

# Currencies Weekly Report

Week of 04.10.2021



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## Global Economic Review & Outlook

Stock market volatility seems to be back. We see 4 macro reasons why 2022 should be noisier than 2021: liquidity, growth slowdown, cost/margin problems and the risk of the Fed put looking very different if inflation indicators stay elevated.

The energy crisis has left the economic momentum hanging by a thread, and the fate of the Euro area is now in the hands of Putin's natural gas. The Evergrande fears will resurface during the coming week.

Flash HICP inflation increased again in Sep. Energy prices and base effects were the main reasons, allowing the ECB to stick to its transitory narrative. However, inflation risks are changing and markets now price inflation closer to the ECB target.

The German economy stands to lose out versus USA due to the real estate credit contraction in China, which usually takes EUR/USD lower with a time-lag.

As we move into the last quarter calendar year 2020, the narrative seems to be turning out pretty bearish as:

- i) the energy crisis will impact real GDP negatively
- ii) the credit cycle is weakening across China/US/EMU
- iii) we may finally see negative effects from component shortages
- iv) dollar liquidity will dwindle rapidly when the debt ceiling is dealt with
- v) and BoE & Fed has turned more hawkish – suggesting they aren't able or keen to see through the negative impact on growth from higher prices

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	14566.70	15047.70	-3.20
DOW JONES	34327.45	34797.60	-1.35
NIKKEI	28771.07	30248.81	-4.89
HANGSENG	24575.64	24192.16	1.59
CAC	6517.69	6638.46	-1.82
DAX	15156.44	15531.75	-2.42
FTSE	7027.07	7051.48	-0.35
FX	Last Close	Previous Week	% CHANGE
DX	94.04	93.33	0.76
EURUSD	1.1594	1.1721	-1.08
GBPUSD	1.3545	1.3670	-0.92
USDJPY	111.07	110.75	0.29

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	73.6567	73.7746	74.1530	74.2551	74.2644
EURINR	86.3060	86.2814	86.6255	86.1379	85.9942
GBPINR	100.6499	101.1258	100.4610	99.8647	99.8930
JPYINR	66.55	66.33	66.52	66.35	66.79

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	73.8425	74.2725	75.0075	75.9550	76.8000
Tuesday	74.2400	74.7175	75.4750	76.4400	77.3000
Wednesday	74.3425	74.8175	75.5825	76.5425	77.4025
Thursday	74.3950	74.8750	75.6450	76.6100	77.4700
Friday	74.2800	74.7650	75.5450	76.5050	77.3650

## Dollar Outlook

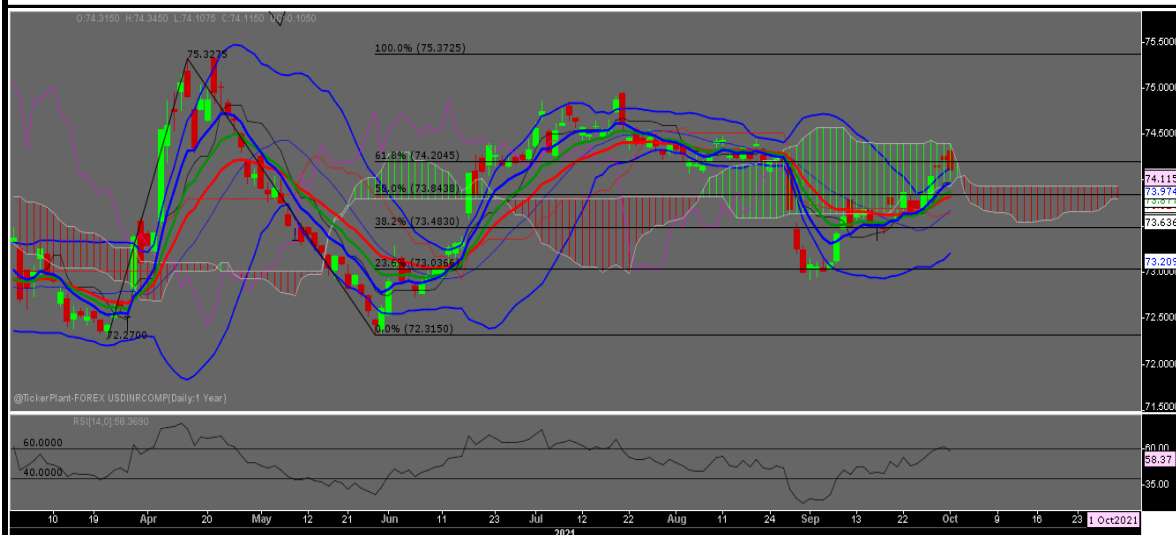
The Dollar ended the third quarter with a meaningful technical breakout, backed by hearty fundamental themes.

