

Currencies Weekly Report

Week of 01.08.2022



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Global Economic Review & Outlook

The Fed and the ECB have hiked rates and repeated that inflation is key. The US economy saw another negative GDP growth figure, but is in a much better spot than the Eurozone.

The FOMC raised the fed funds target range by 75bp. The statement acknowledged that recent economic data has been weaker, but Chairman Powell emphasized that the only thing that matters for the FED is to get inflation down to 2%.

Euro-area inflation continued at record-high levels in July and will do so in the coming months. High inflation and uncertainty around energy supplies hurt economic outlook and growth numbers are expected to collapse after a positive GDP surprise in Q2.

The strong monthly changes in service and goods prices and the pressures in the energy sector imply that both headline and core inflation will be heading higher in the coming months.

The ECB will focus on high inflation and their possible second-round effects in the coming meetings. Rate hikes would continue in September. The Fed will most likely deliver another percentage point of hikes this year, followed by 50bp in 2023.

No proper recession will come to the US until service consumption takes a turn for the worse, and we are still far from such a point with the still increasing demand for services after the pandemic.

The RBI bi-monthly policy outcome is scheduled this week.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	12390.69	11834.11	4.70
DOW JONES	32846.45	31900.61	2.96
NIKKEI	27801.64	27914.66	-0.40
HANGSENG	20156.51	20609.14	-2.20
CAC	6448.50	6216.82	3.73
DAX	13484.05	13253.68	1.74
FTSE	7423.43	7276.37	2.02
FX	Last Close	Previous Week	% CHANGE
DX	105.83	106.54	-0.67
EURUSD	1.0226	1.0215	0.11
GBPUSD	1.2176	1.2004	1.43
USDJPY	133.21	136.07	-2.10

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	79.8488	79.7948	79.8967	79.7434	79.4203
EURINR	81.4458	81.5636	80.9790	81.5435	81.1675
GBPINR	95.5769	96.2182	96.2633	97.0642	96.8986
JPYINR	58.54	58.37	58.36	58.93	59.73

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	79.7350	80.1925	80.7850	81.3500	82.0200
Tuesday	79.7825	80.2300	80.8300	81.3875	82.0825
Wednesday	80.1125	80.5575	81.1425	81.7925	82.4075
Thursday	79.9400	80.3850	80.9800	81.6350	82.2500
Friday	79.4400	79.8900	80.4900	81.1550	81.7800

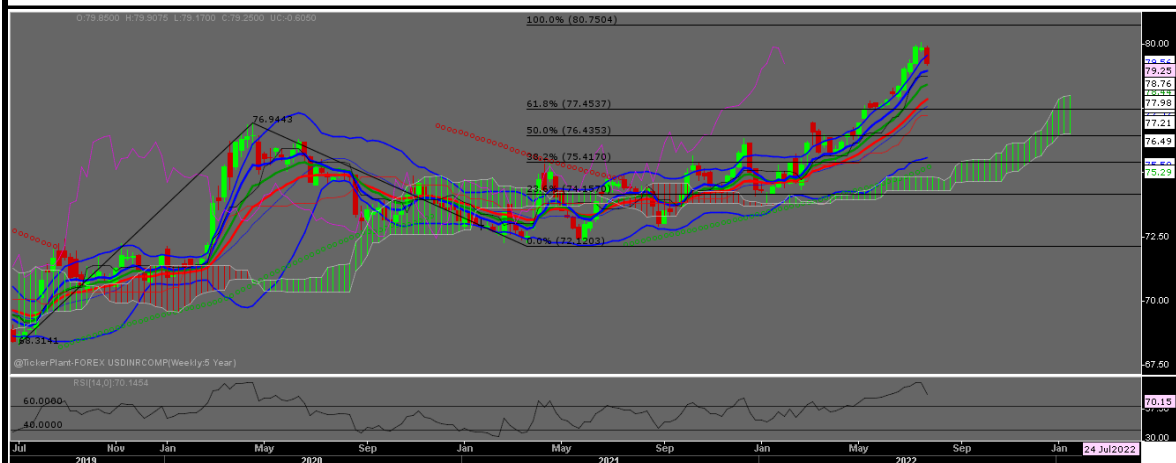
Dollar Outlook

The Dollar Index dropped last week for the second consecutive week, losing -0.67%, the first back-to-back weekly pullbacks since the middle of May. The catalyst was of little surprise, a July Fed meeting that suggested policymakers are shifting into a less aggressive stance moving forward. It's likely that we see a relatively more dovish Fed moving forward, whereby even if there are more rate hikes, they are unlikely to be at the same 75-bps pace which we saw over the past two meetings. This is not good news for the Dollar.

Last week was busy on US economic calendar, with growth data, inflation rates, consumer spending figures, and a Fed meeting. Comparatively, the week ahead will be more relaxed. However, there are still several important US economic data releases and events that will keep the Dollar volatile.

The shape of the US Treasury yield curve – inversion – alongside declining Fed rate hike odds continues to act as an obstacle for the Dollar. US real rates have started to pull back serving as another headwind. With other major central banks expected to be relatively more aggressive than the Fed over the next few months, the monetary policy expectations gap that has supported the US Dollar in recent months is disappearing.

