Currencies Weekly Report

Week of 08.08.2022

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Global Economic Review & Outlook

Last week, a number of FOMC members have clearly stated that the Fed is nowhere near a pivot to more dovish monetary policy. The strong nonfarm payrolls too confirm the view and pave the path for more Fed hawkishness ahead.
Yet, US bond markets are acting like a US recession, and rate cuts are around the corner.
Based on the latest GDP figures, the US is in a technical recession. Yet a lot of data indicates the US economy is far from recession. Both the ISM Manufacturing and Services index suggest growing output.

Global market sentiment continued to improve last week.
Strong US ISM Manufacturing PMI helped cool fears of recession by underscoring resilience of the economy, followed by an impressive jobs report. The U.S. unexpectedly added 528k non-farm payrolls while wage growth also surprised higher.
Since June, markets are pricing in rate cuts from Fed in 2023. This is despite a 75-bp hike. Rising fears of an economic slowdown seem to be boosting bets of a Fed pivot.
Fed policymakers spent last week downplaying market expectations of a pivot next year, setting up for disappointment in sentiment.
Markets will now track the next CPI report. This week, US headline inflation is seen slowing to 8.7% y/y for July. That would be down from 9.1% prior. Worryingly, the core gauge is expected to rise to 6.1% y/y from 5.9% prior. Another strong print could easily eat away at the market gains seen in recent weeks.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	12657.55	12390.69	2.15
DOW JONES	32801.51	32846.45	-0.14
NIKKEI	28175.87	27801.64	1.35
HANGSENG	20201.94	20156.51	0.23
CAC	6472.35	6448.50	0.37
DAX	13573.93	13484.05	0.67
FTSE	7439.74	7423.43	0.22
FX	**Last Close**	**Previous Week**	**% CHANGE**
DXY	106.62	105.83	0.75
EURUSD	1.0177	1.0226	-0.48
GBPUSD	1.2070	1.2176	-0.87
USDJPY	135.05	133.21	1.38

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	79.169	78.6082	78.8427	79.5427	79.1158
EURINR	80.8991	80.5881	80.2198	80.8700	80.9149
GBPINR	96.4247	96.1667	95.9847	96.6009	96.0677
JPYINR	59.72	60.04	59.17	59.29	59.33

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	79.2075	79.6600	80.2700	80.9400	81.5600
Tuesday	78.8800	79.3250	79.9200	80.5700	81.1750
Wednesday	79.3200	79.7550	80.3500	81.0000	81.6000
Thursday	79.6100	80.0350	80.6100	81.2450	81.8450
Friday	79.3650	79.8100	80.3800	81.0300	81.6300

Dollar Outlook

The Dollar rallied in the first week of August, up about 0.7% to 106.62, with most gains coming on Friday after U.S. employment data surprised to the upside, removing any hopes of a Fed pivot later this year. The U.S. employers added 528,000 workers in July, more than twice consensus estimates and the fastest pace of job growth since February, signaling that hiring remains strong and that recession fears may be overblown.

With the labor market still strong, no signs of layoffs and wage pressures failing to moderate, the Fed is likely to stay the course, raising borrowing costs forcefully in the coming months to cool demand and curb inflation. This situation may bolster U.S. Treasury yields.

In the current environment, the Dollar may stay supported and even gain more ground against low-yielding currencies in near term. However, the consumer price data could potentially bring the greenback down.

We will get a better picture of inflation profile this week when the latest CPI results are publshed.

For markets to start discounting a less aggressive FOMC tightening cycle and lower terminal rate, inflation would need to come down meaningfully. This may not happen yet in the July report despite falling energy costs since late June. Thus, the fundamental forecast for DXY is mildly bullish for the week ahead.

The USDINR Weekly chart indicates the pair witnessed a correction last week slipping to 78.50, but recovered soon to test 79.80 and finally settled around 79.20.

The 2nd largest correction since mid-May when the pair had moved up above 77.50 and rallied to 80.06.

The pair has been technically overbought since then and the RSI continuees to move downward thus building further expectations of Rupee strength going ahead this week.

However, the pair still trades above the 8-13-20 EMA bullish crossover with the 8-D EMA lying at 79.02 making 79.00 a support zone for USDINR this week.

A breach of 79.00 could push USDINR further lower to test 78.55 where the 13-D EMA lies.

