

Currencies Weekly Report

Week of 06.06.2022

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Global Economic Review & Outlook

Japan's preliminary May service and composite PMI were revised higher, suggesting that the world's third-largest economy continues to recovery from the Covid restrictions and mid-March earthquake.

Oil traders were not impressed with OPEC+ decision to boost output by around 50% to 648k barrels a day.

The Fed wants the labor market to moderate, without much of a rise in the unemployment rate according to the Summary of Economic Projections (dot plot).

OPEC+ are not keeping up with past output commitments because most members have no spare capacity primarily due to lack of investment. Estimates suggest something closer to half of the 648k barrels a day will likely be produced, which is still shy of the previous agreements.

Europe's effort to curb its demand for Russian oil, despite the modest and necessary compromises is seen worsening an already tight market. In addition, US oil inventories have fallen by almost 10 mln barrels over the past three weeks, the longest drawdown this year.

The re-opening of Shanghai and easing of restrictions in Beijing are expected to boost Chinese demand for crude too.

The eurozone final PMI disappointed.

The preliminary German and French service and composite PMI were revised lower. Italy missed forecasts.

Spain surprised on the upside, and in this case, it means that the composite was unchanged from April (at 55.7).

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	12012.73	12131.13	-0.98
DOW JONES	32898.91	33213.55	-0.95
NIKKEI	27761.57	26781.68	3.66
HANGSENG	21082.13	20697.36	1.86
CAC	6485.30	6515.75	-0.47
DAX	14460.09	14462.19	-0.01
FTSE	7532.95	7585.46	-0.69
FX	Last Close	Previous Week	% CHANGE
DX	102.14	101.67	0.46
EURUSD	1.0717	1.0733	-0.15
GBPUSD	1.2489	1.2626	-1.09
USDJPY	130.81	127.08	2.94

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	77.5115	77.6641	77.5554	77.5883	77.5994
EURINR	83.4132	83.4107	83.0820	82.7541	83.4535
GBPINR	98.0030	87.8676	97.6164	96.9445	97.5787
JPYINR	60.97	60.73	60.01	59.71	59.74

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	77.7425	78.2250	78.9450	79.6550	80.4950
Tuesday	77.8400	78.3100	79.0000	79.7000	80.5300
Wednesday	77.7150	78.1800	78.8800	79.5700	80.3900
Thursday	77.7900	78.2550	78.9600	79.6500	80.4900
Friday	77.7850	78.2550	78.9500	79.6400	80.4700

Dollar Outlook

The Dollar's descent moderated last week as traders shifted back into risk assets. Still, the DXY remains well above levels traded at just a couple of months ago. A pullback in recession fears appeared to be the main driver of Dollar weakness. Given the dangerous global economic backdrop, those fears may resurface without warning. That said, the risk-taking seen last week is on shaky ground.

Markets are weighing the implications of a still aggressive Fed rate hike path, a course of action that may derail economic growth. The Fed maintains confidence in its ability to navigate a “soft landing,” although, given its big miss in forecasting inflation, confidence isn’t all too high among traders. Treasury Secy Janet Yellen missed the mark as well on prices.

A premature pause to the Fed's rate hike cycle would open the door to a complete loss of confidence if prices subsequently rose. Alternatively, the central bank continues hiking and risks triggering a recession. The next US inflation data, via the CPI, may fail to cool Fed rate hike bets even if a weaker-than-expected print crosses the wires, which would help support the Greenback.

A better-than-expected jobs report out of the US showed the labor market remains healthy, but forward expectations have waned in recent months. The jobs market has room to allow some slack given the 3.6% unemployment rate. For now, taming inflation is the Fed's primary fight and Powell is unlikely to ease up on that battle, at least not until price pressures appear sufficiently tempered.



The USDINR Weekly chart indicates the pair after printing a lifetime high of 76.9825 in the beginning of March continues to hover around the 61.8% Fibo level of 77.60.

USDINR although manages to trade well above the 8-13-20 EMAs and has moved past the Upper Bollinger band, the RSI, however, has penetrated overbought region, with no clear indications whether it will continue upward move or cool off for a while.

USDINR has been very stable recently and might find trigger from the RBI Monetary Policy.

Despite the long term trend being bullish in USDINR, the penetration of Parabolic SAR into the Ichimoku cloud from below indicates minor correction.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 77.73-77.83 SL 78.10 TGT 77.50-77.15								77.00-77.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		76.89	77.12	77.36	77.49	77.59	77.73	77.83	78.06	78.30	
Exporters Strategy	Exporters were suggested to hedge their June exposure partially (60%) around 77.70. Pending to be held open with stop below 76.80 Spot.										
Importers Strategy	Importers were suggested to target hedging June payables partially (50%) around 77.00. Pending to be held open with stop above 78.10 Spot.										

