

Currencies Weekly Report

Week of 30.05.2022

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Global Economic Review & Outlook

Minutes of the FOMC meeting reconfirmed that the FED plans to tighten policy until they see clear and convincing signs of lower inflation. Markets have taken a beating, but spill over to lower inflation dynamic is yet to be seen.

The geopolitical premium built into various assets in the wake of the Ukraine invasion has begun to unwind, with traders becoming increasingly less sensitive to war headlines.

This week features a slew of economic data from the US and new inflation figures out of euro area. In US this week brings new Consumer Confidence data, JOLTS job openings, ISM manufacturing & services and Nonfarm Payrolls job report. Both JOLTS and NFP will be watched closely. Wage growth will not meaningfully decline as long as there is 2x as many available jobs as the numbers of unemployed. And service inflation will not slide when wages keep rising at the current rate. The pool of available jobs can decline either as more people joins the labor force or if employers cuts back on their hiring.

Euro-area inflation is expected to rise slightly further from 7.4% reported in May. This is partly due to the oil price which has regained strength in May and the strong price pressures in global food indices. In addition, core inflation is likely to continue to be exceptionally fast as price pressures have continued both in services and non-energy industrial goods according to the PMIs.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	12131.13	11354.62	6.84
DOW JONES	33213.55	31260.58	6.25
NIKKEI	26781.68	26739.03	0.16
HANGSENG	20697.36	20717.24	-0.10
CAC	6515.75	6285.24	3.67
DAX	14462.19	13981.91	3.44
FTSE	7585.46	7389.98	2.65
FX	Last Close	Previous Week	% CHANGE
DX	101.67	103.15	-1.43
EURUSD	1.0733	1.0562	1.62
GBPUSD	1.2626	1.2487	1.12
USDJPY	127.08	127.90	-0.64

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	77.5890	77.6352	77.5137	77.6262	77.6592
EURINR	82.2816	82.8419	82.9381	82.8277	83.4883
GBPINR	97.5268	97.6366	97.2709	97.5001	98.1069
JPYINR	60.72	60.80	61.05	60.99	61.21

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	77.5500	78.0100	78.7400	79.4650	80.2650
Tuesday	77.6075	78.0625	78.7925	79.5025	80.2825
Wednesday	77.5425	78.0100	78.7350	79.4550	80.2550
Thursday	77.7950	78.2700	78.9900	79.7100	80.5550
Friday	77.7850	78.2550	78.9700	79.6800	80.5200

Dollar Outlook

The Dollar continued its retreat, that started two weeks ago. The DXY has fallen 3.5% from the 20-year highs, losing about half of the gains from the rally since late March. Do we see a correction further, before a new wave of Dollar strength or has the DOLLar topped out.

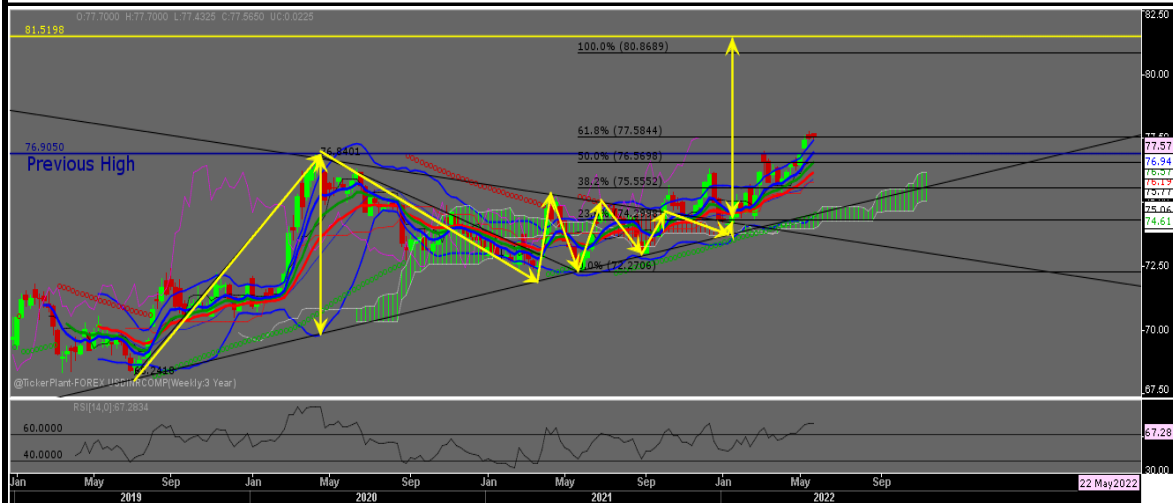
While there is no clarity, more factors favor that buying the dollar at current levels is not good.

