

# Currencies Weekly Report

Week of 30.01.2023

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January 30, 2023

## Global Economic Review & Outlook

Rate hikes from all three major central banks this week, apart from the Bank of England potentially, have been priced in ahead of next week's meetings. Therefore, markets will be more focused on clues regarding terminal rates and the path of future policy in the midst of lower inflation prints. The Fed is expected to continue slowing their rate hiking pace with a small 25 bp rate rise. ECB expected to hike by a 50 bp and BoE closer to 50bp than 25 bp. With the ECB another such step in March remains a reasonable baseline.

Markets brace for a week of high importance event risk (FOMC, BoE, ECB, NFP and mega-cap tech earnings).

Key U.S. data like Consumer confidence, Jobless claims and NFP to set foundation for next week's rate announcements.

The pressure of the sharp depreciation of the yen in the past has eased somewhat and the reopening of China should support the start of a recovery in the Japan economy in the first half of this year.

For Oil, the upcoming week has two massive events; the OPEC+ virtual meeting on output and the FOMC decision. The OPEC+ meeting might be easy with a decision to keep output steady as they await what happens with the short-term global demand outlook.

In India, the focus will fall on the government's budget which should focus on deficit reduction. Economic data releases include India's fiscal deficit, eight infrastructure industries and both manufacturing and services PMIs.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	11621.71	11140.43	4.32
DOW JONES	33977.55	33374.37	1.81
NIKKEI	27382.56	26553.53	3.12
HANGSENG	22688.90	22044.65	2.92
CAC	7097.21	6995.99	1.45
DAX	15150.03	15033.56	0.77
FTSE	7765.15	7770.59	-0.07
FX	Last Close	Previous Week	% CHANGE
DX	101.93	102.01	-0.08
EURUSD	1.0868	1.0855	0.11
GBPUSD	1.2394	1.2397	-0.03
USDJPY	129.82	129.56	0.20

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	81.2757	81.6020	81.6263	--	81.5445
EURINR	88.5401	88.7841	89.0135	--	88.6584
GBPINR	100.8978	101.0951	100.6523	--	100.9592
JPYINR	62.49	62.71	62.59	--	62.77

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	81.4100	81.6825	82.2275	82.6825	83.1300
Tuesday	81.7225	81.9925	82.5625	83.0200	83.4700
Wednesday	81.5925	81.8600	82.4300	82.8850	83.3450
Thursday	--	--	--	--	--
Friday	81.6275	82.0275	82.5025	82.9525	83.4050

## Dollar Outlook

It is an extremely busy week, not only for the Dollar but for the entire FX & Bond markets.

Traders will focus on the FOMC decision, but they should also closely watch mega-cap tech earnings, and the nonfarm payroll report.

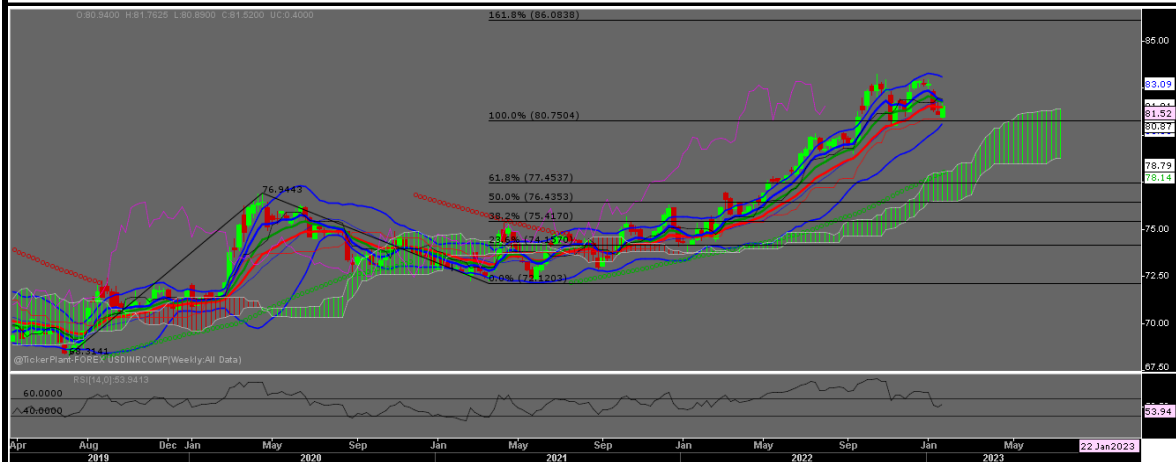
The Fed is expected to continue slowing their rate hiking pace with a small 25 basis point rate rise. Disinflation trends are clearly here, but Core PCE suggest price pressures are coming and the labor market refuses to break and could prompt the Fed to remain vigilant with its inflation fight.

