

Currencies Weekly Report

Week of 26.09.2022

www.phillipforex.in

September 26, 2022

Global Economic Review & Outlook

Now that the markets have had some time to digest the FOMC decision, the focus shifts to how quickly the economy is weakening and comments from FED & ECB Chair.

The RBI is expected to raise the repo rate again on Friday but by a smaller margin of just 35bp. There is scope for more though, with some suggesting a 50bp hike could be on the table.

Central banks around the world have reaffirmed their commitment to bring the highest inflation in decades under control with more rate hikes. This will involve more pain for the real economy and risk assets but is in favour of a stronger Dollar ahead.

Energy prices have risen to historic heights lately, especially in Europe, which has been the epicentre of a perfect storm in energy markets. The energy price shock has and will continue to lead to a negative terms of trade shock for the Euro area.

Intervening in FX markets to support Yen for the first time since 1998, the Japanese Ministry of Finance helped JPY-crosses to their best weekly overall performance since end of February, when Russia invaded Ukraine. Next week the “referendums” in Russia-controlled territories of eastern Ukraine and what the Kremlin will do next will be watched. The rhetoric has become far more aggressive recently amid constant reference to Russia's nuclear might and its ability to use it.

| INDICES | Last Close | Previous Week | % CHANGE |
|-----------|------------|---------------|----------|
| NASDAQ | 10867.93 | 11448.40 | -5.07 |
| DOW JONES | 29592.85 | 30821.50 | -3.99 |
| NIKKEI | 27153.83 | 27567.65 | -1.50 |
| HANGSENG | 17933.27 | 18761.69 | -4.42 |
| CAC | 5783.41 | 6077.30 | -4.84 |
| DAX | 12284.19 | 12741.26 | -3.59 |
| FTSE | 7018.60 | 7236.68 | -3.01 |
| FX | Last Close | Previous Week | % CHANGE |
| DX | 112.96 | 109.64 | 3.03 |
| EURUSD | 0.9691 | 1.0012 | -3.20 |
| GBPUSD | 1.0853 | 1.1421 | -4.97 |
| USDJPY | 143.34 | 142.93 | 0.29 |

| | RBI Reference Rate | | | | |
|--------|--------------------|---------|-----------|----------|---------|
| | MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY |
| USDINR | 79.6657 | 79.6778 | 79.9226 | 80.7246 | 80.9165 |
| EURINR | 79.5244 | 79.9498 | 79.4079 | 79.2608 | 79.5064 |
| GBPINR | 90.8258 | 91.1647 | 90.8230 | 90.6387 | 90.9156 |
| JPYINR | 55.59 | 55.58 | 55.61 | 55.57 | 56.91 |

| | USDINR Forward Rates (Month End) | | | | |
|-----------|----------------------------------|---------|---------|---------|----------|
| | 1 Month | 3 Month | 6 Month | 9 Month | 12 Month |
| Monday | 79.8200 | 80.2200 | 80.7450 | 81.3600 | 81.8900 |
| Tuesday | 79.7950 | 80.1950 | 80.7250 | 81.3450 | 81.8800 |
| Wednesday | 80.0150 | 80.4150 | 80.9400 | 81.5550 | 82.0850 |
| Thursday | 80.8725 | 81.2850 | 81.8050 | 82.4000 | 82.9200 |
| Friday | 80.9950 | 81.4050 | 81.9000 | 82.4700 | 82.9650 |

Dollar Outlook

The Dollar Index clears the June 2002 high (112.04) as the Fed implements another 75bp rate hike, and the update to the US PCE Price Index may keep the Dollar afloat as the report is anticipated to show sticky inflation.

