

# Currencies Weekly Report

Week of 09.05.2022



[www.phillipforex.in](http://www.phillipforex.in)

May 9, 2022

## Global Economic Review & Outlook

Central banks around the world led by the Fed have continued normalising monetary policy from the ultra-loose levels and signalled that more is to come. Financial markets eventually got the memo.

Plenty of central bank action remains in the pipeline, but a lot is also already priced in, leaving more room for swings in rates in both directions. Yields might not have peaked and more dollar strength could be seen ahead this year, if not immediately.

As widely expected, the FOMC increased the target range for the Fed funds rate by a larger 50bps (to 0.75% to 1%) and laid out a plan to reduce the balance sheet by 95bn/month after a three month phase-in period with half the amounts. The decision was unanimous. Interest rate markets were pricing in a fair probability of even larger hikes over the next meetings. Powell basically ruled out going any bigger than 50bps per meeting, and this pushed the very short end of the rates curve lower while longer dated rates stayed put. The equity market seemed content with the “smaller” hikes but could not sustain even for a day. The ECB could hike rates at all four remaining meetings this year, as the financial markets are currently largely pricing in. Uncertainty around the Euro-area economic outlook is exceptionally high. It remains to be seen, how consumers and companies will weather the negative impact of the increased geopolitical risks, high energy and raw material prices and increased challenges in the global supply chains.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	12144.66	12334.64	-1.54
DOW JONES	32901.08	32978.52	-0.23
NIKKEI	27003.56	26847.90	0.58
HANGSENG	20001.96	21089.39	-5.16
CAC	6258.36	6533.77	-4.22
DAX	13674.29	14097.88	-3.00
FTSE	7387.94	7544.55	-2.08
FX	Last Close	Previous Week	% CHANGE
DX	103.66	102.96	0.68
EURUSD	1.0546	1.0542	0.03
GBPUSD	1.2337	1.2571	-1.86
USDJPY	130.54	129.83	0.54

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	76.4346	--	76.4841	76.0887	76.7470
EURINR	80.4189	--	80.4567	80.7398	80.7118
GBPINR	95.9529	--	95.4318	95.5649	94.7948
JPYINR	58.65	--	58.7600	58.83	58.75

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	76.7000	77.1325	77.8175	78.5050	79.2850
Tuesday	--	--	--	--	--
Wednesday	76.6075	77.0925	77.8575	78.6375	79.4625
Thursday	76.4250	76.9450	77.7600	78.5600	79.4100
Friday	77.0750	77.5750	78.3850	79.1750	80.0150

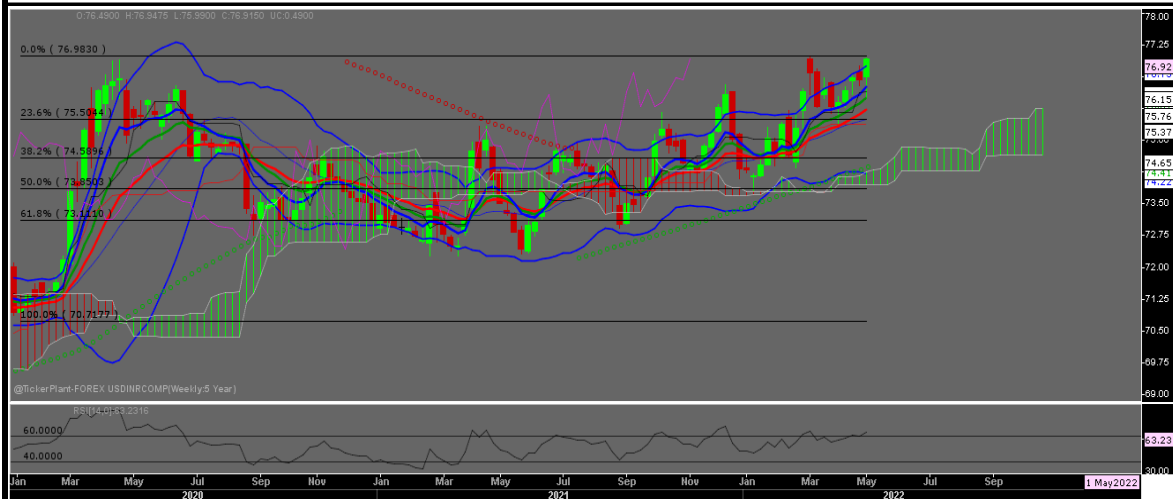
## Dollar Outlook

The US Dollar experienced volatile performance this past week, where all eyes were on the Federal Reserve. The FED delivered, raising benchmark lending rates 50-bps. The initial reaction was a dovish hike as Chair Powell downplayed 75-bp rate hike expectations that markets were thinking in the months ahead. As a result, the greenback turned lower.

