

Currencies Weekly Report

Week of 13.12.2021

www.phillipforex.in



December 13, 2021

Global Economic Review & Outlook

The **Fed is about to signal** that it needs to **accelerate its tapering** process, but market pricing could still become more aggressive. The Chinese authorities have also become more worried about the growth outlook.

The **ECB will likely take small steps** towards ending its pandemic-era support measures next week, but easy monetary policy is not about to end. Many decisions will be postponed into Q1 next year, as also upside inflation risks have risen.

Christmas is a mere two weeks away, but the holiday mood in the West will have to wait, as an intimidating central bank calendar looms next week. Among the majors, **the Fed, the ECB and the Bank of England** all have **meetings**. And amidst the current uncertain economic situation, the outcomes of those meetings are **extremely uncertain**. Meanwhile, China's central bank has moved its monetary policy as well, but towards an easier stance.

Powell has already signalled that they would accelerate the taper. So Yes, **a faster taper looks very likely**, but what lies beyond next week's decision is extremely interesting. The updated economic and interest rate forecasts in the form of the **dot plot** will tell us a lot about this.

The **ECB** Governing Council is somewhat **divided** between the more hawkish members, which point to the rising upside inflation risks, while the more dovish members point to the renewed **hit to activity** due to the **new COVID-19 restrictions**.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	15630.60	15085.50	3.61
DOW JONES	35971.98	34579.55	4.03
NIKKEI	28437.77	28029.57	1.46
HANGSENG	23995.72	23766.69	0.96
CAC	6991.68	6765.52	3.34
DAX	15623.31	15169.98	2.99
FTSE	7291.78	7122.32	2.38
FX	Last Close	Previous Week	% CHANGE
DXV	96.10	96.15	-0.05
EURUSD	1.1317	1.1313	0.03
GBPUSD	1.3267	1.3230	0.28
USDJPY	113.38	112.78	0.53

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	75.2978	75.3532	75.4733	75.4992	75.7189
EURINR	84.9640	85.0989	85.2114	85.5602	85.5518
GBPINR	99.6044	100.1193	99.9991	99.7702	100.1211
JPYINR	66.60	66.26	66.48	66.43	66.68

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	75.5675	76.0325	77.0625	77.9600	78.8400
Tuesday	75.5775	76.0375	77.0600	77.9500	78.8300
Wednesday	75.5700	76.0325	77.0375	77.9300	78.8050
Thursday	75.6250	76.0850	77.0950	77.9900	78.8600
Friday	75.8750	76.3325	77.3350	78.2300	79.1000

Dollar Outlook

The **People's Bank** of China announced a **cut** in the **required reserve ratio** of banks and has unveiled further targeted easing measures as well.

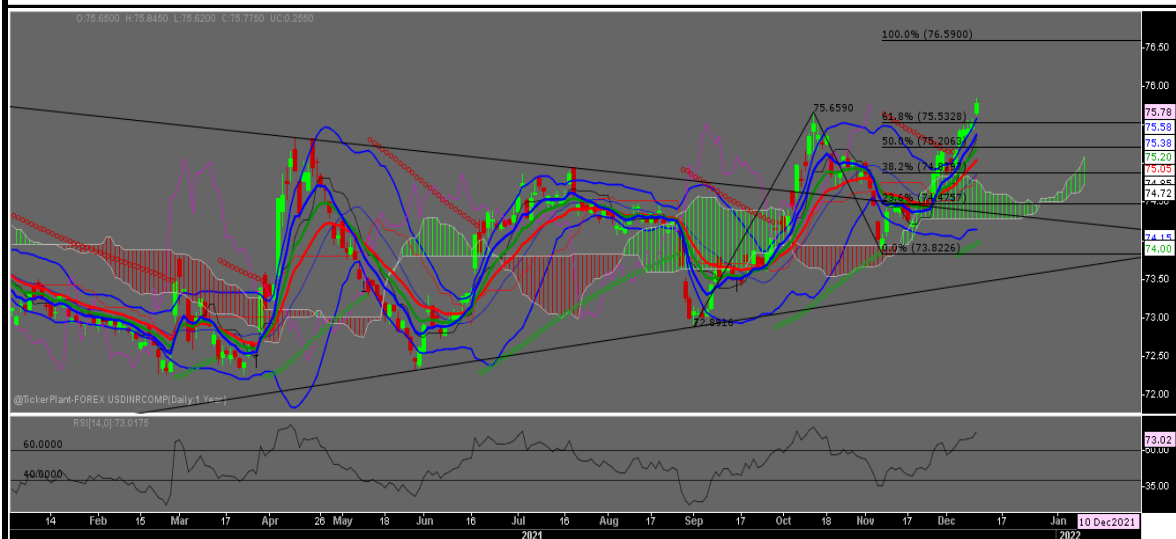
This week we have interest rate meeting at the Fed. We also have PMI figures out for the US.

