

Currencies Weekly Report

Week of 21.06.2021

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June 21, 2021

Global Economic Review & Outlook

A hawkish surprise from the Federal Reserve, with the main takeaway being that the dot plot has shifted towards two rate hikes in 2023 from a previous of zero. The FED also signalled it could begin talking about tapering its \$120 billion a month stimulus program. This major shift in stance, as St. Louis Fed President Bullard said, was a "natural" response to economic growth and rising inflation as the economy reopens in the wake of the coronavirus pandemic.

Stock markets traded lower last week, with value stocks in particular taking a hit and this pattern looks set to continue, in the short term at least.

We finally got some decent moves in the FX market over the past week as Fed finally decided to become somewhat less radical, sending the USD stronger across the G10.

Lagarde has started to act more like Draghi did, pre-committing the ECB to a dovish stance and daring her colleagues to not fulfil the market's expectations.

The US is now seen performing way better than its peers as far as recovery is concerned.

US GDP is merely ~3.5% below trend and closing the gap quickly, while the Euro-area GDP is 7% below trend as of Q1, 2021.

This could be a major reason for one to understand why the FED is much more hawkish than the ECB.

The core inflation spread between the US & the Eurozone cannot be neglected at this point in time when we move to the second half of 2021.

| INDICES | Last Close | Previous Week | % CHANGE |
|-----------|------------|---------------|----------|
| NASDAQ | 14030.38 | 14069.42 | -0.28 |
| DOW JONES | 33290.08 | 34479.60 | -3.45 |
| NIKKEI | 28964.08 | 28948.73 | 0.05 |
| HANGSENG | 28801.27 | 28842.13 | -0.14 |
| CAC | 6569.16 | 6600.66 | -0.48 |
| DAX | 15448.04 | 15693.27 | -1.56 |
| FTSE | 7017.47 | 7134.06 | -1.63 |
| FX | Last Close | Previous Week | % CHANGE |
| DX | 92.32 | 90.51 | 2.00 |
| EURUSD | 1.1862 | 1.2108 | -2.03 |
| GBPUSD | 1.3803 | 1.4113 | -2.20 |
| USDJPY | 110.19 | 109.67 | 0.47 |

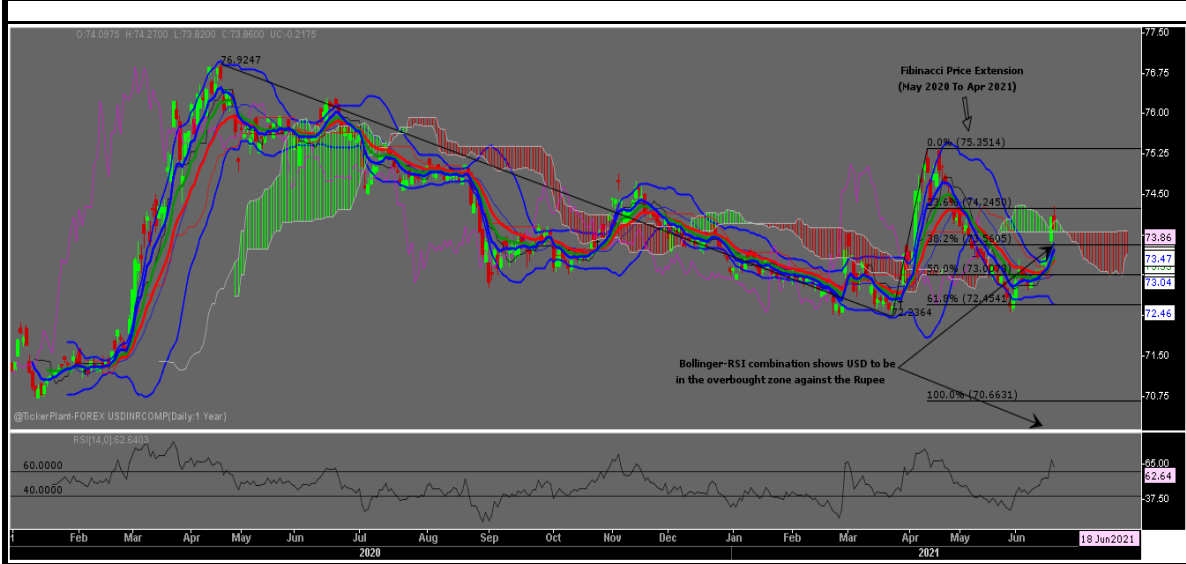
| | RBI Reference Rate | | | | |
|--------|--------------------|----------|-----------|----------|----------|
| | MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY |
| USDINR | 73.1893 | 73.2765 | 73.3703 | 73.7310 | 74.1442 |
| EURINR | 88.5483 | 88.9205 | 88.9825 | 88.3646 | 88.2583 |
| GBPINR | 103.2316 | 103.4210 | 103.3841 | 103.1212 | 103.0120 |
| JPYINR | 66.70 | 66.58 | 66.63 | 66.60 | 67.35 |

