# **Currencies Weekly Report**

Week of 03.04.2023



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### **Global Economic Review & Outlook**

Volatility persists across asset classes and notable market swings are expected to be seen going forward. We are still unclear where the central bank rates will end, what will it take to bring inflation back to target, what will the costs be to the economy.

Despite this volatile market environment, the Fed might hike rates twice more and the ECB three further times, both above what the markets are currently pricing in. This leaves bond yields and interest rate expectations room to rise from current levels.

The Eurozone headline inflation dropped sharply in March, while core inflation continued to rise driven by higher service price inflation, which will keep the ECB worried about the stickiness of inflation.

Markets are currently split between a 25-bp hike and none from the RBI this week. Slightly punchier inflation at the start of the year may swing it in favor of one final hike in the cycle although recent turmoil in the US and European banks could lead the RBI the other way. Either way, the end is near for rate hikes in India.

In the week ahead, markets will focus, yet again, on the upcoming data releases, where, the US Non-farm payrolls data for March will be the highlight alongwith the PMIs due for release not only in the US but also in the Eurozone and UK.

A shortened week in the Eurozone and UK due to Good Friday holiday and an even shorter week in India due to Mahavir Jayanti holiday might result into gaps in exchange rates.

		RBI Reference Rate											
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY								
USDINR	82.3558	82.2068	82.3603		82.2169								
EURINR	88.5786	88.8968	89.1709	-	89.6076								
GBPINR	100.6761	101.2536	101.4306	-	101.8728								
JPYINR	62.76	62.85	62.45		61.80								

INDICES	Last Close	<b>Previous Week</b>	% CHANGE
NASDAQ	12221.91	11823.96	3.37
DOW JONES	33273.10	32238.15	3.21
NIKKEI	28041.48	27385.25	2.40
HANGSENG	20400.11	19915.68	2.43
CAC	7322.39	7015.10	4.38
DAX	15628.84	14957.23	4.49
FTSE	7631.74	7405.45	3.06
FX	Last Close	Previous Week	% CHANGE
DXY	102.59	103.12	-0.51
EURUSD	1.0840	1.0760	0.75
GBPUSD	1.2333	1.2230	0.84
USDJPY	132.77	130.72	1.58

	USDINR Forward Rates (Month End)											
	1 Month	3 Month	6 Month	9 Month	12 Month							
Monday	82.3725	82.7050	83.1825	83.6950	84.2100							
Tuesday	82.3400	82.6375	83.1175	83.6400	84.1475							
Wednesday	82.4525	82.7525	83.235	83.7475	84.2575							
Thursday				-								
Friday	82.2700	82.5775	83.0700	83.5900	84.1000							

# **Dollar Outlook**

The US jobs report is always the most important economic report, although inflation probably currently just about edges it. The March report is expected to show a slower pace of job growth, albeit still strong at 238,000, and wages growing at a decent rate. That may not be enough to stop the Fed from tightening another 25-bp in May, although that's something markets can't currently make their minds up on.

ISM manufacturing surveys on Monday will also be eyed, alongside JOLTS job openings on Tuesday, ISM services on Wednesday, and jobless claims on Thursday.

The Wall Street's performance during the first quarter of 2023 saw an internal divergence. The tech-heavy Nasdaq 100 pulled ahead while the blue-chip-oriented Dow Jones underperformed. The Nasdaq/Dow ratio surged, touching the highest point since August.

The collapse of Silicon Valley Bank in early March overshadowed what was the growing theme of a rebound in US economic activity.

In March, the Federal Reserve proceeded with tightening. Interest rates were raised by 25-bp, bringing the target range to 4.75% - 5.00%. Powell in his press conference showed that policymakers did not see the case for interest rate cuts this year. That put the central bank on a divergent path from markets.



The USDINR Weekly chart indicates the pair has been tested around 83 several times since it made a lifetime high of 83.23 in the Mid of October 22.

Last week was no different where USDINR ranged between 82.08 and 82.42 on Spot.

The week ahead might see an increased volatility and swings as USDINR trades just around the mid of Bollinger bands trying to find a clear direction.