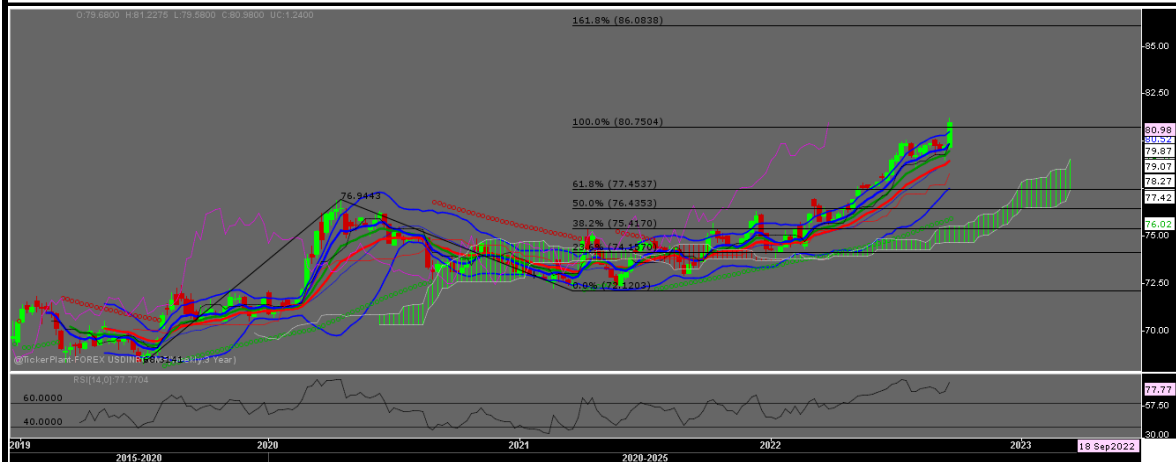
DXY climbs to a fresh yearly high (113.02) as the FOMC retains its approach of combating inflation, and it seems that the Fed will carry out its hiking-cycle throughout the remainder of the year as Chair Powell and Co. pledges to “keep at it until we are confident the job is done.”

Looking ahead, the update to the core PCE may keep the Fed on its current course as the index is expected to increase and evidence of sticky inflation may lead to a further appreciation in the Dollar as it boosts speculation for another 75bp hike at the next FOMC rate decision on November 2.

Until then, data prints coming out of the US may sway Dollar as the update to the Summary of Economic Projections shows a steeper path for the Fed Funds

With that said, an uptick in the core PCE may fuel the recent advance in Dollar as it encourages Fed to retain its approach in combating inflation, and DXY may

continue to trade to fresh yearly highs over the coming days as it carves a series of higher highs and lows.



The USDINR Weekly chart indicates the pair witnessed an increased volatility with strong upward momentum last week, where it breached the 100% Fibonacci Price extension at 80.75. The pair also moved past the Upper Bollinger band supported by a densely bullish Ichimoku cloud. The USDINR price also held above 8-13-20 Weekly EMAs signalling a continued upward move in the week ahead. While the pair has been technically overbought as indicated by the Bollinger-RSI combination, we might see a small correction soon. Parabolic SAR penetrating Ichimoku cloud from below might lead the pair to minor correction for traders to go long again. This week we expect the pair to initially rise to 81.60 and then show some correction towards 80.60 & 80.00.

