Currencies Weekly Report

Week of 04.07.2022

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July 4, 2022

Global Economic Review & Outlook

Euro-area inflation hit yet another record and more will be in store in the coming months. Price pressures have become broad-based and despite weaker economic data, the ECB will continue to sound hawkish and start raising rates later this month.
The Dollar performed exceptionally well through the first half of 2022 – and more broadly over the preceding year.
Inflation, rates, recession fears drive the bear market.

Euro-area inflation hit another record of 8.6% y/y in June, up from 8.1% in May, driven by higher energy and food prices.
Looking forward, inflation is unlikely to have peaked, and further records are still in the pipeline. Market pricing suggests the peak would be close to 9.5% and be reached in September. Such developments will keep the ECB sounding hawkish also in the coming months.
The US stock market provided the worst returns since 1970 for the first half of a year. All four US averages are in bear markets, dropping more than 20% from their record highs.
U.S. 10 Yr yields fell below their uptrend. Yields had surged on expectations that higher rates will trigger Treasuries with higher yields to be marketable. However, the equity selloff pushed investors into repurchasing bonds.
One question traders have been grappling with is which will win - inflation or interest rates.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	11127.84	11607.62	-4.13
DOW JONES	31097.46	31503.71	-1.29
NIKKEI	25935.62	26491.97	-2.10
HANGSENG	21859.79	21719.06	0.65
CAC	5931.06	6073.35	-2.34
DAX	12813.03	13118.13	-2.33
FTSE	7168.65	7208.81	-0.56
FX	**Last Close**	**Previous Week**	**% CHANGE**
DXY	105.12	104.18	0.90
EURUSD	1.0427	1.0551	-1.17
GBPUSD	1.2094	1.2267	-1.41
USDJPY	135.23	135.17	0.04

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	78.2890	78.6966	78.9376	78.9421	79.0940
EURINR	82.6706	83.2694	82.8408	82.5803	82.7392
GBPINR	96.0784	96.5807	96.2476	95.9557	95.9563
JPYINR	57.95	58.08	58.08	57.96	58.62

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	78.3425	78.6950	79.2400	79.7850	80.4950
Tuesday	78.9300	79.3050	79.8400	80.3900	81.0950
Wednesday	79.1150	79.4850	80.0100	80.5450	81.2400
Thursday	79.0975	79.4925	80.0325	80.5775	81.2675
Friday	79.1750	79.5700	80.1250	80.6650	81.3500

Dollar Outlook

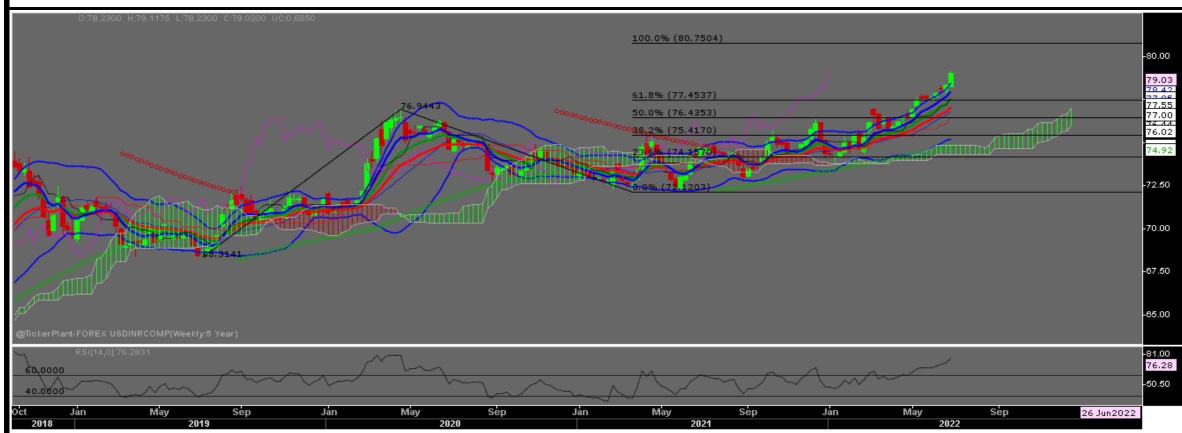
The Dollar performed exceptionally well through the first half of 2022. A leading Fed tightening regime, perceptions of a greater cushion for the US economy amid forecasts of a global slowdown and the reliability of Dollar's renowned safe haven status are still in play heading into the second half of the year, but the relative potential has deflated.