The pair is stuck near the 8-13-20 Weekly EMAs which have converged, while trading above the densely bullish Ichimoku cloud and predominently above the 100% Fibo retracement of 80.75, but since it is holding below 83 one can go short this week around 82.30 with strict stop above 82.60 for a target of 81.90 and 81.60.

Weekly Bias	Weekly Trading Strategy (SPOT)									Weekly Range		
Sideways	S	Sell 83.00 SL 83.40 TGT 82.10-81.80 / Buy 82.15 SL 81.80 TGT 82.75-83.00 81.80-83.00										
Pivot Levels		<b>S4</b>	<b>S3</b>	<b>S2</b>	<b>S1</b>	Pivot	R1	R2	R3	R4		
		81.21	81.55	81.88	82.02	82.22	82.36	82.56	82.90	83.23		
Exporters Strategy		Exporters are advised to hedge 50% of their April exposure around 82.30 Spot.  Pending to be held open with Stop below 81.50.										
Importers Strategy		Importers are advised to hold their April exposure open/unhedged with Strict Stop above 82.60 Spot.  Target rate to start hedging partially is 81.80 on Spot.										

### **Euro Outlook**

Euro gained ground against the Dollar during the first three months of 2023, extending its rebound that began in October of last year, though its advance wasn't smooth and faced several obstacles. This was a sign of only moderate bullish conviction in the Euro.

There were multiple positive drivers for the Euro, but one of them was the sharp pullback in natural gas prices. After reaching record highs above €300/MWh in August 2022, European natural gas prices tumbled, dropping more than 85% from those high levels. This prevented an energy crisis from unfolding following Russia's weaponization of fossil fuel exports. In this context, the region's economy managed to stabilize and even surprise on the upside.

Eurozone's economic activity was projected to grow at a paltry 0.2% this year, but consensus estimates now point to a GDP expansion of around 0.8%, with the reopening of the Chinese economy also contributing to an improved outlook.

Given that the ECB is expected to raise rates a few more times while the FOMC stays on hold, there is scope for the Euro to strengthen further against the Dollar. However, monetary policy divergence will only offer modest support; as the ECB's terminal rate is seen reaching 4.0% at most versus 5.10% for the Fed. Euro's bullish scenario will face challenges from a synchronized global slowdown and new episodes of risk aversion if any.



The EURUSD Weekly chart indicates that the pair is still stuck between the converged Bollinger bands after couple of attempts in the past weeks to move higher above the Upper Bollinger band. As the pair closed positively last week and is comfortably trading above the 8-13-20 Weekly EMAs, a further higher move in EURUSD cannot be ruled out.

However, last week high around 1.0930 could act as an interim resistance in the pair which could lead to a drop down to 1.0750. 1.0750 is protected by the 8-13-20 Weekly EMAs while major support in EURUSD lies at 1.06 just near the upper border of the bearish Ichimoku cloud.

EURUSD being overbought, as indicated by the Bollinger-RSI combination, one can go short to begin with, this week.

Weekly Bias			Weekly Range								
Sideways	Sell 1	1.0850 SL 1.0	0930 TGT 1.	0750	Sell 89	9.90 SL 90.4	0 TGT 89.20	1.0750-1.0880   88.80-90.00			
		<b>S4</b>	S3	S2	S1	Pivot	R1	R2	R3	R4	
Pivot Levels		85.76	86.91	88.05	88.74	89.20	89.88	90.34	91.49	92.63	
Exporters Strategy	Exporters are advised to hedge 50% of their April exposure around 90.00 Spot.  Pending to be held open with strict Stop below 88.00 Spot.										
Importers Strategy		Importers are advised to hedge 50% of their April payables around 88.80 on Spot.  Pending to be held open/unhedged with Strict Stop above 90.50 Spot.									

#### **British Pound Outlook**

The first quarter of 2023 has not delivered any major domestic policy moves or economic shocks to drive the Pound decisively.

Interest rates have followed their expected path higher – currently at 4.25%, the highest level since 2008 – while PM Rishi Sunak and Chancellor Jeremy Hunt continue to steer a steady course and have so far avoided the pitfalls of the previous regime.

