

Currencies Weekly Report

Week of 10.01.2022



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Global Economic Review & Outlook

The **FOMC minutes** suggest that the **Fed will start hiking as early as March**. The Fed's **balance sheet run-off** could follow soon after. This should benefit the USD. Inflation is in focus next week.

The **5.0% y/y** flash estimate for the Dec **euro-area inflation** likely **marks the peak**. Inflation will fall through 2022 but remain above the ECB's target, at least in the first half of the year. **Core inflation** will be **key to the ECB** outlook, though.

2022 has begun where US **rates rose markedly** on the first trading week of the year across the curve. US corporations' **bond issuance has increased** with companies rushing to benefit from the still historically loose financial conditions.

Moreover, the resolution of the **debt ceiling** has **led to renewed borrowing by the US Treasury**. Both factors have supported higher rates. **Core inflation** in the **Eurozone** remained **unchanged** at 2.6% y/y, but is likely to drop significantly with the January reading as base effects from the **German VAT cut** falls out.

What will be important now is core inflation and the key driver of core inflation i.e. **wage growth**. The Euro area remains somewhat behind the US in the pandemic recovery, but wage growth is **likely to pick up over 2022** enough to gradually get core inflation closer to 2% y/y in **2023**, paving the way for the **ECB to finish tapering** and get going with the rate hikes.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	14935.90	15645.00	-4.53
DOW JONES	36231.53	36338.30	-0.29
NIKKEI	28478.56	28791.71	-1.09
HANGSENG	23493.38	23397.67	0.41
CAC	7219.48	7153.03	0.93
DAX	15947.74	15884.86	0.40
FTSE	7485.28	7384.54	1.36
FX	Last Close	Previous Week	% CHANGE
DX	95.72	95.67	0.05
EURUSD	1.1359	1.1371	-0.11
GBPUSD	1.3585	1.3520	0.48
USDJPY	115.55	115.09	0.40

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	74.3115	74.5717	74.4840	74.4398	74.2939
EURINR	84.3049	84.2431	84.1247	84.1467	83.9660
GBPINR	100.3592	100.3939	100.7739	100.6838	100.6123
JPYINR	64.43	64.41	64.20	64.25	64.08

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	74.4475	74.9500	75.9350	76.8150	77.6600
Tuesday	74.7325	75.2325	76.2000	77.0800	77.9200
Wednesday	74.5300	75.0325	76.0000	76.8850	77.7250
Thursday	74.6450	75.1500	76.1150	77.0050	77.8500
Friday	74.4500	74.9550	75.9200	76.8150	77.6600

Dollar Outlook

The **minutes suggest** that the American **central bank** is eager **to swiftly unwind** the historically accommodative monetary policy given high inflation, a tight labour market, and still robust economic outlook.

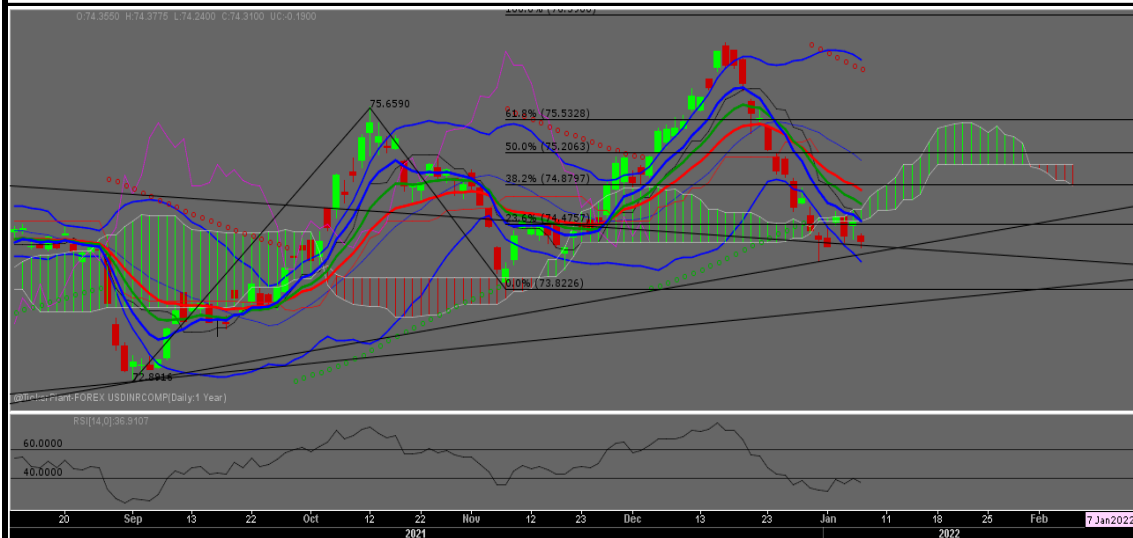
To reduce accommodation, **two key policy instruments** are in the Fed's toolbox: the **Federal Funds rate** and the **balance sheet**.

