Currencies Weekly Report

Week of 27.02.2023



www.phillipforex.in February 27, 2023

Global Economic Review & Outlook

Disinflation trends are struggling and Dollar Outlook Turns More Bullish as Bond Yields skyrocket Post PCE Data. DXY closed last week at its best level since early January.

The Euro lost against the US Dollar on Friday, despite news that the Eurozone economy finally managed some growth last month.

As it has been a data-dependant market throughout the month of February and more specifically in the last week, the currencies shall continue to rely on further data for setting a clear trend.

Markets will see if improving manufacturing and service activity will further fuel pricing pressures.

Central bank speak will be closely monitored coming from Fed members and those at the ECB & the BoE.

In China, the official manufacturing and non-manufacturing PMIs for January will be released on Wednesday, in what will otherwise be a relatively quiet week.

All eyes are on the transition and how quickly and strongly the economy will bounce back, with stimulus measures over the next couple of months likely to turbo-charge the recovery.

India GDP and PMI data eyed next week, with the economy seen performing strongly again in Q3 and surveys indicating ongoing optimism.

		RBI Reference Rate											
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY								
USDINR	82.6902	82.7562	82.8434	82.7628	82.7432								
EURINR	88.4102	88.3202	88.2818	87.9178	87.7045								
GBPINR	99.5739	99.5579	100.2803	99.8517	99.4937								
JPYINR	61.67	61.58	61.43	61.40	61.49								

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	11394.94	11787.27	-3.33
DOW JONES	32817.05	33826.92	-2.99
NIKKEI	27453.48	27513.13	-0.22
HANGSENG	20010.04	20719.81	-3.43
CAC	7187.27	7347.72	-2.18
DAX	15209.74	15482.00	-1.76
FTSE	7878.66	8004.36	-1.57
FX	Last Close	Previous Week	% CHANGE
DXY	105.26	103.86	1.35
EURUSD	1.0545	1.0694	-1.40
GBPUSD	1.1940	1.2041	-0.84
USDJPY	136.49	134.15	1.74

	USDINR Forward Rates (Month End)											
	1 Month	3 Month	6 Month	9 Month	12 Month							
Monday	82.7450	83.1125	83.5250	83.9375	84.3600							
Tuesday	82.8025	83.1675	83.5900	84.0000	84.4200							
Wednesday	82.8625	83.2250	83.6475	84.0600	84.4800							
Thursday	82.7350	83.0900	83.5125	83.9225	84.3425							
Friday	82.8775	83.2625	83.6850	84.0975	84.5200							

Dollar Outlook

The Dollar Index rose this past week for the fourth consecutive week, notching to its best close since January, supported by the surge in U.S. bond yields. The recent move in the fixed income space has been driven by a hawkish repricing of the Fed's tightening path in response to a string of hotter-than-expected economic reports.

Strong labor market data along with persistently elevated price pressures, have boosted expectations for the Fed's terminal rate, lifting it to 5.39%, a figure that implies about three additional 25bp hikes.

The higher peak for borrowing costs envisioned by Wall Street has strengthened Treasury yields across the curve, especially those at the front end. This has been an upside catalyst for the Dollar.

The current dynamic is not likely to change any time soon. In fact, the January PCE numbers released last Friday, which showed an unexpected acceleration in the Fed's favorite inflation gauge, suggest that policymakers will have no choice but to maintain an aggressive stance for longer, indefinitely delaying a monetary policy pivot.



The USDINR Weekly chart indicates the pairhas been stagnant throughout February, but saw some upward momentum developing towards the end of last week after a higher PCE data. USDINR continued to appreciate last week as it managed to rise upto 82.85 and with the bullish sentiments developing over the weekend can open further rise higher to test the big figure resistance at 83. However, 83.30 has been a major resistance which the pair might not be able to break even if it moves past 83. The Bollinger-RSI combination indicates the pair is overbought and might witness some retracement and the coming week could result into correction in USDINR.

The Dollar however is gaining strength globally and can easily dominate the Rupee and sentiments around it.

Weekly Bias		Weekly Range									
Sideways	Sell 82.85-83.00 SL 83.30 TGT 82.65-82.50									81.40-82.70	
	S4	S3	S2	S1	Pivot	R1	R2	R3	R4		
Pivot Levels	82.00	82.25	82.49	82.62	82.74	82.86	82.98	83.23	83.47		
Exporters Strategy	Exporters are advised to hedge 50% of their March exposure between 82.80-83.00 Spot. Pending to be held open with Stop below 82.00.										
Importers Strategy	Importers are advised to hold their March exposure open/unhedged with Strict Stop above 83.30 or 83.50 Spot.										

Euro Outlook

After the ECB raised interest rates by a half-percentage-point the Euro slipped in the wake of that decision even though it flagged the probability of another similar increase next month. The meeting and its aftermath were well within market expectations and it takes a major hawkish surprise to support a currency much these days and there was no such thing on offer.

The Euro was left on backfoot after worse than expected German GDP data and GfK consumer confidence for March. The GDP numbers showed that the German economy contracted (-0.4%) in Q4 2022 and has brought back to the table "recessionary" talks.

Next week offers a number of economic data points, the most notable of which will be the flash HICP readings. While headline inflation has been falling, core remains at the peak and policymakers are unlikely to ease off the brake until they're seeing progress on this front. Forecasts suggest it's still a little early for that.

Markets are still pricing in a 50bp hike at the meeting in March although there's an almost equal chance of 75, based on current rates.

This brings us to the central bank speak, kicking off with President Lagarde who's due to appear at the G20 conference over the weekend.



