

# Currencies Weekly Report

Week of 17.01.2022

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January 17, 2022

## Global Economic Review & Outlook

Headline inflation is close to peaking in both the US and the Euro area, but the consequences for bond yields are likely to be quite different compared to past episodes of peak inflation. Bond yields are not close to peaking.

In China GDP growth is expected to have stabilised in Q4 (consensus 1.2% q/q) after the very weak 0.2% q/q in Q3. We do not expect growth to return to the pre-pandemic levels – rather we see growth stabilising at around 5% in the coming years.

US inflation hit 7% y/y in Dec., highest in 40 years & is probably close to peaking but one cannot ignore the underlying inflation pressures and prices rising much faster than warranted by Fed's 2% target. Unless oil prices rise considerably further, easing energy inflation should help US headline inflation cool-off in coming months. Easing Chinese producer price data support the picture of peaking headline inflation. It is also observed that the worst in terms of supply chain problems could be over. Freight rates have fallen from their highs, while PMI data suggests that the pressure on supplier delivery times is easing to some extent. Global supply shortages however, would not ease rapidly. Order backlogs have risen higher, while demand for goods continues to be above pre-pandemic levels, especially in the US. In addition, Covid restrictions continue to impact the supply side, and the overall impact of Omicron is still uncertain. More price increases are likely to be in the pipeline, keeping core inflation elevated, even as headline inflation recedes.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	14893.80	14935.90	-0.28
DOW JONES	35911.28	36231.53	-0.88
NIKKEI	28124.28	28478.56	-1.24
HANGSENG	24383.32	23493.38	3.79
CAC	7143.00	7219.48	-1.06
DAX	15883.24	15947.74	-0.40
FTSE	7542.95	7485.28	0.77
FX	Last Close	Previous Week	% CHANGE
DX	95.17	95.72	-0.57
EURUSD	1.1412	1.1359	0.47
GBPUSD	1.3674	1.3585	0.65
USDJPY	114.16	115.55	-1.20

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	74.1630	73.9319	73.9968	73.9348	74.1157
EURINR	84.0232	83.8472	84.1610	84.5952	85.0749
GBPINR	100.7213	100.4813	100.9588	101.3478	101.7880
JPYINR	64.04	64.16	64.16	64.50	65.17

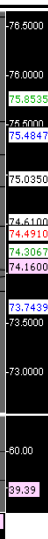
	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	74.1600	74.6600	75.6450	76.5450	77.3950
Tuesday	74.0250	74.5250	75.5300	76.4425	77.3050
Wednesday	74.0250	74.5225	75.5325	76.4375	77.3000
Thursday	73.9625	74.4575	75.4575	76.3550	77.2125
Friday	74.2400	74.7400	75.7400	76.6300	77.4900

## Dollar Outlook

The U.S. economy shows solid performance metrics particularly in the labor market. With a hawkish central bank amidst extreme inflationary pressures, the Dollar is yet to rally as many expect. Markets price in roughly four rate hikes in 2022 with a 97% probability scheduled for the January meeting. With this aggressive tightening on the cards, bond markets have been relatively muted and a flattening yield curve reflected by the 2s10s (difference between long and short term bonds) curve below is an indicator that markets are apprehensive about the future of the U.S. economy. Higher interest rates and the Fed's intention to reduce a ballooning balance sheet could hurt economic growth within. Markets are therefore looking for higher returns elsewhere instead of adding to the already extended dollar longs. This being said, the drop off shown by the Dollar Index (DXY) is likely to be short-lived as the overall outlook remains rather bullish.

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The USDINR Daily chart indicates the pair last week, tested the bottom of the Fibo Price extension plotted at 73.80 which happens to be a very strong multiple support level.

USDINR in the second half of the week gone, recovered a little to settle above the interim support level of 74.10 and also near the 8D-EMA and well above the lower Bollinger band, thus indicating a further recovery in the week ahead, as also supported by the upmove in RSI from below 40 in the North.

This week we suggest going long in the pair between 73.90 & 74.05 with strict stops placed below 73.60 for targets of 74.50.

