

# Currencies Weekly Report

Week of 01.11.2021



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November 1, 2021

## Global Economic Review & Outlook

Global equities have managed to maintain upside momentum despite rising hawkish central bank policy bets. The US indices recently set new highs. A revival in volatility could be in the cards if a hawkish Fed fuels investors to book profits and/or reshuffle their capital.

Along with the Fed due on Wednesday, the week will also wrap up with October's non-farm payrolls report. Markets may pay closer attention to wage data, which can have inflationary impacts on the economy. Average hourly earnings are expected to shoot higher to 4.9% y/y from 4.6% prior. This is still well above pre-pandemic trends and may influence the timing of Fed rate hikes down the road.

In countries like Australia, New Zealand and Canada central banks have either finished tapering QE or have started it. AUD, NZD and CAD are some of the best performing majors against USD over the past month. With that in mind, a hawkish Fed could allow for US long-term rates to outperform, opening the door for Greenback strength.

There are early signs of an abating energy pressure as

- 1) Putin will start re-filling German gas storages from mid-November,
- 2) China has moved to cap coal prices, which has eased the pressure to find alternative energy sources and
- 3) The wind is actually blowing again, but that doesn't mean that we cannot continue to be surprised to the upside on inflation.

Economic policies in the UK, US and elsewhere should raise the spectre of central banks becoming increasingly "fiscally dominated", i.e. that central banks could be forced to deviate from its monetary policy objectives because of high government debt.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	15498.40	15090.20	2.71
DOW JONES	35819.59	35677.68	0.40
NIKKEI	28892.69	28804.85	0.30
HANGSENG	25377.24	26126.93	-2.87
CAC	6830.34	6733.69	1.44
DAX	15688.77	15542.98	0.94
FTSE	7237.57	7204.55	0.46
FX	Last Close	Previous Week	% CHANGE
DX	94.12	93.61	0.54
EURUSD	1.1562	1.1645	-0.71
GBPUSD	1.3691	1.3756	-0.47
USDJPY	113.99	113.48	0.45

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	75.0191	75.1167	74.9519	74.8216	74.7858
EURINR	87.4173	87.1754	86.9302	86.8275	87.2616
GBPINR	103.2993	103.4367	103.1598	102.8378	103.1097
JPYINR	66.00	65.93	65.72	65.90	65.86

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	75.1125	75.6375	76.4525	77.4425	78.3075
Tuesday	74.9825	75.5100	76.3300	77.3250	78.1950
Wednesday	75.3100	75.8625	76.8100	77.6750	78.5600
Thursday	75.1825	75.7500	76.6875	77.5525	78.4325
Friday	75.1350	75.6950	76.6450	77.5200	78.3950

