

# Currencies Weekly Report

Week of 27.06.2022

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June 27, 2022

## Global Economic Review & Outlook

Amidst its hawkish shift, the ECB needs to pay increasing attention to what is happening in the government bond markets. We doubt the central bank manages to calm government bond markets at the first attempt and look for more volatility ahead.

Currency markets operated normally last week and are expected to trade and move within ranges normally this week. Currency prices are trading in wide ranges without significant breaks to vital averages seen in order to trend and provide direction.

Going forward, a full slate of economic data which are likely to show that economies are slowing down but not enough to slow down inflation. This is likely to support Fed & ECB's transition into a more aggressive policy ahead of July FOMC meeting (27 July) and the ECB meeting (21 July). We expect the US economic data to display stubbornly high inflation. The May CPI report set a new peak on y-o-y inflation of 8.6% driven by a high monthly headline reading (1% m/m) and rising core inflation (0.6% m/m). We expect July's CPI to be ugly, revealing monthly readings similar to May pushing headline inflation to 8.7-8.8%. Thereafter, year-on-year headline inflation could easily rise above 9%.

Naturally, the Fed is primarily focused on monthly and quarterly readings on core inflation to gauge the underlying inflation pressure, but the latest forward guidance from the June FOMC meeting indicates that the committee is also concerned about how headline inflation shapes inflation expectations.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	11607.62	10798.35	7.49
DOW JONES	31503.71	29885.08	5.42
NIKKEI	26491.97	25963.00	2.04
HANGSENG	21719.06	21075.00	3.06
CAC	6073.35	5882.65	3.24
DAX	13118.13	13126.26	-0.06
FTSE	7208.81	7016.25	2.74
FX	Last Close	Previous Week	% CHANGE
DX	104.18	104.65	-0.45
EURUSD	1.0551	1.0492	0.56
GBPUSD	1.2267	1.2217	0.41
USDJPY	135.17	134.95	0.16

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	77.9960	78.0861	78.2115	78.2662	78.3308
EURINR	82.1319	82.1289	82.0981	82.6872	82.5633
GBPINR	95.4406	95.6784	95.6657	95.8453	96.1286
JPYINR	57.82	57.80	57.34	57.63	58.12

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	78.0250	78.4325	79.0275	79.6300	80.3950
Tuesday	78.1100	78.4900	79.0525	79.6300	80.3550
Wednesday	78.3950	78.7250	79.2300	79.7500	80.4400
Thursday	78.3050	78.6600	79.2000	79.7550	80.4700
Friday	78.3500	78.7150	79.2850	79.8550	80.5800

## Dollar Outlook

The dollar remained elevated throughout as we saw Powell tone down recession fears while other Fed officials heightened the hawkish narrative. Powell's appearance on Capitol Hill last week was keenly watched by nervous markets. He didn't hold back any punches, acknowledging that a recession was possible and a soft landing for the economy would be a challenge. At the same time, he sounded relatively optimistic about strength of US economy, and this message appeared to calm the financial markets, for the time being at least.

Core inflation is not getting any better either. The bottom line for Fed here is that the inflation outlook is not easing. On the contrary, we see upside risks. We thus believe the Fed will go ahead with another 75bp interest rate hike in July and display an overall aggressive monetary policy outlook.

Amidst a darkened economic outlook, US consumption remains resilient. Households' balance sheets have changed dramatically. Of particular importance, the low- and middle-income groups have historically high savings to buffer against rising inflation and borrowing costs.

Employment growth should steady at around the current levels. The low unemployment rate challenges future employment gains, but the economic headwinds could force workers back into the labour force. Notably, the participation rate is still one percentage point below the level before the pandemic.

Manufacturing growth will slow. Surely, some parts of the economy are already slowing in the US.

Thus, the Dollar will be more data dependent going forward.



The USDINR Weekly chart indicates the pair traded positive the past week and printed a new lifetime high of 78.39.

USDINR manages to trade well above the 8-13-20 EMAs, above the 61.8% Fibo price extension level of 77.45 and has moved past the Upper Bollinger band.

The pair has all reasons to continue its upward move but the RSI has been in the overbought region, with no clear indications whether it will continue upward move or cool off for a while.

USDINR has been very stable recently and is bound to find trigger soon.

We recommend going short on USDINR this week.

However, a lot of economic data releases will keep Dollar volatile.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 78.35-78.50 SL 78.75 TGT 78.00-77.70								77.70-78.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		76.64	77.16	77.68	78.01	78.20	78.53	78.72	79.24	79.76	
Exporters Strategy	Exporters were suggested to hedge their June exposure partially (60%) around 77.70. Pending to be hedged around 78.35.										
Importers Strategy	Importers were suggested to target hedging June payables partially (50%) around 77.90. Pending to be held open with stop above 78.55 Spot.										

