

Currencies Weekly Report

Week of 18.10.2021



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Global Economic Review & Outlook

The transitory vs. permanent inflation debate seems to be over with almost everyone starting to warn against the current inflation pressure, but this could yet again lead to debates whether it is a permanent inflation again? “Permanent” inflation also means volatile inflation.

The sharp rise in the trimmed CPI measures was probably the final nail in the coffin for the transitionistas, even if we find reasons to doubt the inflation outlook for H2-2022 exactly because of the sharp rise in these trimmed inflation measures. If average inflation levels have structurally shifted upwards, it also means that inflation volatility has likely shifted markedly upwards.

We still think that a more hawkish Fed than ECB, the energy crisis affecting the Euro area more negatively and positive data surprises more likely in the US than in the Euro area in Q4 point to a lower EURUSD. For now that needs to be balanced with short-term risk-on sentiment that could stay intact for a while.

The week kicks off with Chinese GDP for Q3 (Mon). It is well signalled that it will be a relatively weak number. Consensus is at 5% y/y and as always it will be debated what the true number is.

In the US, various housing indicators such as NAHB (Mon), housing starts (Tue) and existing home sales (Thu) will probably show some tentative signs of turning up from a weaker trend so far in 2021.

In the Euro area, flash PMIs (Fri) will be in focus, which mostly points to a slight positive bounce. However, we fear that the fiercely rising energy prices, which are not part of the model, could put a larger dent in the PMI for October.

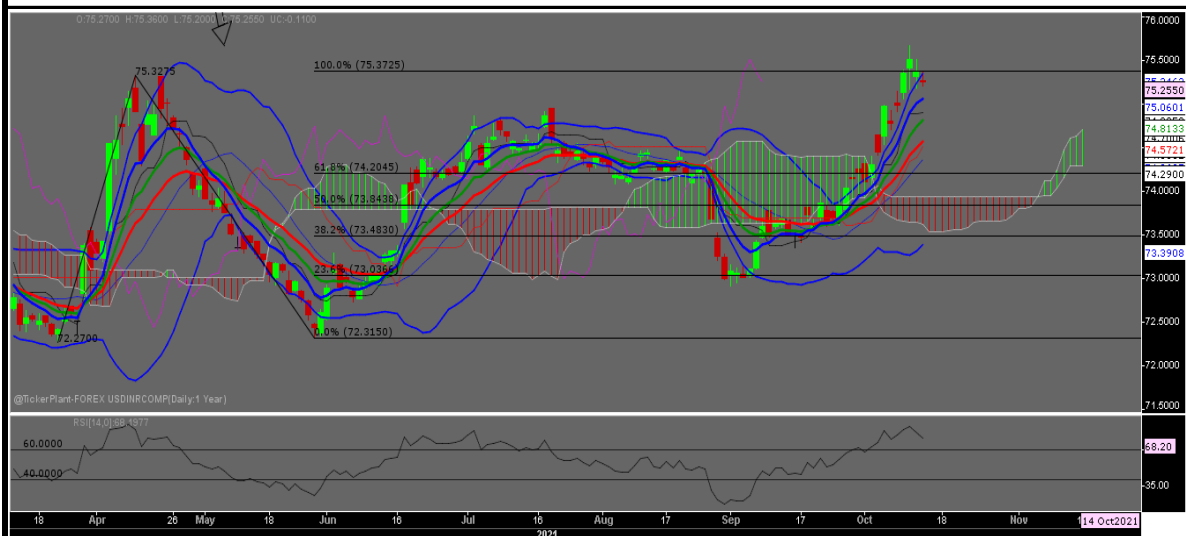
INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	15146.92	14579.50	3.89
DOW JONES	35295.48	34746.71	1.58
NIKKEI	29068.63	28048.94	3.64
HANGSENG	25330.96	24837.85	1.99
CAC	6727.52	6559.99	2.55
DAX	15587.36	15206.13	2.51
FTSE	7234.03	7095.55	1.95
FX	Last Close	Previous Week	% CHANGE
DX	93.95	94.07	-0.13
EURUSD	1.1598	1.1572	0.22
GBPUSD	1.3744	1.3613	0.96
USDJPY	114.26	112.21	1.83

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	75.1283	75.3424	75.4576	75.3039	--
EURINR	87.0371	87.1476	87.1530	87.3234	--
GBPINR	102.7059	102.4928	102.7074	103.0213	--
JPYINR	66.67	66.59	66.49	66.33	--

