

# Currencies Weekly Report

Week of 05.12.2022

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December 5, 2022

## Global Economic Review & Outlook

Markets seem to have concluded that central banks are turning more dovish and the time for large rate hikes is nearing the end. However, the risks that the ECB could hike by another 75bp persist and the Fed too could be seen having to raise rates to above 5%.

The message from the ECB at the October meeting suggested it was preparing to slow down the pace of interest rate increases after two huge hikes of 75bp, though reminded that the central bank was in a data dependent mode and making decisions meeting by meeting.

The ECB's December decision will be a close call, but we think they will opt for another 75bp rate hike, followed by 50bp in February and 25bp in March, leaving the deposit rate at 3%.

Incoming data so far suggest that the room for slowing down the pace of interest rate adjustments remains limited, even as we are approaching estimates of the "neutral" rate." said Isabel Schnabel, Member of the ECB's Executive Board.

We think the Fed still has a lot to do, and see the central bank having to hike rates to above 5% than stop at below 5%, as current market pricing suggests.

The USD has peaked, but an uncertain market environment and rising recession risks are still likely to support the Dollar in the near term.

China's strict zero-Covid measures are hammering growth and the public is clearly becoming increasingly frustrated. Focus this week in China will be on the Caixin services PMI, trade data, CPI release and the protests.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	11461.50	11226.36	2.09
DOW JONES	34428.95	34346.83	0.24
NIKKEI	27777.90	28283.03	-1.79
HANGSENG	18675.35	17573.58	6.27
CAC	6742.25	6712.48	0.44
DAX	14529.39	14541.38	-0.08
FTSE	7556.23	7486.67	0.93
FX	Last Close	Previous Week	% CHANGE
DX	104.54	106.06	-1.43
EURUSD	1.0540	1.0394	1.41
GBPUSD	1.2287	1.2087	1.66
USDJPY	134.32	139.17	-3.49

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	81.7545	81.7121	81.5970	81.1512	81.1771
EURINR	84.7881	84.8248	84.4507	84.7467	85.4643
GBPINR	98.6880	98.0665	97.7543	98.1670	99.3099
JPYINR	59.13	58.96	58.95	59.49	60.07

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	81.7775	82.0400	82.5150	82.8900	83.2650
Tuesday	81.8325	82.1000	82.5800	82.9600	83.3450
Wednesday	81.5275	81.7725	82.2125	82.5775	82.9425
Thursday	81.3050	81.5600	82.0150	82.3950	82.7450
Friday	81.4050	81.6575	82.0975	82.4625	82.8275

## Dollar Outlook

The US Dollar saw its worst month since September 2010 as the markets aggressively priced in a dovish Federal Reserve down the road. A tight US jobs report hints that USD's move might be overdone.

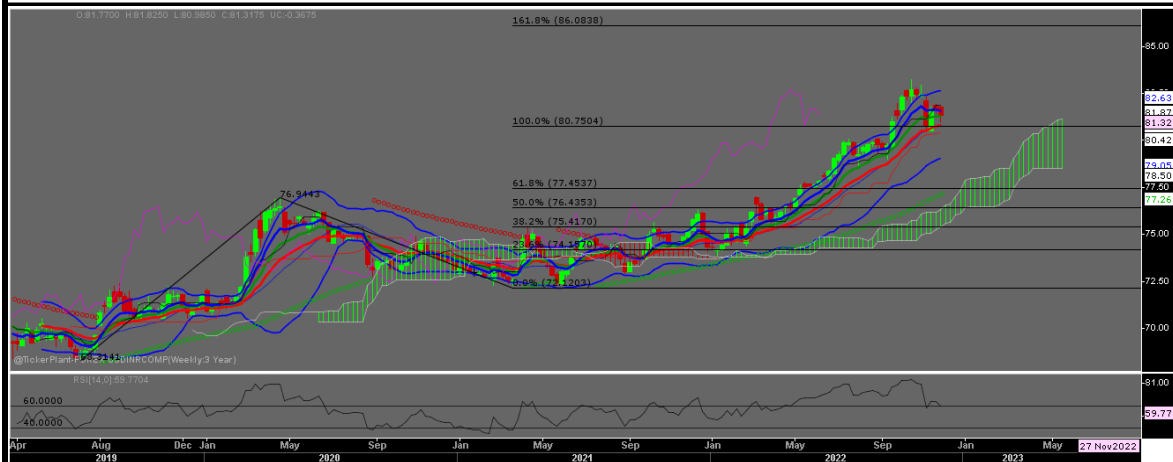
DXY declined about 5.1 percent in November, the worst monthly performance since September 2010.