## Euro Outlook

The euro has displayed much resilience against the U.S. dollar this past week particularly after weak eurozone PMI figures.

The declining outlook for the EU was reiterated by Friday's German Ifo business climate read for June which missed expectations showing a drop in entrepreneur sentiment around the EU business environment.

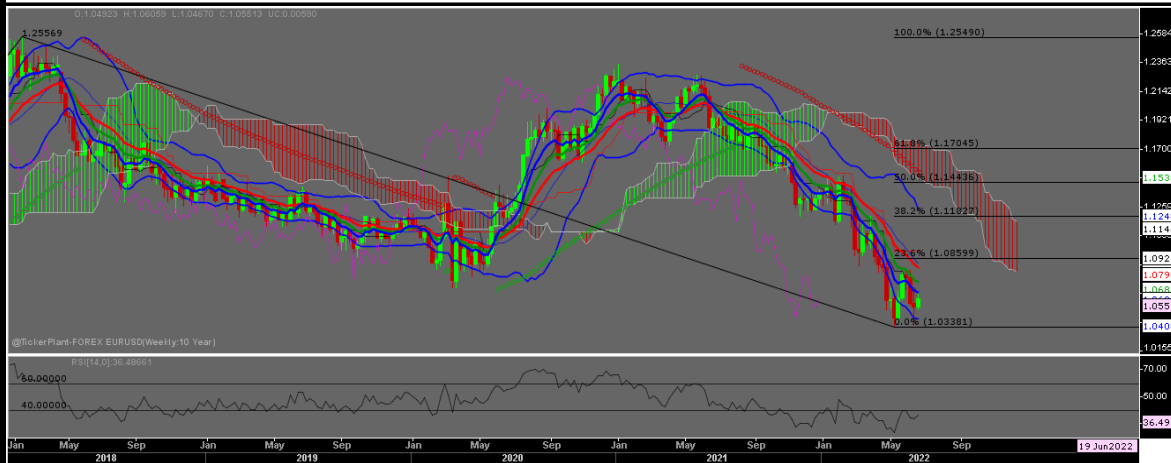
Germany and the rest of the eurozone remain vulnerable to negative economic factors which, unfortunately, do not show signs of improving anytime soon.

The ECB has been slow to respond to higher inflation and the danger of stagflation is a serious risk.

Germany has been trying to wean itself off of Russian energy exports, but had to implement phase two of its emergency energy plan last week after Russia decided to retaliate by decreasing its natural gas exports to Germany. The energy crisis is getting worse and could result in the euro losing ground.

The economic calendar holds much in the way of high impact events in the coming week with focus on inflation from both the U.S. and EU. The EU is expected to remain at 3.8% but anything higher could trigger hawkish ECB bets and potentially push the Euro higher.

Aggressive outlook from Fed is likely to negate any significant Euro gains in coming weeks so more of a rangebound consolidation in EURUSD is expected.



The EURUSD Weekly chart indicates the pair recovered last week to test 1.06 before settling at 1.0550.

Recently the 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 overall trend is expected to further remain bearish in near term.

The pair being held back at the 8-WEMA indicates a further weakness in the week ahead.

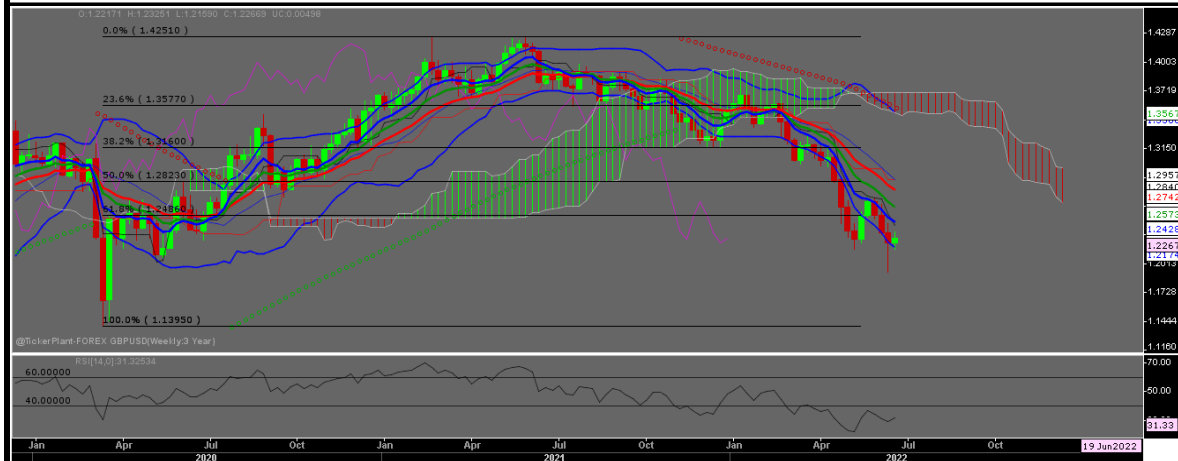
Major resistance stands at 1.0860, as indicated by the Fibonacci Price Extension, which could be the best level to go short on the pair for medium term.