In the past six months, the topic of inflation moved from scholarly debates among economists to mainstream fears over the country's ability to absorb price growth that hasn't been seen in four decades. Through the period, the Fed moved from confidence that inflation was 'transitory' to a hasty fight to head off the troublingly stubborn climb. The central bank started with a 25-basis point (bp) rate hike in March which it escalated to 50 bp at the next meeting in May and then a hefty 75 bp increase (the biggest in decades) at the June gathering.

Recession feras are growing heading into the second half, but signs of contraction are not yet seen in official data. Instead, the signals are coming from sentiment surveys and the 2-10 US Treasury yield spread.

As inflation persists, financial accommodation retracts, the economy slows, we will see the capital markets grow increasingly unsettled.

In moderate levels of risk aversion we might witness capital flows away from the Greenback. However, the more intense risk aversion grows, the smaller the field of relevant safe havens becomes and the Dollar & US Treasuries gain more safe haven demand.



The USDINR Weekly chart indicates the pair traded positive the past week and printed a new lifetime high of 79.12.

USDINR manages to trade well above the 8-13-20 EMAs, above the 61.8% Fibo price extension level of 77.45 and has moved past the Upper Bollinger band.

The pair has all reasons to continue its upward move but the RSI has been in the overbought region, with no clear indications whether it will continue upward move or cool off for a while.

USDINR had been very stable recently and was bound to find trigger soon where it rallied past 79.

However, it is early to say if USDINR will hold 79.

We recommend going short on rise in USDINR this week.

Weekly Bias	Weekly Trading Strategy (SPOT)	Weekly Range
Sideways-Bearish	Sell 79.35-79.50 SL 79.75 TGT 78.80-78.50	78.50-79.35

	S4	S3	S2	S1	Pivot	R1	R2	R3	R4
Pivot Levels	76.13	77.02	77.91	**78.47**	**78.79**	**79.36**	**79.68**	80.57	81.46

Exporters Strategy	Exporters are suggested to hedge their July exposure partially (50%) around 79. Pending to be held open with Stop below 78.50.
Importers Strategy	Importers are suggested to hold July payables open with Stop above 79.50. Target 78.80 to start hedging in parts.

Euro Outlook

The Euro has steadily depreciated against many major currencies since Dec. 2020. This fall coincided with topping gold prices and the start of a creep higher in Fed rate hike expectations. The Fed had signaled it was done adding to Covid-inspired stimulus measures.

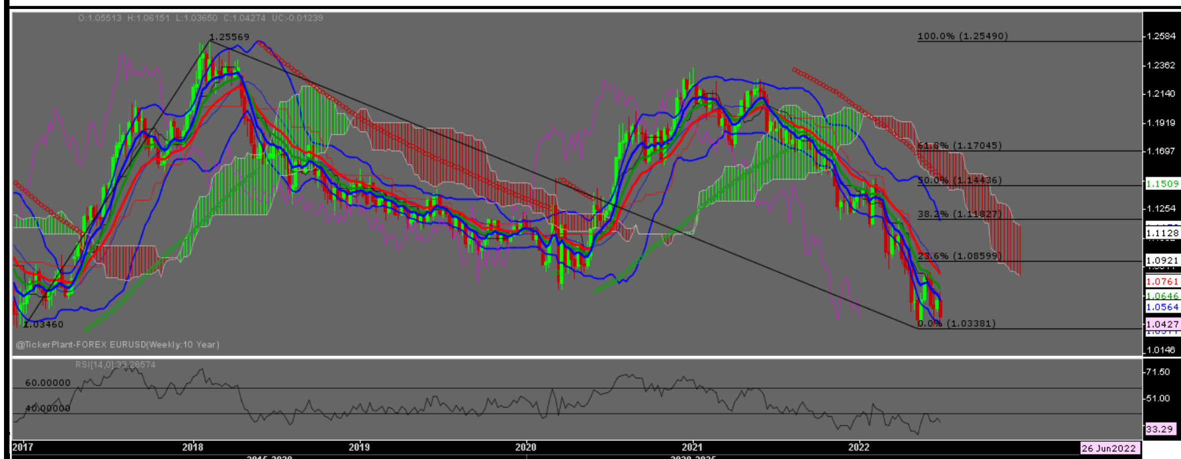
The start of Fed's tightening effort in June 2021 marked the beginning of the deepest drop in the Euro. The markets reckoned the ultra-dovish ECB would not be as quick to follow the US lead as many other top central banks, pushing yield spreads against the Euro.

