

Currencies Weekly Report

Week of 20.06.2022

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June 20, 2022

Global Economic Review & Outlook

The FOMC delivered 75bps of hikes at the June 15th meeting after another uncomfortably high CPI print for May, and guided for rates to soon move into restrictive territory and stay there for the next couple of years.

In response to increasing inflation risks, the Fed and the ECB have transitioned into a more aggressive policy stance. We expect the Fed to hike rates to a restrictive level above 4%, while a neutral rate at around 1.75% may be enough for the ECB.

The inflation outlook remains fraught with uncertainty, central banks have turned increasingly hawkish and have had to deviate from at least some of their earlier guidance. Amidst such shifts in stance, some surprises have been unavoidable, and market moves have been violent. Elevated volatility is set to continue and risk assets will likely remain under pressure, as markets speculate on, how high central banks need to raise rates to tame inflation, and whether that can be done without tipping the economy into recession at the same time.

This week features a fresh batch of sentiment figures for services and manufacturing from the euro area and the US (Thursday).

In the euro area the PMI figures will show that higher costs is hurting the cyclical manufacturing industry. Energy prices are continuing their relentless surge and the industry in the euro area is highly vulnerable. Similarly, high inflation is weakening the consumer in the euro area, which is starting to show up in demand.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	10798.35	11340.02	-4.78
DOW JONES	29885.08	31392.36	-4.80
NIKKEI	25963.00	27824.29	-6.69
HANGSENG	21075.00	21806.18	-3.35
CAC	5882.65	6187.23	-4.92
DAX	13126.26	13761.83	-4.62
FTSE	7016.25	7317.52	-4.12
FX	Last Close	Previous Week	% CHANGE
DX	104.65	104.15	0.48
EURUSD	1.0492	1.0516	-0.23
GBPUSD	1.2217	1.2314	-0.79
USDJPY	134.95	134.37	0.44

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	78.1430	78.0015	78.0755	78.0864	78.0875
EURINR	81.9439	81.3680	81.8096	81.4275	82.1038
GBPINR	95.8163	94.9866	93.9456	94.7943	95.8909
JPYINR	58.0400	57.9200	57.9600	58.1400	58.2300

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	78.1150	78.5250	79.1650	79.7950	80.5550
Tuesday	78.0850	78.5150	79.1350	79.7400	80.4700
Wednesday	78.1350	78.5550	79.1800	79.7900	80.5400
Thursday	78.1125	78.5225	79.1200	79.7200	80.4600
Friday	78.1125	78.5200	79.1350	79.7600	80.5200

Dollar Outlook

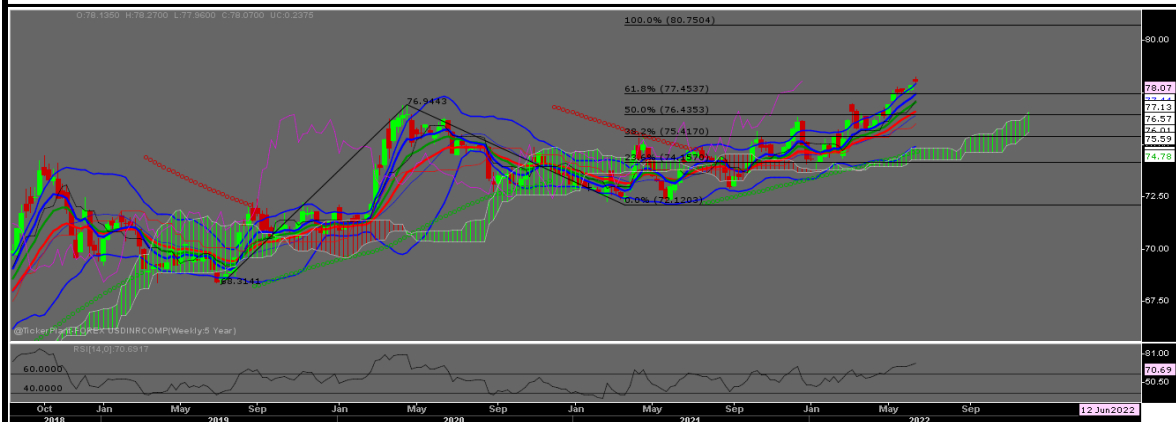
The DXY hit a fresh 2022 high of 105.78 ahead of the Fed interest rate announcement before trimming gains and finishing lower last week. A volatile geopolitical landscape, volatility in equity markets, and the threat of persistent inflation have supported the Dollar over the last few months. The chance for a pullback in geopolitical tensions seems impossible for now, given the raging conflict in Ukraine. However, markets may reassess the Dollar's position over the coming week as traders gauge market health and recession odds.