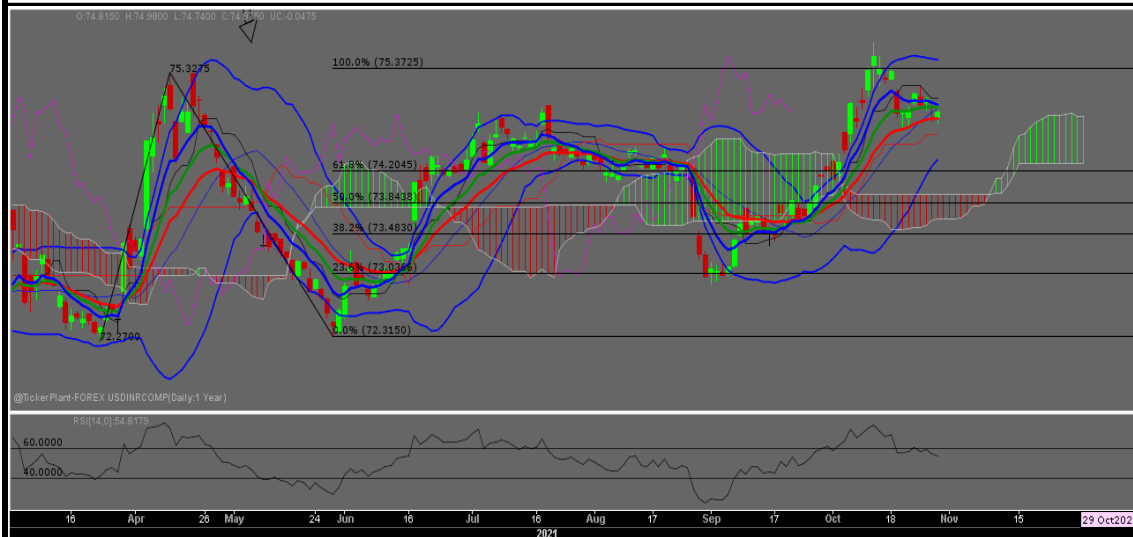
## Dollar Outlook

The Dollar strengthened towards the end of last week as the yield curve flattened, likely reflecting rising hawkish Fed policy expectations. This followed a week where US GDP slowed faster than expected in the third quarter. Meanwhile, the core PCE remained well above the Fed's target.

All eyes now turn to the November FOMC policy announcement due on Wednesday. Following a shift in Fed's tone on inflation, the monthly asset purchase tapering is expected to begin at a pace of \$10 trillion per month and completed by June 2022. How soon will rate hikes follow though?

Since September's FOMC rate decision, markets have been increasingly pricing in a more hawkish Fed. Now, Fed Fund Futures reflect that the markets anticipate 2 rate hikes by the end of 2022. Prior to the September policy announcement, not even one rate hike was fully priced in. Earlier in October, Powell noted that risks are tilted higher on inflation.

Still, despite the rapid increase in Fed rate hike bets, the US Dollar has struggled against its major peers. The average spread between the 10-year Treasury yield and equivalent bonds from developed countries has been narrowing. This means longer-term rates have been rising more quickly outside US.



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

However, as USDINR was trading near the upper end of the Bollinger band and with the RSI showing the pair to be highly overbought, the pair was expected to fall in the week earlier which it followed. We expected the pair to correct a little back to 74.75 and it did so.

In the week ahead, the pair is expected to find resistance in the 75-75.30 zone and see further more correction at-least till 74.50. USDINR managed to hold at the 20 D-EMA but also closed near the 8&13 D-EMAs which are about to give a bearish crossover. This can be considered as an indication to further downward move in USDINR.

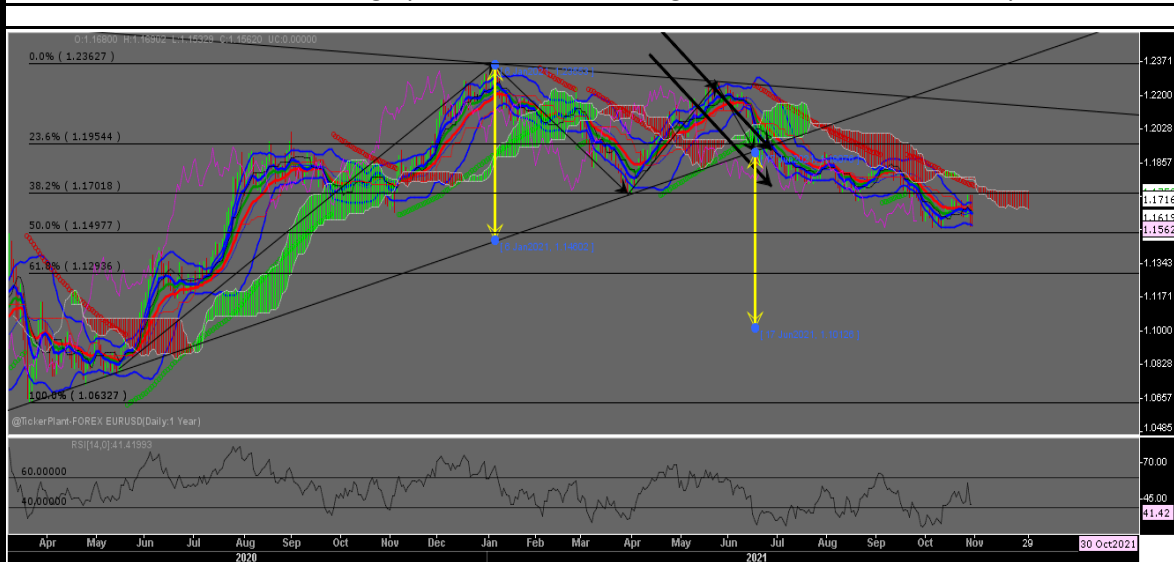
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 75.10/35 SL 75.50 TGT 74.70-74.50								74.50 - 75.40		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		73.65	74.08	74.50	74.69	74.93	75.11	75.35	75.78	76.20	
Exporters Strategy	Exporters are suggested to hedge their November exposure partially (30%) around 75 Spot.										
Importers Strategy	Importers are suggested to hedge 30% November payables at 74.70 Spot. Pending to be held open with Stops above 75.50 Spot.										