Then, in Q-2 2022, European officials finally signaled a readiness to act as regional CPI inflation rose to record highs. It went on to hit the rate of 8.1% in May. The Euro found a floor and began to inch upward as rate hike expectations began to be absorbed into prices.

On June 9th the ECB formally announced incoming interest rate hikes. The central bank previously said it would end bond purchases in July. Less than a week later, an emergency meeting was scrambled and a mandate given to create a new tool against 'fragmentation.'

That halted the Euro's bounce. ECB tightening expectations revived worries about high levels of debt in some Eurozone economies.

Managing 'fragmentation'– that is, diverging lending rates across Eurozone states– seems like it will keep ECB tightening modest relative to global peers. That puts the Euro at an acute disadvantage, suggesting the downtrend is due to resume.



The EURUSD Weekly chart indicates the pair continued its downtrend last week to test 1.0365 before settling at 1.0427. Recently the Euro has been facing strong resistance at all three 8-13-20 EMAs, thus keeping itself near to the Lower Bollinger band. Also, the bearish Ichimoku cloud indicates overall trend is expected to further remain bearish in near term.

However, a support around 1.0330, looking at the Parabolic SAR penetrating the Ichimoku cloud, indicates small upmoves in EURUSD towards 1.0570 and 1.0720.

Major resistance stands at 1.0860, as indicated by the Fibonacci Price Extension. We suggest going long on the pair above 1.0470 for targets of 1.0570 in the week ahead.

Weekly Bias	Weekly Trading Strategy (SPOT)		Weekly Range
Sideways-Bullish	Buy above 1.0470 SL 1.0370 TGT 1.0570	Buy above 82.80 SL 82.10 TGT 84.00	1.0470-1.0570 | 82.50-84.00

Pivot Levels	S4	S3	S2	S1	Pivot	R1	R2	R3	R4
	79.07	80.31	81.56	**82.11**	**82.80**	83.36	**84.05**	85.29	86.54

Exporters Strategy	Exporters were advised to hedge 40% of the June exposure around 84.20 Spot. Total exposure to be held open with Stop below 82.30 Spot. Stop Triggered.
Importers Strategy	Importers were advised to hedge 60% of June payables around 82.80 on Spot. Pending to be hedged around 81.50 levels Spot..

British Pound Outlook

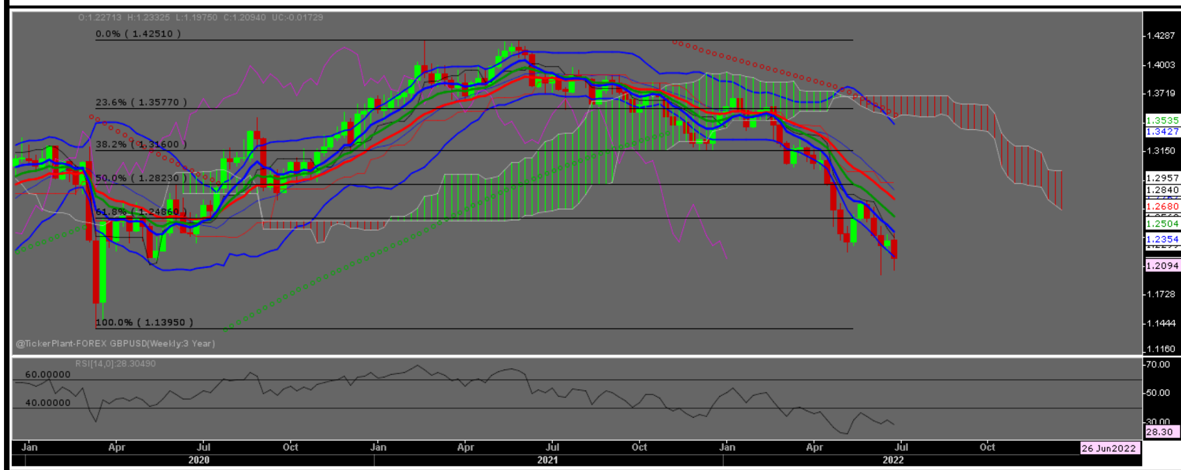
The Q-2 has been a tricky for the BoE as inflation continued to soar - and is expected to rise further - while growth slowed, sparking fears that UK may enter a recession. UK headline inflation is now over 9% and is set to hit double-digits soon, with soaring price of fuel and food continuing to hit the UK consumer hard.

