

# Currencies Weekly Report

Week of 14.03.2022



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March 14, 2022

## Global Economic Review & Outlook

Markets are already pricing in larger stagflation risks, while both the ECB and the Fed are focusing mainly on the upside inflation risks. The Russian attack does not appear to have had any big permanent impact on the course of bond yields.

While financial markets appear to be very keen to rally on any positive news regarding the war, we remain far from convinced that volatility would be about to ease for good.

The Russian assault on Ukraine brought great uncertainty to the economic and market outlook which has been reflected in market action as well.

On one hand, elevated uncertainty and high energy prices weaken the economic outlook, while growing risk aversion leads to safety demand for bonds, which depress real yield component of bonds.

On other hand, higher energy and food prices, possible shortages of raw materials and further strains on global supply chains add to inflation, boost inflation expectation component of bonds.

The ECB decided to bring some certainty amidst all the uncertainty. It is more concerned about the inflation picture now than the weakened growth outlook. The central bank unveiled a path to end its net asset purchases already by June-July, subject to incoming data, and opened the door to the first rate hike as early as June. The ECB will thus keep upward pressure on longer yields and widening pressure on bond spreads.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	12843.81	13313.44	-3.53
DOW JONES	32943.33	33614.67	-2.00
NIKKEI	25162.78	25985.47	-3.17
HANGSENG	20553.79	21905.29	-6.17
CAC	6260.25	6061.66	3.28
DAX	13628.11	13094.54	4.07
FTSE	7155.64	6987.14	2.41
FX	Last Close	Previous Week	% CHANGE
DX	99.12	98.65	0.48
EURUSD	1.0910	1.0930	-0.18
GBPUSD	1.3035	1.3232	-1.48
USDJPY	117.26	114.81	2.13

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	76.9239	76.8816	76.8567	76.1160	76.4359
EURINR	83.7091	83.4806	83.9080	84.1838	100.0658
GBPINR	101.6636	100.7800	100.8078	100.3189	84.0851
JPYINR	66.93	66.58	66.39	65.59	65.51

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	77.1200	77.7800	78.5300	79.3050	80.0500
Tuesday	77.0600	77.7300	78.4750	79.2650	80.0050
Wednesday	76.7050	77.3550	78.1200	78.8950	79.6400
Thursday	76.4250	77.0550	77.8050	78.5750	79.3150
Friday	76.7000	77.3450	78.0900	78.8600	79.6000

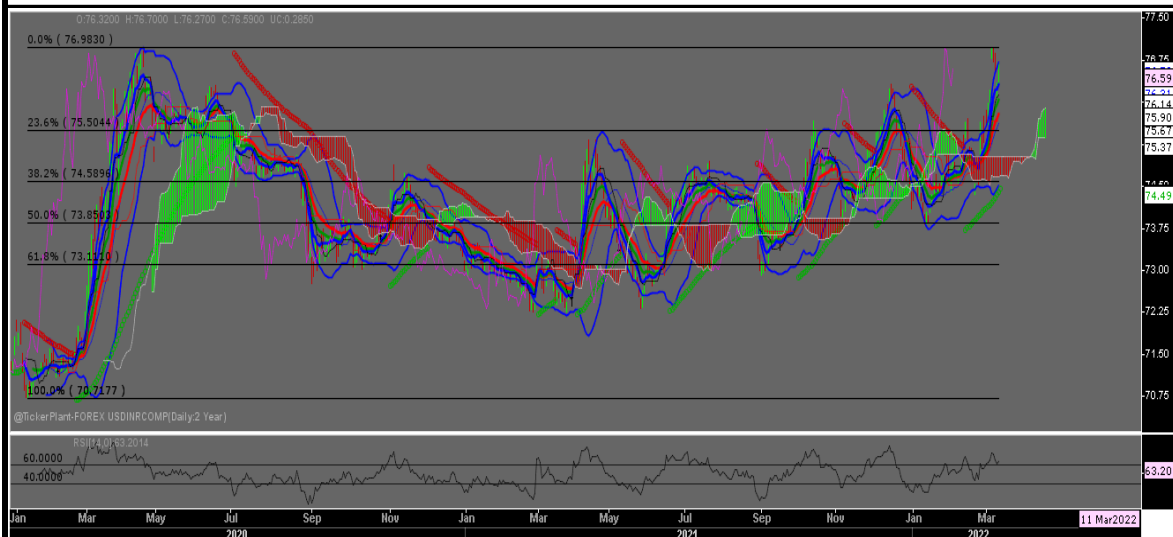
## Dollar Outlook

The US Dollar had another strong week, adding +0.48%, its fifth consecutive weekly gain in a row. Even though EURUSD rates saw a fair degree of volatility, it only closed lower by -0.18%. Instead, GBPUSD and USDJPY rates were the driving factors behind the DXY's gains, with the former losing -1.48% and the latter adding +2.13%. With energy and grain prices calming down, the commodity currencies backed off as well.

