

# Currencies Weekly Report

Week of 23.01.2023

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January 23, 2023

## Global Economic Review & Outlook

Markets bet central banks will not spoil the party. US inflation has fallen, and the global economic outlook has improved, painting a rosy picture of a soft landing. This painting, however, is broadly inconsistent across asset classes. Without too strong pre-commitments, the ECB remains determined to proceed with 50bp rate hikes in the coming meetings. With uncertainty elevated and the trust in forecasts low, course corrections may yet be needed many times further going forward.

In the US, inflation has declined sharply, while the economic cycle has weakened slower than expected. There is little evidence indicating an immediate hard landing. The soft landing narrative, however, is reflected differently across asset classes. Looking at the bond market, interest rates have fallen sharply, indicating that the likelihood of a US recession is high and that the Fed will cut interest rates as soon as in the second half of this year. The stock market seems overly optimistic. When stock prices fell last year, a large part of these declines were a consequence of higher interest rates and not expectations of falling earnings per share. The bond market seems overly pessimistic. The fixed income market seems to be in the completely opposite camp. The US Dollar is caught between policy and growth. In the recent months, the Dollar has weakened significantly following an improved global outlook driven by the European and Chinese economies.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	11140.43	11079.16	0.55
DOW JONES	33374.37	34302.81	-2.71
NIKKEI	26553.53	26119.52	1.66
HANGSENG	22044.65	21738.66	1.41
CAC	6995.99	7023.50	-0.39
DAX	15033.56	15086.52	-0.35
FTSE	7770.59	7844.07	-0.94
FX	Last Close	Previous Week	% CHANGE
DX	102.01	102.20	-0.19
EURUSD	1.0855	1.0832	0.22
GBPUSD	1.2397	1.2223	1.43
USDJPY	129.56	127.84	1.35

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	81.3719	81.7727	81.6480	81.3577	81.2196
EURINR	88.3460	88.5626	88.0574	87.8848	87.9884
GBPINR	99.7272	99.7649	100.3361	100.4062	100.5352
JPYINR	63.76	63.52	62.38	63.63	62.92

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	81.6525	81.9275	82.4525	82.9025	83.3525
Tuesday	81.7975	82.0750	82.6100	83.0650	83.5150
Wednesday	81.2725	81.5550	82.1150	82.5875	83.0500
Thursday	81.3800	81.6650	82.2125	82.6700	83.1300
Friday	81.1425	81.4200	81.9675	82.4300	82.8800

## Dollar Outlook

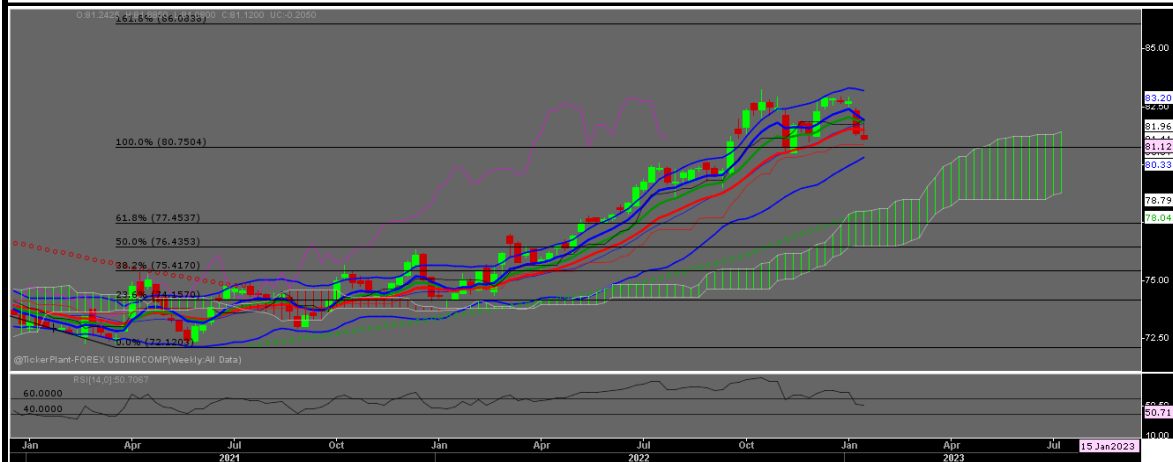
It will be a busy week filled with the first look at Q4 GDP, corporate earnings, and US debt ceiling gridlock. There is a lot of risk to deal with and a key focal point for many will be the modest growth we will see alongside a large amount of data points that are signalling recession warnings. Traders will want to see if the manufacturing and services PMI readings reported in December show any improvement this month.

Wall Street is also awaiting what will happen with debt ceiling talks. Special measures are being used and that should avert or delay default until June 5th, but flare-ups will most likely happen along the way.

