

Currencies Weekly Report

Week of 03.10.2022

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Global Economic Review & Outlook

Market moves have become even more violent, as markets have been faced with fiscal and monetary policies moving rapidly in opposite directions. Bond yields could rise a bit further, but also a correction lower can be swift.

The pain central banks will inflict on the economy and risk assets to bring inflation under control argues for a stronger USD ahead. Risk-sensitive currencies are very vulnerable. EUR, GBP and JPY will suffer from domestic issues.

Euro-area inflation broke another record in September (headline 10.0% and core 4.8%). Price pressures are broad for now but future developments are very uncertain.

The Dollar has strengthened broadly lately on back of renewed risk-off in financial markets as most G10 central banks hiked rates last week and warned even higher rates will be needed to bring inflation under control. While the Fed signalled that US rates will rise even more, the energy-exporting US economy will also be shielded from the severe effects the energy crisis will have upon Europe's economy and Asia as well.

The pendulum for risk sentiment can shift quickly, but central banks are little likely to come to the rescue of financial markets and economic growth because they focus on bringing inflation under control, which will take even tighter financial conditions (stocks down, rates up, wider credit spreads) leading to higher unemployment and lower economic growth. The recent surge in bond yields in the UK was contained by the BOE.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	10575.62	10867.93	-2.69
DOW JONES	28730.12	29592.85	-2.92
NIKKEI	25937.21	27153.83	-4.48
HANGSENG	17222.83	17933.27	-3.96
CAC	5762.34	5783.41	-0.36
DAX	12114.36	12284.19	-1.38
FTSE	6893.81	7018.60	-1.78
FX	Last Close	Previous Week	% CHANGE
DX	112.12	112.96	-0.75
EURUSD	0.9802	0.9691	1.14
GBPUSD	1.1160	1.0853	2.83
USDJPY	144.73	143.34	0.97

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	81.5750	81.3720	81.9005	81.8633	81.5522
EURINR	78.7095	78.5837	78.3444	79.0952	80.1093
GBPINR	86.6153	87.9300	87.4681	88.2115	90.7703
JPYINR	56.71	56.39	56.60	56.59	56.44

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	81.6300	82.1000	82.6500	83.2350	83.7250
Tuesday	81.5825	82.0450	82.5750	83.1450	83.6300
Wednesday	82.2200	82.6400	83.1650	83.7450	84.2450
Thursday	82.1000	82.5300	83.0550	83.6500	84.1500
Friday	81.5550	81.9900	82.5200	83.1100	83.6100

Dollar Outlook

It remains all about the Fed as it continues down an aggressive tightening path. Wall Street will now be fixated on how quick this economy is going to weaken. A weakening consumer will help drive down inflation but so far this economy has shown a lot of resilience in the service sector.

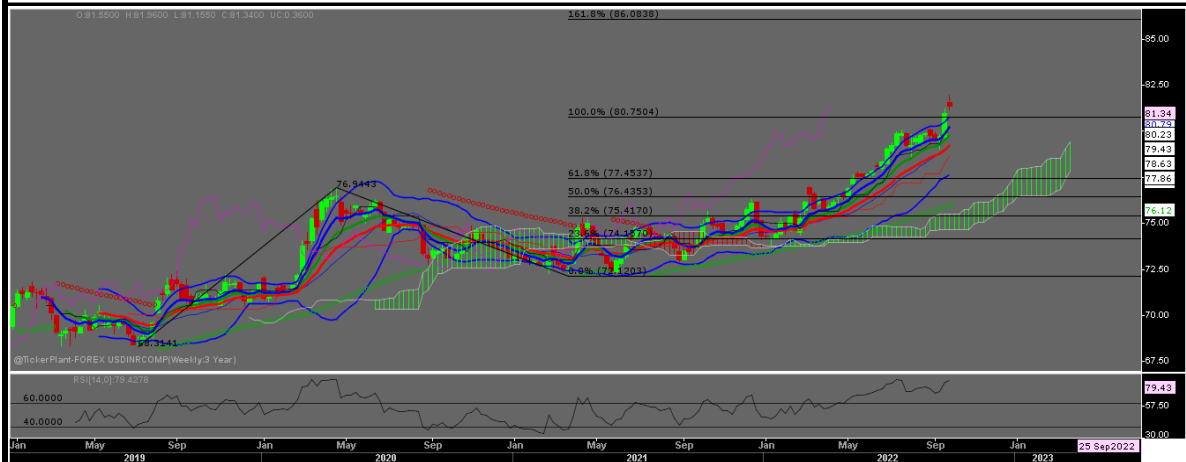
There are a handful of key economic releases to follow this week. On Monday, the ISM manufacturing report is expected to soften but still remain in expansion territory while prices paid, new orders, and employment could show modest weakness. Factory orders are also expected to turn positive in August. The key economic release for the week is the September nonfarm payroll report, which should show hiring continued with 250,000 jobs created.