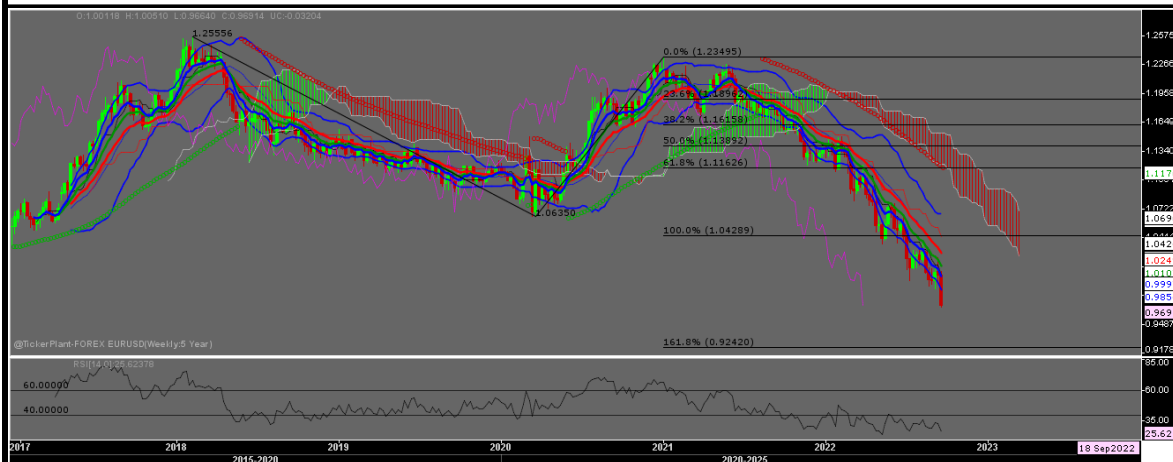
| Weekly Bias | Weekly Trading Strategy (SPOT) | | | | | | | | Weekly Range | | |
|--------------------|--|-------|-------|-------|-------|-------|-------|-------|--------------|-------|--|
| Bullish-Sideways | Sell 81.60 SL 82.30 TGT 80.60-80.00 | | | | | | | | 79.90-81.60 | | |
| Pivot Levels | | S4 | S3 | S2 | S1 | Pivot | R1 | R2 | R3 | R4 | |
| | | 75.65 | 77.30 | 78.95 | 79.96 | 80.60 | 81.61 | 82.24 | 83.89 | 85.54 | |
| Exporters Strategy | Exporters are advised to hedge 50% of their October exposure between 81.30-81.60. | | | | | | | | | | |
| Importers Strategy | Importers are advised to hold October exposure open with Stop above 82.30 targetting around 80.50. | | | | | | | | | | |

Euro Outlook

The ECB raised all three of its policy rates by 75 basis points at the September 8 central bank meeting, steadying the single currency in the short-term, but with a host of other central banks hiking aggressively since then, including the Federal Reserve, the Euro is back under pressure.

Inflation in the Euro Zone remains excessively high while growth is slumping and interest rates need to be moved higher, according to ECB board member Isabel Schnabel. This acknowledgement of the single block's economic situation, held by many, will likely mean that the ECB will look at another 75 basis point hike at its next meeting in October. The problem is that this meeting is at the end of the month, October 27, and this leaves the single currency at the mercy of the market for another month, and markets are not being kind to the Euro at the present time. Hawkish talk by ECB members will not be enough to defend the Euro against a rampant US dollar, and with little in the way of solid support on the charts, the pair have only one way to go.

Next week there are a few important German economic releases that need to be closely followed. The IFO business climate and GfK consumer confidence releases are expected to move even lower, adding pressure on the single currency, while the preliminary September inflation release may see price pressures jump to a fresh multi-decade high.



The EURUSD Weekly chart indicates the pair has been extremely bearish after it breached the 100% Fibonacci Price Extension of 1.0429 and is now swiftly approaching the next (161.8%) retracement level at 0.9242.

Last week, Euro moved wide away from the Lower Bollinger band, after it failed to hold above the 13 Weekly EMA a week earlier.

The RSI too has moved deep into the oversold zone but doesn't enough support a trend reversal.

The Parabolic SAR is on the border to have completely penetrated the bearish Ichimoku cloud from above, thus failing to give rise to hopes of a pullback in the pair.