Many of the major central banks have verbally or already actually come out at the pace of the Fed's rate hikes. Consequently, short-term bond yield spreads, which had driven the demand for the dollar in the previous few months, are no longer driving the prices. The latest Fed minutes have indicated a "flexible approach" - a hint of willingness to reduce the pace of rate hikes in the event of economic problems.

Before the dollar's retreat, there was a peak in 10-Year Treasury yields, which declined from 3.2% to 2.8%. A pullback further could be the first signal of a break in the uptrend. In that case, there can be increased pressure on the Dollar.

Elsewhere, there are rumors that China is cutting its investments in US Treasuries, following the Russian experience with blocking the Central Bank reserves.

However, China may be reducing its holdings for another reason: capital outflows and pressure on the currency due to the economic slowdown.



The USDINR Weekly chart indicates the pair after printing a lifetime high of 76.9825 in the beginning of March continues to hover around the 61.8% Fibo level of 77.60.

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 overbought region, with no clear indications whether it will continue upward move or cool off for a while. USDINR has been very stable for past week and indicates following the Dollar Index.

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 short on the pair at levels near 77.80 for targets of 77.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 77.70-77.85 SL 78.10 TGT 77.40-77.00								77.00-77.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		76.76	77.03	77.30	77.43	77.57	77.70	77.83	78.10	78.37	
Exporters Strategy	Exporters are suggested to hedge their June exposure partially (60%) around 77.70. Pending to be held open with stop below 76.80 Spot.										
Importers Strategy	Importers are suggested to target hedging June payables partially (50%) around 77.00. Pending to be held open with stop above 78.10 Spot.										

Euro Outlook

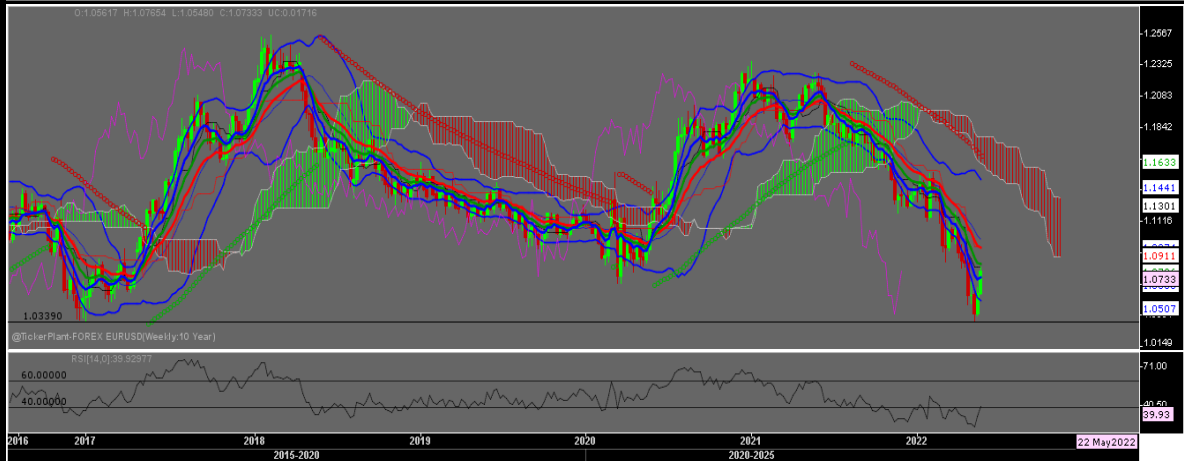
The Euro has been strengthening against the Dollar over the past two weeks. EURUSD has climbed 1.6% over that time period.

EURUSD has been rising as German front-end government bond yields have been outperforming their Treasury equivalent.

In fact, the Dollar has been broadly on the decline over the past two weeks. This has been increasingly associated with more cautious commentary from the FED regarding the path forward for interest rates. We have seen the markets price out most of the anticipated tightening in 2023. Odds of a 50-bp hike in September have been dwindling amid more cautious commentary from the Fed.