The **first rate hike** seems to happen in **March 2022**, with the latest market pricing now reflecting around 75% probability.

Regarding the Fed's balance sheet, it is clear that the **Fed is leaning towards unwinding its balance sheet much sooner** and faster than in the previous normalisation cycle – likely starting as early as June 2022.

It wasn't just bond markets that reacted to the Fed minutes. Stock markets – in particular growth stocks – fell on the back of higher rates across the curve. We will probably see more of the same ahead so long as rates are on the rise and liquidity will become tighter.

Higher US rates should have a positive effect on the USD.



The USDINR Daily chart indicates the Dollar last week, in thin volume trades, struggled to settle above the 23.6% Fibo retracement at 74.47, closing at 74.31 and now is extremely oversold as indicated by the Bollinger-RSI combination.

This week we suggest going long in the pair around 74.25 with strict stops placed below 73.90 for targets of 74.75.

The current southward momentum can come to an end if the Dollar restricts itself from breaching 74.05 and fresh buying can push USDINR higher back to 75.

Trendline supports indicate further upward moves. The downward slipping Parabolic SAR too suggests bullish moves in the pair. However, it is advised to keep positions light as the pair is stuck in a tight range and can breakout in either direction.

In longer term, USDINR can revisit the 76 levels, but the pair will remain highly volatile in short term swinging between 74 & 75.50.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 74.20-74.30 SL 73.90 TGT 74.75								74.15-74.75		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		73.28	73.65	74.02	74.16	74.39	74.53	74.76	75.13	75.50	
Exporters Strategy	Exporters are suggested to hedge their January exposure partially (30%) around 74.50 Spot and 30% at 75.30/35. Pending to be held open with Stop at 73.80.										
Importers Strategy	Importers are suggested to hedge January payables 50% around 74.30. Pending to be held open with a strict Stop above 75.00 Spot.										