Unemployment is expected to remain steady at 3.7%, while wages continue to steadily increase at 0.3% over the prior month.

It will be another week filled with Fed speak; this time with 13 appearances.

Markets will also focus on events in Ukraine and the response of the West to the “referendum results”.

The focus may also be on the RBI and if they have pressure to tap their forex reserves. The Rupee shall otherwise follow other EM currencies against the Dollar. Its a busy week with lots of Japanese economic data too.



The USDINR Weekly chart indicates the pair witnessed an increased volatility with strong upward momentum last week, where it held above the 100% Fibonacci Price extension at 80.75. The pair also moved wide away from the Upper Bollinger band above 8-13-20 Weekly EMAs supported by a densely bullish Ichimoku cloud.

USDINR followed the DXY throughout the week and towards the end on Friday witnessed some correction.

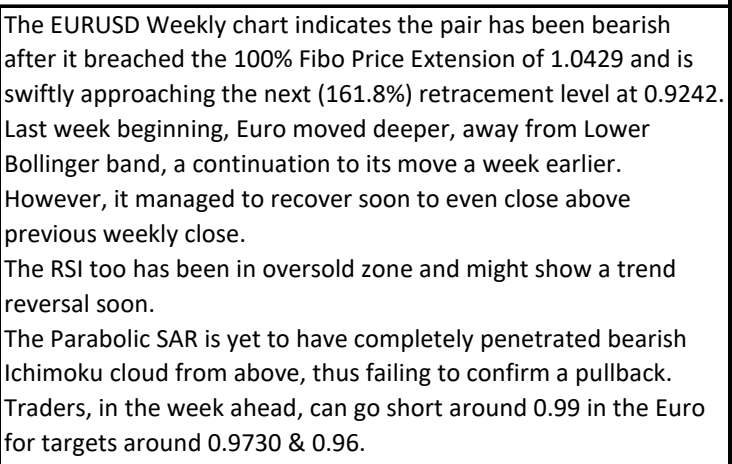
While the pair has been technically overbought as indicated by the Bollinger-RSI combination, we might see a small correction in the week ahead.

Parabolic SAR penetrating Ichimoku cloud from below might as well lead the pair to minor correction for traders to go long again.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways- Bullish	Sell 81.60-81.80 SL 82.30 TGT 81.00-80.70								80.50-81.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		79.07	79.88	80.68	81.01	81.49	81.82	82.29	83.10	83.90	
Exporters Strategy	Exporters were advised to hedge 50% of their October exposure between 81.30-81.60. Add pending at 81.60-81.80										
Importers Strategy	Importers were advised to hold October exposure open with Stop above 82.30 targetting around 81.00 & 80.50.										

Euro Outlook

There's a lot of economic data being released and they may not make for great reading, particularly on the PMI front as companies head into a nervy winter period.



Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bearish-Sideways	Sell 0.99 & 0.9950 SL 1.0050 TGT 0.9730-0.96				Sell 80.60 SL 81.60 TGT 78.50				0.9600-0.9950 78.40-80.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		72.74	74.96	77.18	78.43	79.39	80.65	81.61	83.83	86.05	
Exporters Strategy	Exporters were advised to hedge 50% of October exposure around 79.50 Spot and hold pending open with Stop below 78.										
Importers Strategy	Importers were advised to hedge 50% of October payables around 78.50. Pending to be hedged around 78.50 again, with Stop above 80.80 on Spot.										

