

# Currencies Weekly Report

Week of 25.07.2022

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July 25, 2022

## Global Economic Review & Outlook

The ECB surprised with a 50bp hike and refrained from giving guidance going forward. We think more 50bp hikes will be in store, while one should pay more attention to the upcoming key data releases than signals from ECB Governing Council members.

We think the ECB will hike rates by 50bp again in September and October, but risks are clearly tilted towards a 75bp move in September.

Lagarde justified the bigger increase by the desire to get out of negative rates quickly.

The ECB is now so worried about the inflation outlook and having fallen behind the curve in tightening policy that it was prepared to deviate from its strong prior guidance and hike rates by 50bp today.

The Governing Council also agreed on the Transmission Protection Instrument (TPI), but it will need another decision to be activated.

Amidst an uncertain outlook, the ECB finally distanced itself from giving clear guidance on upcoming monetary policy decisions.

We see 50bp rate hikes in September and October and a shift to more moderate 25bp hikes in December.

Without any firm guidance, the market is now even freer to price in whatever the data warrant. A further loss of data momentum could dent also ECB pricing going forward.

We remain sceptical that the existence of the TPI will be sufficient to calm Italian bond spreads, and expect to see wider spreads going forward.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	11834.11	11452.42	3.33
DOW JONES	31900.61	31286.02	1.96
NIKKEI	27914.66	26788.47	4.20
HANGSENG	20609.14	20297.72	1.53
CAC	6216.82	6036.00	3.00
DAX	13253.68	12864.72	3.02
FTSE	7276.37	7159.01	1.64
FX	Last Close	Previous Week	% CHANGE
DXV	106.54	107.98	-1.33
EURUSD	1.0215	1.0086	1.28
GBPUSD	1.2004	1.1863	1.19
USDJPY	136.07	138.47	-1.74

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	79.8958	79.9478	79.9738	79.9763	79.9101
EURINR	80.6607	81.1939	81.8415	81.6889	81.4572
GBPINR	95.0446	95.7364	96.0229	95.9332	95.5879
JPYINR	57.80	57.97	57.88	57.84	57.96

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	80.0250	80.4650	81.0450	81.6100	82.3050
Tuesday	79.9900	80.4400	81.0450	81.6100	82.3200
Wednesday	80.0350	80.4950	81.1050	81.6750	82.3700
Thursday	79.9575	80.4300	81.0425	81.6175	82.3125
Friday	79.8700	80.3400	80.9350	81.5150	82.2000

## Dollar Outlook

The US Dollar (via the DXY Index) fell last week for the first time in a month, posting its worst weekly performance in two months with a loss of -1.33%. Weakening US economic data has led to a rapid deterioration in rate hike odds for the Federal Reserve, undercutting US Treasury yields and thus a significant source of US Dollar strength in recent months.

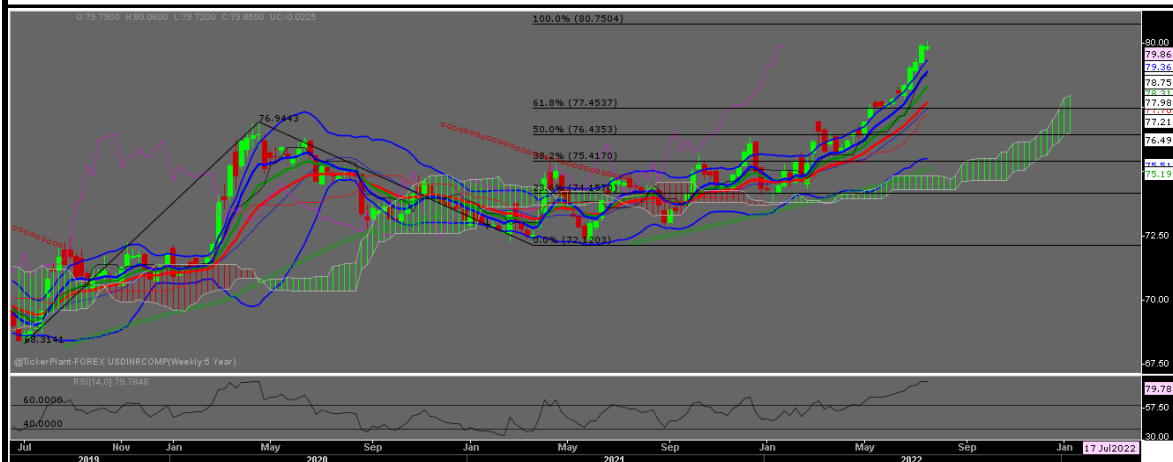
The coming week is saturated with important US economic data releases, each of which have the potential to upend FX markets. But no event or data release carries more importance than the July Fed meeting, where it is widely expected another significant rate hike will be levied.

Markets are discounting a 75-bps rate hike from the Fed this week. That might not be enough for the US Dollar.

After the July Fed meeting, there is one 25-bps rate hike priced-in through the end of 2022.