Traders, in the week ahead, can go short around 0.98 in the Euro for targets around 0.9550.

| Weekly Bias | Weekly Trading Strategy (SPOT) | | | | | | | | Weekly Range | | |
|--------------------|--|-------|-------|-------|--|-------|-------|-------|-----------------------------|-------|--|
| Bearish-Sideways | Sell 0.98 & 0.9950 SL 1.0050 TGT 0.9550 | | | | Sell 79.30 & 79.70 SL 80.50 TGT 78.50-78 | | | | 0.9550-0.9950 78.00-79.70 | | |
| Pivot Levels | | S4 | S3 | S2 | S1 | Pivot | R1 | R2 | R3 | R4 | |
| | | 75.70 | 76.89 | 78.08 | 78.54 | 79.28 | 79.73 | 80.47 | 81.66 | 82.85 | |
| Exporters Strategy | Exporters are advised to hedge 50% of October exposure around 79.50 Spot and hold pending open with Stop below 78. | | | | | | | | | | |
| Importers Strategy | Importers are advised to hedge 50% of October payables around 78.50. Pending to be held open with Stop above 80.50 on Spot. | | | | | | | | | | |

British Pound Outlook

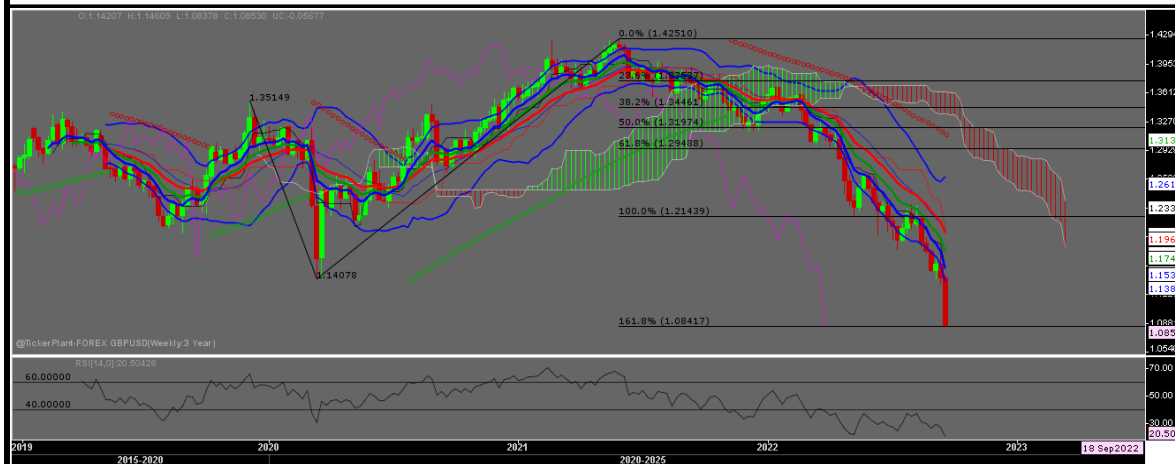
UK data releases last week reiterated that the economy is in trouble. Consumer Confidence has been in a deep freeze, Manufacturing PMI remained in contraction territory for a second straight month, Services PMI missed the estimate.

The UK hiked rates by 50bp last week and the Pound responded by spilling down to a fresh 37-year-low. And then came in the UK budget that didn't seem to help matters much, as a program of energy subsidies and tax cuts merely helped to push the Pound to another lower-low against the Dollar.

There's been a lot to process this week from the latest rate hike to the supposed "mini-budget" and subsequent plunge in the Pound. There's a lot of heat on the UK economy and government at the moment and all of that tax cutting has added fuel to the fire rather than put it out. Next week will tell us if the UK could already be in recession as the final reading of second-quarter GDP is released.

Apart from that, we have a few appearances from BoE policymakers to look forward to.

With the economy posting two consecutive quarters of negative growth and inflation still not under control, a recession appears unavoidable, which will likely add to the Pound's misery.



The GBPUSD Weekly chart indicates the pair has been extremely bearish after it breached the 100% Fibonacci Price Extension of 1.0429 and has quickly reached the next (161.8%) retracement level at 1.0842.

Last week, Pound moved swiftly, wide away from the Lower Bollinger band, after it failed to breach the 8 Weekly EMA in the upside, a week earlier. The RSI too has moved deep into the oversold zone and barely supports a pullback.

The Ichimoku Cloud has grown densely bearish and the Parabolic SAR penetrating the cloud from above doesn't really support a reversal in the price.