Meanwhile, the ECB has been doing the opposite of the Fed. This past week, ECB Governing Council member Martins Kazaks said that the central bank should not rule out half-point rate hikes. Similar commentary was also heard from Governing Council member Robert Holzmann. This is in contrast to ECB President Lagarde, who has a more cautious view.

Looking at the week ahead, the data can explain the increasingly hawkish view across policymakers. German inflation is expected at 7.6% y/y in May from 7.4% prior. This is as Euro Area unemployment is seen falling to 6.7% in April from 6.8% prior.



The EURUSD Weekly chart indicates the pair has recently tested levels close to the 2016 lows of 1.0340.

For the last two weeks, however, the Euro has gained little versus the Dollar and has been able to rise close the the 8-13-20 EMAs also finding support at the Lower Bollinger band.

Bollinger-RSI combination indicates the pair being extremely oversold. 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 as seen recently.

Next week, we suggest going long on the pair near 1.0680.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 1.0680 SL 1.0600 TGT 1.0810					Buy 82.90-82.70 SL 82.30 TGT 83.60-84.20			1.0650-1.0850 82.70-84.20		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		78.88	80.23	81.57	82.32	82.92	83.67	84.27	85.62	86.96	
Exporters Strategy	Exporters are advised to hedge 40% of the June exposure around 84.20 Spot. Total exposure to be held open with Stop below 82.30 Spot.										
Importers Strategy	Importers are advised to hedge 60% of June payables around 82.80 on Spot. Pending to be held open with Stop above 83.80.										

British Pound Outlook

That being said, while the USD has taken quite a hit from the hint made by Fed's Bostic that the Fed could pause come September, this is very much data-dependent. As it stands, inflation remains sticky and thus the Fed will maintain its very hawkish stance. At the same time, I do believe a wash-out in positioning has had an impact on recent price action, not just the USD but equities as well, in which the latter has seen inflows for the first time in seven weeks. For now, my bias remains to fade rallies in equities and re-engage with USD longs on dips. However, this week will be a holiday-thinned week given the Queen's Platinum Jubilee and thus with volumes lighter, choppy conditions are likely to persist. Meanwhile, there will be key German and Euro Area inflation prints this week, which will be something to watch for EURGBP.



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 indicates the pair is extremely oversold and might show further recovery. The bearish Parabolic SAR has penetrated the ichimoku cloud from upside and the current reversal may lead to a continued upward move in the pair. We recommend light LONG/BUY trades in GBPUSD with strict stops below 1.2500.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 1.2590 SL 1.2500 TGT 1.2700-1.2750				Buy 97.60-97.40 SL 97.00 TGT 98.40-99.00				1.2550-1.2850 97.50-99.00		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		93.43	94.83	96.22	96.99	97.62	98.38	99.01	100.41	101.80	
Exporters Strategy	Exporters are advised to hedge their June exposure partially (40%) around 98.50. Total exposure to be held open with Stop below 96.50 Spot.										
Importers Strategy	Importers are advised to hedge partially (60%) near 97.50 Spot for June exposure. Pending to be held open with Stop above 99.00 Spot.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
30.05.2022	08:30 PM	USD	FOMC Member Waller Speaks		
31.05.2022	07:30 PM	USD	CB Consumer Confidence	103.9	107.3
01.06.2022	04:30 PM	EUR	ECB President Lagarde Speaks		
	07:30 PM	USD	ISM Manufacturing PMI	54.9	55.4
		USD	JOLTS Job Openings	11.40M	11.55M
	10:30 PM	USD	FOMC Member Bullard Speaks		
02.06.2022	12:30 PM	EUR	Spanish Unemployment Change		-86.3K
	All Day	All	OPEC-JMMC Meetings		
	05:45 PM	USD	ADP Non-Farm Employment Change	295K	247K
	06:00 PM	USD	Unemployment Claims	210K	210K
	10:30 PM	USD	FOMC Member Mester Speaks		
03.06.2022	06:00 PM	USD	Average Hourly Earnings m/m	0.4%	0.3%
		USD	Non-Farm Employment Change	325K	428K
		USD	Unemployment Rate	3.5%	3.6%
	07:30 PM	USD	ISM Services PMI	56.7	57.1
04.06.2022	Tentative	USD	Treasury Currency Report		

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