

Currencies Weekly Report

Week of 24.01.2022

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Global Economic Review & Outlook

What happens to the USD when the Fed tightens its monetary policy? Will higher US rates drive the dollar higher? History tells a different story. This time it is different – every cycle is unique.

The ECB remains committed to substantial monetary policy support for now, but the scepticism towards further asset purchases is growing and rate hikes will come into play in 2023. Upside inflation risks already worry the central bank.

All eyes will be on the FOMC meeting concluding Wednesday evening. Even so, this week will feature a full slate of economic data from the US and the Euro area.

The Fed has been catching up with market expectations, turning more hawkish by the day. The December FOMC meeting and the subsequent minutes indicate that a March lift-off is a done deal. While the Fed has been catching up to the market, it is unlikely they will exceed the market by raising Fed Funds rate by 50 bp in March.

Despite the elevated near-term uncertainty caused by the Omicron variant and the fragile market conditions, the ECB decided on a path out of the pandemic-era support measures.

The EUR 20bn pace in the APP is expected to be continued into 2023 and end by the middle of that year. However, it is possible that net purchases will end at the end of this year, especially in light of reservations towards further asset purchases voiced already at the December meeting.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	13768.90	14893.80	-7.55
DOW JONES	34265.50	35911.28	-4.58
NIKKEI	27522.26	28124.28	-2.14
HANGSENG	24965.55	24383.32	2.39
CAC	7068.59	7143.00	-1.04
DAX	15603.88	15883.24	-1.76
FTSE	7494.13	7542.95	-0.65
FX	Last Close	Previous Week	% CHANGE
DX	95.64	95.17	0.49
EURUSD	1.1343	1.1412	-0.61
GBPUSD	1.3554	1.3674	-0.88
USDJPY	113.66	114.16	-0.45

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	74.3134	74.4115	74.5955	74.3618	74.5343
EURINR	84.8188	84.7944	84.5336	84.4091	84.4260
GBPINR	101.6107	101.4710	101.5140	101.3422	101.3030
JPYINR	64.90	64.79	65.28	64.97	65.48

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	74.3075	74.8050	75.8000	76.7000	77.5550
Tuesday	74.6450	75.1500	76.1500	77.0500	77.9100
Wednesday	74.4875	74.9900	75.9850	76.8800	77.7450
Thursday	74.5400	75.0400	76.0300	76.9250	77.7900
Friday	74.4600	74.9500	75.9250	76.8050	77.6750

Dollar Outlook

Fed rate hike expectations have ratcheted higher in recent weeks. If the FOMC disappoints, the US Dollar may be in trouble.

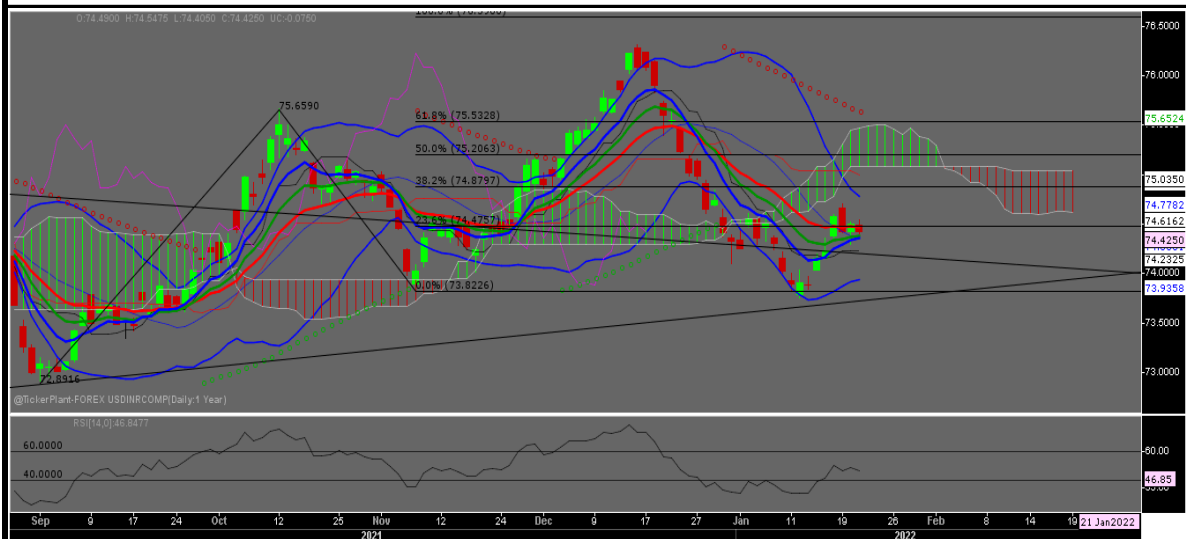
The US Dollar snapped back last week, with the DXY Index closing up by +0.49%, nearly eradicating its losses month-to-date.