Inflation is becoming the number one political focus and the Fed tends to agree. That was pretty clear when Powell took the stage in front of politicians at the Senate Banking Committee and managed to **retire** the word **transitory**.

In this week's meeting, the Fed might stay in **hawk mode** and **double down** on the taper pace. This will ultimately make the Fed reach a **reinvestment phase** by mid-March.

The quicker **tapering** and lifting of the **debt ceiling** will mean **less liquidity**. This could lead to a sharp Dollar appreciation in the medium term, but will surely bring in extreme volatility in the FX markets globally.

While there has been a sizable repricing in the short end of the US interest rate curve, long yields have continued to show resistance towards higher levels.



The USDINR Daily chart indicates the Dollar last week has moved above the October high of 75.65 and now is extremely overbought as indicated by the Bollinger-RSI combination.

This move however, can be related to the FED event based strength in Dollar against INR.

This week, with the FOMC rate policy due, we suggest keeping the trading positions light while initiating short in USDINR around 76 big figure for taergets around 75 with very strict stops at 76.40. The current northward momentum can come to an end if the Dollar restricts itself from breaching 76 and large profit bookings for longs can push USDINR lower back to 75.

Overall trend in the Dollar as well as USDINR is still Bullish for near term and long term.

However, going fresh long at such higher levels is not advised and a retracement around 75 would be a good level for fresh longs.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 75.80/76.00 SL 76.40 TGT 75.30-75.00								74.90-76.00		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		73.61	74.28	74.94	75.36	75.60	76.02	76.26	76.93	77.59	
Exporters Strategy	Exporters were suggested to hedge their December exposure partially (30%) around 75 Spot and 30% at 75.30/35. Pending to be hedged at 75.80/70.										
Importers Strategy	Importers were suggested to hold December payables open with a strict Stop above 75.50 Spot which was triggered.										

Euro Outlook

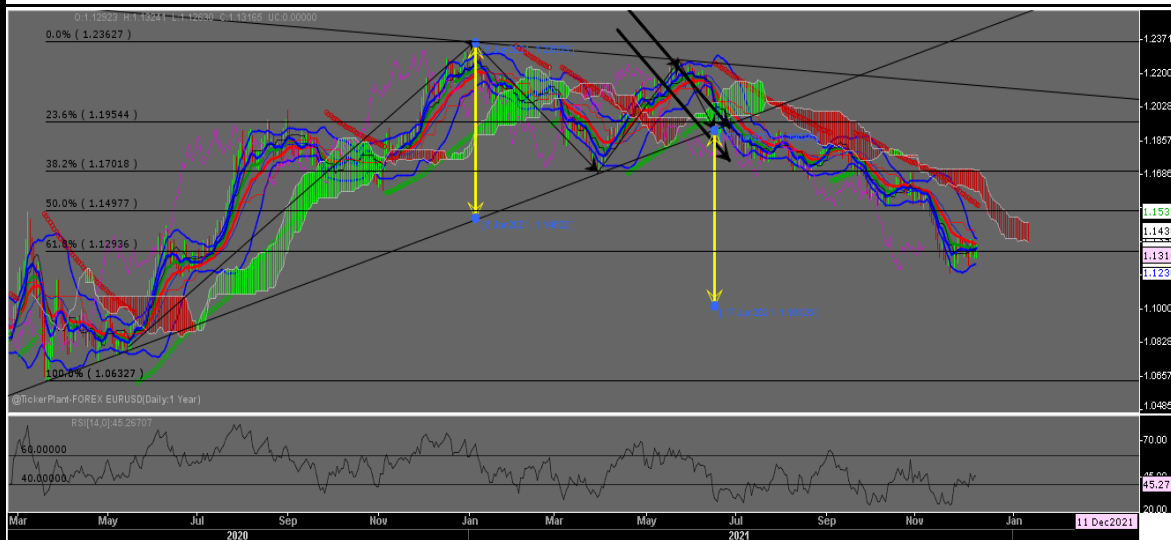
In the Euro area, the ECB's **Governing Council** is **divided** between the **hawks**, who have **concerns about the inflationary consequences** of the renewed worsening of the pandemic, and the **doves**, who remain convinced that inflation will fall clearly below the target next year and **worry** that the renewed **virus** worries will **push medium-term inflation even lower**.