As traders digested this outcome, sentiment reversed course and Dollar regained its footing. Quantitative tightening is just around the corner.

In the week ahead, traders will closely watch the next US inflation report on May 11th. Headline inflation is expected to cool to 8.1% y/y in April from 8.5% prior. This is as core CPI is anticipated at 6.1% from 6.5% before. While this would represent some disinflation, it remains far above the central bank's target. A stronger report could further strengthen the Dollar and amplify risk aversion.

A slew of Fed speak will also drive the markets. These include speeches from Loretta Mester, Raphael Bostic and John Williams. To some degree, they could instill confidence in the economy being able to withstand aggressive monetary tightening. This could offer near-term relief for sentiment, perhaps threatening the Dollar.



The USDINR Weekly chart indicates the pair after printing a lifetime high of 76.9825 in the beginning of March continues to show large swings with upward bias. The pair touched 76.95 last week closing just close to all time high.

USDINR although manages to trade well above the 8-13-20 EMAs and has moved past the Upper Bollinger band, the RSI, however, has penetrated the overbought region, with no clear indications whether the pair will continue upward momentum or cool off for a while.

Despite the long term trend being bullish in USDINR, the penetration of Parabolic SAR into the Ichimoku cloud from below indicates minor correction.

For the week ahead, we suggest going long on the pair at dips near 76.60 for targets of 77.25.

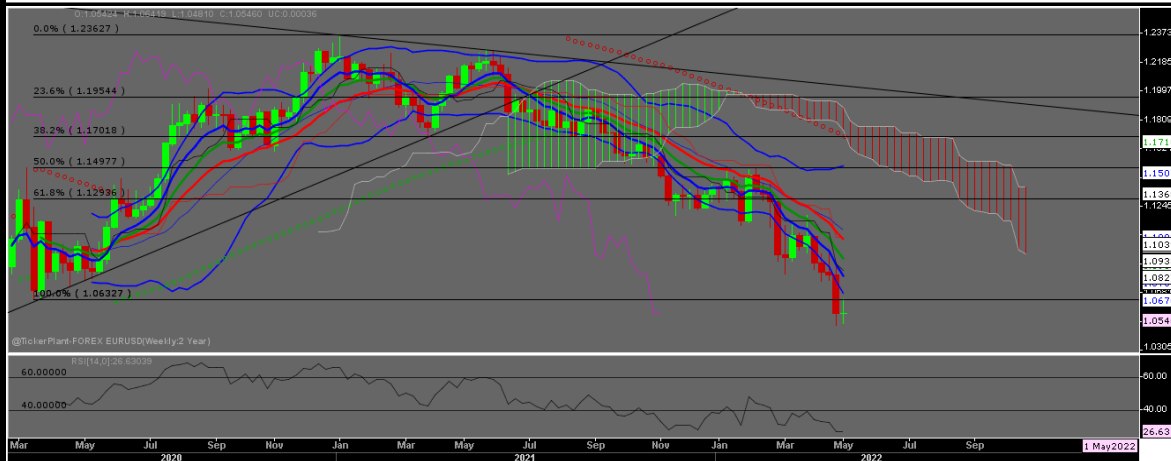
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Buy 76.60-76.50 SL 76.25 TGT 77.25								76.50-77.30		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		73.75	74.70	75.66	76.29	76.62	77.25	77.58	78.53	79.49	
Exporters Strategy	Exporters were suggested to hedge their May exposure partially (60%) around 76.60. Add another 20% around 76.90 Spot. Pending to be held open with stop below 76.20 Spot.										
Importers Strategy	Importers were suggested to target hedging May payables partially (50%) around 75.80. Pending to be held open with stop above 77.00 Spot.										