| | USDINR Forward Rates (Month End) | | | | |
|-----------|----------------------------------|---------|---------|---------|----------|
| | 1 Month | 3 Month | 6 Month | 9 Month | 12 Month |
| Monday | 73.3650 | 73.9100 | 74.7450 | 75.5900 | 76.5200 |
| Tuesday | 73.4025 | 73.9475 | 74.7975 | 75.6575 | 76.6025 |
| Wednesday | 73.3975 | 73.9525 | 74.7025 | 75.6575 | 76.6075 |
| Thursday | 74.1325 | 74.6725 | 75.4875 | 76.3325 | 77.2575 |
| Friday | 73.9000 | 74.4250 | 75.2100 | 76.0300 | 76.9450 |

Dollar Outlook

Now that the FED has been on a shift in stance, it is for us to analyze whether there actually could be TWO rate hikes by 2023 or just ONE. This bet has already taken solid form and started floating across markets. With a few policymakers even voting for a rate hike in 2022, it is just for us to wait and watch as to how the US economy comes out to recover.

Along with the Inflation, GDP and employment data to be released in near future, one must also keep a close eye on the consumption datapoints. An appearance by Fed Chair Jerome Powell before Congress on Tuesday will be in focus, as will comments by several other Fed officials during the week. Friday's data on personal income and spending will be closely watched as it contains the core PCE price index, which is the Fed's favorite measure of inflation. The Dollar Index has seen a sharp 2% gain this past week and the run is expected to continue even in the week ahead at least till 93.30.



The USDINR Daily chart indicates the Dollar has almost recovered from the continued depreciation versus the Rupee since 2nd half of April 21.

Fibonacci price extension drawn for the period May 2020-Apr 2021 shows the pair, after testing the 61.8% Fibo major level of 72.45, has bounced back to test the 23.6% Fibo retracement at 74.25 last week.

The Bollinger-Rsi combination shows the pair has reached its overbought zone but one should note the bands had sharply contracted and now is the time for them to expand.

In the week ahead, USDINR Spot might see a continued upward move as it has sustained the bullish 8-13-20 EMA crossover.

Any pullbacks towards 73.50/30 will see heavy buying in the pair for it to push again towards 74.25 and even higher to the psychological 75 mark.

| Weekly Bias | Weekly Trading Strategy (SPOT) | | | | | | | | Weekly Range | | |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|---------------|-------|--|
| Bullish | Buy 73.90/80 SL 73.50 TGT 74.40-74.80 | | | | | | | | 73.20 - 74.90 | | |
| Pivot Levels | | S4 | S3 | S2 | S1 | Pivot | R1 | R2 | R3 | R4 | |
| | | 70.23 | 71.40 | 72.57 | 73.22 | 73.74 | 74.39 | 74.91 | 76.08 | 77.25 | |
| Exporters Strategy | Exporters were suggested to maintain stop for any unhedged June receivables at 72.00 (SPOT) targetting 73.50 & 73.80. Most exposure has already been advised to be covered in April. | | | | | | | | | | |
| Importers Strategy | Importers were suggested to hedge 60% exposure for June at around 72.40 (SPOT) levels & maintain stops at 73.00 for for the remaining 40% which has been triggered earlier. | | | | | | | | | | |

