

Currencies Weekly Report

Week of 20.12.2021

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December 20, 2021

Global Economic Review & Outlook

The hawkish message from a faster taper by **FED** was amplified by **significant upward revisions to the dot plot**. There seems more **room** for the Fed to turn **further** to the **hawkish direction next year**.

The **ECB** will **end net PEPP** by the **end of March 2022** and introduced a path for tapering its bond purchases, albeit not quite to zero.

The path for asset purchases basically **excludes the chance of rate hikes** already next year – the **net asset purchases** are expected to **end in H1 2023** and the **first rate hike** could be in **late 2023**.

The **Fed** expectedly decided to **accelerate its tapering process**, and is now set to **conclude net purchases by mid-March** vs mid-June. The **dot plot** was **revised** significantly **higher** and now shows **three hikes next year**, a further **three for 2023** and another **two for 2024**.

Risks are now tilted towards an earlier start to the Fed's hiking cycle than the current baseline of June.

The **ECB justified** that, progress on economic recovery and towards its medium-term inflation target permits a **step-by-step reduction** in pace of **asset purchases** over coming quarters. But **monetary accommodation** is still **needed** for inflation to stabilise at 2% target over medium term. In view of the current uncertainty, the Governing Council needs to maintain flexibility and optionality in the conduct of monetary policy.

Many factors continue to limit **China's growth potential next year**, and we expect that the leaders will **gradually ease the policy** stance to keep the outlook stable. In 2022, Beijing **could aim at 5% GDP growth**.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	15169.70	15630.60	-2.95
DOW JONES	35366.56	35971.98	-1.68
NIKKEI	28545.68	28437.77	0.38
HANGSENG	23192.63	23995.72	-3.35
CAC	6926.63	6991.68	-0.93
DAX	15531.69	15623.31	-0.59
FTSE	7269.92	7291.78	-0.30
FX	Last Close	Previous Week	% CHANGE
DXV	96.57	96.10	0.49
EURUSD	1.1235	1.1317	-0.72
GBPUSD	1.3234	1.3267	-0.24
USDJPY	113.69	113.38	0.28

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	75.7060	75.8985	76.0433	76.2528	76.1733
EURINR	85.4564	85.6251	85.7094	86.0681	86.3927
GBPINR	100.1843	100.2908	100.6925	101.0202	101.5487
JPYINR	66.67	66.80	66.87	66.77	67.07

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	75.8525	76.3150	77.3150	78.2050	79.0750
Tuesday	75.9500	76.4075	77.4050	78.2925	79.1625
Wednesday	76.3150	76.7800	77.7825	78.6750	79.5425
Thursday	76.1550	76.6250	77.6325	78.5150	79.3850
Friday	76.1475	76.6200	77.6250	78.5050	79.3700

Dollar Outlook

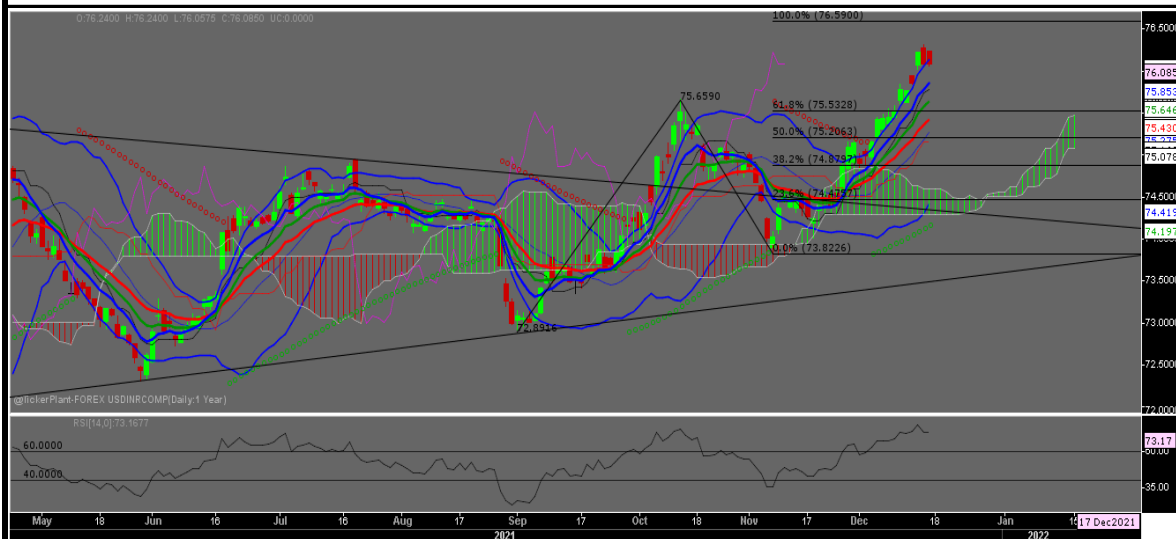
The **main event** going into the last two weeks of December will be the **US PCE inflation** reading out **Thursday**.