## Euro Outlook

Last Friday, ECB members Nagel and Villeroy expressed a willingness to raise interest rates in the euro zone sooner. Nagel, the Bundesbank President expressed that while growth is forecast to slow, he doesn't see recession coming. He continued to express that the window for tighter monetary policy measures is slowly closing and does not agree with the view that the ECB should avoid tightening due to the current state of the economy.

Villeroy kickstarted the euro's recent upmove, expressing concern that inflation expectations are less and less anchored at 2% and that the euro's weakness must be monitored as a weak euro jeopardizes the price stability objective. Additionally, he sees the neutral nominal rate between 1% and 2% but warned that real rates are set to remain negative for some time.

Euro gains are likely to be temporary, especially against the dollar. Nevertheless, with the ECB only looking to hike rates after the end of its asset purchases in June means, lift-off if any, could be in the July ECB meeting. There is a long time between now and the July meeting. The FOMC will meet again in June where it is likely to raise rates by another 50 bps while the market expects around 70 bps currently.



The EURUSD Weekly chart indicates the pair has fully lost the gains made between Mid-March 2020 & Beginning of Jan 2021, even breaching the March 2020 low of 1.0635 to print a low of 1.0469 recently. The pair somehow managed to recover last week to settle at 1.0546.

Bollinger-RSI combination indicates the pair being extremely oversold trading well below the 8-13-20 EMA bearish crossover. Also, the densely bearish Ichimoku cloud indicates that the overall trend is expected to further remain bearish in near term.

However, the bearsish Parabolic SAR penetrating the ichimoku from above brings in hopes of small reversals and recovery in the pair.

Next week, we suggest going long on the pair above 1.0620.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy Above 1.0620 SL 1.0500 TGT 1.0770				Buy 81.30-81.00 SL 80.50 TGT 82.20				1.0550-1.0770   80.60-82.20		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		77.48	78.65	79.82	80.60	80.99	81.77	82.17	83.34	84.51	
Exporters Strategy	Exporters are advised to hedge 40% of the May exposure around 82.30 Spot. Total exposure to be held open with Stop below 80.20 Spot.										
Importers Strategy	Importers are advised to hedge 60% of May payables around 80.80 on Spot. Pending to be held open with Stop above 81.80.										

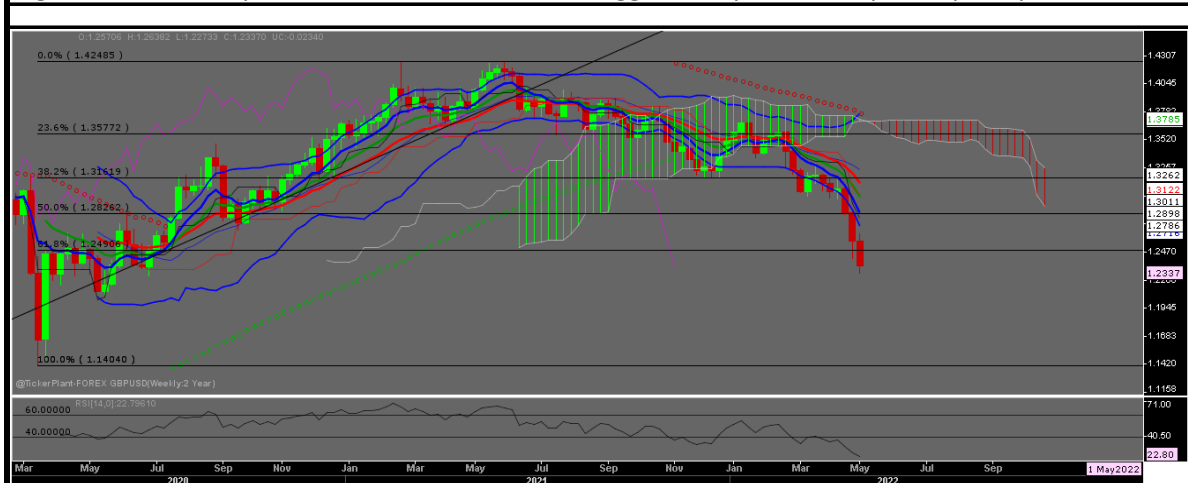
## British Pound Outlook

The BoE hiked by 25 basis points last Thursday but the threats to real incomes due to higher inflation and lower forecasted growth considered the move as a 'reluctant hike'. 1/3 of the MPC wanted a 50 bp hike despite the economy forecasts a contraction in Q4 and next year as well.

