

Currencies Weekly Report

Week of 11.10.2021

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Global Economic Review & Outlook

This weeks EU-Ukraine summit may shed light on how much Eastern Ukraine is worth to the EU, now that Putin holds the upper hand due to the German gas shortage. Meanwhile stagflation fears continue to rise.

Upside inflation risks are increasingly discussed at ECB meetings as well, but the central bank is not close to changing its view of high inflation being transitory yet. Another step towards slower bond purchases will be taken in December.

Europe and in particular Germany is on the verge of a severe energy crisis and EURO consequently trades at weaker levels against everything. Will Europe be able to solve this situation or is it in the hands of Putin? US growth figures are likely to be less affected by the energy scarcity in 2022, as for example gas prices in the US have not yet surged to the extent seen in Europe.

Shale producers (those still up and running) may also capitalise on the current energy squeeze, which leads to a bottom-line scenario of Europe and China being more vulnerable to the current developments.

Japanese global bond investment numbers for August show buying of German and UK bonds. For the second month in a row they reduced exposure to US bonds and bought Danish callable bonds.

How are central banks going to react to the ongoing energy-flationary spike? They might have to respond to the mounting cost pressures via a tighter monetary policy, even if they dislike doing it.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	14579.50	14566.70	0.09
DOW JONES	34746.71	34327.45	1.22
NIKKEI	28048.94	28771.07	-2.51
HANGSENG	24837.85	24575.64	1.07
CAC	6559.99	6517.69	0.65
DAX	15206.13	15156.44	0.33
FTSE	7095.55	7027.07	0.97
FX	Last Close	Previous Week	% CHANGE
DXV	94.07	94.04	0.03
EURUSD	1.1572	1.1594	-0.19
GBPUSD	1.3613	1.3545	0.50
USDJPY	112.21	111.07	1.03

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	74.2429	74.5307	74.6292	74.8607	74.9940
EURINR	86.1153	86.4263	86.4331	86.4995	86.5981
GBPINR	100.5630	101.3081	101.5489	101.6943	102.0048
JPYINR	66.89	67.03	66.78	67.16	67.01

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	74.4700	74.9550	75.7350	76.7050	77.5650
Tuesday	74.5950	75.0850	75.8750	76.8450	77.7050
Wednesday	75.1100	75.6050	76.3950	77.3650	78.2250
Thursday	74.8950	75.3900	76.1850	77.1550	78.0150
Friday	75.0900	75.5850	76.3800	77.3500	78.2100