It is true that US economic data are not a significant factor in the Dollar's recent gains; markets barely reacted to either the Feb NFP report or the Feb CPI releases over the past two weeks. Instead, with the EU's and US' sanctions continuing to reverberate back to the West in the form of higher commodity prices and interbank market funding stresses, demand for liquidity has been the primary reason behind greenback strength.

Consistent with the Dollar's lack of reaction to typically important economic data releases, it is unclear if the March Federal Reserve meeting will produce a significant impact on the Dollar.

It is very much accepted that the Fed will hike rates by 25-bps at their meeting this week.



The USDINR Daily chart indicates the pair last week opened to make a new lifetime high of 76.9825, from where it slipped lower to test 76.07 mid-week.

The pair however, failed to drop below the 8-DEMA thus continuing to maintain its upward trend.

Although the prices have been able to manage trading above the 8 13-20 EMAs which also have given a bullish crossover, there is no clarity on further move in the pair as the Dollar faces Geopolitical risks and USDINR being close to recent lifetime highs it is difficult to predict if this high would not be breached in the upside again.

The Bollinger-RSI combination indicates the pair being overbought based on which we recommend going short temporarily, around 76.70 with Strict Stops above 77.10.

USDINR turns strongly bullish above 77.10 yet again.

Hence, the short positions are advised to be kept light.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 76.60-76.80 SL 77.10 TGT 76.10								76.00-76.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		73.81	74.72	75.64	76.11	76.55	77.03	77.46	78.37	79.29	
Exporters Strategy	Exporters were suggested to hedge their March exposure partially (50%) around 75.60 Spot. Add 25% around 76.60. Pending to be held open with Stop below 76.00 Spot.										
Importers Strategy	Importers were suggested to hedge March payables (50%) around 74.60. Pending to be held open with a strict Stop above 75.80 Spot, which has been triggered.										

## Euro Outlook

The Euro zone is under pressure from rising inflation due to commodity supply constraints as well as its reliance on Russia/Ukraine. This has only made worse, the divergence between the Fed and ECB respectively. Looking ahead to next week, the Fed's interest rate decision dominates the calendar and is likely to incorporate a 25bps hike – almost fully priced in by money markets.

Strong labour and inflation data should keep the 25bps outlook intact. Fed Chair Powell also stated last week that there is a possibility of one or two rate hikes greater than 25bps which shows the aggressive intent by the Fed to tackle inflation. Another bout of hawkish comments during the press conference could lead to additional downside on EURUSD.

Attention will be paid particularly to quantitative tightening, inflation forecasts, GDP and rate hike trajectory.

The Economic calendar remains light for the Euro as compared to the Dollar.



The EURUSD Daily chart indicates the pair loosing 1.13 levels recently and further slipping to 1.08, has turned the Euro extremely oversold against the Dollar.

The pair however, saw a recovery at the beginning last week but failed to breach the 20-DEMA & dropped to close around 1.09.

The Bollinger-RSI combination shows the pair is extremely oversold supported by the continued bearish 8-13-20 EMAs, however, to initiate fresh long positions in the pair, one should await a pullback in the prices atleast above 1.0950.

The bearish Parabolic SAR if happens to penetrate the thin bullish Ichimoku cloud one can expect a sharp reversal in the pair till 1.11.

For the next week, we suggest going long on the pair above 1.0950, but recommend light trades at the mentioned levels.

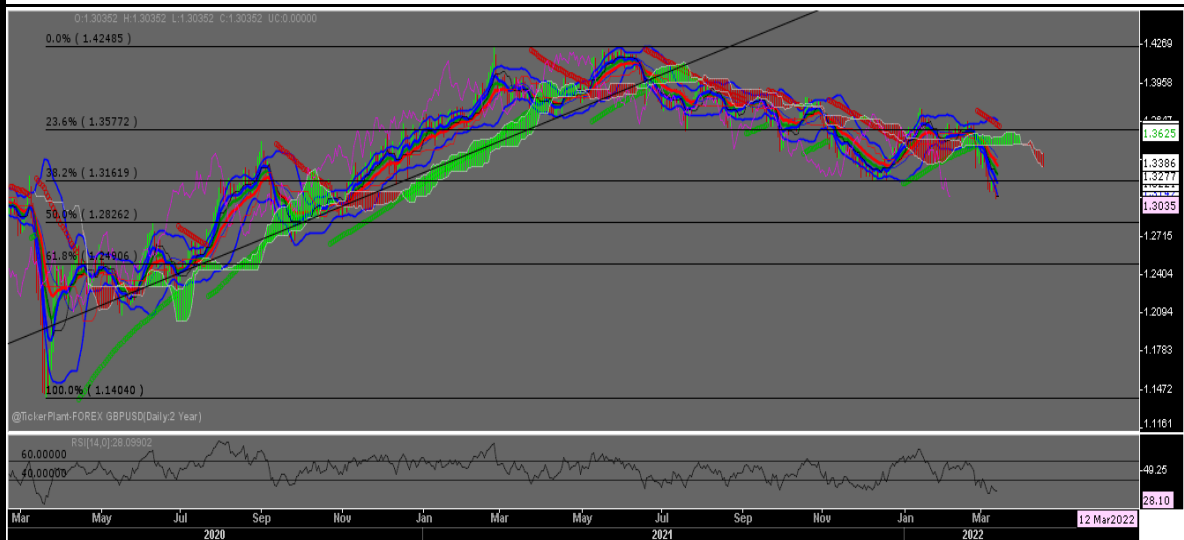
1.13 now happens to be a deciding level for EURUSD to reverse its bearish trend in near medium term.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Buy above 1.0950 SL 1.0800 TGT 1.1080				Buy 83.60/50 SL 83.20 TGT 84.60-85.10				1.0900-1.1100   83.50-85.10		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		80.47	81.64	82.81	83.43	83.98	84.60	85.15	86.32	87.49	
Exporters Strategy	Exporters are advised to hedge 50% of the March exposure around 85 Spot. Further pending exposure to be held open with Stop below 82.80.										
Importers Strategy	Importers were advised to hedge 50% of March payables around 83.50 on Spot. Pending to be held open with Stop above 85.50.										