Although the US Conference Board **Consumer confidence** this **Wednesday** and the University of Michigan inflation expectation index out Thursday will also be of importance.

Entering the **first week of 2022** the focus will turn to a round of new **ISM** figures on **manufacturing and services** in the US, the December employment report and last, but not least, we have a fresh **Euro-area inflation** print.

The Conference Board Consumer Confidence index offers no immediate relief. Mounting inflation fears are on the top of consumers' minds and the Omicron spread is looming into the cold winter months. Detoriorating consumer expectations relatively to the present sentiment tends to flatten the USD Curve.

Indian Rupee against the Dollar is facing high volatility downwards as fall in domestic equities continue to hurt the Indian counter.



The USDINR Daily chart indicates the Dollar last week has maintained itself above the October high of 75.65 and now is extremely overbought as indicated by the Bollinger-RSI.

This move however, can be related to the FED event based strength in Dollar against INR.

This week we suggest keeping the trading positions light ahead of the holidays resulting into low volumes and high volatility, while initiating short in USDINR around 76.20 for targets around 75.30 with very strict stops at 76.70.

The current northward momentum can come to an end if the Dollar restricts itself from breaching 76.30 and large profit bookings for longs can push USDINR lower back to 75.

Overall trend in Dollar is still Bullish for mid and long term.

However, going fresh long at such higher levels is not advised and a retracement around 75 would be a good level for fresh longs.

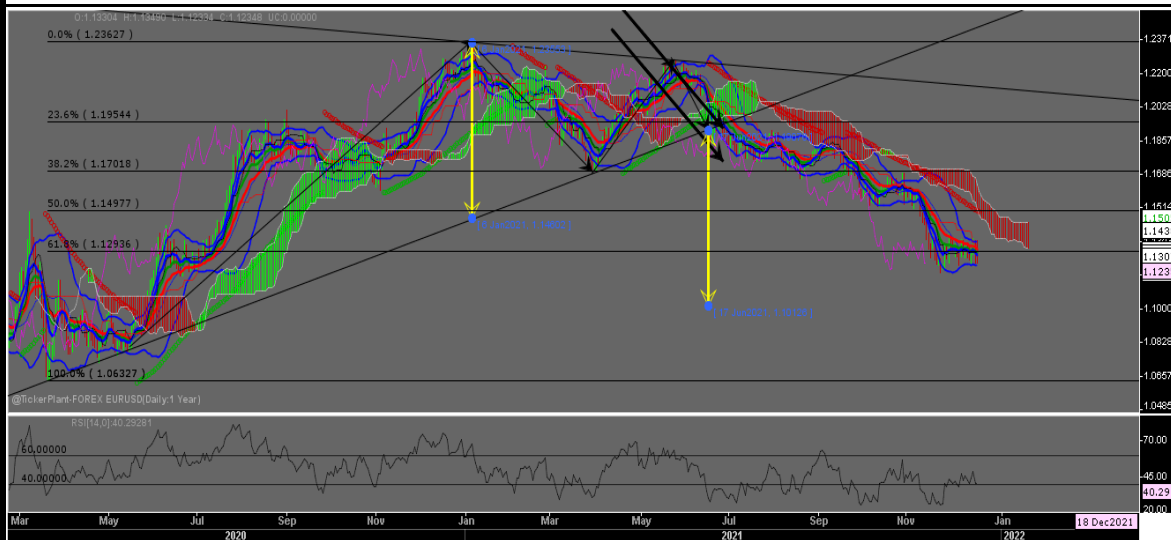
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 76.20/76.35 SL 76.70 TGT 75.35								74.80-76.30		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		73.96	74.64	75.33	75.71	76.01	76.39	76.69	77.37	78.06	
Exporters Strategy	Exporters were suggested to hedge their December exposure partially (30%) around 75 Spot and 30% at 75.30/35. Pending was to be hedged at 75.80.										
Importers Strategy	Importers were suggested to hold December payables open with a strict Stop above 75.50 Spot which was triggered.										