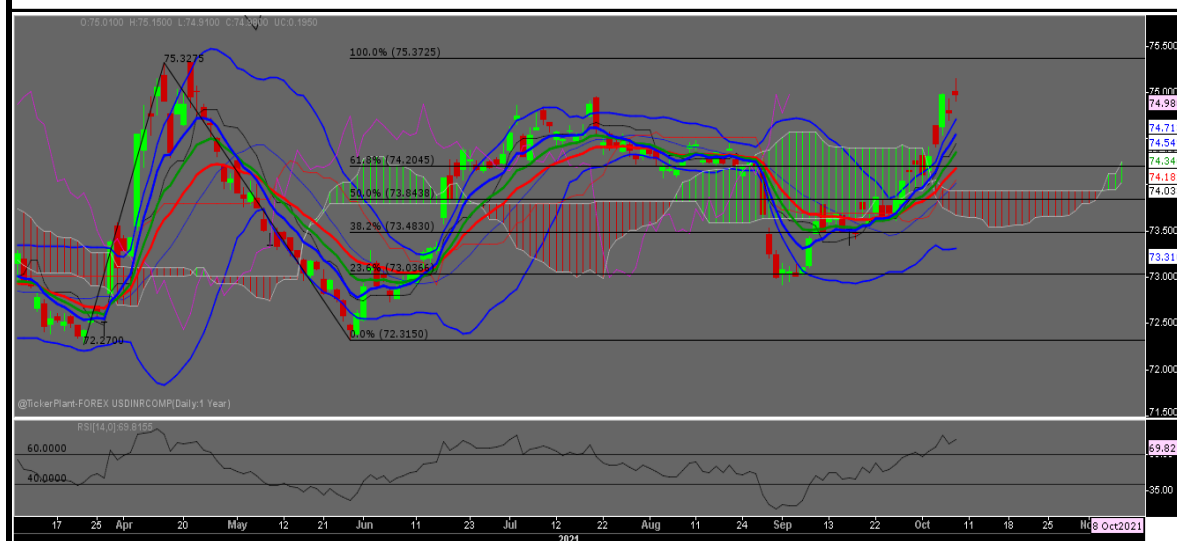
Dollar Outlook

The first full week of October produced modest gains for the US Dollar (via the DXY Index) after good data releases earlier in the week were undercut by a disappointing September US NFP report on Friday. The DXY Index gained a mere +0.03%. Nevertheless, bond and rates markets are now discounting their most aggressive hawkish expectations of the Federal Reserve since the start of the coronavirus pandemic.

While the US is so far less hit than the EU and China due to the current energy price squeeze, the shale producers still haven't recovered despite a higher oil price. The main culprit behind which is likely Biden's "build back better" strategy, which aims at underinvesting in non-renewables.

The infrastructure plan of Biden is probably second in line to the more urgent need to deal with the debt ceiling. The McConnell / Shumer debt ceiling compromise has postponed the default but has done little to sort out party differences over the medium-term.

The US Treasury will not rebuild its war chest before mid-December, which will keep supply of T-bonds fairly limited and amount of USD liquidity ample. The debt ceiling USD liquidity withdrawal is consequently mostly postponed until Q1, which may coincide with a tapering plan that is fully operational at the point.

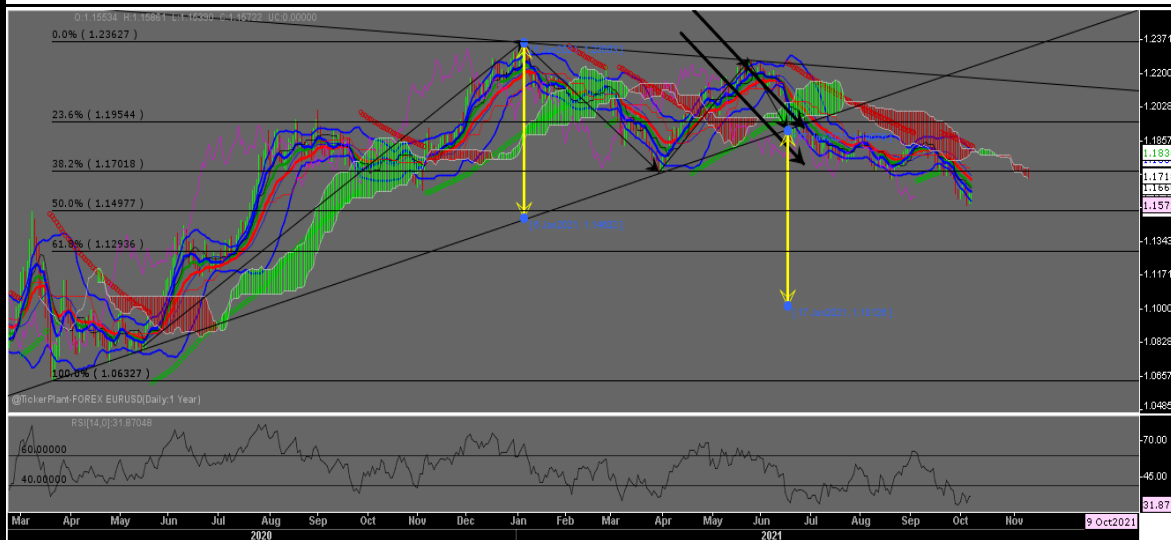


Euro Outlook

EURUSD has been falling steeply for the past month now, dropping from a recent high just above 1.19 on September 3 to its current levels around 1.1550. At one stage last week the pair also reached its lowest since July 2020. Against this background, it could be seen as “cheap” enough to attract some bottom-fishers, but there is no catalyst for a change in direction. The problem is that the ECB remains near the back of the queue of central banks thinking of tapering their monetary stimulus programs and, until it nears the front, the Euro will likely remain weak.