The EURUSD Weekly chart indicates the pair, after a continued upward move in January, found resistance near the Upper Bollinger band and also at the upper end of the bearish Ichimoku cloud to drop down continuously throughout February. EURUSD settled close to the 20-Weekly-EMA after slipping below the 8-W-EMA and the RSI indicates further downside in the pair atleast till it tests the 100% Fibo retracement at 1.0430 as seen in charts.

The failure of EURUSD to move past the bearish Ichimoku cloud formation in itself is a major setback for the pair and confirms that the pair is not expected to gain upward momentum anytime soon. In the week ahead, one can go short on EURUSD & EURINR with strict Stops.

Weekly Bias			Weekly Range									
Sideways	Sell 1.0600	Sell 1.0600-1.0650 SL 1.0750 TGT 1.0480-1.0420 Sell 87.90-88.20 SL 88.80 TGT 87.20-86.90								1.0420-1.0650 86.90-88.20		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4		
		85.11	86.04	86.96	87.27	87.88	88.19	88.80	89.73	90.65		
Exporters Strategy		Exporters are advised to hold their March exposure open/unhedged with Strict Stop below 87.00 Spot. Target 88.50 to hedge 50%.										
Importers Strategy		Importers are advised to hedge 50% of their March payables around 87.50 Spot. Pending to be held open with Stop above 88.50 on Spot targetting 87.00.										

British Pound Outlook

Rishi Sunak has been hard at work attempting to come to an agreement over the flow of goods via the Northern Ireland border as the specifics around checks continued to draw division.

Britain marked the anniversary of Russia's invasion of Ukraine with bans on equipment Russia has used to conduct the war. The new wave of bans comes after numerous sanctions, the oil cap and Zelensky's latest meeting with world leaders.

PMI data showed a return to expansionary territory for the UK services sector. The print actually printed well above the forecast but ultimately had a limited effect as hotter inflation prints in the US have overshadowed the slightly better UK news.

It's all a bit calm next week, with central bank appearances the most notable thing on the calendar. That includes Governor Bailey on Wednesday and Chief Economist Pill on Thursday. With 25bp almost entirely priced in for March and the committee clearly a little divided on the correct path going forward, it is unclear what they could say that would cause much of a shock at this point.

A distinct lack of UK stimulus on the economic calendar might favour a gradual decline in the currency.



The GBPUSD Weekly chart indicates the pair witnessed a sharp selloff at the beginning of February where it found a major resistance at the lower end of the bearish Ichimoku cloud and the Upper Bollinger band and since then has been continuously on a loosing streak.

The pair has now even slipped below the 8-13-20 Weekly EMAs which are about to give a negative crossover thus increasing the pain for Pound.

Also, the Bollinger-RSI indicates no relief but a continued selloff in the pair going forward in March.

We had predicted 1.1920 and 1.18 could be the near term levels which GBPUSD can test in the weeks to come and the pair is very close to the first target.

Weekly Bias		Weekly Range									
Sideways	Sell 1.20 SL 1.	21 TGT 1.186	0	Sell 99.70	0-100.20 SL 1	01.00 TGT 99	1.2000-1.1850 98.50-100.20				
	S4	S3	S2	S1	Pivot	R1	R2	R3	R4		
Pivot Levels	96.12	97.32	98.52	98.99	99.72	100.19	100.92	102.12	103.32		
Exporters Strategy	Exporters are advised to hedge their March exposure (50%) between 100.30-100.50 Spot. Total exposure to be held open with Stop below 98.50 Spot.										
Importers Strategy	Importers are advised to hedge partially (50%) near 99.50 Spot for March.										
importers strategy		Pending	g to be held o	open with St	op above 10	0.50 Spot, ta	argetting 99.	00 Spot.			

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
27.02.2023	07:00 PM	USD	Core Durable Goods Orders (MoM) (Jan)	0.1%	-0.2%
	08:30 PM	USD	Pending Home Sales (MoM) (Jan)	1.0%	2.5%
28.02.2023	08:30 PM	USD	CB Consumer Confidence (Feb)	108.5	107.1
01.03.2023	07:00 AM	CNY	Manufacturing PMI (Feb)	49.8	50.1
	07:15 AM	CNY	Caixin Manufacturing PMI (Feb)		49.2
	02:25 PM	EUR	German Manufacturing PMI (Feb)	46.5	46.5
		EUR	German Unemployment Change		-15K
	03:00 PM	GBP	Manufacturing PMI (Feb)	49.2	49.2
	03:30 PM	GBP	BoE Gov Bailey Speaks		
	05:30 PM	EUR	German CPI (YoY) (Feb)	8.7%	8.7%
	08:30 PM	USD	ISM Manufacturing PMI (Feb)	48.0	47.4
	09:00 PM	USD	Crude Oil Inventories		7.648M
02.03.2023	03:30 PM	EUR	CPI (YoY) (Feb)	8.2%	8.6%
	06:00 PM	EUR	ECB Monetary Policy Statement		
	07:00 PM	USD	Initial Jobless Claims	197K	192K
03.03.2023	03:00 PM	GBP	Composite PMI (Feb)	53.0	53.0
	_	GBP	Services PMI (Feb)	53.3	53.3
	08:30 PM	USD	ISM Non-Manufacturing PMI (Feb)	54.5	55.2

Report prepared by: Siddhesh Ghare

Head- FX Risk Business sghare@phillipcapital.in

PhillipCapital (India) Pvt. Ltd. +91 99634 87722

Disclaimer:

The information and views presented in this report are prepared by Phillip Services India Pvt. Ltd. The information contained herein is based on our analysis and up on sources that we consider reliable. We, however, do not vouch for the accuracy or the completeness thereof. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither Phillip Services India Pvt. Ltd. nor any person connected with any associated companies of Phillip Group accepts any liability arising from the use of this information and views mentioned in this document.