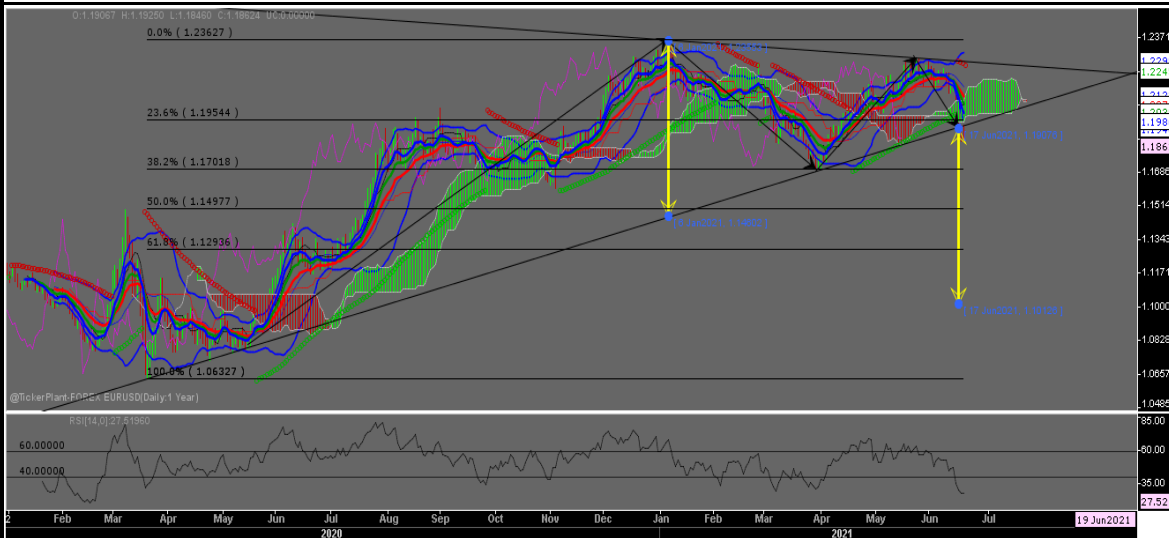
Euro Outlook

It's now even more clear that the Federal Reserve's rate-setting committee is more hawkish than the ECB's, and that will likely weaken EUR/USD further in the weeks ahead.

Even in the short term, EUR/USD could fall some more as traders who had recently shifted from short to long positions are forced into liquidating those longs as the markets digest the Fed's new shift in stance to tighten monetary policy faster than the ECB in this cycle.

The ECB is still insisting that policy needs to remain loose. Its Chief Economist Philip Lane said just the day after the FOMC that it is still premature and unnecessary to discuss the ending of the ECB's emergency bond-buying program.

With Manufacturing and Services PMI numbers to be released across the Eurozone, the economic calendar is tight for the Euro in the mid of the week ahead just before the Bank of England's policy meeting outcome which will also have a bigger impact on Euro.



The EURUSD Daily chart indicates the Euro has clearly halted earleir after finding a Triangle resistance around 1.2266 and has even breached the lower end of the triangle this past week to move even lower to 1.1845. This downward breach of the triangle is a major setback for Euro against the Dollar which could confirm a fresh bearish trend in the pair for a longer term.

This week might provide the said confirmation to this months long bear move in future.

The pair not only has slipped below the bearish 8-13-20 EMA crossover but also has breached the bullish ichimoku cloud in the downside further strengthening the bearish view.

EURUSD now approaches the 38.2% Fibo support at 1.17 expected to be tested this week.

Any pullbacks earlier in the week near 1.1950 should be used to initiate fresh shorts for targets of 1.1760.