The downward momentum seems to have come to an end if the Dollar restricts itself from breaching 74.05 in the downside, fresh buying can push USDINR higher back to 75 in near term.

In longer term, USDINR can revisit the 76 levels, but the pair will remain highly volatile in short term swinging between 74 & 75.50.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 74.05-73.90 SL 73.60 TGT 74.50								74.05-74.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		72.68	73.14	73.59	73.88	74.05	74.33	74.50	74.96	75.41	
Exporters Strategy	Exporters are suggested to hedge their January exposure partially (30%) around 74.50 Spot and 30% at 75.30/35. Pending to be held open with Stop at 73.60.										
Importers Strategy	Importers are suggested to hedge January payables 50% around 74.30. Pending to be held open with a strict Stop above 74.60 Spot.										

## Euro Outlook

The Euro broke out of consolidation against Dollar pushing itself to its highest point since mid-Nov. Euro gains, however, weren't spread out evenly. Euro against JPY, GBP and AUD was relatively mute when compared with EURUSD.

This indicates that Euro was a benefactor of broad Dollar depreciation, rather than strength of its own. Thus, the focus for Euro could remain glued on external factors. However, there are a few regional economic events to watch out for.

The road ahead for Euro is challenging. Overnight index swaps are only pricing in one 10-bps rate hike from the ECB in 2022, as opposed to over 75-bps of tightening from the FED, plus potential balance sheet unwinding.

The ECB's account of the December policy meeting is due this week. The minutes could reiterate the ECB's patience. President Lagarde noted in December that they are 'very unlikely' to raise rates this year. Fading Euro-Area industrial production data amid Omicron-induced regional restrictions may underscore this.



The EURUSD Daily chart indicates, the Euro, in the second half last week moved out of the tight range approaching the 50% Fibo resistance around 1.15.

The pair faces heavy resistance further north to end its bearish trend and we might see a drop in the prices in the week ahead.

As mentioned in our earlier reports where we expected EURUSD to recover atleast till 1.15 has happened and a further upward move seems to be unlikely immediately.

1.15 now happens to be a deciding level for EURUSD to reverse its bearish trend in near medium term.

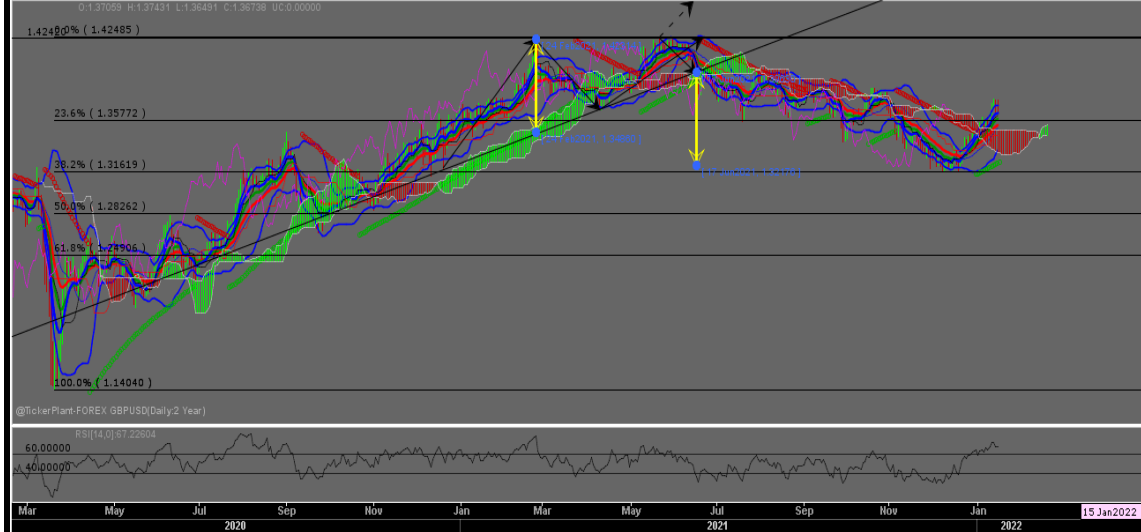
For the week ahead, the RSI too suggests, one should go short around 1.15 for targets of 1.1390 and 1.13 with stops placed above 1.16.