Euro Outlook

The **ECB upgraded its inflation forecasts** and **lowered its 2022 GDP predictions**. It still believes inflation is in a “transitory period,” where prices will be moderately above target. So according to Lagarde, it is “very unlikely we will raise rates in 2022.” This dovish bias would normally be bearish for the euro, especially against a hawkish Fed. But year-end short covering can drive EURUSD higher.

We will see a fresh **Euro-area inflation reading** reaching new heights. In November, the CPI headline broke records reaching 4.9% YoY and the same was the case for the 2.6% YoY core CPI. **Energy** is the **main driver of Euro-area inflation** surge and can go even further in December.

Current energy crisis is having its 2nd round in Euro area and continues to feed inflation numbers. Gas prices continue to set new records in Germany and in much of the rest of Europe. **Germany's** decision to **halt the Nord Stream 2 project** and US decision to sanction companies affiliated with same project will further **exacerbate the current energy crisis**.



The EURUSD Daily chart indicates, last week the Euro has been able to manage hovering around the 61.8% Fibo retracement around 1.1290 (1.13 major).

Although the pair faces heavy resistance further north to end its bearish trend, we might see a further pullback in the prices in the week ahead.

A narrowed Bollinger Band with prices hovering above its mean along with the bearish Parabolic SAR penetrating below the bearish Ichimoku cloud is a great signal that the pair can expect some revival, atleast till the next (50%) Fibo retracement at 1.1497 (1.15 major).

1.15 then will be a deciding level for EURUSD to reverse its bearish trend in near medium term.

For the week ahead, the RSI too suggests, one should go long around 1.1200 for targets of 1.13 with stops placed below 1.1150.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Buy 1.1200-1.1180 SL 1.1150 TGT 1.1270-1.1320				Buy 85.10/84.90 SL 84.50 TGT 85.80-86.30				1.1250-1.1430 85.00-86.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		82.37	83.57	84.78	85.50	85.99	86.71	87.20	88.40	89.61	
Exporters Strategy	Exporters were advised to hedge 50% around 85 & 30 % at 85.50. Hedge further pending for December exposure at 85.80 Spot.										
Importers Strategy	Importers were suggested to hedge 50% of December payables around 84.60 on Spot. Pending was held open with Stop above 85.20 which has been triggered.										