The UK labor market remains in robust health. Companies are finding it difficult to hire and those that can are having to pay higher wages due to a combination of inflation and a tight labor market.

The Pound if looked at in isolation against the Dollar has performed poorly. However, Sterling's effective exchange rate index is flat over the last year, highlighting the strength of the US dollar.

The Pound is under pressure from the UK political arena. PM Boris Johnson continues to lose the support of the British public and those within the Conservative party. He still retains enough support within his party, but it will not take too many ministerial resignations before this changes. Politics is weighing on Sterling.

A continued correction in the Dollar Index might provide some support to GBP but it is still very early to ascertain the same.



Looking at the weekly charts, GBPUSD remains rangebound after a move to the lowest level since March 2020 a week earlier.

The pair remains in a broader bearish trend and could face renewed selling pressure after a local rally to 1.24.

In the upside, the pair faces resistance at 1.25 that may cap the upside momentum to push the cable back below 1.20 eventually.

The 8-13-20 EMA bearish crossover along with the fairly bearish Bollinger Bands and Ichimoku Cloud formation, indicates a negative move in GBPUSD the following week.

The RSI continues to indicate the pair being oversold.

However, a pullback close to 1.2150 is best to initiate shorts for the next week.

We recommend Short in GBPUSD with strict stops above 1.23.

Weekly Bias	Weekly Trading Strategy (SPOT)		Weekly Range
Bearish-Sideways	Sell 1.2150-1.2220 SL 1.2300 TGT 1.1950	Sell 95.80-96.30 SL 97.30 TGT 94.80-94.40	1.1950-1.2220 | 94.40-96.30

Pivot Levels	S4	S3	S2	S1	Pivot	R1	R2	R3	R4
	91.49	92.93	**94.37**	**94.85**	**95.81**	**96.29**	97.25	98.69	100.13

Exporters Strategy	Exporters are advised to hedge their July exposure partially (60%) around 96.00. Total exposure to be held open with Stop below 94.80 Spot.
Importers Strategy	Importers are advised to hedge partially (40%) near 94.80 Spot for July exposure. Pending to be held open with Stop above 96.30 Spot.

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
05.07.2022	02:00 PM	GBP	Composite PMI (Jun)	53.1	53.1
		GBP	Services PMI (Jun)	53.4	53.4
		GBP	BoE Gov Bailey Speaks		
06.07.2022	02:00 PM	GBP	Construction PMI (Jun)	55.0	56.4
	07:30 PM	USD	ISM Non-Manufacturing PMI (Jun)	54.5	55.9
		USD	JOLTs Job Openings (May)	11.050M	11.400M
	11:30 PM	USD	FOMC Meeting Minutes		
07.07.2022	05:00 PM	EUR	ECB Publishes Account of Monetary Policy Meeting		
	05:45 PM	USD	ADP Nonfarm Employment Change (Jun)	200K	128K
	06:00 PM	USD	Initial Jobless Claims	230K	231K
	08:30 PM	USD	Crude Oil Inventories	-0.569M	-2.762M
08.07.2022	05:25 PM	EUR	ECB President Lagarde Speaks		
	06:00 PM	USD	Nonfarm Payrolls (Jun)	270K	390K
		USD	Unemployment Rate (Jun)	3.6%	3.6%

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