Monetary policy forecasts find the Fed making a clear effort to acclimatize the markets to an impending taper, which would be a turning point in the bank's policy cycle.

The tempo of the global economic recovery from the pandemic-led recession slowed noticeably. Central banks were starting to ease up on their exceptional support structures, initially through ‘tapering’ their massive stimulus programs. Further, there were financial stains showing through different systemically important areas such as the Chinese real estate market and yet another standoff on the US debt ceiling.

These transitions bring uncertainty and frequent volatility.

Thus, one cannot expect a continued strength in the Top safe haven Dollar now. Also, it is not against all currencies that the Dollar can strengthen. USDINR could be one of them.



The USDINR Daily chart indicates the Dollar although faced a strong resistance at the 50% Fibo retracement of 73.85, it has however managed to move past 73.85 to test highs of 74.35. The pair also managed to close for the week above the 8-13-20 EMAs bullish crossover holding below the Ichimoku cloud resistance.

As USDINR trades around the upper end of the Bollinger band and with the RSI showing the pair to be overbought, in the coming week, we expect the pair to correct a little back to the 73.85 mark before it moves higher to breach 74.35 further.

With the DXY gaining upward momentum, USDINR is expected to follow and test higher levels in near term.

Further, one can initiate long positions in the pair around 73.85 with Stops below 73.50 for targets of 74.35 and 74.75 in near term.

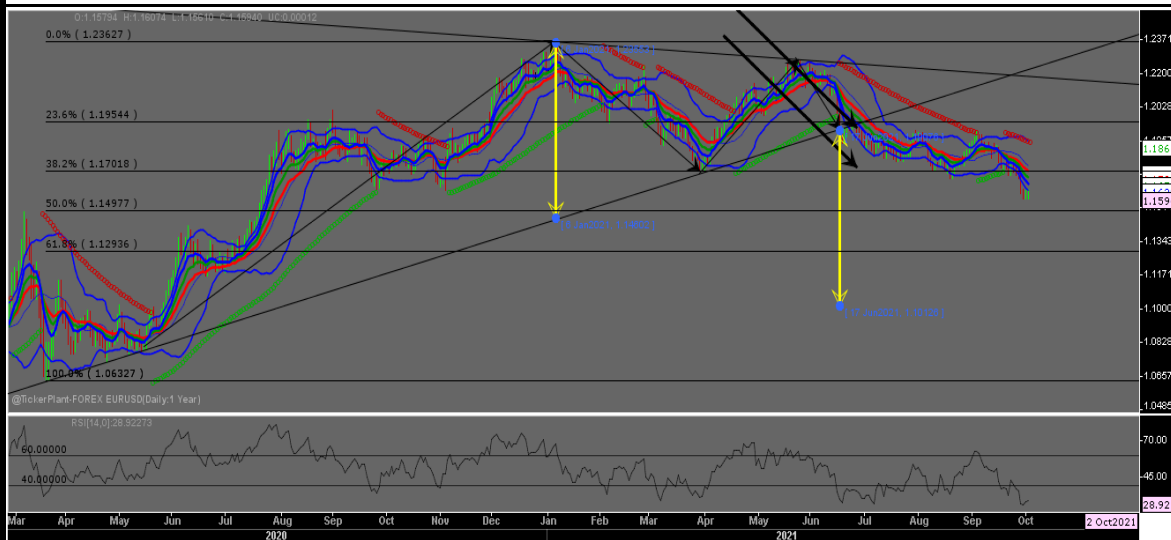
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 73.85 SL 73.50 TGT 74.35-74.50								73.70 - 74.70		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		71.80	72.54	73.29	73.70	74.03	74.44	74.77	75.51	76.26	
Exporters Strategy	Exporters are suggested to hedge their October exposure partially around around 73.90 Spot. Further add at 74.35. Pending to be held open with Stops below 73.50.										
Importers Strategy	Importers were suggested to hedge 50% October payables at 73.60 Spot. Pending to be held open with Stops above 74.20 Spot. Stop triggered.										