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	75.4525	75.9450	76.7400	77.7100	78.5700
Tuesday	75.6050	76.0950	76.8850	77.8500	78.7150
Wednesday	75.4300	75.9275	76.7200	77.6900	78.5500
Thursday	75.3050	75.8000	76.5950	77.5650	78.4300
Friday	--	--	--	--	--

Dollar Outlook

The safe haven US Dollar has recently lost momentum against major currency pairs as fundamentals continue to weigh on risk appetite. After breaking above the key psychological level of 90.00 in June, the US Dollar Index (DXY) has proven to be on a strong upward trajectory. Core CPI may have reported a rise more slowly in recent months, but median CPI jumped a massive 0.5% m/m and the three-month rate is highest since 1991. Biden's push to reduce the supply chain disruptions by agreeing with unions and some private companies to move to a 24/7 work week in the constrained ports in California could alleviate some delivery problems. There is also a growing possibility that China will start to reverse its rather tight credit policy now that the Evergrande saga is nearing an end. Heading into Q3 earnings season it's unclear whether companies have guided down profit expectations sufficiently and might impact Wall Street indices. Non-farm payrolls were weakish, but that was partly because teachers were not able to go to work due to Covid problems, dragging the monthly number down by 144,000. So it was still "decent" enough for a November tapering decision. New Covid cases have dropped since September.



The USDINR Daily chart indicates the Dollar after breaching the resistance of 74.35 at the beginning of the month, rallied straight to breach the psychological 75 mark and rise even further printing a high of 75.65.

The pair also managed to close for the week sharply above the 8-13-20 EMAs bullish crossover.

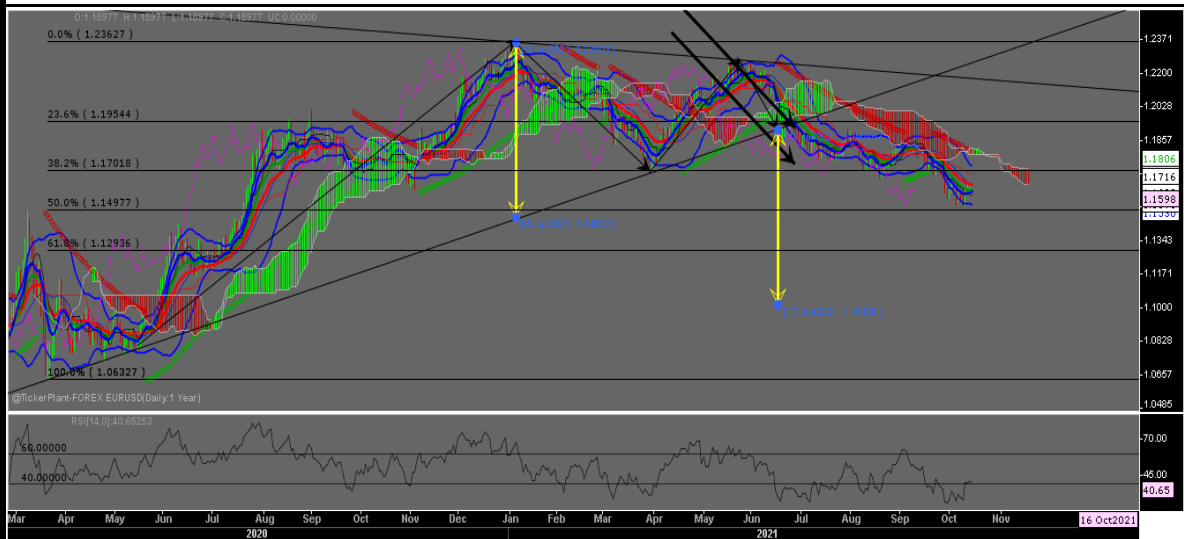
As USDINR now trades near the upper end of the Bollinger band and with the RSI showing the pair to be highly overbought, in the coming week, we expect the pair to correct a little back to 74.75 & 74.50 at-least while following a strong resistance around 75.65/80. Last week even after a strong upward move, the pair was not able to give a weekly close above 75.35/40 which happens to be a multiple resistance level even in longer term, suggesting a sharp reversal due to heavy profit booking can be seen in the week ahead.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 75.35/60 SL 75.90 TGT 74.75-74.50								74.40 - 75.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		73.50	74.11	74.72	74.99	75.32	75.59	75.93	76.54	77.15	
Exporters Strategy	Exporters were suggested to hedge their October exposure in parts around 73.90, 74.35 and 75.30 Spot.										
Importers Strategy	Importers were suggested to hedge 50% October payables at 73.60 Spot. Pending to be held open with Stops above 74.20 Spot. Stop triggered.										

