

# Currencies Weekly Report

Week of 05.09.2022

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## Global Economic Review & Outlook

Central banks have intensified their message and markets are starting to listen, sending rates sharply higher the last month. They are willing to sacrifice positive GDP growth and low levels of unemployment.

We now see the ECB delivering a 75bp hike next week and the bank is most likely to hike at a similar speed in October.

Unless gas prices drop further and US inflation rates pull back sharply, odds are that Democrats lose control of at least the House of Representatives to Republicans.

Inflation in the Eurozone remained almost unchanged at high levels in Aug, but will rise in the coming months as gas prices pass through. We now expect the ECB to hike by 75bp next week even if new staff projections for growth are approaching the downside scenario.

While the focus at central bank symposium in Jackson Hole was clearly on Fed Chair Powell's speech, the biggest surprise came from the ECB's Isabel Schnabel where she pointed out that the EU could be at the end of a long period of macroeconomic stability and low inflation.

U.S. economic resilience and slowing inflationary pressures should be supportive of risk assets.

Traders should watch how Fed monetary policy expectations evolve for further guidance on the outlook.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	11630.86	12141.71	-4.21
DOW JONES	31318.84	32282.80	-2.99
NIKKEI	27650.84	28641.38	-3.46
HANGSENG	19452.09	20170.84	-3.56
CAC	6167.51	6274.26	-1.70
DAX	13050.27	12971.47	0.61
FTSE	7281.19	7427.31	-1.97
FX	Last Close	Previous Week	% CHANGE
DX	109.61	108.80	0.74
EURUSD	0.9956	0.9965	-0.09
GBPUSD	1.1508	1.1735	-1.94
USDJPY	140.20	137.52	1.95

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	80.0906	79.7194	--	79.3970	79.7888
EURINR	79.6085	79.7120	--	79.5494	79.5292
GBPINR	93.4801	93.3546	--	92.0121	92.0720
JPYINR	57.71	57.54	--	56.96	56.85

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	80.1550	80.5575	81.1100	81.7525	82.3200
Tuesday	79.6350	80.0400	80.5800	81.2300	81.8000
Wednesday	--	--	--	--	--
Thursday	79.7150	80.1150	80.6650	81.3150	81.8800
Friday	79.9550	80.3550	80.9000	81.5500	82.1100

## Dollar Outlook

Last week saw the greenback start of on the back foot as the Euro found support on the back of an increasingly hawkish ECB. U.S. data then came to the fore with ISM manufacturing PMI and Non-Farm Payroll NFP prints beating estimates ending the week marginally in the green.

Looking ahead, the economic calendar is comparatively light with ISM services data dominating headlines. The U.S. economy is after all a largely services driven economy and should bring with it some volatility pre and post-announcement. In addition, the economic release brings with it greater significance now that the Fed has placed more weight on data.

Overall, the U.S. economy looks to be relatively robust particularly when compared with the European region meaning aggressive interest rate hikes from the Fed may not adversely impact the U.S. as much as it would in Europe. Although, many market analyst are forecasting a 75bps rate hike from the ECB in the upcoming meet, with winter swiftly approaching the Fed will surely 'out-hawk' the ECB in the medium-term.

Money markets are in favor of a 75bps hike from the Fed in late September. Short-term, the ECB rate decision this week could give the euro some backing especially if they decide to hike aggressively but the upside should be short-lived.



The USDINR Weekly chart indicates the pair witnessed an increased volatility, leading to a move from highs of 80.12 to 79.30 and back to 79.80 where the pair closed last week.

The pair trades very close to its lifetime high made last week. While the pair has been technically overbought as indicated by the Bollinger-RSI combination, where the RSI is making lower lows, we might see 80 as a strong resistance in short term. However, the pair still trades above 8-13-20 EMA bullish crossover which could be a threat to bears.

The Parabolic SAR penetrating the bullish Ichimoku cloud from beneath might help the pair to correct a little for traders to go long again.

This week we expect the pair to show some correction towards 79.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 80.10-80.20 SL 80.60 TGT 79.35-78.95								78.90-80.20		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		77.25	78.08	78.91	79.35	79.74	80.18	80.57	81.40	82.23	
Exporters Strategy	Exporters are advised to hedge their September exposure fully around 80.00.										
Importers Strategy	Importers are advised to hedge September payables partially (30%) around 79.30. Pending to be held open with Stop above 80.20.										

# Euro Outlook

The ECB meeting on Thursday is likely to see the central bank hike rates by 75bps to 1.25% in an effort to stem sky-high inflation. The decision, and subsequent press conference, will shape the performance of Euro in the weeks and months ahead. The idea of a 75bp hike has been ignored lately but with inflation continuing to ravage the eurozone, the ECB now looks likely to front-load rate hikes as quickly as possible.

G7 finance ministers are ready to impose a price cap on Russian oil. The idea, to crimp Russian oil revenues in retaliation to Russia's invasion of Ukraine, is also needed to push down soaring energy costs across the globe, a major component of headline inflation readings. While G7 countries are likely to approve a plan to cap prices, Russia has already said that it will not sell to countries imposing the cap, leaving outcome of the G7 move uncertain in short term at least.