The nonfarm payroll report is still expected to show job growth of 175K, even as we hear of multiple reports of layoffs announcements across tech, finance, and real estate. Most of the layoffs will happen throughout the next couple of quarters, so we still could see another better-than-expected jobs number.

Also, manufacturing & services PMI numbers play an important role in determining the Dollar's move forward.

Given the extremely tight range in which the Dollar has been stuck and top event risk like the FOMC, ISM data, NFPs and more ahead, a technical break is likely. The direction this break takes moving forward depends on the outcome of the event risk, but follow through depends on difficult 'market conditions'.

With such a data packed week ahead, it is unclear as to what would be the guiding light for the Dollar, the Fed or the economic data.



The USDINR Weekly chart indicates the pair has been trading very much in the range of the Bollinger bands after it found support at 80.90, near the lower Bollinger as well as the 100% Fibo retracement.

USDINR saw a small recovery last week as it managed to rise upto the mid of the Bollinger and also near the 8 & 13 Weekly EMAs which are about to converge and give a bearish crossover. With the bullish Parabolic SAR up above the bullish Ichimoku cloud, and the RSI moving downward from overbought zone, USDINR is expected to test 80.75 and even slip lower further.

But, with the event risk of FED this week, we suggest to go short on rise in USDINR close to 82 with strict Stops and less volumes.

A drop below 80.75 will bring sharp appreciation in Rupee.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bearish-Sideways	Sell 81.70-81.90 SL 82.30 TGT 81.40-81.00								81.00-81.90		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		78.77	79.65	80.52	81.02	81.39	81.89	82.26	83.14	84.01	
Exporters Strategy	Exporters were advised to hedge 50% of their January exposure between 82.50-82.80 Spot. Pending to be held open with Stop below 82.00. Stop Triggered.										
Importers Strategy	Importers were advised to hedge 50% of their January exposure around 82.00 Spot. 25% to be hedged around 81.30. Pending to be held open with Stop above 82.30.										

Euro Outlook	
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The euro lost some ground towards the end last week after better than expected U.S. Durable Goods Orders and GDP releases respectively. Economic conditions are improving in Europe ahead of the ECB meeting next week but motivation to 'stay the course' remains very strong. Three events stand out next week, the most obvious being the ECB meeting on Thursday. While the rate decision is what everyone will be waiting for, the flash inflation data on Wednesday and GDP on Tuesday could have some influence on whether the central bank will seek to soften its hawkish message. A 50 bp hike is mostly priced in but what comes next is less certain at this point. Markets will be more focused on clues regarding terminal rates and the path of future policy in the midst of lower inflation prints. With so many high-profile events on the docket next week, price action poses the threat of erratic moves. GDP & Inflation numbers from Germany will set the course for Euro in the beginning next week going through Eurozone inflation data and number of speeches from Lagarde before and after the ECB rate decision. The milder winter weather in Europe appears to have kept a gas shortage crisis at bay which has helped motivate a slight upward revision in GDP growth from the German Economic Minister Robert Habeck.



The EURUSD Weekly chart indicates the pair held on to its momentum and gained further last week testing the 1.0930 Ichimoku cloud resistance.

The upmove in EURUSD last week has extended the start of bullish Parabolic SAR, indicating a continuation in the current uptrend.

The 8-13-20 Weekly EMAs that have given a bullish crossover also indicate a bullish EURUSD next week.

However, the Bollinger-RSI combination indicates the pair is now in the overbought zone and might witness some correction, only to bounce back further higher. Hence, it is advised to Buy EURUSD on dips near 1.0850 with Stops below 1.08 for targets of 1.0920 & 1.0970.

