

Currencies Weekly Report

Week of 19.12.2022

Global Economic Review & Outlook

Central banks hit back against market pricing and loosening financial conditions, with the ECB being the most successful this week. Goods inflation is coming down, central banks fight is against service inflation now.

The ECB hiked rates by 50bp today and decided to start reducing its bond holdings from March 2023 with a monthly volume of EUR 15bn. The ECB judges that rates will have to be raised significantly further, likely meaning several more 50bp rate hikes.

The Fed raised its policy rate by 50bp to 4.5% and signalled that rates will be raised to 5.25% in 2023, which is 50bp higher than forecasted in September. However, markets rejected the Fed and price a peak at 4.9%. The ECB raised its deposit rate by 50bp to 2% and announced it will reduce its bond holdings from March 2023 by EUR 15bn per month. The ECB has said rates will be hiked significantly further – likely by more 50bp rate interest rate hikes to 3% next year.

Bank of England raised its key policy rate by 50bp to 3.5%. The committee is split about the rate path forward. Markets price in a peak rate around 4.5% next year.

The war in Ukraine and whether either side will make a move over the next couple of weeks will be the key focus as far as Russia is concerned. China's reopening is seeing a surge in cases that could test some healthcare capacity. Any announcements on major changes to policies might be delayed if this surge shows no signs of peaking.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	10705.41	11004.62	-2.72
DOW JONES	32920.00	33475.60	-1.66
NIKKEI	27527.12	27901.01	-1.34
HANGSENG	19450.67	19900.87	-2.26
CAC	6452.63	6677.64	-3.37
DAX	13893.07	14370.72	-3.32
FTSE	7332.12	7476.63	-1.93
FX	Last Close	Previous Week	% CHANGE
DX	104.70	104.81	-0.10
EURUSD	1.0585	1.0533	0.50
GBPUSD	1.2134	1.2258	-1.01
USDJPY	136.72	136.57	0.11

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	82.6425	82.7154	82.5170	82.4822	82.8184
EURINR	86.8854	87.2835	87.7695	87.9046	88.2629
GBPINR	101.0272	101.6302	102.0295	102.2306	101.1903
JPYINR	60.31	60.13	60.91	60.80	60.35

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	82.5950	82.8800	83.3650	83.7100	84.0550
Tuesday	82.8600	83.1400	83.6150	83.9650	84.3000
Wednesday	82.5100	82.7950	83.2900	83.6525	84.0100
Thursday	82.8050	83.1000	83.6000	83.9750	84.3400
Friday	82.9025	83.2000	83.7025	84.0725	84.4450