Earnings season shifts away from the banks and now focuses on broader parts of the economy.

Meanwhile, falling US inflation and growth pessimism have narrowed the interest rate differential between USD rates and EUR rates substantially. The Fed has now passed on the baton to the ECB, while global growth excluding the US has outperformed. Thus, the Dollar seems to price the most probable outcome - that being a period of depreciation.

In the case US growth starts to slowdown and the rest of the world is growing it is unlikely that the Dollar will see strong safe-haven flows.



The USDINR Weekly chart indicates the pair, as expected, has dropped down sharply after it opened below 82.50 a couple of weeks back.

The pair was held below the Upper Bollinger resistance for past few weeks and recently witnessed heavy selling pushing it down below the 8-13-20 Weekly EMAs, now approaching the 100% Fibo support at 80.75. Although, 80.75 is not a major technical (historical) barrier, but breaching it would most definitely open doors for further Rupee appreciation till 79.70 the level from where the pair rallied sharply in Mid September 22.

The RSI & Ichimoku-Parabolic SAR too suggest further selloff. This week, we would suggest to go short on the pair around 81.50 for targets of 80.85 & 80.55 with a strict Stop above 82.20.

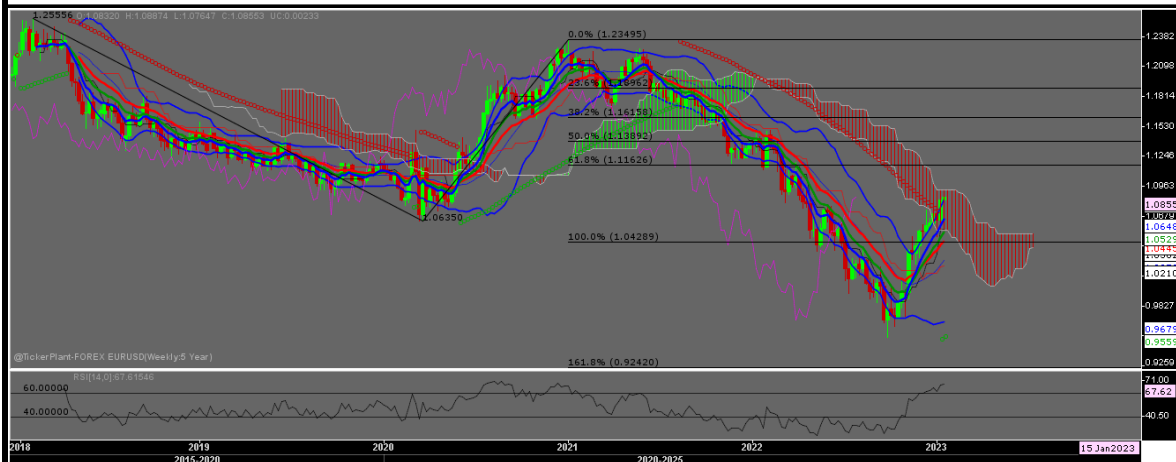
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bearish-Sideways	Sell 81.35-81.65 SL 82.20 TGT 80.85-80.55								80.50-81.70		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		78.95	79.75	80.56	80.84	81.36	81.64	82.17	82.97	83.78	
Exporters Strategy	Exporters were advised to hedge 50% of their January exposure between 82.50-82.80 Spot. Pending to be held open with Stop below 82.00. Stop Triggered.										
Importers Strategy	Importers were advised to hedge 50% of their January exposure around 82.00 Spot. 25% to be hedged around 81.30. Pending to be held open with Stop above 82.10.										

## Euro Outlook

The euro ended last week strongly pushing ever closer to the 1.09 resistance handle. In what has been a battle between central bank speakers to maintain their credibility and persist with a very hawkish narrative, the ECB is currently leading the way versus the Federal Reserve. Markets are almost looking through Fed speak concerning pushing the 2023 terminal rate up to the 5% mark by focusing on deteriorating economic data out of the U.S.

EUR support has largely been driven by the Dollar sell-off, but rising inflation in the eurozone and a firm stance by ECB President Christine Lagarde to fight inflation. She expressed concerns over China's re-opening contributing to higher energy prices in 2023 and the ECB will look to persist with interest rate hikes to bring inflation down to 2%. This immediately dismissed any dovish talk floating around and could be reiterated this week with Lagarde and other ECB officials scheduled to speak. There is a risk of hiking too aggressively that could hurt the region with recessionary fears rife but as it stands, it is almost certain that February's rate decision will result in a 50bps increment.

The week ahead looks skewed towards the U.S., but German data is a great barometer for the eurozone and could prop up EZ optimism should actual data follow expectations.