The BoE had already lifted rates to 0.75% from 0.1% in late 2021 and money markets are currently pricing in 100 bps additional rate hikes this year.

UK growth is now back above pre-covid levels and looks robust, despite fears that the Ukraine crisis, and Russian sanctions, will cause further supply chain disruptions. We see that while business confidence and labour market activity have remained robust, consumer confidence has fallen in response to the squeeze on real household disposable incomes. It is this worry that a downturn in consumer spending will slow economic activity in the months ahead, especially with inflation expected to hit, and stay at, multi-decade highs.

It is this inflation vs. growth confusion that will cause BoE to be flexible and yet still resolute in trying to control inflation. If it moves too hard, too quickly and causes growth to falter then fears of stagflation will hit the UK markets and Pound. And if the BoE reacts too slowly and if multi-decade high inflation becomes ingrained, then they will have to act even more aggressively to catch up with price pressures.



The GBPUSD Weekly chart indicates, last week the Pound yet again breached the 61.8% Fibo Support of 1.2490, to settle at 1.2337.

GBPUSD for last three weeks has been depreciating continuously and is now lacking fundamental backing.

The bearish Ichimoku cloud formation as mentioned in our earlier reports has proved to be a threat since the beginning of April. However, the Bollinger-RSI combination now indicates the pair is extremely oversold and might show minor bounces in the next few weeks.

The bearish Parabolic SAR if penetrates the ichimoku cloud from upside the short term reversal may be fruitful and lead to a continued upward move in the pair.

Weekly Trading Strategy (SPOT)											
Weekly Bias		Weekly Trading Strategy (SPOT)							Weekly Range		
Sideways-Bullish		Buy 1.2330-1.2350 SL 1.2270 TGT 1.2420				Buy 95.00-95.20 SL 94.60 TGT 95.70-96.00			1.2500-1.2850   95.00-96.00		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		89.47	91.37	93.27	94.12	95.17	96.02	97.07	98.97	100.87	
Exporters Strategy		Exporters are advised to hedge their May exposure partially (40%) around 95.70. Total exposure to be held open with Stop below 94.50 Spot.									
Importers Strategy		Importers are advised to hedge partially (60%) near 95.00 Spot for May exposure. Pending to held open with Stop above 96.00 Spot.									

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
09.05.2022	06:30 PM	GBP	MPC Member Saunders Speaks		
10.05.2022	10:30 PM	USD	FOMC Member Waller Speaks		
11.05.2022	12:30 AM	USD	FOMC Member Mester Speaks		
	01:30 PM	EUR	ECB President Lagarde Speaks		
	All Day	All	OPEC Meetings		
	06:00 PM	USD	CPI m/m	0.2%	1.2%
		USD	Core CPI m/m	0.4%	0.3%
12.05.2022	11:30 AM	GBP	Prelim GDP q/q	1.0%	1.3%
	06:00 PM	USD	PPI m/m	0.5%	1.4%
		USD	Core PPI m/m	0.6%	1.0%
		USD	Unemployment Claims	190K	200K
13.05.2022	07:30 PM	USD	Prelim UoM Consumer Sentiment	64.1	65.2
	09:30 PM	USD	FOMC Member Mester Speaks		

**Report prepared by:**

**Siddhesh Ghare**  
**Head- FX Risk Business**  
**PhillipCapital (India) Pvt. Ltd.**

**sghare@phillipcapital.in**  
**+91 99634 87722**

**Disclaimer:**

The information and views presented in this report are prepared by Phillip Services India Pvt. Ltd. The information contained herein is based on our analysis and up on sources that we consider reliable. We, however, do not vouch for the accuracy or the completeness thereof. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither Phillip Services India Pvt. Ltd. nor any person connected with any associated companies of Phillip Group accepts any liability arising from the use of this information and views mentioned in this document.