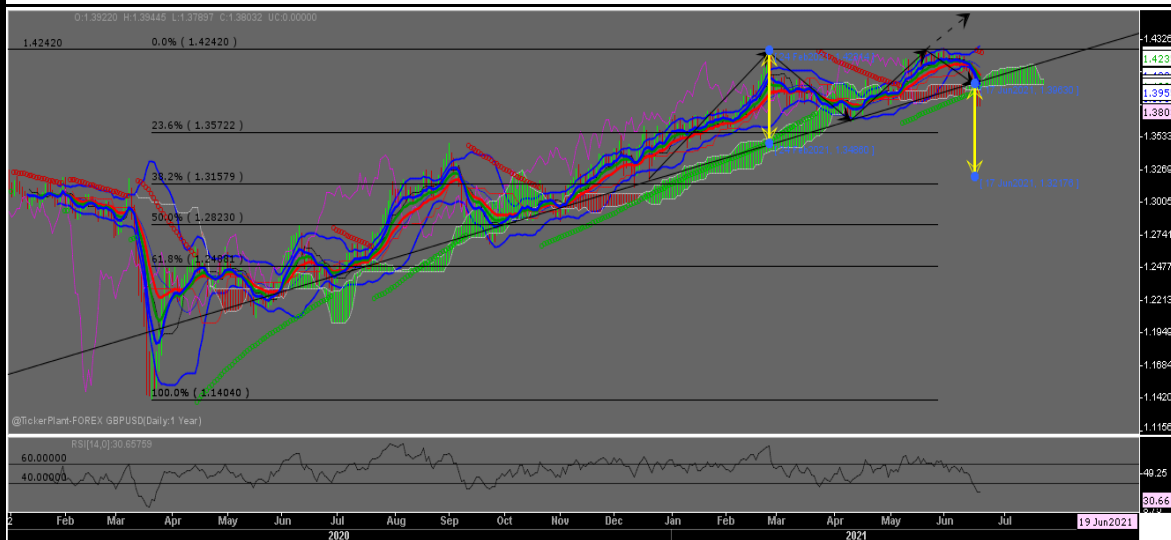
| Weekly Bias | Weekly Trading Strategy (SPOT) | | | | | | | | Weekly Range | | |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|-------|-------------------------------------|-------|-------|-------|-----------------------------|-------|--|
| Bearish | Sell 1.1950/40 SL 1.2010 TGT 1.1800-1.1760 | | | | Sell 88.30 SL 88.70 TGT 87.60-87.20 | | | | 1.1750-1.1950 87.20-88.50 | | |
| Pivot Levels | | S4 | S3 | S2 | S1 | Pivot | R1 | R2 | R3 | R4 | |
| | | 85.07 | 86.16 | 87.24 | 87.62 | 88.33 | 88.70 | 89.41 | 90.50 | 91.58 | |
| Exporters Strategy | Exporters were advised to hedge 50% around 88.50 & maintain strict stops at 87.80 on Spot for the remaining 50% of the June exposure targetting 89.00 which was triggered. | | | | | | | | | | |
| Importers Strategy | Importers are suggested maintain stops at 89.50 on Spot targetting 87.80 to start partially hedging their June exposures. Spot closed near 88. 50% can be booked now around 87.90. and pending in two parts at 87.60 & 87.20. | | | | | | | | | | |

British Pound Outlook

GBPUSD slipped below the May low (1.38) as the FED forecasts two rate hikes for 2023, and the BoE interest rate decision might not do enough to support the Pound as the central bank is widely expected to retain the current course for monetary policy as the Committee does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

As a result, the MPC may stick to the same script on Thursday as the BoE is slated to update the quarterly Monetary Policy Report (MPR) in August, and Governor Bailey might simply try to buy time as most members of the Committee judged that the existing stance, which included the previously announced £150 billion increase in the target stock of purchased assets, remained appropriate.

The meeting minutes may continue to show a 8-1 split to keep the Asset Purchase Facility at GBP 895B, with the dissenting vote pushing for a reduction in the scale from £150 billion to £100 billion. An indication of a growing dissent within the MPC may generate a bullish reaction in the British Pound.