Many decisions that were originally supposed to be taken at the December meeting will now be postponed into early next year.

Net purchases under the **PEPP** are still set **to end in March 2022**, but at least some of the details on what will happen after that may have to wait for a bit longer. In the bigger picture, the **ECB rate hikes remain distant** and are certainly not next year's business.

The **Fed** is expected to be **outpacing** the **ECB** in its tightening efforts, and this could lead to **more downside for the EURUSD** in medium term.

For now, a data dependent Euro, otherwise, can see a positive reaction to better than freccasted data outcomes.



The EURUSD Daily chart indicates, last week the Euro has been able to manage finding support at the 61.8% Fibo retracement around 1.1290 (1.13 major).

Although the pair faces heavy resistance further north to end its bearish trend, we might see a further pullback in the prices in the week ahead.

A narrowed Bollinger Band with prices hovering above its mean along with the bearish Parabolic SAR penetrating below the bearish Ichimoku cloud is a great signal that the pair can expect some revival, atleast till the next (50%) Fibo retracement at 1.1497 (1.15 major).

1.15 then will 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 long around 1.1270 for targets of 1.14 with stops placed below 1.1220.

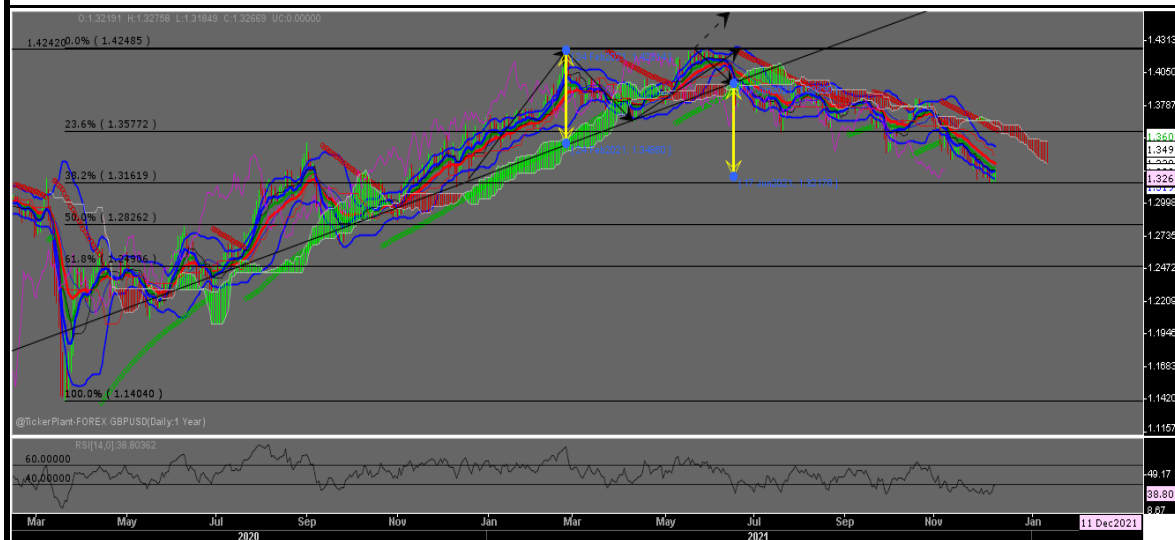
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 1.1280-1.1260 SL 1.1220 TGT 1.1370-1.1420				Buy 85.10/84.90 SL 84.50 TGT 85.80-86.10				1.1250-1.1430 85.00-86.10		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		82.98	83.76	84.55	85.02	85.33	85.80	86.12	86.90	87.69	
Exporters Strategy	Exporters were advised to hedge 50% around 85 & 30 % at 85.50. Hedge further pending for December exposure at 85.80 Spot.										
Importers Strategy	Importers were suggested to hedge 50% of December payables around 84.60 on Spot. Pending was held open with Stop above 85.20 for which Stop has been triggered.										