Please note, the Long-term targets of 1.10 as a breach of Triangle pattern are still on cards.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell around 1.15 SL 1.16 TGT 1.1390-1.13				Sell 85.50/60 SL 86.00 TGT 84.60-84.10				1.1300-1.1500   84.00-85.60		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		80.46	81.84	83.23	84.10	84.61	85.48	85.99	87.37	88.76	
Exporters Strategy	Exporters were advised to hedge 20% around 85 & 30 % at 85.50. Hold further pending for January exposure Open with Stop at 84.60 Spot.										
Importers Strategy	Importers were advised to hedge 50% of January payables around 84.20 on Spot. Pending to be held open with Stop above 85.70.										

## British Pound Outlook

Although, as the revelations continue over flaunting lockdown rules over the past 2yrs, Boris Johnson is facing the toughest time in his premiership. According to bookmakers, he is 70% priced in to be ousted this year and the pressure may continue to mount depending on the conclusion in the Cabinet Office inquiry, where a damning verdict may prompt Tory MPs to send their letters in for a vote of no-confidence, of which 54 letters are needed to force a vote.



The GBPUSD Daily chart indicates, Pound has seen a strong reversal recently, after it tested 38.2% Fibo supports at 1.3160. GBPUSD has also achieved the Long-term short target of around 1.32 as indicated by the breach of a Triangle pattern. GBPUSD now has moved past the bearish Ichimoku cloud and has rallied above the 23.6% Fibo resistance at 1.3575 while the Bollinger-RSI combination indicates the pair is now overbought in short term and might witness a fall if it does not hold the 1.3575/80 levels. GBPUSD also found a Bollinger resistance at 1.37 but has been able to manage trading above 8-13-20 EMA bullish crossover. The RSI too indicates the pair being overbought demanding minor corrections. In the week ahead one can go short if the pair slips below 1.3650 for targets of 1.3550 with strict stops above 1.3750.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell below 1.3650 SL 1.3750 TGT 1.3550				Sell 102.30/50 SL 103 TGT 101.40				1.3550-1.3700   100.90-102.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		96.69	98.25	99.81	100.82	101.37	102.38	102.93	104.49	106.05	
Exporters Strategy	Exporters were advised to hedge their January exposure partially (30%) around 101.50. More 40% to be added around 102.30. Pending to be held open with Stops below 101.30.										
Importers Strategy	Importers were advised to hedge partially (50%) near 100.20 for January exposure. Pending was to be held open with Stop above 101.20 Spot. Stop has been triggered.										

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
17.01.2022	07:30 AM	CNY	<b>GDP q/y</b>	<b>3.3%</b>	<b>4.9%</b>
		CNY	Retail Sales y/y	3.8%	3.9%
18.01.2022	Tentative	JPY	<b>BOJ Outlook Report</b>		
	Tentative	JPY	Monetary Policy Statement		
	Tentative	JPY	BOJ Press Conference		
	03:30 PM	EUR	ZEW Economic Sentiment	29.2	26.8
		EUR	<b>German ZEW Economic Sentiment</b>	<b>32.1</b>	<b>29.9</b>
	07:00 PM	USD	Empire State Manufacturing Index	25.0	31.9
19.01.2022	12:30 PM	GBP	<b>CPI y/y</b>	<b>5.2%</b>	<b>5.1%</b>
	07:45 PM	GBP	<b>BOE Gov Bailey Speaks</b>		
20.01.2022	07:00 PM	USD	Philly Fed Manufacturing Index	19.9	15.4
		USD	<b>Unemployment Claims</b>	<b>221K</b>	<b>230K</b>
	08:30 PM	USD	Existing Home Sales	6.42M	6.46M
	09:30 PM	USD	Crude Oil Inventories		-4.6M
21.01.2022	12:30 PM	GBP	Retail Sales m/m	-0.6%	1.4%

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