The relationship between the UK and the EU is also looking healthier with UK MPs backing Sunak's new Northern Ireland deal, overriding Boris Johnson's contentious Brexit accord agreed upon in 2019.

Inflation in the UK however remains in double-digits – currently 10.4% - a level that in normal circumstances would continue to require ongoing tightening of monetary policy by the central bank. However, according to the latest Bank of England Monetary Policy Report, inflation 'is expected to fall significantly in Q2 2023' due to the extension of the Energy Price Guarantee (EPG) announced in the recent budget and the fall in wholesale energy prices.

With price pressures expected to ease sharply, the BoE may not hike rates aggressively. The next BoE meeting is in mid-May allowing Governor enough time to look at fresh inflation, growth, and jobs data. The latest probabilities show one 25bp rate hike expected in Q2 before the central bank hits the pause button.



The GBPUSD Weekly chart indicates the pair witnessed an upmove from the 1.2220 levels to 1.2423 and settled at 1.2333 last week. The pair, last week managed to hold above the 8-13-20 Weekly EMAs that had converged and due to the upmove in GBPUSD, did not give a bearish crossover.

The pair has moved out of a very thin bearish Ichimoku cloud and also managed to move past the Upper Bollinger Band alongwith the RSI that has again moved up. However, it failed to close above the band, thus bringing in the possibilities of a correction in the week ahead after a continued rally for the past 3 weeks.

1.2450 has been tested earlier too, from where the pair had dropped down to 1.18 in the recent past.

The same can be seen happening yet again.

Weekly Bias	Weekly Trading Strategy (SPOT)									Weekly Range		
Sideways-Bearish	Sell 1.2	430 SL 1.253	0 TGT 1.2230	-1.2150	Sel	102.00 SL 10	2.70 TGT 100	1.2150-1.2430   100.80-102.00				
Pivot Levels		<b>S4</b>	S3	S2	<b>S1</b>	Pivot	R1	R2	R3	R4		
		97.41	98.73	100.06	100.83	101.38	102.16	102.71	104.03	105.36		
Exporters Strategy		Exporters are advised to hedge their April exposure (50%) between around 102 Spot.  Total exposure to be held open with Stop below 100.80 Spot.										
Importers Strategy			Importer	rs are advised Total exposi			sure open ta Stop above	•	•			

# **Economic Data for the Week**

Date	Time	Currency	Data	Forecast	Previous
03.04.2023	05:20 AM	JPY	Tankan Large Manufacturers Index (Q1)	3	7
		JPY	Tankan Large Non-Manufacturers Index (Q1)	20	19
	07:15 AM	CNY	Caixin Manufacturing PMI (Mar)	51.7	51.6
	01:25 PM	EUR	German Manufacturing PMI (Mar)	44.4	44.4
	02:00 PM	GBP	Manufacturing PMI (Mar)	48.0	48.0
	07:30 PM	USD	ISM Manufacturing PMI (Mar)	47.5	47.7
04.04.2023	07:30 PM	USD	JOLTs Job Openings (Feb)	10.400M	10.824M
05.04.2023	02:00 PM	GBP	Composite PMI (Mar)	52.2	52.2
		GBP	Services PMI (Mar)	52.8	52.8
	05:45 PM	USD	ADP Nonfarm Employment Change (Mar)	205K	242K
	07:30 PM	USD	ISM Non-Manufacturing PMI (Mar)	54.5	55.1
	08:00 PM	USD	Crude Oil Inventories	0.092M	-7.489M
06.04.2023	07:15 AM	CNY	Caixin Manufacturing PMI (Mar)	51.7	51.6
	10:00 AM	INR	Interest Rate Decision	6.75%	6.50%
	02:00 PM	GBP	Construction PMI (Mar)		54.6
	06:00 PM	USD	Initial Jobless Claims	200K	198K
07.04.2023	06:00 PM	USD	Nonfarm Payrolls (Mar)	238K	311K
		USD	Unemployment Rate (Mar)	3.6%	3.6%

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