According to the IG Client Sentiment Index, the US Dollar has a mixed bias heading into the first week of August.

The greenback finds itself in a unique position, able to benefit both from nerves around a global recession and from concerns that rampant inflation could keep the Fed on its warpath.



The USDINR Weekly chart indicates the pair traded positive last week and printed a new lifetime high of 80.06. USDINR manages to trade well above the 8-13-20 EMAs, above the 61.8% Fibo price extension level of 77.45 & has moved past the Upper Bollinger band approaching 100% extension marked at 80.75.

The pair has all reasons to continue its upward move to this level but the RSI has been in the overbought region and has recently supported a cool off.

USDINR had been very stable recently and was bound to find trigger soon where it rallied past 79.

However, it is early to say if USDINR will hold 80.

We recommend going short on rise in USDINR this week too.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 79.85-80.05 SL 80.25 TGT 79.55								79.55-80.05		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		78.86	79.20	79.54	79.70	79.88	80.04	80.22	80.56	80.90	
Exporters Strategy	Exporters were suggested to hedge their July exposure partially (50%) around 79 & 25% at 79.50. Pending to be hedged around 80.00.										
Importers Strategy	Importers were suggested to hold July payables open with Stop above 79.50. Stop Triggered.										

# Euro Outlook

This week's 50 bp rate hike by the ECB did little to prop up the ailing Euro, while the somewhat sketchy details of the central bank's anti-fragmentation program – the Transmission Protection Instrument (TPI) – left traders guessing as to how and when it may be used to calm peripheral bond spreads.

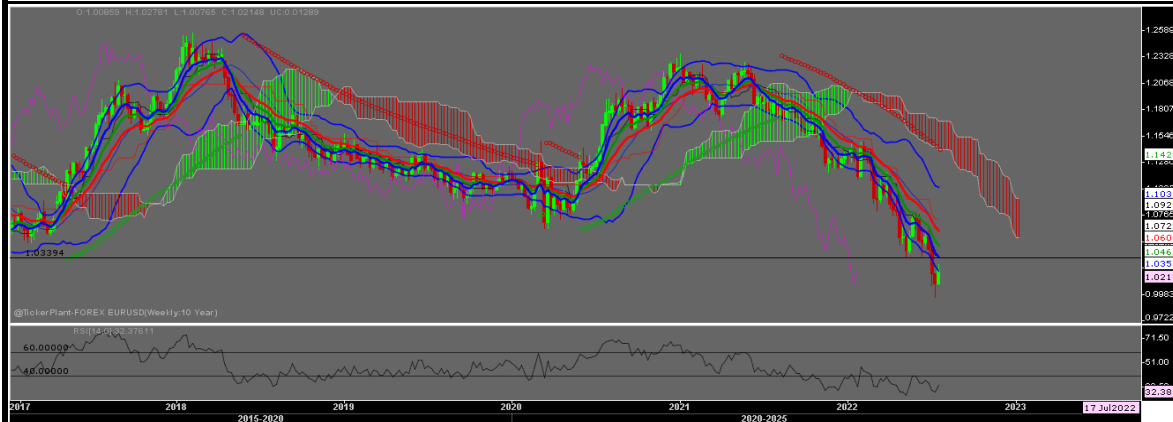
Financial markets have already priced in another 50bp rate hike at the next ECB policy meeting on September 8 and we hope more details about TPI will be known well ahead of this meeting if bond yields start to rise further.

Eurozone's inflation stats for July will hit the markets on Friday, alongside the first estimate of GDP for Q2.

The euro's nightmare keeps getting worse as the energy crisis has put the squeeze on consumers and higher borrowing costs will only add to recessionary risks. Europe might come at the epicenter of any global recession, and the latest business surveys unfortunately confirm that.

New business orders have been falling for three months now and the rate of loss has accelerated lately, which suggests the Eurozone economy is likely to contract in the third quarter. On top of everything, political risks are back on the menu with a leadership crisis brewing in Italy.

For the first time in Italy's modern history, a general election will be held in the autumn; September 25. Draghi will remain as caretaker Prime Minister until then.



The EURUSD Weekly chart indicates the pair recovered last week to test 1.0278 from the lows of 0.9950 printed a week earlier.

Euro has been facing strong resistance at all three 8-13-20 EMAs, thus keeping itself near to the Lower Bollinger band.

Also, the bearish Ichimoku cloud indicates the pair is expected to further face resistance in near term.

A breach of long-term support around 1.0330 indicates further weakness in EURUSD unless it moves up above the same.

Major resistance stands at 1.04. However, we suggest going long on the pair at 1.02 for targets of 1.03 in the week ahead.