## Euro Outlook

The ECB will most likely stick to its transitory narrative – repeated by President Lagarde in recent days – even if the hawks will be uncomfortable as long as headline numbers remain this high. The central bank should still be welcoming higher underlying inflation given that inflation expectations remain unanchored. Higher wage growth is likely to increase tensions within the ECB but – again – some increase in wage growth should be desirable to return inflation to target even if it comes with the risk of too high inflation for a period of time.

Energy prices have contributed a lot to the acceleration of inflation in the Euro area. The increases have not only taken place in the oil price but also eg in the gas and electricity prices. Although in some countries also environmental regulation plays a role, this is mainly due to a fact that demand for electricity and natural gas exceeds the existing supply and quickly drains the storage buffer.

China recently experienced lack of power and lot many factories are currently closed. This is likely to cause another round of pressure on global supply chains.



The EURUSD Daily chart indicates, the Euro has slipped below the 38.2% Fibo supports of 1.17 which had acted as a support multiple times in recent past.

The pair moved sharply below 1.17 last week and continued trading below the 8-13-20 DEMA bearish crossover, indicating that the pair still has a lot of selling pressure on upticks.

The Bollinger-RSI combination however indicates the pair is oversold and might see small recovery where one can expect selling in the pair again.

Levels close to 1.1850 are ideal to initiate medium term shorts.

However, for the week ahead, one can initiate shorts on pullback around 1.17 with stop at 1.1750 for targets of 1.1600 & 1.1550.

Risky long trades at 1.16 for small targets of 30 pips can be sought. In longer term, EURUSD still continues to hold bearish trend after it breached the triangle supports.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.17 SL 1.1750 TGT 1.1600-1.1550				Sell 86.40/60 SL 87.00 TGT 86.00-85.50				1.1550-1.1700   85.50-86.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		83.34	84.25	85.16	85.46	86.07	86.37	86.98	87.89	88.80	
Exporters Strategy	Exporters were advised to hedge 50% around 86.70 & maintain strict stops at 86.20 on Spot for the remaining 50% of the October exposure. Stops triggered last week.										
Importers Strategy	Importers were suggested to hedge 50% at 86.40 on Spot. Hedge another 30% around 86 & maintain stops above 86.50 for pending October exposure.										