The GBPUSD Daily chart indicates the Pound after being rangebound throughout May until 10th June, had faced strong resistance around 1.42 and last week dropped below the bearish crossover of 8-13-20 Daily EMAs so much so that it even breached the ascending triangle support at 1.3965 to test lows of 1.3789. The pair in the week earlier had been held back below the major resistance of an ascending triangle pattern and Upper Bollinger band, following which saw a correction to fall below the ascending triangle bottom and the Ichimoku cloud support. This week could provide a confirmation to the fresh bearish trend in the pair which could lead the Pound further lower against the Dollar to test the 23.6% Fibo support of 1.3570 in the weeks ahead.

Any pullbacks near 1.39/3930 should be used to initiate fresh short positions for targets as low as 1.3750 & 1.3680 this week.

| Weekly Bias | Weekly Trading Strategy (SPOT) | | | | | | | | Weekly Range | | |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|--------|--------|-----------------------------------------|--------|--------|--------|-------------------------------|--------|--|
| Bearish | Sell 1.3900-30 SL 1.40 TGT 1.3750-1.3680 | | | | Sell 102.90 SL 103.30 TGT 102.30-101.90 | | | | 1.3680-1.4030 101.90-103.30 | | |
| Pivot Levels | | S4 | S3 | S2 | S1 | Pivot | R1 | R2 | R3 | R4 | |
| | | 99.89 | 100.90 | 101.91 | 102.25 | 102.93 | 103.27 | 103.94 | 104.95 | 105.96 | |
| Exporters Strategy | Exporters were suggested to hedge their June exposure partially (50%) around 103 earlier & pending to be booked at 103.50 Spot levels in 2nd week which has been triggered. | | | | | | | | | | |
| Importers Strategy | Importers were suggested to maintain a strict Stop above 103.80 on Spot targetting lower levels of 102.50 to start hedging their June exposure near where the Spot closed. 50% can be booked now around 102.50. | | | | | | | | | | |

Economic Data for the Week

| Date | Time | Currency | Data | Forecast | Previous |
|------------|----------|----------|-----------------------------------|----------|----------|
| 21.06.2021 | 07:45 PM | EUR | ECB President Lagarde Speaks | | |
| 22.06.2021 | 11:30 PM | USD | Fed Chair Powell Testifies | | |
| 23.06.2021 | 01:00 PM | EUR | German Flash Manufacturing PMI | 63.0 | 64.4 |
| | | EUR | German Flash Services PMI | 55.4 | 52.8 |
| | 01:30 PM | EUR | Flash Manufacturing PMI | 62.0 | 63.1 |
| | | EUR | Flash Services PMI | 57.6 | 55.2 |
| | 02:00 PM | GBP | Flash Manufacturing PMI | 64.1 | 65.6 |
| | | GBP | Flash Services PMI | 62.9 | 62.9 |
| | 07:15 PM | USD | Flash Manufacturing PMI | 61.5 | 62.1 |
| | | USD | Flash Services PMI | 70.0 | 70.4 |
| 24.06.2021 | 01:30 PM | EUR | German ifo Business Climate | 100.5 | 99.2 |
| | 04:30 PM | GBP | Asset Purchase Facility | 895B | 895B |
| | | GBP | MPC Asset Purchase Facility Votes | | 0-1-8 |
| | | GBP | Monetary Policy Summary | | |
| | | GBP | MPC Official Bank Rate Votes | 0-0-9 | 0-0-9 |
| | | GBP | Official Bank Rate | 0.10% | 0.10% |
| | 06:00 PM | USD | Final GDP q/q | 6.4% | 6.4% |
| | | USD | Unemployment Claims | 382K | 412K |
| 25.06.2021 | 06:00 PM | USD | Core PCE Price Index m/m | 0.6% | 0.7% |
| | 07:30 PM | USD | Revised UoM Consumer Sentiment | 86.5 | 86.4 |

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