## Euro Outlook

As expected, the ECB's Governing Council decided Thursday to leave monetary policy unchanged, but the reaction to Lagarde's subsequent news conference was fascinating. She pushed back hard against market pricing suggesting the ECB will increase Eurozone interest rates next year, insisting that above-target inflation will have fallen by then. Lagarde agreed that it could increase further short-term but insisted that price pressures will ease over the course of the year as factors such as higher energy prices drop out of the equation. Yet, instead of the markets moving to price in easier monetary policy than previously expected, they moved to price in a tightening of policy even earlier than previously predicted.

For a central bank chief, this is worrying as credibility is important in the role. It also means the ECB may not, as previously expected, signal a move towards reducing its monetary stimulus programs at its December meeting, where new staff economic projections will be available.

Eurozone data releases are largely second-tier, including German retail sales, factory order and industrial production, Eurozone retail sales & unemployment.



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 after finding support at 1.1520 a week earlier which is close to the 50% Fibo retracement of 1.15, had bounced back showing a small reversal and was expected to move up close to the 1.17 major resistance last week, which it did.

EURUSD as it tested 1.1690 levels saw a sharp selling on the last day of the week gone and slipped down to 1.1530 again close to the 1.15 supports.

In the week ahead, though the pair is still in a major downtrend might again see some recovery from the current lower levels and rise up close to 1.17 yet again.

Hence, for the upcoming week we suggest going long on the pair with strict stops below 1.15.

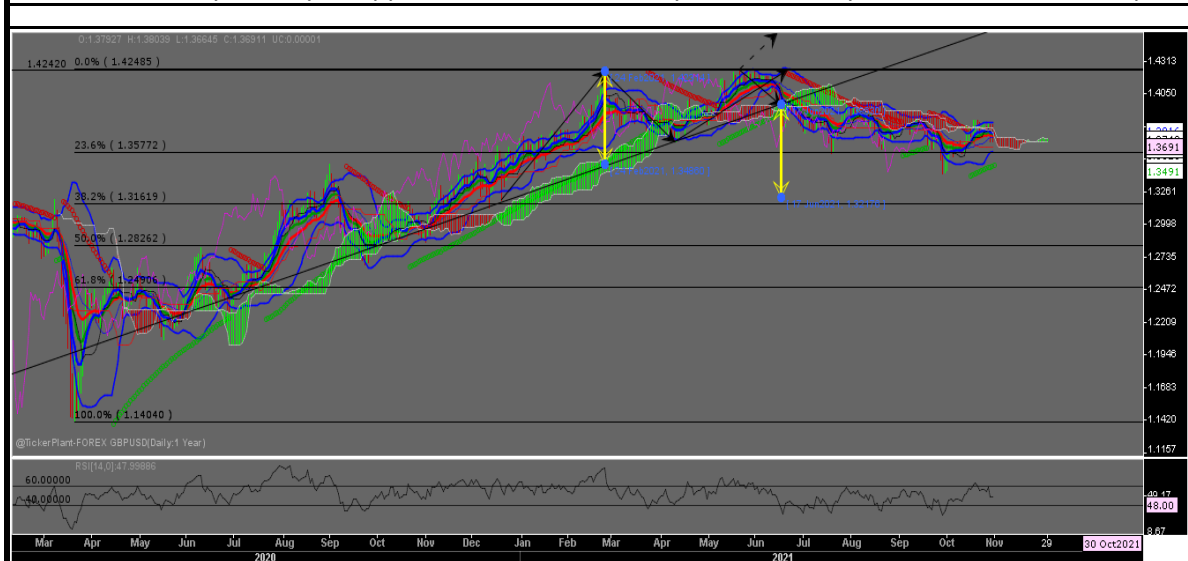
Weekly Trading Strategy (SPOT)											
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 1.15 SL 1.1430 TGT 1.1590-1.1650				Buy 86.40/60 SL 86 TGT 87.15-87.40				1.1500-1.1650   86.50-87.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		84.53	85.40	86.27	86.75	87.15	87.62	88.02	88.89	89.76	
Exporters Strategy	Exporters are advised to hedge 50% around 87.40 & maintain strict stops at 86 on Spot for the remaining 50% of the November exposure.										
Importers Strategy	Importers are suggested to hedge 50% around 86.50 on Spot & maintain stops above 86.80 for pending November exposure.										