November saw a couple of notable events drive the Dollar. Most notably, the latest US CPI report as well as the PCE, cooled. It can be seen as a turning point, but November's US jobs report was rather solid. The country added 263k non-manufacturing jobs versus 200k seen.

Fed Chair Powell last week stressed that the pace of tightening is indeed expected to slow as soon as this month. But, he also said that officials are concerned about workers demanding higher wages given the inflationary landscape.

Fed officials stressed the peak hawkishness is likely behind us. Smaller rate hikes are the likely scenario going forward, but tightening itself could last longer.

The RBI could potentially bring its tightening cycle to a close this Wednesday with a final 35bp hike, taking the repo rate to 6.25%. The Indian economy exited recession in the last quarter and Indian stock markets hit a record high this past week.



The USDINR Weekly chart indicates the pair, after finding resistance near 82 last week, dropped further to test 80.99 last week which is very close to 80.75, the 100% Fibo retracement and 20-Weekly EMA support.

However, USDINR managed to close at 81.32, just above the 13-Weekly EMA now acting as an interim support, prior to 80.75 where the 20 Weekly EMA and the Bollinger Mid lies.

The pair which was extremely overbought throughout Oct. has witnessed a sharp correction as expected in Nov. and will further depreciate in Dec. only if it is able to drop below 80.75.

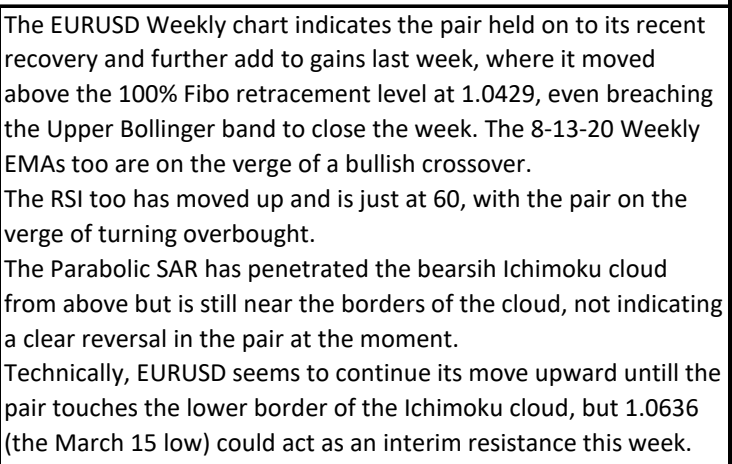
With 82 as a major resistance and 80.75 as a major support, USDINR is bound to trade in this range this week. Its best to go short around 81.80 with Stop above 82.20 and long around 80.90

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 81.75-81.90 SL 82.20 TGT 80.90 / Buy 80.90-80.75 SL 80.50 TGT 81.80								80.75-81.90		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		78.86	79.70	80.54	80.93	81.38	81.77	82.22	83.06	83.90	
Exporters Strategy	Exporters are advised to hedge 70% of their December exposure around 81.80 Spot. Pending to be held open with Stop below 80.70.										
Importers Strategy	Importers are advised to hedge 50% of their December exposure around 80.90 Spot. Pending to be held open with Stop above 82.00.										

# Euro Outlook

The weekend ahead will see the ECB President speaking once more and will likely see much of the same talk around fighting inflation whilst leaving a third consecutive 75bps interest rate hike as an option.

Meanwhile, ECB's De Guindos has mentioned that although the eurozone will likely be hit by a recession, it won't be as severe as previously expected.



Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bullish - Sideways	Buy 1.0450 SL 1.0350 TGT 1.0630				Buy 85.20-85.00 SL 84.60 TGT 86.00-86.50				1.0450-1.0630   85.00-86.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		80.99	82.38	83.76	84.65	85.15	86.03	86.53	87.92	89.30	
Exporters Strategy	Exporters are advised to hedge 50% of their December exposure around 86.30 Spot. Pending to be held open with Stop below 84.50.										
Importers Strategy	Importers are advised to hedge 70% of their December payables around 85.00. Pending to be held open with Stop above 86.50 on Spot.										

## British Pound Outlook

The financial markets have given UK PM Rishi Sunak a fairly easy start to his time so far but with the ghosts of Liz Truss and Kwasi Kwarteng now fully in the past, Pound is going to need some positive news if it is to continue its recent rally. With little UK economic data or events next week to help the Pound the traders will look towards the December 15 Bank of England MPC meeting for the next potential driver.

The UK is not the only central bank announcing its latest policy decision in mid-December with the Fed meeting on December 14, while the ECB and the Swiss National Bank reveal their latest decisions on December 15 as well. These meetings will set the tone for a range of currencies in the weeks ahead.

A couple of tier two and three releases are notable including the final services PMI, BRC retail sales monitor and consumer inflation expectations. None will be particularly impactful, barring a truly shocking number.

Retail trader data show 36.32% of traders are net-long with the ratio of traders short to long at 1.75 to 1. The number of traders net-long is 13.16% lower than yesterday and 10.88% lower from last week, while the number of traders net-short is 16.11% higher than yesterday and 4.03% lower from last week.

The fact that traders are net-short suggests GBPUSD prices may continue to rise.



The GBPUSD Weekly chart indicates the pair has been on a strong recovery recently, where it has breached the 8-13-20 Weekly EMAs which have given a bullish crossover last week. The pair has also moved above the Upper Bollinger band and the 100% Fibo retracement, thus approaching the bearish Parabolic SAR and the bearish Ichimoku cloud.

With RSI below 60 indicating further upside left in the pair before it turns overbought, GBPUSD can appreciate to next resistance around 1.26 where the Parabolic SAR & Ichimoku cloud lie.

Thus, In the week ahead, going with the prevailing upward momentum we suggest to go long in the pair around 1.2175 targetting levels close to 1.2450 and 1.2550 with a strict Stop below 1.20.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bullish - Sideways	Buy 1.22-1.2150 SL 1.20 TGT 1.2450-1.2550				Buy 99.00 SL 98.00 TGT 100.50-101.50				1.2150-1.2550   99.00-101.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		91.58	94.05	96.52	98.10	98.99	100.56	101.45	103.92	106.39	
Exporters Strategy	Exporters are advised to hedge their December exposure partially (30%) around 101 & 20% around 101.50 Spot. Pending to be held open with Stop below 98.00 Spot.										
Importers Strategy	Importers were advised to hedge partially (70%) near 99.00 Spot for December exposure. Pending to be held open with Stop above 101.50 Spot.										

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
05.12.2022	07:15 AM	EUR	ECB President Lagarde Speaks		
	03:00 PM	GBP	Composite PMI (Nov)	48.3	48.3
		GBP	Services PMI (Nov)	48.8	48.8
	08:30 PM	USD	ISM Non-Manufacturing PMI (Nov)	53.1	54.4
06.12.2022	03:00 PM	GBP	Construction PMI (Nov)	52.0	53.2
07.12.2022	10:00 AM	INR	Interest Rate Decision	6.25%	5.90%
	09:00 PM	USD	Crude Oil Inventories	-2.758M	-12.580M
08.12.2022	05:20 AM	JPY	GDP (QoQ) (Q3)	-0.3%	-0.3%
	05:30 PM	EUR	ECB President Lagarde Speaks		
	07:00 PM	USD	Initial Jobless Claims	230K	225K
09.12.2022	07:00 PM	USD	PPI (MoM) (Nov)	0.2%	0.2%

**Report prepared by:**

**Siddhesh Ghare**

**Head- FX Risk Business**

**PhillipCapital (India) Pvt. Ltd.**

**sghare@phillipcapital.in**

**+91 99634 87722**

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