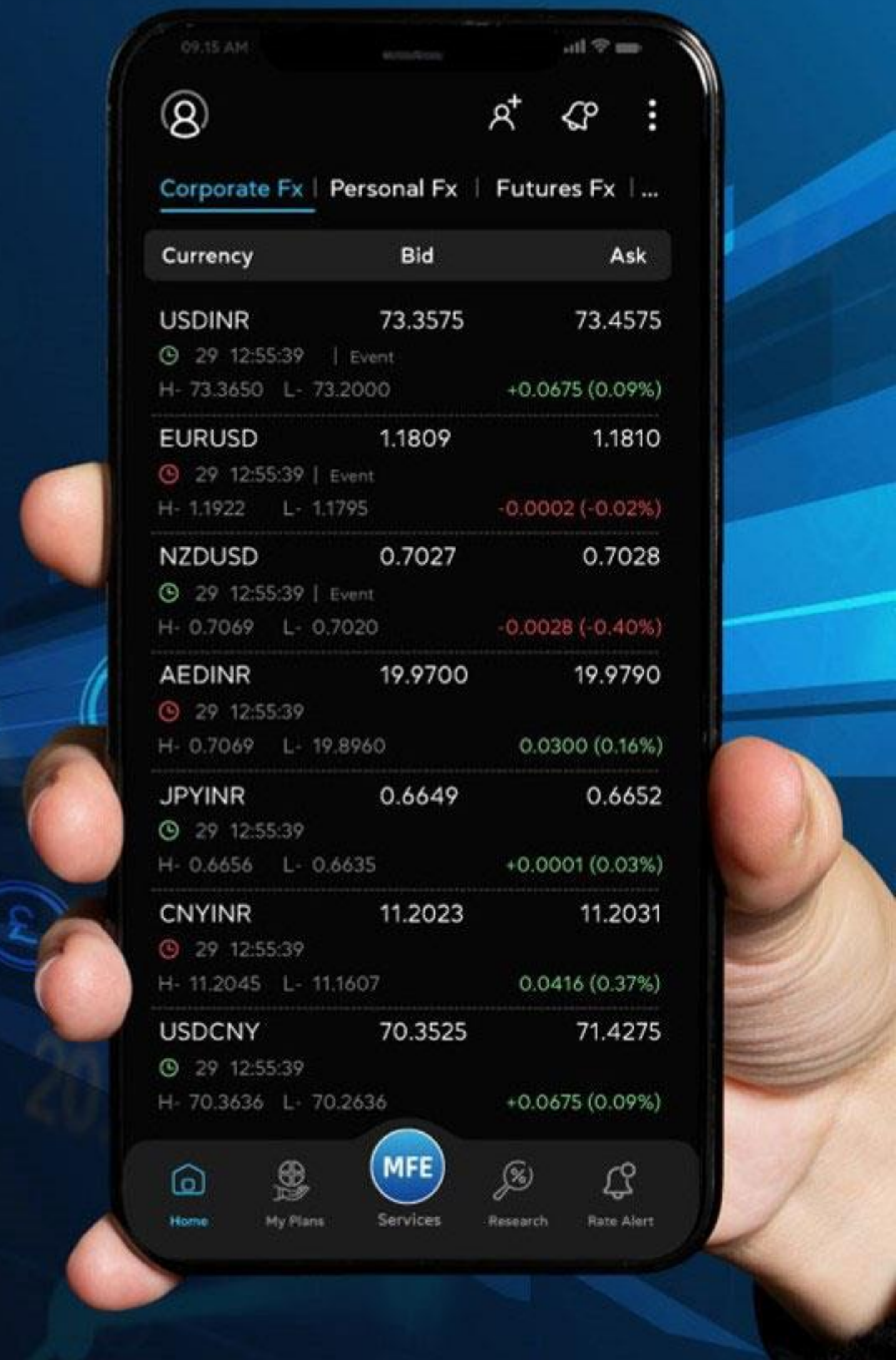

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