Euro Outlook

There are still no obvious reasons to expect a recovery in the Euro as the Eurozone, and the European Union more generally, are hit by supply bottlenecks, soaring energy prices, weak economic data and a dovish central bank. The Euro has been relatively stable against the Dollar so far this month, with consolidations around 1.1570, but it still has enough selling pressure.

European gas prices are at record levels, pushing wholesale electricity prices up 200%. Supply issues are a serious problem in the EU, with five of Germany's top economic research institutes warning last week that "supply bottlenecks for intermediate products are hampering production in the manufacturing sector". EZ economic data have been poor, with, for example, industrial production down 1.6% m-o-m in August compared with an increase of 1.4% the month before. ECB remains determinedly dovish, with the markets expecting no increase in interest rates until late 2023. While COVID-19 cases continue to fall in most world regions, Europe is suffering a modest increase, according to the latest update by the WHO.



The EURUSD Daily chart indicates, the Euro has slipped below the 38.2% Fibo supports of 1.17 which had acted as a support multiple times in recent past.

The pair moved sharply below 1.17 two weeks earlier and continued trading below the 8-13-20 DEMA bearish crossover but managed to close between 8 & 13 EMAs last week, after it found support at 1.1530 which is close to the 50% Fibo retracement of 1.15. The pair still has a strong selling pressure on upticks. The Bollinger-RSI combination however indicates the pair is oversold and might see a recovery in the week ahead.

Levels close to 1.17 are ideal to go short in medium term, but for this week one can go long in the pair with strict stops below 1.15 for targets of 1.1640 & 1.1680.

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

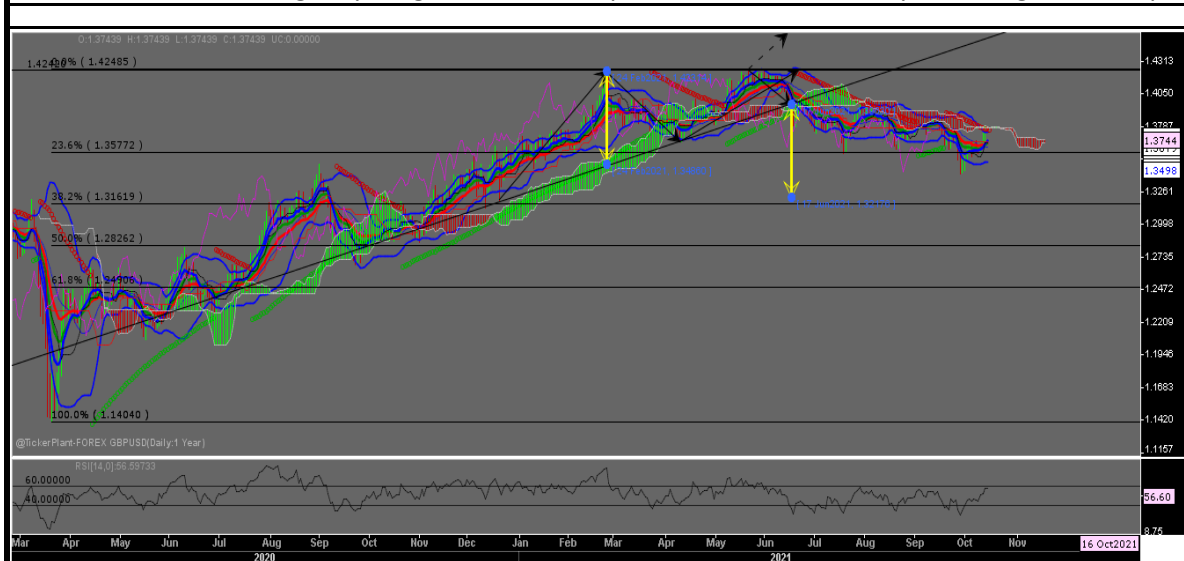
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bullish-Sideways	Buy 1.1580/60 SL 1.15 TGT 1.1640-1.1680				Buy 87.00/86.80 SL 86.40 TGT 87.60-87.90				1.1550-1.1680 86.70-87.90		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		85.28	85.93	86.58	86.97	87.23	87.62	87.88	88.53	89.18	
Exporters Strategy	Exporters were advised to hedge 50% around 86.70 & maintain strict stops at 86.20 on Spot for the remaining 50% of the October exposure. Stops triggered already.										
Importers Strategy	Importers were suggested to hedge 50% at 86.40 on Spot. Hedge another 30% around 86 & maintain stops above 86.50 for pending October exposure. Stop triggered.										