The FOMC's 75-bps hike has calmed some inflationary fears, but the threat of slower economic growth now weighs heavy on sentiment, especially with market expectations for another 75-bps hike at the July meeting. The Fed appears willing to sacrifice economic growth.

As recessionary fears recede so too will the Dollar, given its status as a safe-haven.

Upcoming economic events in the US such as existing home sales, MBA mortgage applications, consumer sentiment and initial jobless claims will be in crisp focus to gauge the health of the US economy in the week ahead.

The Dollar's major focus, however, is testimony from Fed Chair Powell. The central bank chief is expected to provide his bi-annual address on monetary policy to Congress. Powell will speak before the Senate Banking Committee on June 22. Lawmakers are likely to levy questions about the pandemic response and the overall strength of the US economy. The Dollar may rise if Powell firms up already strong expectations for further tightening.



The USDINR Weekly chart indicates the pair traded positive the past week and printed a new lifetime high of 78.27.

USDINR manages to trade well above the 8-13-20 EMAs, above the 61.8% Fibo price extension level of 77.45 and has moved past the Upper Bollinger band.

The pair has all reasons to continue its upward move but the RSI has been in the overbought region, with no clear indications whether it will continue upward move or cool off for a while. USDINR has been very stable recently and is bound to find trigger soon.

We recommend going long on USDINR this week.

However, a lot of economic data releases will keep Dollar volatile.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bullish-Sideways	Buy 77.93-77.79 SL 77.48 TGT 78.24-78.41								77.80-78.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		77.17	77.48	77.79	77.93	78.10	78.24	78.41	78.72	79.03	
Exporters Strategy	Exporters were suggested to hedge their June exposure partially (60%) around 77.70. Pending to be held open with stop below 77.50 Spot.										
Importers Strategy	Importers were suggested to target hedging June payables partially (50%) around 77.90. Pending to be held open with stop above 78.40 Spot.										

Euro Outlook

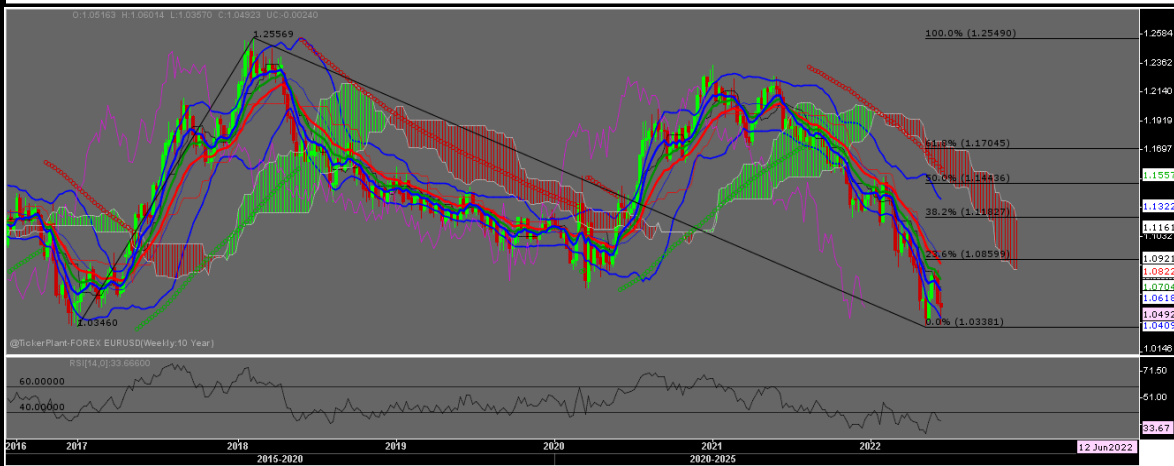
EU Commission President Ursula von der Leyen welcomed Ukraine and Moldova's candidacy as the two nations hurriedly applied for membership soon after Russia invaded Ukraine. While the process can take years to complete, the nations are a step closer to "live the European dream".

President Voldymyr Zelenskiy tweeted, It's the first step on the EU membership path that'll certainly bring our victory closer". Georgia, which also applied for EU membership, was not yet recommended as a candidate as it is said to have to meet more conditions.

Germany, Italy, France and Slovakia are among the nations that received significantly less gas than requested via the Nord 1 pipeline that accounts for 40% of Russian pipeline supply to the EU.

ECB President Christine Lagarde mentioned a special anti-fragmentation tool that is ideally going to reduce bond market volatility as the Bank raises interest rates but did not to give any specifics, resulting in very undesirable moves in the bond market.

Markets have priced in a 25 bps and 50 bps hike by September, meaning that July's standard 25 bps hike is likely to go ahead with markets anticipating a worsening inflation outlook, justifying a 50 bps hike in September.