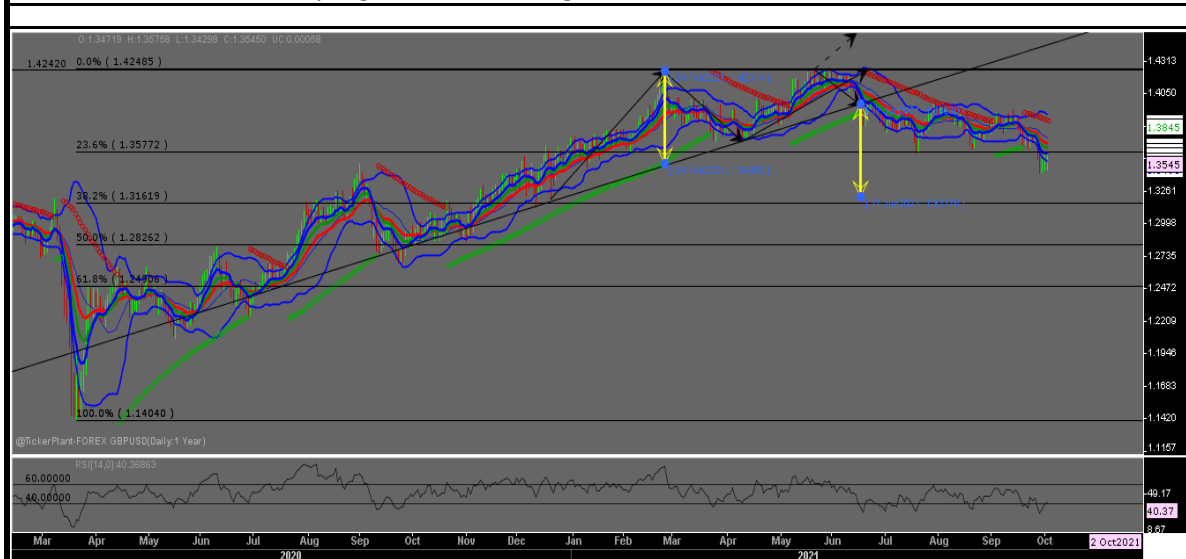
## British Pound Outlook

The era of UK Quantitative Easing is coming to an end and the Bank of England may well start increasing interest rates in early 2022 as inflation begins to stalk the UK economy. The UK central bank will finish its GBP 895 billion bond-buying spree by the end of this year, effectively tightening monetary conditions and setting the course for higher UK interest rates in 2022.

The UK economy is in a tricky spot right now, with growth stalling due to remnants of Covid-19 lockdowns flushing through the system, while supply bottlenecks are becoming frequently cited by businesses across the country. And with price pressures on the rise, 'Stagflation' is starting to make an unwelcome comeback. Annual UK inflation is currently running at 3.2%, above target, and is expected to hit in excess of 4% in Q4 before fading back to target.

The UK jobs market remains a bright spot for the economy with around one million jobs available.

The covid-19 vaccination program has been a great success.



The GBPUSD Daily chart indicates, the Pound slipped below the 23.6% Fibo supports of 1.3580 against the Dollar which had acted as a support multiple times in recent past.

The Bollinger-RSI combination now indicates the pair is oversold and might see small recovery where one can expect selling in the pair again.

Levels between 1.38 & 1.3850 are ideal for medium term shorts. However, for the week ahead, one can initiate long trades above 1.3575 with stop at 1.3530 for targets of 1.3650 & 1.3680.

In longer term, GBPUSD still continues to hold bearish trend after it breached the triangle supports, indicating the pair might fall close to 1.3160 the 38.2% Fibo support.

GBPINR can see a decent pullback to 101 levels if it manages to hold 100.40 in the beginning of the week.

Exporters can partially book their near term exposures then.

Weekly Bias											
Weekly Trading Strategy (SPOT)											
Weekly Range											
Sideways-Bullish	Buy above 1.3575 SL 1.3530 TGT 1.3650						Buy above 100.40 SL 100 TGT 101-101.40			1.3550-1.3700   100-101.50	
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		95.06	96.83	98.60	99.29	100.37	101.06	102.14	103.91	105.68	
Exporters Strategy	Exporters were suggested to hedge their October exposure partially (50%) around 101.50 Pending to be held open with Stops below 100.50. Stops triggered.										
Importers Strategy	Importers were suggested to target levels near 100.60 to hedge their October exposure partially. Pending exposure to be hedged around 100.										

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
04.10.2021	12:30 PM	EUR	Spanish Unemployment Change		-82.6K
	All Day	All	OPEC Meetings		
	All Day	All	OPEC-JMMC Meetings		
05.10.2021	Tentative	JPY	BOJ Gov Kuroda Speaks		
	07:30 PM	USD	ISM Services PMI	59.9	61.7
	08:30 PM	EUR	ECB President Lagarde Speaks		
	10:45 PM	USD	FOMC Member Quarles Speaks		
06.10.2021	05:45 PM	USD	ADP Non-Farm Employment Change	455K	374K
	08:00 PM	USD	Crude Oil Inventories		4.6M
07.10.2021	06:00 PM	USD	Unemployment Claims	350K	362K
08.10.2021	06:00 PM	USD	Average Hourly Earnings m/m	0.4%	0.6%
		USD	Non-Farm Employment Change	490K	235K
		USD	Unemployment Rate	5.1%	5.2%

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