British Pound Outlook

Fresh data prints in the UK may undermine the recent rally in GBPUSD as the update to the CPI is anticipated to show a slowdown in the core rate of inflation. GBPUSD continues to rise following the US CPI to trade to a fresh monthly high (1.3773), and current market conditions may push the rate towards Sept. high (1.3913) as mixed data prints from the US undermines speculation for an imminent shift in Fed policy.

Looking ahead, fresh developments in the UK may influence GBPUSD as the BoE warns that “global cost pressures have continued to affect UK consumer goods prices,” and signs of sticky inflation may put pressure on the central bank to switch gears as “some modest tightening of monetary policy over the forecast period was likely to be necessary to be consistent with meeting the inflation target sustainably in the medium term.”

As a result, update to UK CPI may reinforce BoE's hawkish outlook as headline reading for inflation is expected to hold steady at 3.2% p.a. in Sept., but a downtick in core reading may drag on Pound as it provides Governor Bailey and Co. greater scope to retain the current course for monetary policy.



The GBPUSD Daily chart indicates, Pound has been on short term reversal and has been recovering since beginning of this month. As mentioned in earlier reports, the Bollinger-RSI combination indicates the pair is oversold and might see small recovery where one can expect selling in the pair again. Levels between 1.38 & 1.3850 are ideal for medium term shorts. Last week we suggested long trades above 1.36 with stop at 1.3530 for targets of 1.3670 & 1.3730 which have been achieved. But for the week ahead we suggest sell on rise around 1.38 for targets of 1.3650 with strict stop above 1.39. In longer term, GBPUSD still continues to hold bearish trend after it breached the triangle supports, indicating the pair might fall close to 1.3160 the 38.2% Fibo support. GBPINR can witness a strong resistance between 103.60-104 levels and slip back to 102.50 mark.

Weekly Bias											
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.3800/20 SL 1.3900 TGT 1.3690/50				Sell 103.60/70 SL 104.10 TGT 103/102.60				1.3650-1.3830 102.50-103.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		99.76	100.82	101.88	102.57	102.94	103.63	103.99	105.05	106.11	
Exporters Strategy	Exporters were suggested to hedge their October exposure partially (50%) around 101.50 Pending to be held open with Stops below 100.50. Stops triggered.										
Importers Strategy	Importers were suggested to target levels near 100.60 to hedge their October exposure partially. Pending exposure to be hedged around 101.50.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
18.10.2021	07:30 AM	CNY	GDP q/y	5.0%	7.9%
		CNY	Retail Sales y/y	3.5%	2.5%
	06:45 PM	USD	Industrial Production m/m	0.3%	0.4%
19.10.2021	05:35 PM	GBP	BOE Gov Bailey Speaks		
20.10.2021	11:30 AM	GBP	CPI y/y	3.2%	3.2%
	08:00 PM	USD	Crude Oil Inventories		6.1M
21.10.2021	06:00 PM	USD	Philly Fed Manufacturing Index	24.3	30.7
		USD	Unemployment Claims	298K	293K
22.10.2021	11:30 AM	GBP	Retail Sales m/m	0.7%	-0.9%
	12:45 PM	EUR	French Flash Manufacturing PMI	54.3	55.0
		EUR	French Flash Services PMI	55.3	56.2
	01:00 PM	EUR	German Flash Manufacturing PMI	56.8	58.4
		EUR	French Flash Services PMI	55.2	56.2
	01:30 PM	EUR	Flash Manufacturing PMI	57.3	58.6
		EUR	Flash Services PMI	55.4	56.4
	02:00 PM	GBP	Flash Manufacturing PMI	55.6	57.1
		GBP	Flash Services PMI	54.5	55.4
	07:15 PM	USD	Flash Manufacturing PMI	60.5	60.7
		USD	Flash Services PMI	55.3	54.9

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