British Pound Outlook

Going into this week's **BoE** meeting, it is pretty clear that the bank is set to put an **end to** its **GBP 875bn bond-buying** programme, while the bigger question is whether we will see a **hike** or not.

November's data in the UK has been relatively strong; unemployment has dropped two-tenths below the BoE's Q4 projection, firms have showed uplifting solvency figures despite the end of the furlough scheme, and consumer confidence has ticked higher. All of these economic variables were flagged by the bank at the **November rate hold surprise**.

Ofcourse, Covid has the potential to send the hike into the February meeting. The **renewed social distancing measures** and a **rise in political instability risks** amid last week's headlines surrounding the UK Government has and further can be a big trouble for the GBP which is failing to make progress above 1.32 against the Dollar. **UK CPI** to begin the week can give some relief to the Pound.



The GBPUSD Daily chart indicates, the Pound saw some relief towards the end of last week when it tested the 38.2% Fibo supports at 1.3160.

GBPUSD also found a Bollinger band support at these levels which helped the pair attract some buying.

The RSI too indicates GBPUSD being oversold demanding further buying as also supported by the bearish Parabolic SAR penetrating the bearish Ichmoku downward.

In longer term, GBPUSD still continues to hold bearish trend after it breached the triangle supports.

For the week ahead, one can expect a further recovery in the pair to the 20DEMA at 1.3320, which will attract fresh shorts.

1.3330 could be used to go short on the pair with strict stops above 1.3370, breaching which the upward move in the pair can continue.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.3330 SL 1.3370 TGT 1.3230/10				Sell 100.40/50 SL 100.90 TGT 99.60				1.3200-1.3350 99.50-100.70		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		97.57	98.35	99.14	99.59	99.93	100.38	100.72	101.50	102.29	
Exporters Strategy	Exporters are suggested to hedge their December exposure partially (50%) around 100.50. Pending to be held open with Stops below 99.20.										
Importers Strategy	Importers were suggested to hedge partially near 99.50 for December exposure. Pending exposure to be held open with Stop above 100.50 Spot.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
14.12.2021	07:00 PM	USD	PPI m/m	0.5%	0.6%
15.12.2021	12:30 PM	GBP	CPI y/y	4.8%	4.9%
	07:00 PM	USD	Core Retail Sales m/m	0.9%	1.7%
		USD	Retail Sales m/m	0.8%	1.7%
16.12.2021	12:30 AM	USD	FOMC Economic Projections		
		USD	FOMC Statement		
		USD	Federal Funds Rate	<0.25%	<25%
	01:00 AM	USD	FOMC Press Conference		
	02:00 PM	EUR	German Flash Manufacturing PMI	57.0	57.4
		EUR	German Flash Services PMI	50.9	52.7
	05:30 PM	GBP	Asset Purchase Facility	875B	875B
		GBP	MPC Asset Purchase Facility Votes	0-3-6	0-3-6
		GBP	MPC Official Bank Rate Votes	2-0-7	2-0-7
		GBP	Monetary Policy Summary		
		GBP	Official Bank Rate	0.10%	0.10%
	06:15 PM	EUR	Main Refinancing Rate	0.00%	0.00%
		EUR	Monetary Policy Statement		
	07:00 PM	EUR	ECB Press Conference		
17.12.2021	Tentative	JPY	Monetary Policy Statement		
	Tentative	JPY	BOJ Press Conference		

Report prepared by:

Siddhesh Ghare

Head- FX Risk Business

PhillipCapital (India) Pvt. Ltd.

sghare@phillipcapital.in

+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.