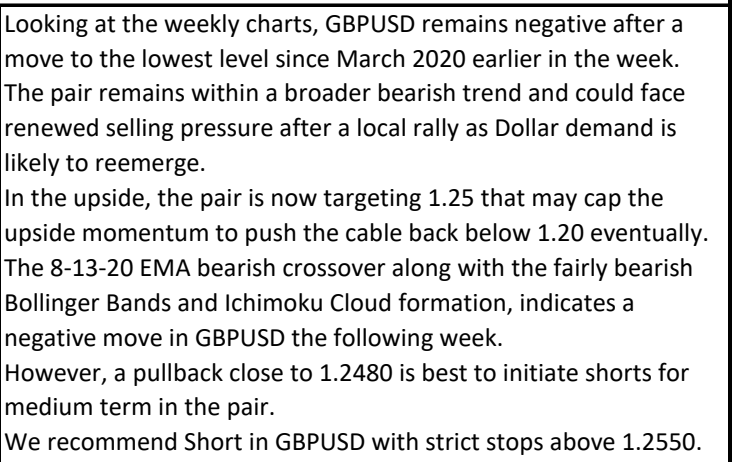
The EURUSD Weekly chart indicates the pair has yet again dropped to levels close to 2016 lows of 1.0340. Recently the Euro has been facing strong resistance at all three 8-13-20 EMAs, thus keeping itself near to the Lower Bollinger band. Also, the bearish Ichimoku cloud indicates overall trend is expected to further remain bearish in near term. The pair being held back at the 8-WEMA indicates a further weakness in the week ahead. Major resistance stands at 1.0860, as indicated by the Fibonacci Price Extension, which could be the best level to go short on the pair for medium term. This week, we suggest going short on the pair near 1.0580-1.0610 with strict stops placed above 1.0730.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 1.0580-1.0610 SL 1.0730 TGT 1.0380				Sell 82.60-83.00 SL 83.80 TGT 81.80-81.50				1.0380-1.0610 81.50-83.00		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		78.21	79.41	80.61	81.38	81.82	82.58	83.02	84.22	85.42	
Exporters Strategy	Exporters were advised to hedge 40% of the June exposure around 84.20 Spot. Total exposure to be held open with Stop below 82.30 Spot. Stop Triggered.										
Importers Strategy	Importers were advised to hedge 60% of June payables around 82.80 on Spot. Pending to be hedged around 81.50 levels Spot..										

British Pound Outlook

The BoE has warned of a recession and has forecast that inflation will top 11%, making it difficult to feel reassured by the central bank. Still, it appears that with the MPC unanimously voting to raise rates at the meeting, markets had something to feel optimistic about.

The outlook for GBPUSD remains bearish, with recession risks in the UK looking more serious compared to the US, at least for the time being. Any weakness in Dollar might provide strength to the Pound for a short while.



Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 1.2430/80 SL 1.2550 TGT 1.2200				Sell 97.10-97.50 SL 98.20 TGT 95.50-94.40				1.2200-1.2480 94.40-97.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		86.97	89.77	92.56	94.34	95.35	97.14	98.14	100.94	103.73	
Exporters Strategy	Exporters were advised to hedge their June exposure partially (40%) around 98.00. Total exposure to be held open with Stop below 96.50 Spot. Stop Triggered.										
Importers Strategy	Importers were advised to hedge partially (60%) near 97.50 Spot for June exposure. Pending to be held hedged around 95.00 Spot.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
20.06.2022	06:45 AM	CNY	PBoC Loan Prime Rate		3.70%
	06:30 PM	EUR	ECB President Lagarde Speaks		
	08:30 PM	EUR	ECB President Lagarde Speaks		
21.06.2022	07:30 PM	USD	Existing Home Sales (May)	5.39M	5.61M
22.06.2022	11:30 AM	GBP	CPI (YoY) (May)	9.1%	9.0%
	07:00 PM	USD	Fed Chair Powell Testifies		
23.06.2022	01:00 PM	EUR	German Manufacturing PMI (Jun)	54.0	54.8
	02:00 PM	GBP	Composite PMI (Jun)	51.8	51.8
		GBP	Manufacturing PMI (Jun)	54.6	54.6
		GBP	Services PMI (Jun)	51.8	51.8
	03:30 PM	EUR	EU Leaders Summit		
	06:00 PM	USD	Initial Jobless Claims	225K	229K
	07:30 PM	USD	Fed Chair Powell Testifies		
	08:30 PM	USD	Crude Oil Inventories		1.956M
24.06.2022	11:30 AM	GBP	Retail Sales (MoM) (May)	-0.9%	1.4%
	01:30 PM	EUR	German Ifo Business Climate Index (Jun)	92.9	93.0
	03:30 PM	EUR	EU Leaders Summit		
	07:30 PM	USD	New Home Sales (May)	585K	591K

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