British Pound Outlook

The Bank of England is expected to deliver its third rate hike next week, however, while last month showed a surprise 5-4 vote split, narrowly missing a 50bps hike, it is likely the MPC will stick with a step by step approach and hike 25bps. That said, while the Pound is likely hold onto its gains against the Euro, there are worrying signs for GBP/USD with the failure to hold onto its previous lows at 1.3150. The pair is also set to close the week below its 200WMA and thus a break of 1.3000 beckons. Keep in mind, that while we have the BoE, we also have the Federal Reserve, which after the ECB's hawkish surprise, Fed Chair Powell may well provide another hawkish surprise. In turn, should we see a firm break of 1.3000, risks are geared towards 1.2850. Bias is to fade GBP/USD rallies into 1.3150-1.3200.

Both the Euro and GBP have been among the underperformers since Russia began invading the Ukraine given their exposure to Russia. At the same time, with stagflation concerns picking up, both currencies are likely to remain under pressure against their counterparts and thus EUR/GBP can be expected to trade in



The GBPUSD Daily chart indicates, last week the Pound slipped below the 38.2% Fibo support at 1.3160 to close at 1.3035. GBPUSD recently had been hovering around the 1.3575 major resistance level and failed to breach the same in the North which resulted into a sharp selloff in the pair.

However, the pair is extremely oversold as indicated by Bollinger-RSI combination & is expected to witness a small bounce back to the 38.2% Fibo level which will act as an interim resistance now. Major support in the pair now lies at 1.2820 which is the next (50%) Fibo retracement level which could be tested IF the pair fails to hold on to 1.2950.

The bearish Ichimoku cloud formation appears to be a threat at the beginning of the week ahead.

For this week we suggest going long in the pair with Strict Stops below 1.2870.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Buy 1.2960/50 SL 1.2870 TGT 1.3100-50				Buy 99.60/40 SL 98.60 TGT 100.50-101.30				1.2950-1.3180   99.50-101.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		94.60	96.59	98.59	99.37	100.58	101.36	102.58	104.57	106.57	
Exporters Strategy	Exporters are advised to hedge their March exposure partially (50%) around 102.20. Pending to held open with Stop below 100 Spot.										
Importers Strategy	Importers were advised to hedge partially (50%) near 100.80 for March exposure. Add 30% around 99.50 Spot. Pending to held open with Stop above 102.30 Spot.										

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
15.03.2022	03:30 PM	EUR	ZEW Economic Sentiment	10.3	48.6
		EUR	German ZEW Economic Sentiment	5.2	54.3
	06:00 PM	USD	PPI m/m	1.0%	1.0%
		USD	Core PPI m/m	0.6%	0.8%
		USD	Empire State Manufacturing Index	6.9	3.1
16.03.2022	06:00 PM	USD	Core Retail Sales m/m	0.9%	3.3%
		USD	Retail Sales m/m	0.4%	3.8%
	08:00 PM	USD	Crude Oil Inventories		-1.9M
	11:30 PM	USD	FOMC Economic Projections		
		USD	FOMC Statement		
		USD	Federal Funds Rate	<0.50%	0.25%
17.03.2022	12:00 AM	USD	FOMC Press Conference		
	03:00 PM	EUR	ECB President Lagarde Speaks		
	05:30 PM	GBP	MPC Official Bank Rate Votes	9-0-0	9-0-0
		GBP	Monetary Policy Summary		
		GBP	Official Bank Rate	0.75%	0.50%
	06:00 PM	USD	Philly Fed Manufacturing Index	15.1	16.0
		USD	Unemployment Claims	221K	227K
	Tentative	JPY	Monetary Policy Statement		
	Tentative	JPY	BOJ Press Conference		
	07:30 PM	USD	Existing Home Sales	6.10M	6.50M

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