## British Pound Outlook

Month-end rebalancing sees GBP/USD hover around the lows as we close out the week. Unfortunately, I had been looking for some month-end USD selling, which had been touted in the run up, in order to provide a more attractive area to fade Cable strength from 1.3850 (coincides with 200DMA) ahead of next week's Bank of England rate decision.

The expectation next week is that the BoE will deliver a 15bps rate rise to 0.25% given the heightened concerns over inflation. Interestingly, money markets have shifted from fully pricing in a 25bps hike to a 15bps hike to now 13bps worth of tightening. However, the risk is that BoE will not match hawkish expectations priced in given that money markets are currently looking for the most aggressive tightening cycle since pre-GFC. Leaving the Bank with a high bar to surprise on the hawkish side.

How the BoE may initially disappoint, is that should they raise rates, eyes will be on the vote split, which is unlikely to be unanimous.



The GBPUSD Daily chart indicates, Pound was on short term reversal and had been recovering since beginning of October. The Bollinger-RSI combination however, indicated the pair was overbought and due for a correction where. Levels between 1.38 & 1.3850 were suggested to be ideal for medium term shorts. Last week we suggested sell on rise around 1.38 for targets of 1.3650 with strict stop above 1.39. The pair made a low of 1.3665 after finding resistance around 1.3835 last week and our view was filled fully. 1.3850 has been a strong multiple resistance level which the pair failed to breach even in the last week when it tested 1.3835. 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.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.3730/60 SL 1.3800 TGT 1.3650/30				Sell 103.50/60 SL 104 TGT 102.80-102.40				1.3650-1.3830   102.50-103.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		100.79	101.59	102.38	102.79	103.18	103.59	103.97	104.77	105.56	
Exporters Strategy	Exporters are suggested to hedge their November exposure partially (50%) around 103.50 Pending to be held open with Stops below 102.30.										
Importers Strategy	Importers are suggested to target levels near 102.80 to hedge their November exposure partially. Pending exposure to be held open with stop above 104.										

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
01.11.2021	07:30 PM	USD	ISM Manufacturing PMI	60.4	61.1
03.11.2021	01:30 PM	EUR	Spanish Unemployment Change		-76.1K
	05:45 PM	USD	ADP Non-Farm Employment Change	400K	568K
	07:30 PM	USD	ISM Services PMI	61.9	61.9
	08:00 PM	USD	Crude Oil Inventories		4.3M
	11:30 PM	USD	FOMC Statement		
		USD	Federal Funds Rate	<0.25%	<0.25%
04.11.2021	12:00 AM	USD	FOMC Press Conference		
	All Day	All	OPEC-JMMC Meetings		
	05:30 PM	GBP	Asset Purchase Facility	875B	875B
		GBP	BOE Monetary Policy Report		
		GBP	MPC Asset Purchase Facility Votes	0-2-7	0-2-7
		GBP	MPC Official Bank Rate Votes	0-0-9	0-0-9
		GBP	Monetary Policy Summary		
		GBP	Official Bank Rate	0.10%	0.10%
	06:00 PM	USD	Unemployment Claims	285K	281K
05.11.2021	06:00 PM	USD	Average Hourly Earnings m/m	0.4%	0.6%
		USD	Non-Farm Employment Change	397K	194K
		USD	Unemployment Rate	4.7%	4.8%

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