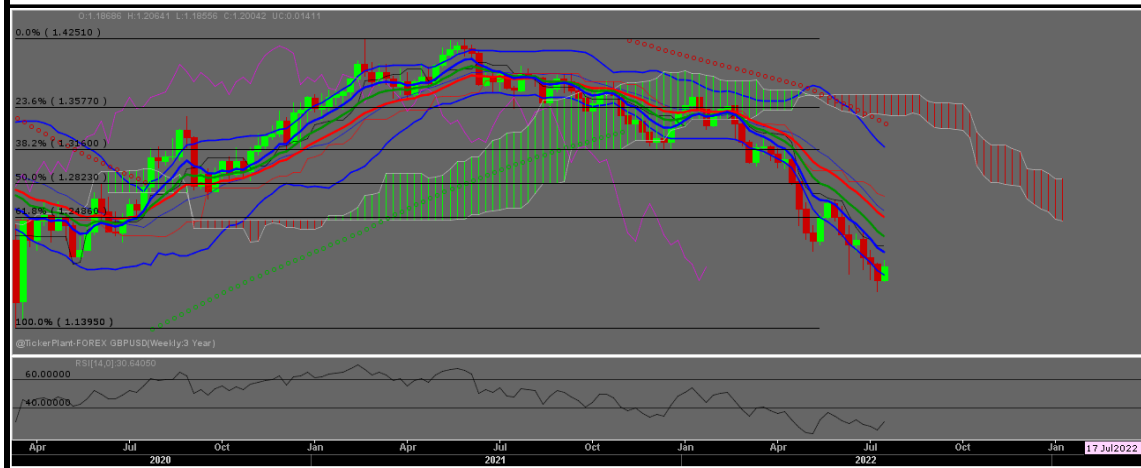
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Buy 1.02 SL 1.01 TGT 1.03				Buy above 81.25 SL 80.50 TGT 82				1.02-1.03   81.00-82.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		76.41	78.02	79.64	80.37	81.25	81.98	82.86	84.47	86.09	
Exporters Strategy	Exporters were advised to hedge 40% of the July exposure around 84.20 Spot. Total exposure to be held open with Stop below 82.30 Spot. Stop Triggered.										
Importers Strategy	Importers were advised to hedge 60% of July payables around 81.50 and pending around 79.50 on Spot.										

## British Pound Outlook

UK economic growth slowed in July, registering the slowest expansion since the lockdowns of early-2021. Although not yet in decline, with demand for vehicles and consumer-oriented services such as travel and tourism helping to sustain growth in July, the PMI is now at a level consistent with just 0.2% GDP growth.

The concern is that rising interest rates, as the BoE seeks to control inflation, will cause demand growth to weaken further in the coming months. To be hiking interest rates at a time of such weak business growth is unprecedented over the past quarter-century.

Looking at the weekly charts, GBPUSD remains rangebound after a move to the lowest level since March 2020 a week earlier. The pair remains in a broader bearish trend and could face renewed selling pressure. In the upside, the pair faces resistance around 1.2180 that may cap the upside momentum to push the cable back below 1.20 towards 1.19. The 8-13-20 EMA bearish crossover along with the fairly bearish Bollinger Bands and Ichimoku Cloud formation, indicates a negative move in GBPUSD the following week. The RSI continues to indicate the pair being oversold. However, a pullback close to 1.2180 is best to initiate shorts for the next week.



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Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bearish-Sideways	Sell 1.2180 SL 1.23 TGT 1.2050				Sell 95.50 SL 96.20 TGT 94.70				1.2000-1.2200   94.50-95.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		91.23	92.64	94.06	94.71	95.47	96.13	96.89	98.30	99.72	
Exporters Strategy	Exporters were advised to hedge their July exposure partially (60%) around 96.00. Total exposure to be held open with Stop below 94.80 Spot. Stop Triggered.										
Importers Strategy	Importers were advised to hedge partially (40%) near 94.80 and 30% around 94 Spot for July exposure. Pending to be held open with Stop above 96.30 Spot.										

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
25.07.2022	01:30 PM	EUR	German Ifo Business Climate Index (Jul)	90.2	92.3
26.07.2022	07:30 PM	USD	CB Consumer Confidence (Jul)	97.3	98.7
		USD	New Home Sales (Jun)	664K	696K
27.07.2022	06:00 PM	USD	Core Durable Goods Orders (MoM) (Jun)	03%	0.7%
	07:30 PM	USD	Pending Home Sales (MoM) (Jun)	-1.5%	0.7%
	08:00 PM	USD	Crude Oil Inventories		-0.446M
	11:30 PM	USD	FOMC Statement		
		USD	Fed Interest Rate Decision	2.50%	1.75%
28.07.2022	12:00 AM	USD	FOMC Press Conference		
	06:00 PM	USD	GDP (QoQ) (Q2)	0.4%	-1.6%
		USD	Initial Jobless Claims	253K	251K
29.07.2022	01:25 PM	EUR	German Unemployment Change (Jul)	15K	133K
	01:30 PM	EUR	German GDP (QoQ) (Q2)	0.1%	0.2%
	02:30 PM	EUR	CPI (YoY) (Jul)	8.7%	8.6%
	06:00 PM	USD	Core PCE Price Index (MoM) (Jun)	0.5%	0.3%

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