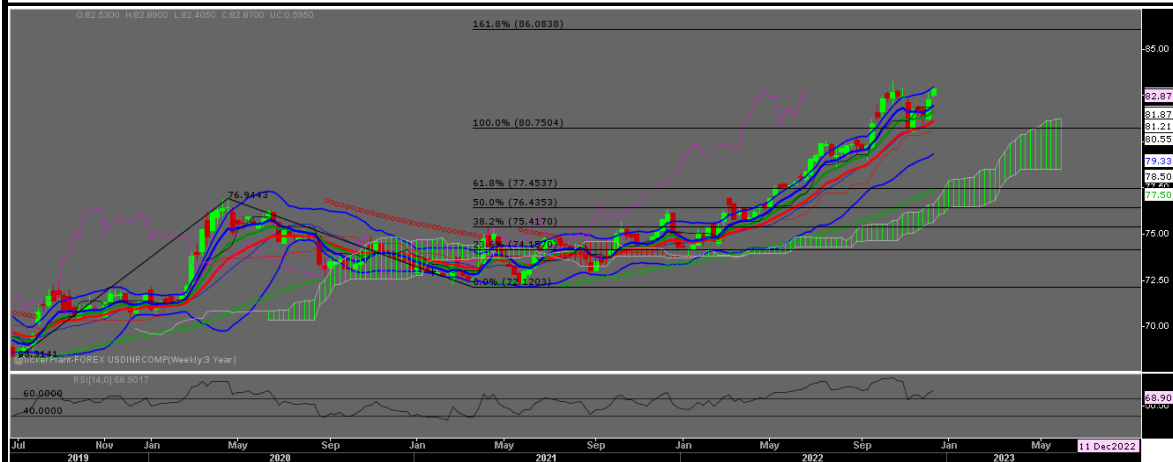
Dollar Outlook

The story about high inflation is changing but central banks are adamant. In the last months, economies have experienced benign goods disinflation and resilient economic data, especially from the labour market which is key for service inflation. To the markets, this has been a catalyst for rising stock prices, falling bond yields, and a weaker US dollar.

However, these movements were put on a halt last week as central banks reaffirmed their strong commitment to bring down inflation. The Federal Reserve increased the Fed Funds Rate to 4.5%, as widely expected, but surprised investors a bit by saying that the appropriate level for the Fed Funds Rate exceeds 5%. While this was certainly more hawkish than many expected, it did not change investors projection of the FFR topping below 5% with markets holding their view for a terminal rate at 4.9%.

The reason could be due to Fed's new economic projections: the upwards revision of unemployment in Fed's Summary of Economic Projections displayed the FOMC acknowledges the economic pain involved in solving the imbalances in the economy.

Markets are thinking weaker activity will send inflation lower, reducing the need for more rate hikes from the Fed.



The USDINR Weekly chart indicates the pair has been trending up since last 2 weeks after it found strong support near 20-EMA. USDINR managed to close at 81.32, just above the 13- Weekly EMA earlier which acted as an interim support, and showed a strong reversal these past 2 weeks.

The pair now, is hovering near the Upper Bollinger Band and around the 83 handle which has acted as a strong resistance earlier. Technically, 82.80-83.30 is a resistance zone where the pair can hold and show some correction back to 81.80-81.50. However, this week, we would suggest to wait for the pair to confirm the resistance and drop below 82.50, after which one can go short on the pair for targets of 81.50 with a strict Stop above 83.30.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell Below 82.50 SL 83.30 TGT 81.80-81.50								81.50-83.00		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		81.27	81.75	82.24	82.55	82.72	83.04	83.21	83.69	84.18	
Exporters Strategy	Exporters were advised to hedge 70% of their December exposure around 81.80 Spot. Pending to be held open with Stop below 81.80.										
Importers Strategy	Importers are advised to hedge 50% of their December exposure around 80.90 Spot. Pending to be held open with Stop above 82.00. Stop Triggered.										

Euro Outlook

Hawkish surprises have been frequent in many of the ECB meetings this year, and while the ECB slowed down the pace of its rate increases to 50bp today, the general tone is ery hawkish. In particular, the Governing Council judges that interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive to ensure a timely return of inflation to the 2% medium-term target.

Future rate decisions continue to be data-dependent and follow a meeting-by-meeting approach, but Lagarde clarified that the steady pace means 50bp hikes over a period of time.

If that was not hawkish enough, Lagarde signalled that financial markets were pricing in too little tightening, since the staff forecasts based on market interest rates still showed inflation above the target.

Further, she added that the ECB is not pivoting, they are not wavering, they are showing determination and resilience. The ECB has more ground to cover than the Fed, they have longer to go. Accordingly, the peak priced by financial markets moved up by around a full 25bp rate hike, with the peak moving back to above 3%.



The EURUSD Weekly chart indicates the pair held on to its recent recovery and further add to gains last week, where it held itself above the 100% Fibo retracement level at 1.0429, even breaching the Upper Bollinger band to close the week. The 8-13-20 Weekly EMAs too have given a bullish crossover. The RSI too has moved up above 60, with the pair turning overbought.

The Parabolic SAR has penetrated the bearsih Ichimoku cloud from above but is still near the borders of the cloud, but the pair has tested the resistance of the cloud last week and his given up most of its gains last week.