Traders can go short around 1.1050 & 1.1250 in the Pound for targets around 1.08 & 1.0650.

| Weekly Bias | Weekly Trading Strategy (SPOT) | | | | | | | | Weekly Range | | |
|--------------------|---|-------|-------|-------|--|-------|-------|-------|-----------------------------|-------|--|
| Sideways-Bearish | Sell 1.1050 & 1.1250 SL 1.1460 TGT 1.08 & 1.0650 | | | | Sell 90.40 & 91 SL 91.60 TGT 89.30 & 88.60 | | | | 1.0650-1.1250 88.60-91.00 | | |
| Pivot Levels | | S4 | S3 | S2 | S1 | Pivot | R1 | R2 | R3 | R4 | |
| | | 85.06 | 86.83 | 88.60 | 89.29 | 90.37 | 91.06 | 92.14 | 93.91 | 95.68 | |
| Exporters Strategy | Exporters are advised to hedge their September exposure partially (50%) around 91. Pending to be held open with Stop below 89 Spot. | | | | | | | | | | |
| Importers Strategy | Importers are advised to hedge partially (50%) near 89.30 Spot for October exposure. Pending to be held open with Stop above 91.60 Spot. | | | | | | | | | | |

Economic Data for the Week

| Date | Time | Currency | Data | Forecast | Previous |
|------------|----------|----------|---|----------|----------|
| 26.09.2022 | 11:30 AM | EUR | German GDP (QoQ) (Q3) | 0.1% | 0.1% |
| | 01:30 PM | EUR | German Ifo Business Climate Index (Sep) | 87.0 | 88.5 |
| | 06:30 PM | EUR | ECB President Lagarde Speaks | | |
| 27.09.2022 | 05:00 PM | USD | Fed Chair Powell Speaks | | |
| | | EUR | ECB President Lagarde Speaks | | |
| | 06:00 PM | USD | Core Durable Goods Orders (MoM) (Aug) | 0.2% | 0.2% |
| | 07:30 PM | USD | CB Consumer Confidence (Sep) | 104.0 | 103.2 |
| | | USD | New Home Sales (Aug) | 500K | 511K |
| 28.09.2022 | 12:45 PM | EUR | ECB President Lagarde Speaks | | |
| | 07:30 PM | USD | Pending Home Sales (MoM) (Aug) | -1.0% | -1.0% |
| | 07:45 PM | USD | Fed Chair Powell Speaks | | |
| | 08:00 PM | USD | Crude Oil Inventories | | 1.142M |
| 29.09.2022 | 06:00 PM | USD | GDP (QoQ) (Q2) | -0.6% | -0.6% |
| | | USD | Initial Jobless Claims | 215K | 213K |
| 30.09.2022 | 07:00 AM | CNY | Manufacturing PMI (Sep) | 49.2 | 49.4 |
| | 10:00 AM | INR | Interest Rate Decision | 5.90% | 5.40% |
| | 11:30 AM | GBP | GDP (QoQ) | | -0.1% |
| | | GBP | GDP (YoY) | | 2.3% |
| | 01:25 PM | EUR | German Unemployment Change (Sep) | 20K | 28K |
| | 02:30 PM | EUR | CPI (YoY) (Sep) | 9.6% | 9.1% |
| | 06:00 PM | USD | Core PCE Price Index (MoM) (Aug) | 0.4% | 0.1% |

Report prepared by:

Siddhesh Ghare

Head- FX Risk Business

PhillipCapital (India) Pvt. Ltd.

sghare@phillipcapital.in

+91 99634 87722

Disclaimer:

The information and views presented in this report are prepared by Phillip Services India Pvt. Ltd. The information contained herein is based on our analysis and up on sources that we consider reliable. We, however, do not vouch for the accuracy or the completeness thereof. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither Phillip Services India Pvt. Ltd. nor any person connected with any associated companies of Phillip Group accepts any liability arising from the use of this information and views mentioned in this document.