Bloomberg reported that the ECB is studying a new bond-buying program to prevent any market turmoil when its pandemic emergency support purchases are phased out next year. So not only is the ECB near the end of the queue, it seems to be leaving it; and that's bad news for the Euro.

The latest statistics from Germany were dire. Factory orders fell 7.7% m-o-m in August, far worse than the 2.1% forecast, and industrial production dropped by 4.0% when a 0.4% decline had been predicted. It was no surprise & traders willing to move out of the Dollar found other currencies more attractive than Euro.



The EURUSD Daily chart indicates, the Euro has slipped below the 38.2% Fibo supports of 1.17 which had acted as a support multiple times in recent past.

The pair moved sharply below 1.17 a week earlier and continued trading below the 8-13-20 DEMA bearish crossover even in last week, indicating the pair has a strong selling pressure on upticks. The Bollinger-RSI combination however indicates the pair is oversold and might see small recovery where one can expect selling in the pair again.

Levels close to 1.17 are ideal to go short in medium term.

However, for the week ahead, one can sell on pullback around 1.1630-1.1660 with stop at 1.17 for targets of 1.1530 & 1.1480.

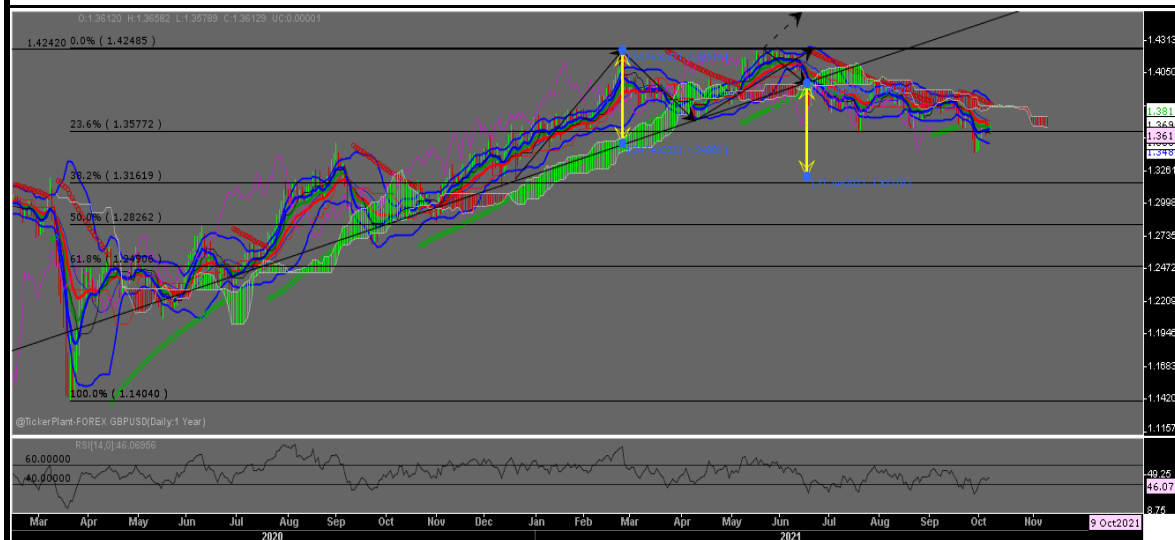
Risky long trades at 1.1580 for targets of 30 pips can be sought.