USDINR this week will be closely tracking the RBI policy meeting and outcome scheduled towards the end of the week.

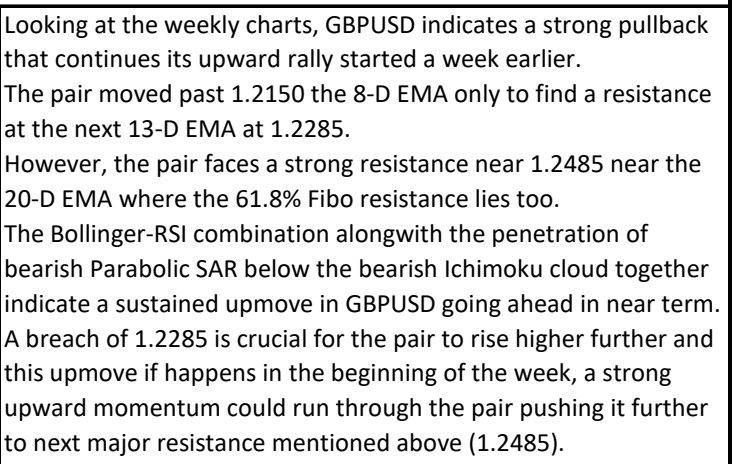


The USDINR Weekly chart indicates the pair witnessed a correction last week slipping from 79.90 to 79.17. This was the first major correction since mid-May when the pair had moved up above 77.50 and rallied to 80.06. The pair has been technically overbought since then and it was the first time last week where the RSI has seen a sharp downward move thus building further expectations of Rupee strength going ahead this week. However, the pair still trades above the 8-13-20 EMA bullish crossover with the 20-D EMA lying at 78.96 making the 78.90-79.00 a support zone for USDINR this week. A breach of 78.90 could push USDINR further lower to test 78.45 where the 13-D EMA lies.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bearish-Sideways	Sell 79.45-79.50 SL 79.75 TGT 78.98-78.70								78.70-79.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		77.23	77.97	78.71	78.98	79.44	79.72	80.18	80.92	81.66	
Exporters Strategy	Exporters are suggested to hedge their August exposure fully around 79.40.										
Importers Strategy	Importers are suggested to hedge August payables partially (30%) around 79.20. Pending to be held open with Stop above 79.75.										

British Pound Outlook

At the last meeting, six out of the nine MPC members voted for a 25 bp hike, while the other three called for a larger, 50 bp increase. In the May MPC report, inflation was seen hitting double figures in Q4 2022 before falling, the labor market was expected to tighten further, while growth was seen slipping lower. The BoE will need to factor in these hard data, consider the amount of imported inflation via a weak Sterling complex, and make a choice. A 50-bps rate hike on Thursday would send a strong message to the market that the central bank is doubling down on inflation. The ongoing leadership contest for the Prime Minister currently shows Liz Truss as the favorite to be the next Conservative Leader and PM. Ms. Truss has recently taken a few shots at the BoE, suggesting that she would, if elected, look at a review of the central bank's policy remit to make sure that it is being tough enough on inflation. The Bank of England has been independent of government control since 1997.



Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 1.2120-1.2150 SL 1.2020 TGT 1.2290				Buy 96.30-96.00 SL 95.40 TGT 97.20				1.2120-1.2300 96.00-97.20		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		90.98	92.78	94.58	95.44	96.38	97.24	98.18	99.98	101.78	
Exporters Strategy	Exporters are advised to hedge their August exposure partially (30%) around 96.30. Total exposure to be held open with Stop below 94.80 Spot.										
Importers Strategy	Importers are advised to hedge partially (60%) near 96.00 Spot for August exposure. Pending to be held open with Stop above 96.50 Spot.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
01.08.2022	07:15 AM	CNY	Caixin Manufacturing PMI (Jul)	51.5	51.7
	01:25 PM	EUR	German Manufacturing PMI (Jul)	49.2	49.2
	02:00 PM	GBP	Manufacturing PMI (Jul)	52.2	52.2
	07:30 PM	USD	ISM Manufacturing PMI (Jul)	52.0	53.0
02.08.2022	07:30 PM	USD	JOLTs Job Openings (Jun)	11.00M	11.25M
03.08.2022	02:00 PM	GBP	Composite PMI (Jul)	52.8	52.8
		GBP	Services PMI (Jul)	53.3	53.3
	07:30 PM	USD	ISM Non-Manufacturing PMI (Jul)	53.5	55.3
	08:00 PM	USD	Crude Oil Inventories		-4.523M
04.08.2022	02:00 PM	GBP	Construction PMI (Jul)	52.1	52.6
	04:30 PM	GBP	BoE Interest Rate Decision (Aug)	1.50%	1.25%
	05:00 PM	GBP	BoE Gov Bailey Speaks		
	06:00 PM	USD	Initial Jobless Claims	255K	256K
05.08.2022	10:00 AM	INR	Interest Rate Decision	4.80%	4.90%
	06:00 PM	USD	Nonfarm Payrolls (Jul)	250K	372K
		USD	Unemployment Rate (Jul)	3.6%	3.6%

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