The third look at Euro Area Q3 growth will be released on Wednesday. Growth in the block is anemic at best and while the second estimate for Q3 was the strongest reading for three quarters, a 0.6% growth rate doesn't inspire confidence.

With the latest US NFP report fairly much in line with market expectations, the fate of the Euro lies firmly in the hands of the ECB this week. A 75bp hike and a hawkish press conference should see EURUSD move back above parity, while a 50bp increase will see the pair tumbling back towards 0.9900 and lower.



The EURUSD Daily chart indicates the pair failed to hold itself above the 8 & 13-DEMA while facing a strong resistance at 20-EMA last week, forcing it to drop back closer to lower Bollinger. Euro has been facing strong resistance at the 20 D-EMA since mid August, but the RSI has been making higher lows moving up slowly, thus building hopes of a decent bounce in the pair. The Parabolic SAR seems to have completely penetrated the bearish Ichimoku cloud from above, thus adding to hopes of a further pullback in the pair.

If EURUSD manages to hold on to 0.99, a bounce back to 1.01 could be seen in the pair.

Traders should go long around 0.9950 in the Euro with stops placed below 0.99.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 0.9950-0.9930 SL 0.9880 TGT 1.0050-1.01				Buy 79.70-79.45 SL 79.00 TGT 80.35				0.9930-1.01   79.40-80.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		77.69	78.36	79.03	79.46	79.70	80.13	80.37	81.04	81.71	
Exporters Strategy	Exporters were advised to hedge 40% of September exposure around 80.30 Spot. Pending to held open with Stop below 79.00 Spot.										
Importers Strategy	Importers are advised to hedge 60% of September payables around 79.50. Pending to be held open with Stop above 80.50 on Spot.										

## British Pound Outlook

Liz Truss stands out by having an agenda including popular policies, such as lowering taxes. On the contrary, Rishi Sunak is focused on tight fiscal policies, including raising corporate taxes. Low taxes could push consumer prices even higher in an already high-inflation environment. The BoE will likely step in and raise the interest rate in response, supporting the GBP.

The UK manufacturing sector has been struggling for quite some time, and in August, manufacturing production declined. Manufacturing PMI fell to 47.3 in August, down from 52.1 in July. This marked the first contraction (a reading below 50.0) since May 2020, during the first COVID lockdown.

The GBPUSD weekly chart indicates the pair has been bearish for a long time now and very close to March 2020 lows near 1.14. The pair has been continuously trading below the 8-13-20 EMAs. GBPUSD last week moved even below the lower Bollinger band and with the upcoming political events the Pound is purely dependent on the developments.

The Bollinger-RSI combination along with the penetration of bearish Parabolic SAR below the bearish Ichimoku cloud together indicate that GBPUSD is oversold and might witness a pullback. A breakout above 1.17 could see bargain hunters going long in the pair. But the recent low below 1.15 seems to mostly open further downside to 1.14 in the week ahead.

This week we suggest going short around 1.16.



Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.1580 SL 1.1680 TGT 1.1410				Sell 92.60 SL 93.35 TGT 91.60				1.1400-1.1600   91.60-92.60		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		87.39	89.12	90.85	91.60	92.58	93.33	94.31	96.04	97.77	
Exporters Strategy	Exporters are advised to hedge their September exposure partially (60%) around 92.50. Total exposure to be held open with Stop below 91.50 Spot.										
Importers Strategy	Importers are advised to hedge partially (30%) near 91.60 Spot for September exposure. Total exposure to be held open with Stop above 93.50 Spot.										

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
05.09.2022	02:00 PM	GBP	Composite PMI (Aug)	50.9	50.9
		GBP	Services PMI (Aug)	52.5	52.5
06.09.2022	02:00 PM	GBP	Construction PMI (Aug)	48.0	48.9
	07:30 PM	USD	ISM Non-Manufacturing PMI (Aug)	55.5	56.7
07.09.2022	11:30 AM	EUR	German GDP (QoQ) (Q3)	0.1%	0.1%
	02:30 PM	GBP	BoE Gov Bailey Speaks		
	07:45 PM	GBP	BoE MPC Treasury Committee Hearings		
	09:30 PM	USD	EIA Short-Term Energy Outlook		
08.09.2022	05:20 AM	JPY	GDP (QoQ) (Q2)	0.7%	0.5%
	05:45 PM	EUR	Deposit Facility Rate (Sep)	0.50%	0.00%
		EUR	ECB Marginal Lending Facility		0.75%
		EUR	ECB Monetary Policy Statement		
		EUR	ECB Interest Rate Decision (Sep)	1.00%	0.50%
	06:00 PM	USD	Initial Jobless Claims	240K	232K
	06:15 PM	EUR	ECB Press Conference		
	06:40 PM	USD	Fed Chair Powell Speaks		
	07:45 PM	EUR	ECB President Lagarde Speaks		
	08:30 PM	USD	Crude Oil Inventories		-3.326M

**Report prepared by:**

**Siddhesh Ghare**

**Head- FX Risk Business**

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

**sghare@phillipcapital.in**

**+91 99634 87722**

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