The upcoming week's economic calendar will prove consequential. The first Federal Reserve policy meeting of the year has already stoked a great deal of speculation in financial markets, with high expectations for hints of an accelerated rate of monetary tightening.

Wednesday's FOMC meeting could represent a significant turning point not just for the Dollar, but for all currencies and asset classes.

The retracement in Fed hike odds coupled with declining US Treasury yields poses a problem for the US Dollar. If the FOMC makes clear that it will not hike rates by 50-bps in March, or suggests that inflation pressures are due to subside further – implicitly suggesting that aggressive tightening isn't warranted – then the US Dollar remains vulnerable to another swing lower.

The oversaturated net-long position in the futures market remains a headwind for significant US Dollar upside in the near-term.



The USDINR Daily chart indicates the pair earlier tested the bottom of the Fibo Price extension plotted at 73.80 which happens to be a very strong multiple support level. USDINR last week recovered a little to settle around the Fibo 23.6% level at 74.47 and also above the 8-13 EMA, thus indicating a further recovery in the week ahead, as also supported by the upmove in RSI from below 40 in the North.

This week we suggest going long in the pair around 74.20 with strict stops placed below 73.85 for targets of 74.70 & 75.00. The downward momentum seems to have come to an end if the Dollar restricts itself from breaching 74.05 in the downside, fresh buying can push USDINR higher back to 75 in near term.

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 74.15/25 SL 73.85 TGT 74.70-75.00								74.15-75.00		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		72.76	73.32	73.87	74.15	74.43	74.70	74.98	75.54	76.09	
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 73.85.										
Importers Strategy	Importers were suggested to hedge January payables 50% around 74.30. Pending was held open with a strict Stop above 74.60 Spot. Stop Triggered.										

Euro Outlook

Despite closing the week on a positive note, the tone has been generally softer in the Euro, with market participants fading the recent breakout. As of now, it is really about gearing up for the next week's Federal Reserve meeting. Markets are expecting an uber-hawkish Fed.

However, what has been fascinating has been the Dollar's tame reaction to the sizeable repricing in the last two weeks, with many going from two to four rate hikes this year, with the addition of quantitative tightening by Q3.

German PMIs at the beginning of the week shall also contribute to set the tone for Euro in the week ahead, but the Euro and all other currencies shall see momentum depending on the U.S. Fed's meeting outcome.

We continue to see the first ECB interest rate hike (25bp) in late 2023, but not all risks are tilted towards a postponement of the first rate increase any more.

ECB has been aggressive in trying to persuade financial markets that rate hikes will not be on the table this year, but such assurances do not apply to 2023.



The EURUSD Daily chart indicates, the Euro, in the second half last week slipped back into the tight range hovering around 1.13.

The pair faces heavy resistance further north to end its bearish trend and we might see a drop in the prices in the week ahead if the pair loses 1.13.

As mentioned in our earlier reports where we expected EURUSD to recover atleast till 1.15 has happened and a further upward move seems to be unlikely immediately.

1.15 now happens to 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 short around 1.14 for targets of 1.1280 and 1.1250 with stops placed above 1.15.