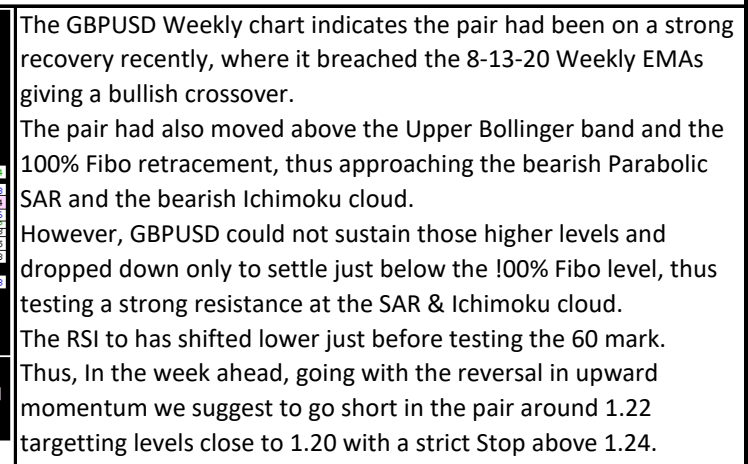
Technically, EURUSD seems to have lost the upward momentum and whether it is heading for a reversal or not will be clear this week if the pair closes below 1.0430.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 1.06-1.07 SL 1.0850 TGT 1.0480				Sell 88.50-89.00 SL 89.50 TGT 87.20-86.20				1.0450-1.0630 85.00-86.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		83.14	84.67	86.20	87.17	87.73	88.70	89.27	90.80	92.33	
Exporters Strategy	Exporters were advised to hedge 50% of their December exposure around 86.30 Spot. Add 25% around 88. Pending to be held open with Stop below 87.										
Importers Strategy	Importers are advised to hedge 70% of their December payables around 85.00. Pending to be held open with Stop above 86.50 on Spot. Stopt Triggered.										

British Pound Outlook

The MPC noted that the UK was expected to be in a recession for a 'prolonged period' while inflation was expected to remain at highly elevated levels in the near term, before dropping sharply from mid-2023. Overall the short-term outlook for the UK economy remains negative and this is now starting to reflect in the Pound.

Against this negative domestic backdrop, it is predictable to see Pound getting sold off.



Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.2180-1.2230 SL 1.24 TGT 1.20-1.19				Sell 101.40 SL 102.40 TGT 100.10-99.10				1.19-1.2250 99.00-101.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		94.63	96.88	99.14	100.11	101.39	102.37	103.64	105.89	108.15	
Exporters Strategy	Exporters were advised to hedge their December exposure partially (30%) around 101 & 20% around 101.50 Spot. Pending to be hedged around 102 with Stop below 100.00 Spot.										
Importers Strategy	Importers were advised to hedge partially (70%) near 99.00 Spot for December exposure. Pending to be held open with Stop above 101.50 Spot. Stop Triggered.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
19.12.2022	02:30 PM	EUR	German Ifo Business Climate Index (Dec)	87.4	86.3
20.12.2022	06:45 AM	CNY	PBoC Loan Prime Rate		3.65%
	08:30 AM	JPY	BoJ Monetary Policy Statement		
		JPY	BoJ Press Conference		
	07:00 PM	USD	Building Permits (Nov)	1.483M	1.512M
21.12.2022	08:30 PM	USD	CB Consumer Confidence (Dec)	101.0	100.2
		USD	Existing Home Sales (Nov)	4.20M	4.43M
	09:00 PM	USD	Crude Oil Inventories		10.231M
22.12.2022	12:30 AM	GBP	GDP (QoQ)	-0.2%	0.2%
		GBP	GDP (YoY)	2.4%	4.4%
	07:00 PM	USD	GDP (QoQ) (Q3)	2.9%	2.9%
		USD	Initial Jobless Claims	225K	211K
23.12.2022	07:00 PM	USD	Core Durable Goods Orders (MoM) (Nov)	0.1%	0.5%
		USD	Core PCE Price Index (MoM) (Nov)	0.2%	0.2%
	08:30 PM	USD	New Home Sales (Nov)	595K	632K

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