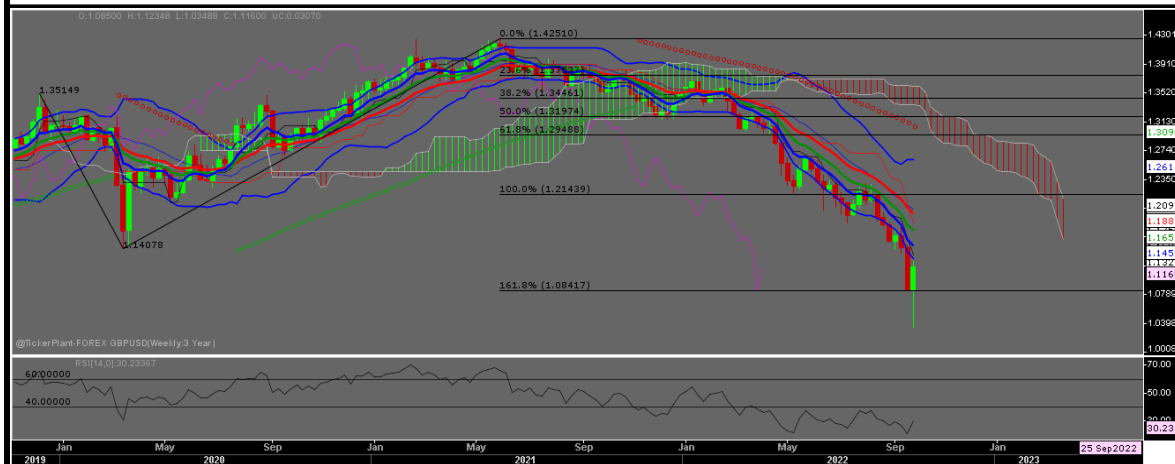
British Pound Outlook

After months of prevaricating, avoidance and denial, Boris Johnson was finally forced from his job as UK Prime Minister after just over three years. His successor, Liz Truss, is just getting used to No.10 Downing Street but is already facing a host of problems that her predecessor was unable to fix. The cost of covid, soaring energy prices, rampant inflation, insipid growth, and the ongoing Brexit rancour especially over Northern Ireland protocol, are just some of the headaches facing the PM and all of them need to be solved, quickly.

It's barely worth looking at the economic calendar next week as the direction of the pound is unlikely to be driven by the final PMI readings or Halifax PMI.

The spotlight will be on the government and Bank of England and the prospect of u-turns and more interventions. Commentary from Prime Minister Liz Truss, Chancellor Kwasi Kwarteng and BoE policymakers will obviously be of interest but ultimately it's what they do more so than what they say that people are interested in. In the absence of action, will pressure mount on Truss and Kwarteng from within?

UK inflation turned lower in August, and back into single-figure territory, for the first time in nearly one year. Energy prices, the main component of soaring price pressures, abated and look to go lower still over the medium-term after the new PM announced a two-year cap on domestic energy bills.



The GBPUSD Weekly chart indicates the pair has been extremely bearish after it breached the 100% Fibonacci Price Extension of 1.0429 and breached the next (161.8%) retracement level at 1.0842 last week. However, Pound recovered swiftly, close to the Lower Bollinger band.

The RSI too has moved up from deep into the oversold zone suggesting a pullback further.

The Ichimoku Cloud has grown densely bearish and the Parabolic SAR penetrating the cloud from above does support a reversal. However, this recovery and pullback in the GBPUSD might not live for long and could see fresh selling around 1.13.

Traders can go short between 1.13 & 1.1350 in the Pound for targets of 1.09 in the week ahead.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.13 & 1.1350 SL 1.1480 TGT 1.09				Sell 91.80-92.50 SL 93.30 TGT 89.10 & 88.50				1.09-1.1350 88.50-92.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		69.58	76.10	82.63	86.69	89.16	93.22	95.69	102.21	108.74	
Exporters Strategy	Exporters were advised to hedge their September exposure partially (50%) around 91. Pending to be held open with Stop below 89 Spot.										
Importers Strategy	Importers were advised to hedge partially (50%) near 89.30 Spot for October exposure. Pending to be held open with Stop above 91.60 Spot. Stop Triggered at 91.63.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
03.10.2022	05:20 AM	JPY	Tankan Large Manufacturers Index (Q3)	11	9
		JPY	Tankan Large Non-Manufacturers Index (Q3)	13	13
	01:25 PM	EUR	German Manufacturing PMI (Sep)	48.3	48.3
	02:00 PM	GBP	Manufacturing PMI (Sep)	48.5	48.5
	07:30 PM	USD	ISM Manufacturing PMI (Sep)	52.2	52.8
04.10.2022	07:30 PM	USD	JOLTs Job Openings (Aug)	10.650M	11.239M
05.10.2022	02:00 PM	GBP	Composite PMI (Sep)	48.4	48.4
		GBP	Services PMI (Sep)	49.2	49.2
	05:45 PM	USD	ADP Nonfarm Employment Change (Sep)	205K	132K
	07:30 PM	USD	ISM Non-Manufacturing PMI (Sep)	56.0	56.9
	08:00 PM	USD	Crude Oil Inventories		-0.215M
06.10.2022	02:00 PM	GBP	Construction PMI (Sep)	48.0	49.2
	05:00 PM	EUR	ECB Publishes Account of Monetary Policy Meeting		
	06:00 PM	USD	Initial Jobless Claims	203K	193K
07.10.2022	07:00 AM	CNY	Caixin Manufacturing PMI		49.5
		CNY	Manufacturing PMI		49.4
	06:00 PM	USD	Nonfarm Payrolls (Sep)	250K	315K
		USD	Unemployment Rate (Sep)	3.7%	3.7%

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