Weekly Bias	Weekly Trading Strategy (SPOT)	Weekly Range
Sideways	Sell 79.60-79.80 SL 80.10 TGT 78.60	78.50-79.80

Pivot Levels	S4	S3	S2	S1	Pivot	R1	R2	R3	R4
	78.86	79.20	79.54	**79.70**	79.88	**80.04**	80.22	80.56	80.90

Exporters Strategy	Exporters were advised to hedge their August exposure fully around 79.40.
Importers Strategy	Importers are advised to hedge August payables partially (30%) around 79.20. Pending to be held open with Stop above 79.75. Stop Triggered.

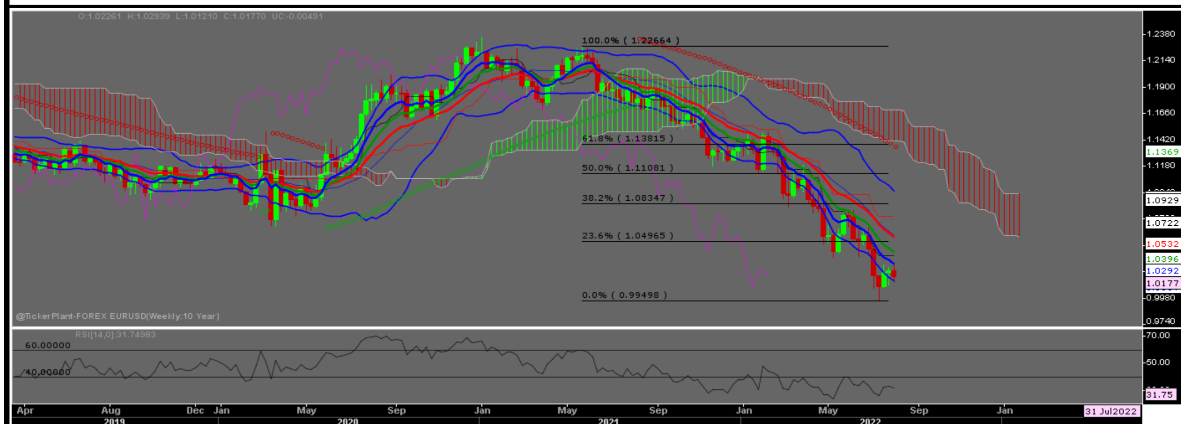
Euro Outlook

The second week of August sees a much quieter Eurozone economic calendar than in previous weeks. Over the coming days, there is only one 'high' rated data release, while there are less than ten 'medium' rated data releases. On Wednesday the final July German inflation rate report will be released.

After lagging for much of 2021 and 2022, the ECB continues to posture in a manner that suggests the gap between the ECB and other major central banks' main interest rates will narrow further.

After delivering a 50-bp hike in July, rates markets are discounting a 100% chance of a 25-bp rate hike in September which would bring the ECB's main rate to 0.50%. Rates markets are pricing the ECB's main rate to rise to 1.13% by the end of 2022. The ECB continues to balance concerns between multi-decade highs in inflation, weakening growth, and a revived Eurozone debt crisis.

Thus far, the ECB's efforts to prevent fragmentation – the widening of yield spreads – in the bond market are working. The anti-fragmentation tool, the Transmission Protection Instrument (TPI), only appears to have been initiated recently, whereby the ECB has sold some of its core debt holdings and used the proceeds to purchase periphery debt. Only if the ECB is able to prevent yield spreads from widening out, the Euro has a chance to show a more significant rally over the next few months.



The EURUSD Weekly chart indicates the pair continued to hold around the levels recovered a week earlier.

Euro has been facing strong resistance at all three 8-13-20 EMAs.

Also, the bearish Ichimoku cloud indicates the pair is expected to further face resistance in near term.

The Parabolic SAR seems to have completely penetrated the bearish Ichimoku cloud from above, thus building hopes of a further pullback in the pair.

If EURUSD manages to hold above 1.01, an upmove towards 1.0330 can be seen.

The RSI clearly suggests the pair being extremely oversold and an added pressure on the DXY can help Euro strengthen further.