Please note, the Long-term targets of 1.10 as a breach of Triangle pattern are still on cards.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.1400/20 SL 1.15 TGT 1.1280-1.1250				Sell 84.80/60 SL 85.30 TGT 84.10-83.80				1.1250-1.1450 83.80-84.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		82.42	83.13	83.84	84.10	84.55	84.81	85.27	85.98	86.69	
Exporters Strategy	Exporters were advised to hedge 20% around 85 & 30 % at 85.50. Further pending January exposure was held open with Stop at 84.60 Spot. Stop Triggered.										
Importers Strategy	Importers were 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

Boris Johnson's fate as Prime Minister will become a lot clearer next week as Sue Gray's report into Downing street parties during lockdown becomes due. The exact date is not known but it is said to be due any day from Monday with some sources even suggesting from as early as Friday.

A damning report could result in Johnson's resignation or a vote of no confidence brought by his own Conservative party.

Thus far, UK press reports suggest that 12 of the 54 required letters to the 1922 committee - in order to initiate a vote of no confidence - have been received and it is widely believed that the other Tory MPs await Sue Gray's report before deciding whether to send a letter or not.

Johnson's ratings as a result of the 'Partygate' scandal has dropped down to 28%, the lowest on record. Additionally, recent polls suggest that the balance of power as a result of Johnson's leadership failures and lockdown parties has the Labour party ahead of the Conservatives by some margin.

In the coming week we have Services and Manufacturing data (Flash) for January but more importantly, the FOMC and Bank of Canada rate decisions.



The GBPUSD Daily chart indicates, Pound has seen a strong reversal recently, after it tested 38.2% Fibo supports at 1.3160. GBPUSD has also achieved the Long-term short target of around 1.32 as indicated by the breach of a Triangle pattern.

GBPUSD then moved past the bearish Ichimoku cloud and rallied above the 23.6% Fibo resistance at 1.3575 when the Bollinger-RSI combination indicated the pair to be overbought in short term and was expected to witness a fall.

If the pair does not hold the 1.3575/80 levels, a further downward move is expected to be seen in the pair supported by GBPU\$D slipping below the 8-13 EMAs to settle just at the 20DEMA.

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

In the week ahead one can go short below 1.36 for targets of 1.35 with strict stops above 1.3650.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell below 1.3600 SL 1.3650 TGT 1.3500				Sell 101.30/50 SL 102 TGT 101.50				1.3500-1.3600 100.40-101.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		98.85	99.64	100.43	100.70	101.22	101.49	102.01	102.80	103.59	
Exporters Strategy	Exporters were advised to hedge their January exposure partially (30%) around 101.50. Pending was held open with Stop below 101.30. Stop triggered last week.										
Importers Strategy	Importers were advised to hedge partially (50%) near 100.20 for January exposure. Pending was held open with Stop above 101.20 Spot. Stop has been triggered.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
24.01.2022	01:45 PM	EUR	French Flash Services PMI	55.3	57.0
	02:00 PM	EUR	German Flash Manufacturing PMI	56.9	57.4
		EUR	German Flash Services PMI	47.9	48.7
	03:00 PM	GBP	Flash Manufacturing PMI	57.7	57.9
		GBP	Flash Services PMI	53.9	53.1
	08:15 PM	USD	Flash Manufacturing PMI	56.9	57.7
		USD	Flash Services PMI	54.9	57.6
25.01.2022	02:30 PM	EUR	German ifo Business Climate	94.1	94.7
	08:30 PM	USD	CB Consumer Confidence	111.9	115.8
26.01.2022	09:00 PM	USD	Crude Oil Inventories		0.5M
27.01.2022	12:30 AM	USD	FOMC Statement		
		USD	Federal Funds Rate	<0.25%	<0.25%
	01:00 AM	USD	FOMC Press Conference		
	07:00 PM	USD	Advance GDP q/q	5.3%	2.3%
		USD	Advance GDP Price Index q/q	6.0%	6.0%
		USD	Core Durable Goods Orders m/m	0.4%	0.9%
		USD	Durable Goods Orders m/m	-0.5%	2.6%
		USD	Unemployment Claims	260K	286K
	08:30 PM	USD	Pending Home Sales m/m	-0.3%	-2.2%
28.01.2022	07:00 PM	USD	Core PCE Price Index m/m	0.5%	0.5%
	08:30 PM	USD	Revised UoM Consumer Sentiment	68.8	68.8

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