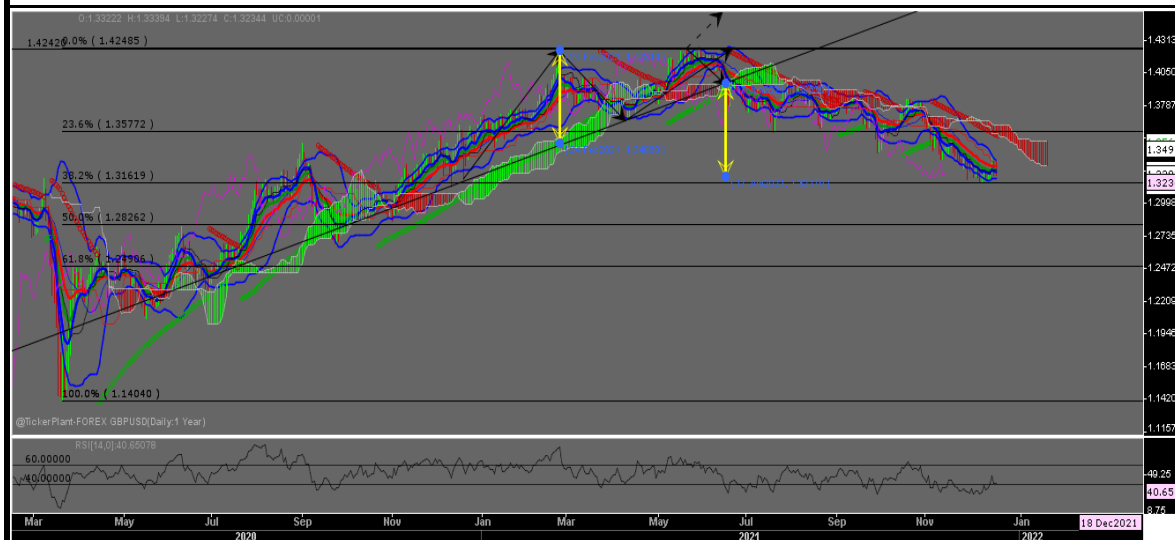
British Pound Outlook

Sterling shot higher after the **BoE surprised** the market with its first **rate hike** in three years. With latest COVID-19 restrictions and Omicron cases on the rise, no one expected a tightening, but pressure is growing. Inflation hit a 10-year high and the **BoE** felt that it **could no longer afford** to simply **wait**. It raised its base rate from 0.1% to 0.25%, which is a small but significant move. The tightening cycle has begun, with markets looking for second hike in February.

British Brexit minister **David Frost resigned** on Saturday over disillusionment with the direction of Boris Johnson's government, dealing a major blow to the embattled prime minister as the **Omicron variant sweeps the country**.

Resignation of Frost raised questions about the **future tone of EU divorce and immediate course of talks on Northern Ireland**. It also added to a sense of turmoil in Johnson's Conservative government. Frost said he was confident that Brexit was secure, but had concerns about the government's direction.

Pound's move against the Dollar could see some positive bias as markets enter into holidays.



The GBPUSD Daily chart indicates, the Pound saw some relief towards the end of last week after it tested the 38.2% Fibo supports at 1.3160 a week earlier.

GBPUSD also found a Bollinger band support at these levels which helped the pair attract some buying.

The RSI too indicates GBPUSD being oversold demanding further buying as also supported by the bearish Parabolic SAR penetrating the bearish Ichmoku downward.

In longer term, GBPUSD still continues to hold bearish trend after it breached the triangle supports.

For the weeks ahead, one can expect a further recovery in the pair to the upper Bollinger band at 1.3350, which will attract fresh shorts.

1.32 could be used to go long on the pair with strict stops below 1.3130 for targets of 1.33.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Buy 1.3180/1.32 SL 1.3130 TGT 1.3260/90				Buy 100.40 SL 99.40 TGT 102				1.3180-1.3320 100.00-102.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		96.27	97.85	99.42	100.35	101.00	101.93	102.57	104.15	105.72	
Exporters Strategy	Exporters are suggested to hedge their December exposure partially (50%) around 100.50. Pending to be booked around 101.50 with Stops below100.50.										
Importers Strategy	Importers were suggested to hedge partially near 99.50 for December exposure. Pending exposure was to be held open with Stop above 100.50 Spot which is triggered last week.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
22.12.2021	07:00 PM	USD	Final GDP q/q	2.1%	2.1%
	08:30 PM	USD	CB Consumer Confidence	110.5	109.5
		USD	Existing Home Sales	6.55M	6.34M
23.12.2021	Tentative	JPY	BOJ Gov Kuroda Speaks		
	07:00 PM	USD	Core PCE Price Index m/m	0.4%	0.4%
		USD	Core Durable Goods Orders m/m	0.6%	0.5%
		USD	Durable Goods Orders m/m	1.5%	-0.4%

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