The EURUSD Weekly chart indicates the pair held on to its momentum and gained further last week approaching the 1.0920 Ichimoku cloud resistance.

The upmove in EURUSD last week has extended the start of bullish Parabolic SAR, indicating a continuation in the current uptrend.

The 8-13-20 Weekly EMAs that have given a bullish crossover also indicate a bullish EURUSD next week.

However, the Bollinger-RSI combination indicates the pair is now in the overbought zone and might witness some correction, only to bounce back further higher. Hence, it is advised to Buy EURUSD on dips near 1.0780 with Stops below 1.07 for targets of 1.0950.

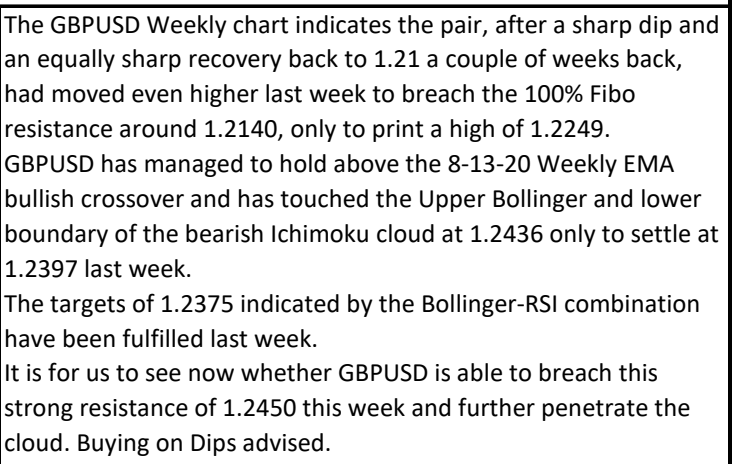
Against the Rupee, however, The Euro has weakened recently, but is expected to bounce back again.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bullish-Sideways	Buy 1.0780 SL 1.0680 TGT 1.0920				Buy 87.50 SL 87.10 TGT 88.40-89.00				1.0780-1.0950   87.50-89.00		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		85.32	86.24	87.16	87.51	88.08	88.43	89.00	89.92	90.84	
Exporters Strategy	Exporters were advised to hedge 30% of their January exposure around 89.00 Spot. Pending to be held open with Stop below 87.										
Importers Strategy	Importers were advised to hedge 50% of their January payables around 88.00. Pending to be held open with Stop above 89.50 on Spot.										

## British Pound Outlook

Longer term trends reveal that value spent is considerably higher while volumes purchased decline, which is consistent with the current inflationary environment as consumers spend more for less.

While the PMIs would typically be the standout release next week, investors may have more of an eye on the PPI inflation data for signs of inflationary pressures subsiding. The CPI data in December declined for a second month but remains far too high, above 10%. We'll need to see much greater signs of those pressures abating before the Bank of England can become more comfortable.



Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 1.2230 SL 1.2060 TGT 1.2500				Buy 99.50 SL 98.80 TGT 100.70-101.20				1.2150-1.2350   99.50-101.30		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		96.48	97.68	98.87	99.49	100.07	100.69	101.26	102.46	103.65	
Exporters Strategy	Exporters were advised to hedge their January exposure partially (30%) around 100.50 Spot. Add another 30% around 101.20.										
Importers Strategy	Importers were advised to hedge partially (50%) near 99.70 Spot for January. Pending to be hedged around 99 Spot.										

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
23.01.2023	11:15 PM	EUR	ECB President Lagarde Speaks		
24.01.2023	02:00 PM	EUR	German Manufacturing PMI (Jan)	47.8	47.1
	03:00 PM	GBP	Composite PMI		49.0
		GBP	Manufacturing PMI	45.4	45.3
		GBP	Services PMI	49.6	49.9
	03:15 PM	EUR	ECB President Lagarde Speaks		
25.01.2023	02:30 PM	EUR	German Ifo Business Climate Index (Jan)	90.2	88.6
	09:00 PM	USD	Crude Oil Inventories	-0.593M	8.408M
26.01.2023	07:00 PM	USD	Core Durable Goods Orders (MoM) (Dec)	-0.1%	0.1%
		USD	GDP (QoQ) (Q4)	2.6%	3.2%
		USD	Initial Jobless Claims	205K	190K
	08:30 PM	USD	New Home Sales (Dec)	614K	640K
27.01.2023	04:00 PM	EUR	ECB President Lagarde Speaks		
	07:00 PM	USD	Core PCE Price Index (MoM) (Dec)	0.3%	0.2%
	08:30 PM	USD	Pending Home Sales (MoM) (Dec)	-1.0%	-4.0%

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