Weekly Bias	Weekly Trading Strategy (SPOT)		Weekly Range
Sideways-Bullish	Buy 1.0150-1.0170 SL 1.01 TGT 1.0270-1.0330	Buy 80.60-80.80 SL 80.10 TGT 81.50-82.00	1.0150-1.0350 | 80.50-82.00

Pivot Levels	S4	S3	S2	S1	Pivot	R1	R2	R3	R4
	76.41	78.02	79.64	**80.37**	**81.25**	**81.98**	**82.86**	84.47	86.09

Exporters Strategy	Exporters are advised to hedge 40% of the August exposure around 81.50 Spot. Total exposure to be held open with Stop below 80.00 Spot.
Importers Strategy	Importers are advised to hedge 60% of August payables around 80.50. Pending to be held open with Stop around 81.30 on Spot. Stop Triggered.

British Pound Outlook

The Bank of England delivered the largest rate hike since 1995, with a 50-bp rise in the Bank Rate. However, they also delivered arguably one of the most dovish 50-bp hikes in history, thus weighing on the Pound to retest the 1.20 handle against the Dollar. The BoE projects the UK to enter a recession in Q3, lasting five quarters with GDP falling to 2.1%. The BoE also raised its expectations of peak inflation, now seen at 13.3% in October, up from above 11%. As such, the Pound, which has been the poster child of stagflation will continue to face downside risks.

Elsewhere, the BoE also highlighted that based on market implied rates, which see the Bank Rate going to 3%, inflation over the three-year horizon is projected to fall to 0.8%. The lowest projection ever over this horizon, therefore sending a clear message that not only do markets remain far too aggressive on the BoE tightening but also that rate cuts could be coming sooner than expected.

Meanwhile, in the US, stellar Non-Farm Payrolls have partially reduced those recession concerns for now and pushed back on the notion that Powell provided a Fed pivot in his recent post-Fed decision press conference. That being said, this week, the big focus will be on US CPI report. Should we see another topside surprise, this would likely fuel a break of 1.20 in Pound, while a downside miss puts 1.22 back in focus. The UK GDP data will also drive the Pound.

The GBPUSD weekly chart indicates the pair has not been able to close above the 8 & 13 D-EMA levels and continues to remain under pressure after a recovery in the past 2 weeks.

The pair moved past 1.2135 the 8-D EMA and 13-D EMA at 1.2255 but soon gave up the gains to settle back below these EMAs. However, the pair faces a strong resistance near 1.2485 where the 61.8% Fibo resistance lies.

The Bollinger-RSI combination alongwith the penetration of bearish Parabolic SAR below the bearish Ichimoku cloud together indicate a sustained upmove in GBPUSD going ahead in near term. A breach of 1.2135 is crucial for the pair to rise higher further and this upmove if happens in the beginning of the week, a strong upward momentum could run through the pair.

Weekly Bias	**Weekly Trading Strategy (SPOT)**		**Weekly Range**
Sideways-Bullish	Buy 1.2050-1.2070 SL 1.20 TGT 1.22	Buy above 96.40 SL 96.00 TGT 97.00	1.2050-1.2200 | 96.00-97.20

Pivot Levels	**S4**	**S3**	**S2**	**S1**	**Pivot**	**R1**	**R2**	**R3**	**R4**
	91.23	92.64	94.06	94.71	**95.47**	**96.13**	96.89	98.30	99.72

Exporters Strategy	Exporters are advised to hedge their August exposure partially (30%) around 96.30. Total exposure to be held open with Stop below 94.80 Spot.
Importers Strategy	Importers are advised to hedge partially (60%) near 96.00 Spot for August exposure. Pending to be held open with Stop above 96.50 Spot. Stop Triggered.

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
09.08.2022	09:30 PM	USD	EIA Short-Term Energy Outlook		
10.08.2022	06:00 PM	USD	Core CPI (MoM) (Jul)	0.5%	0.7%
		USD	CPI (YoY) (Jul)	8.7%	9.1%
	08:00 PM	USD	Crude Oil Inventories		4.467M
11.08.2022	06:00 PM	USD	Initial Jobless Claims	263K	260K
		USD	PPI (MoM) (Jul)	0.3%	1.1%
12.08.2022	11:30 AM	GBP	GDP (YoY) (Q2)	2.8%	8.7%
		GBP	GDP (QoQ) (Q2)	-0.2%	0.8%
		GBP	GDP (MoM)	-1.2%	0.5%
		GBP	Manufacturing Production (MoM) (Jun)	-1.2%	1.4%
		GBP	Monthly GDP 3M/3M Change		0.4%

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