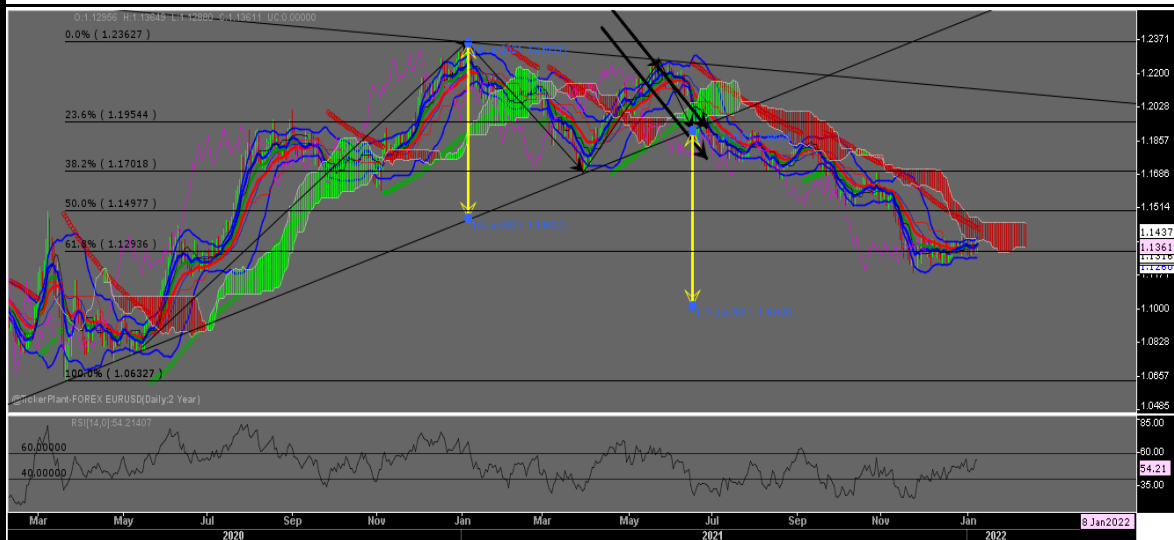
Euro Outlook

EURUSD attempts to retrace the decline from the start of the year following the weaker-than-expected US Non-Farm Payrolls report, and **data** prints coming out **of the U.S.** may continue to **influence the Euro** amid the diverging paths between the European Central Bank and Federal Reserve.

The ECB faces a dilemma amid the **growing number** of COVID-19 **cases in Europe**, but signs of **sticky inflation** may push the Governing Council to develop an **exit strategy** as the President Christine Lagarde and Co. plan to “discontinue net asset purchases under the PEPP at the end of March 2022.”

The update to the US CPI may sway EURUSD over the coming days as the headline reading is expected to increase to 7.1% from 6.8% in December to mark the highest reading since 1982, and evidence of stronger price growth may trigger a bullish reaction in the Dollar as it puts pressure on the FOMC to implement a rate hike sooner rather than later.

But, a wait and watch approach would best suit the Euro in the week ahead.



The EURUSD Daily chart indicates, the Euro, even in the last week has been stuck in a tight range hovering around the 61.8% Fibo support 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 the bearish Ichimoku cloud signals 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 1.1330 for targets of 1.1450 with stops placed below 1.1290.

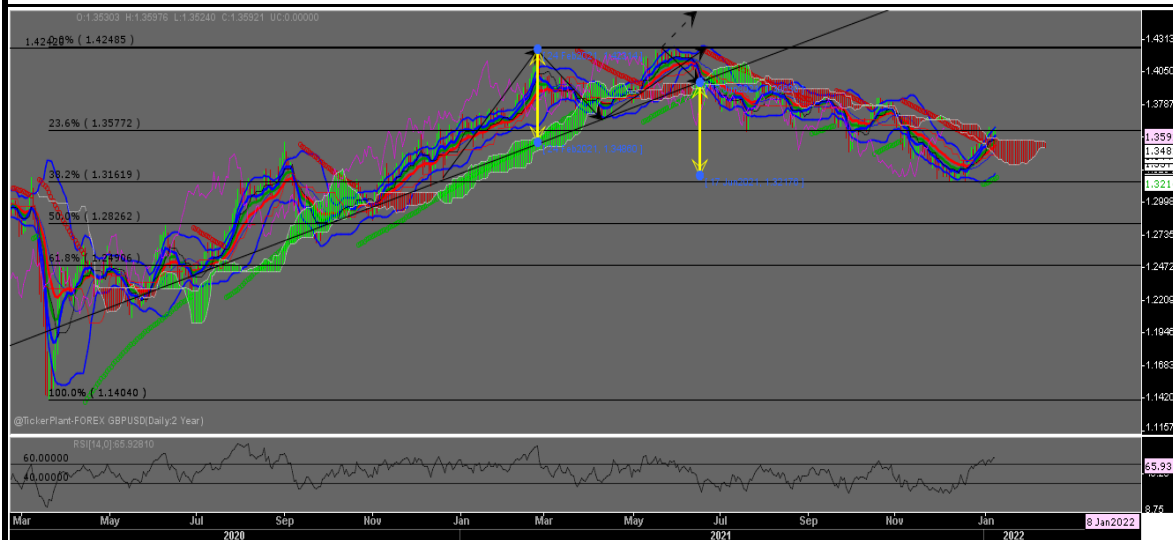
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 1.1340/30 SL 1.1290 TGT 1.1410-1.1450				Buy 83.90/80 SL 83.60 TGT 84.40-84.70				1.1320-1.1460 83.80-84.70		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		82.55	83.09	83.62	83.86	84.15	84.39	84.68	85.22	85.75	
Exporters Strategy	Exporters are advised to hedge 20% around 85 & 30 % at 85.50. Hold further pending for January exposure Open with Stop at 83.60 Spot.										
Importers Strategy	Importers are advised to hedge 50% of January payables around 84.20 on Spot. Pending to be held open with Stop above 85.70.										