Euro Outlook

The Euro had a mixed week as the calendar flipped to June, faring better against safe haven currencies and worse against growth-oriented currencies. This week sees a busier economic calendar for the Eurozone. Many of the data releases are mere appetizers ahead of the June ECB rate decision on Thursday. The gap between the ECB and other major central banks' rate hike odds that defined much of 2022 continues to close. Rates markets continue to price in the first 10-bps rate hike in July, after the ECB announces an end to its asset purchase program at its June meeting this week. But thanks to multi-decade highs in inflation pressures across the Eurozone (including in Germany), rates markets are now discounting a 50-bps rate hike in December 2022, in what would be the largest single-meeting increase in rates since 2000. Elevated ECB rate hike odds continue to be reflected in the short-end of various European sovereign debt yields. The 2-year yields of the four largest economies in the Eurozone took another leg higher this past week. It remains the case that rising short-end bond yields should prove supportive of the Euro. Euro positioning is now net-long for four consecutive weeks, and positioning is the most net-long since mid-March when EUR/USD rates were trading around 1.1000. (Source: CFTC's COT)



The EURUSD Weekly chart indicates the pair has recently tested levels close to the 2016 lows of 1.0340. For the last few weeks, however, the Euro has gained little versus the Dollar and has been able to rise close the the 8-13-20 EMAs also finding support at the Lower Bollinger band. Bollinger-RSI combination indicates the pair being extremely oversold. Also, the bearish Ichimoku cloud indicates the overall trend is expected to further remain bearish in near term. The pair being held back at the 13-DEMA indicates a little weakness in the week ahead. Major resistance stands at 1.0860, as indicated by the Fibonacci Price Extension. This week, we suggest going short on the pair near 1.0780.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 1.0780 SL 1.0850 TGT 1.0700				Sell 83.70-83.80 SL 84.10 TGT 83.20-82.80				1.0700-1.0800 82.80-83.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		80.43	81.35	82.27	82.83	83.19	83.75	84.10	85.02	85.94	
Exporters Strategy	Exporters are advised to hedge 40% of the June exposure around 84.20 Spot. Total exposure to be held open with Stop below 82.30 Spot.										
Importers Strategy	Importers were advised to hedge 60% of June payables around 82.80 on Spot. Pending to be held open with Stop above 84.10.										

British Pound Outlook

At the BoE's last meeting on 4th May, members of the MPC voted 6-3 in favor of a 25 bp hike with the other 3 in favor of a 50 bp hike. Since then, annual CPI inflation jumped from 7% in March to 9% in April as the harsh consequences of the war in Ukraine worsen existing supply chain issues. Russian oil accounts for around 8% of UK's oil imports and it is committed to phasing this out by year end.

In a response to the cost-of-living squeeze, UK finance minister Rishi Sunak announced a £15 billion package to assist low-income households with the rising cost of energy and food prices. The targeted fiscal support provides the BoE with a slight buffer as it faces no other choice than to hike into weakness. Rate hikes are the Bank's only real tool to fight supply side inflation and comes at the cost of lower economic activity and lower GDP.

This week, the focus turns to the final print for UK services PMI for May which dropped drastically in the prior print, signaling a deteriorating economic outlook. Given the stagflation concerns around the UK economy, there was and still is, a risk that the rate of future hikes is revised lower. However, Implied probabilities via money markets suggest that we are to see around 140 more bps worth of hikes into year end, with at least 25 bps being added at each of the remaining meetings this year.



The GBPUSD Weekly chart indicates, the Pound recovered recently above 61.8% Fibo level of 1.2490, but failed to maintain strength last week and settled again at 1.2490 last week.

GBPUSD for earlier two weeks had been appreciating and was lacking fundamental backing.

The bearish Ichimoku cloud formation as mentioned in our earlier reports has proved to be a threat since the beginning of April. However, the Bollinger-RSI combination indicates the pair is extremely oversold and might show further recovery.

The bearish Parabolic SAR has penetrated the ichimoku cloud from upside and the current reversal may lead to a continued upward move in the pair only if 1.25 is held.

We recommend Short in GBPUSD with strict stops above 1.26.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 1.2535/50 SL 1.2600 TGT 1.2400				Sell 98.00-98.20 SL 98.80 TGT 97.40-97.00				1.2400-1.2550 97.00-98.20		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		93.44	94.79	96.14	96.86	97.48	98.21	98.83	100.18	101.53	
Exporters Strategy	Exporters are advised to hedge their June exposure partially (40%) around 98.00. Total exposure to be held open with Stop below 96.50 Spot.										
Importers Strategy	Importers were advised to hedge partially (60%) near 97.50 Spot for June exposure. Pending to be held open with Stop above 99.00 Spot.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
07.06.2022	02:00 PM	GBP	Composite PMI (May)	51.8	51.8
		GBP	Services PMI (May)	51.8	51.8
08.06.2022	05:20 AM	JPY	GDP (QoQ) (Q1)	-0.3%	-0.2%
	10:00 AM	INR	Interest Rate Decision	4.80%	4.40%
	02:00 PM	GBP	Construction PMI (May)	58.0	58.2
	08:00 PM	USD	Crude Oil Inventories	-1.350M	-5.068M
09.06.2022	05:15 PM	EUR	Deposit Facility Rate (Jun)	-0.50%	-0.50%
		EUR	ECB Marginal Lending Facility		0.25%
		EUR	ECB Monetary Policy Statement		
		EUR	ECB Interest Rate Decision (Jun)	0.00%	0.00%
	06:00 PM	USD	Initial Jobless Claims	207K	200K
		EUR	ECB Press Conference		
10.06.2022	06:00 PM	USD	Core CPI m/m (May)	0.5%	0.6%

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