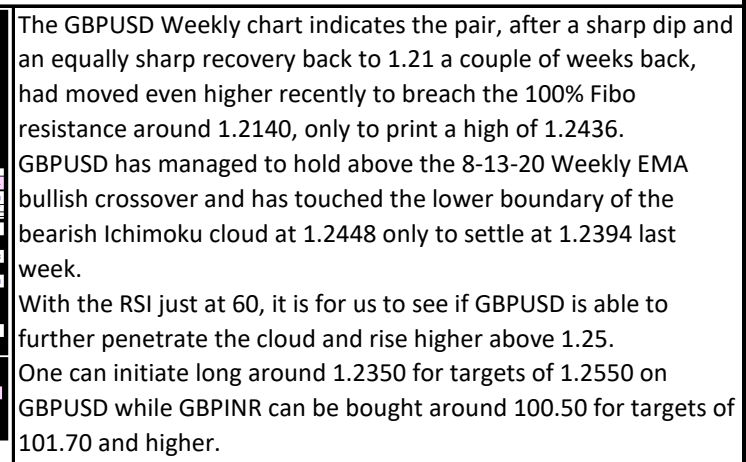
Against the Rupee too, the Euro has bounced back as expected.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bullish-Sideways	Buy 1.0870-1.0850 SL 1.0800 TGT 1.0920-1.0970				Buy 88.70-88.50 SL 88.20 TGT 89.20-89.70				1.0850-1.0970   88.50-89.70		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		85.60	86.63	87.65	88.20	88.68	89.23	89.71	90.74	91.76	
Exporters Strategy	Exporters were advised to hedge 30% of their January exposure around 89.00 Spot. Add 40% at 89.70 Spot. Pending to be held open with Stop below 87.60 Spot.										
Importers Strategy	Importers were advised to hedge 50% of their January payables around 88.00. Pending to be held open with Stop above 89.50 on Spot targetting 88.50.										

## British Pound Outlook

While this is largely priced into GBP crosses, the vote split shown in the February meeting may provide some price volatility. Last meeting saw a majority in favor of 50bp but considering new economic data there may be additional votes split between 50bp and 25bp with the BoE's Tenreyro and Dhingra possibly remaining with their unchanged stance – this would likely result in a bearish reaction on the pound.

The BoE has a particularly tough decision over the coming months. On the one hand, inflation is above 10% and the economy likely didn't fall into recession in the second half of last year. On the other, inflation has decelerated in the last two months and the November GDP data probably delayed the inevitable rather than making it less likely. The outlook remains bleak, how the BoE navigates is still highly uncertain.



Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 1.2370-1.2350 SL 1.2280 TGT 1.2470-1.2550				Buy 100.80-100.40 SL 99.90 TGT 101.30-101.70				1.2350-1.2550   100.40-101.70		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		98.12	99.02	99.92	100.42	100.83	101.32	101.73	102.63	103.53	
Exporters Strategy	Exporters were advised to hedge their January exposure (30%) around 100.50 & 30% around 101.20 Spot. Add pending 40% around 101.70.										
Importers Strategy	Importers were advised to hedge partially (50%) near 99.70 Spot for January. Pending to be hedged around 99 Spotwith Stop above 101.70.										

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
30.01.2023	02:30 PM	EUR	German GDP (QoQ) (Q4)	0.0%	0.4%
31.01.2023	07:00 AM	CNY	Manufacturing PMI (Jan)	49.7	47.0
	02:25 PM	EUR	German Unemployment Change (Jan)	5K	-13K
	06:30 PM	EUR	German CPI (YoY) (Jan)	9.2%	8.6%
	08:30 PM	USD	CB Consumer Confidence (Jan)	109.0	108.3
01.02.2023	02:25 PM	EUR	German Manufacturing PMI (Jan)	47.0	47.0
	03:00 PM	GBP	Manufacturing PMI (Jan)	46.7	46.7
	03:30 PM	EUR	CPI (YoY) (Jan)	9.1%	9.2%
	06:45 PM	USD	ADP Nonfarm Employment Change (Jan)	170K	235K
	08:30 PM	USD	ISM Manufacturing PMI (Jan)	48.0	48.4
02.02.2023	12:30 AM	USD	Fed Interest Rate Decision	4.75%	4.50%
	01:00 AM	USD	FOMC Press Conference		
	05:30 PM	GBP	BoE Interest Rate Decision (Jan)	4.00%	3.50%
	06:45 PM	EUR	ECB Interest Rate Decision (Feb)	3.00%	2.50%
	07:00 PM	USD	Initial Jobless Claims	200K	186K
	07:15 PM	EUR	ECB Press Conference		
03.02.2023	03:00 PM	GBP	Composite PMI (Jan)	47.8	47.8
		GBP	Services PMI (Jan)	48.0	48.0
	07:00 PM	USD	Nonfarm Payrolls (Jan)	185K	223K
		USD	Unemployment Rate (Jan)	3.6%	3.5%
	08:30 PM	USD	ISM Non-Manufacturing PMI (Jan)	50.3	49.6

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