British Pound Outlook

The British **Pound** has **held onto** recent **gains** as the rapid spread of the Omicron variant continues to hinder the pace at which the global economy can recover from the Coronavirus pandemic.

After the BoE made a decision to raise rates in December, the **Sterling** has been **trading in positive territory** and remains **resilient against** its major **counterparts**. Although fundamental factors continue to drive risk sentiment, a **high vaccination rate** in the United Kingdom combined **with higher rates has supported GBPUSD** despite a hawkish Federal Reserve.

Hopes of an **easy path on Brexit** seem to favor buyers amid the market's inaction. The UK's Head of Competition and Markets Authority (CMA), Andrea Coscelli, will step down raised hopes of softer Brexit negotiations ahead. Mr. Coscelli was considered as an impediment to post-Brexit economic reforms and was seen as a hurdle to breaking with EU competition policy.



The GBPUSD Daily chart indicates, Pound saw a strong reversal in last 10 odd sessions, after it tested 38.2% Fibo supports at 1.3160. GBPUSD now has penetrated the bearish Ichimoku cloud and has moved above the 23.6% Fibo resistance at 1.3575 while the Bollinger-RSI combination indicates the pair is now overbought in short term and might witness a fall if it does not hold the 1.3575/80 levels.

GBPUSD also found a Bollinger band resistance at these levels but has been able to manage trading above the 8-13-20 EMA bullish crossover.

The RSI too indicates the pair being overbought demanding minor corrections.

In the week ahead one can still go long on the pair for targets of 1.3650 with strict stops below 1.3470.

1.3650 could act as a very strong resistance in the pair.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Buy 1.3500 SL 1.3470 TGT 1.3650				Buy 100.30/20 SL 99.90 TGT 101.20				1.3500-1.3650 100.30-101.20		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		98.74	99.36	99.98	100.36	100.60	100.98	101.22	101.84	102.46	
Exporters Strategy	Exporters are advised to hedge their January exposure partially (30%) around 101.50. Pending to be held open with Stops below 99.50.										
Importers Strategy	Importers are advised to hedge partially (50%) near 100.20 for January exposure. Pending to be held open with Stop above 101.20 Spot.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
11.01.2022	08:30 PM	USD	Fed Chair Powell Testifies		
12.01.2022	07:00 PM	USD	CPI m/m	0.4%	0.8%
		USD	Core CPI m/m	0.5%	0.5%
	11:31 PM	USD	10-y Bond Auction		1.52 2.4
13.01.2022	07:00 PM	USD	PPI m/m	0.4%	0.8%
		USD	Core PPI m/m	0.4%	0.7%
		USD	Unemployment Claims	213K	207K
	11:31 PM	USD	30-y Bond Auction		1.90 2.2
14.01.2022	07:00 PM	EUR	ECB President Lagarde Speaks		
		USD	Core Retail Sales m/m	0.2%	0.3%
		USD	Retail Sales m/m	0.0%	0.3%
	07:45 PM	USD	Industrial Production m/m	0.3%	0.5%
	08:30 PM	USD	Prelim UoM Consumer Sentiment	70.0	70.6

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