This week, we suggest going short on the pair near 1.0610 with strict stops placed above 1.0680.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 1.0610 SL 1.0680 TGT 1.0480				Sell 82.80-83.00 SL 83.40 TGT 82.10-81.50				1.0480-1.0610   81.50-83.00		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		79.75	80.65	81.54	82.09	82.44	82.99	83.34	84.24	85.13	
Exporters Strategy	Exporters were advised to hedge 40% of the June 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 June payables around 82.80 on Spot. Pending to be hedged around 81.50 levels Spot..										

## British Pound Outlook

The pound had some tricky data prints to navigate this last week with UK inflation and retail data alongside. Inflation was printed in line with expectations at 9.1%, up 0.1% from the April print. Higher than expected inflation prints, at a time when members of the Bank of England have seemed hesitant to hike at the same pace as the Fed, can have a negative effect on the pound as it worsens the 'cost of living squeeze'. On Friday, we saw disappointing UK retail sales data (-4.7%) even though expectations of a 4.5% contraction were already anticipated. Price action was rather unphased as the cost-of-living squeeze is priced in and such data prints line up with current GBP sentiment. Despite the number of high importance events on the calendar, some data prints aren't anticipated to have a significant effect on GBPUSD like the final Q1 GDP provided it is inline or near enough to the prior readings. Thursday sees the final GDP print for the UK where the same logic applies and we then we see PCE inflation data. In the absence of positive GBP catalysts in the week ahead, there will be little to push GBPUSD higher, apart from a weaker dollar. Therefore, the outlook for the pound leans more towards the bearish side.



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 after a local rally to 1.24. In the upside, the pair is now targeting 1.25 that may cap the upside momentum to push the cable back below 1.20 eventually. 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. However, a pullback close to 1.2420 is best to initiate shorts for medium term in the pair. We recommend Short in GBPUSD with strict stops above 1.2550.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 1.2350-1.2420 SL 1.2550 TGT 1.2180				Sell 96.70-97.20 SL 98.00 TGT 95.50-94.70				1.2180-1.2420   94.70-97.20		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		92.28	93.51	94.73	95.52	95.96	96.74	97.18	98.41	99.63	
Exporters Strategy	Exporters were advised to hedge their June exposure partially (40%) around 98.00. Total exposure to be held open with Stop below 96.50 Spot. Stop Triggerred.										
Importers Strategy	Importers were advised to hedge partially (60%) near 97.50 Spot for June exposure. Pending to be hedged around 95.00 Spot.										

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
27.06.2022	06:00 PM	USD	Core Durable Goods Orders (MoM) (May)	0.3%	0.4%
	07:30 PM	USD	Pending Home Sales (MoM) (May)	-4.0%	-3.9%
28.06.2022	02:00 PM	EUR	ECB President Lagarde Speaks		
	07:30 PM	USD	CB Consumer Confidence (Jun)	100.9	106.4
29.06.2022	06:00 PM	USD	GDP (QoQ) (Q1)	-1.5%	-1.5%
	07:00 PM	GBP	BoE Gov Bailey Speaks		
		USD	Fed Chair Powell Speaks		
		EUR	ECB President Lagarde Speaks		
	08:00 PM	USD	Crude Oil Inventories		1.956M
30.06.2022	07:00 AM	CNY	Manufacturing PMI (Jun)	48.6	49.6
	11:30 AM	GBP	GDP (QoQ) (Q1)	0.8%	0.8%
		GBP	GDP (YoY) (Q1)	8.7%	8.7%
	01:25 PM	EUR	German Unemployment Change (Jun)	-6K	-4K
	06:00 PM	USD	Initial Jobless Claims	227K	229K
01.07.2022	05:20 AM	JPY	Tankan Large Manufacturers Index (Q2)	13	14
		JPY	Tankan Large Non-Manufacturers Index (Q2)	14	9
	07:15 AM	CNY	Caixin Manufacturing PMI (Jun)		48.1
	01:25 PM	EUR	German Manufacturing PMI (Jun)	52.0	52.0
	02:00 PM	GBP	Manufacturing PMI (Jun)	53.4	53.4
	02:30 PM	EUR	CPI (YoY) (Jun)	8.3%	8.1%
	07:30 PM	USD	ISM Manufacturing PMI (Jun)	55.0	56.1

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