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

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.16.30/60 SL 1.17 TGT 1.1530-1.1480					Sell 87.35/60 SL 87.90 TGT 86.50-86.20			1.1450-1.1650 85.70-87.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		83.88	84.75	85.63	86.18	86.50	87.05	87.37	88.24	89.12	
Exporters Strategy	Exporters were advised to hedge 50% around 86.70 & maintain strict stops at 86.20 on Spot for the remaining 50% of the October exposure. Stops triggered already.										
Importers Strategy	Importers were suggested to hedge 50% at 86.40 on Spot. Hedge another 30% around 86 & maintain stops above 86.50 for pending October exposure. Stop triggered last week.										

British Pound Outlook

Our major focus regarding the Pound in the last few sessions has been the aggressive tightening priced into the rates market, which currently signals an 86% probability of a 15bps rate hike by the end of the year. But this is very much on the optimistic side and The Pound could immediately reverse if there are slight indications the BoE will not raise rates this year (which we think will happen).



The GBPUSD Daily chart indicates, Pound has been on short term reversal and has been recovering since beginning of this month. As mentioned in earlier reports, the Bollinger-RSI combination indicates the pair is oversold and might see small recovery where one can expect selling in the pair again. Levels between 1.38 & 1.3850 are ideal for medium term shorts. However, last week we suggested and this week too we suggest long trades above 1.36 with stop at 1.3530 for targets of 1.3670 & 1.3730.

In longer term, GBPUSD still continues to hold bearish trend after it breached the triangle supports, indicating the pair might fall close to 1.3160 the 38.2% Fibo support.

GBPINR can see a decent pullback to 102.80 levels if it manages to hold 102 in the beginning of the week.

Exporters can partially book their near term exposures then.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy above 1.36 SL 1.3530 TGT 1.3670/730				Buy above 102 SL 101.60 TGT 102.80				1.3580-1.3730 101.80-102.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		95.94	97.83	99.73	100.98	101.63	102.87	103.53	105.42	107.32	
Exporters Strategy	Exporters were suggested to hedge their October exposure partially (50%) around 101.50 Pending to be held open with Stops below 100.50. Stops triggered.										
Importers Strategy	Importers were suggested to target levels near 100.60 to hedge their October exposure partially. Pending exposure to be hedged around 100.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
12.10.2021	02:30 PM	EUR	ZEW Economic Sentiment	26.5	31.1
		EUR	German ZEW Economic Sentiment	20.4	26.5
	07:30 PM	USD	JOLTS Job Openings	10.95M	10.93M
		USD	FOMC Member Clarida Speaks		
		USD	10-y Bond Auction		1.34 2.6
13.10.2021	06:00 PM	USD	CPI m/m	0.3%	0.3%
		USD	Core CPI m/m	0.2%	0.1%
	10:31 PM	USD	30-y Bond Auction		1.91 2.5
	11:30 PM	USD	FOMC Meeting Minutes		
14.10.2021	02:00 AM	USD	FOMC Member Brainard Speaks		
	06:00 PM	USD	PPI m/m	0.6%	0.7%
		USD	Core PPI m/m	0.5%	0.6%
		USD	Unemployment Claims	328K	326K
	08:30 PM	USD	Crude Oil Inventories		2.3M
	10:30 PM	USD	FOMC Member Barkin Speaks		
15.10.2021	06:00 PM	USD	Core Retail Sales m/m	0.5%	1.8%
		USD	Retail Sales m/m	-0.3%	0.7%
		USD	Empire State Manufacturing Index	25.3	34.3
	07:30 PM	USD	Prelim UoM Consumer Sentiment	73.5	72.8
	09:50 PM	USD	FOMC Member Williams Speaks		

Report prepared by:

Siddhesh Ghare

Head- FX Risk Business

PhillipCapital (India) Pvt. Ltd.

sghare@phillipcapital.in

+91 99634 87722

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