

# Currencies Weekly Report

Week of 19.09.2022

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September 19, 2022

## Global Economic Review & Outlook

Persistent high inflation will keep central banks frontloading interest rate hikes. We look for the Fed to hike its Fed Funds Target Range by 75-bp and the BoE by 50-bp this week.

While inflation in the US has likely peaked, inflation in the euro area is still grinding higher. We think the peak is ahead of us and see the ECB responding in an aggressive manner involving another 75bp interest rate hike in October.

A crucial week is coming up for the markets as no less than four central banks are scheduled to announce their latest monetary policy decisions. There is a strong possibility of a 75-bp rate hike from the Federal Reserve, Bank of England, as well as the Swiss National Bank. The Bank of Japan, though, is expected to buck the trend, leaving the yen at the mercy of its rivals.

However, the flash PMI estimates for September will be important too amid ongoing worries about a recession.

Equities moved quickly to price in a more aggressive Federal Reserve. Overnight index swaps, on Tuesday, showed a 33.9% chance for a 100-basis point rate hike at the September 22 FOMC meeting.

Rate traders sold Treasuries in response, which pushed the policy-sensitive 2-year yield higher throughout the rest of the week, ending at 3.87%. That was the highest mark since October 2007.

The 10Y/2Y Treasury spread stoked recession fears.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	11448.40	12112.31	-5.48
DOW JONES	30821.50	32151.71	-4.14
NIKKEI	27567.65	28214.75	-2.29
HANGSENG	18761.69	19362.25	-3.10
CAC	6077.30	6212.33	-2.17
DAX	12741.26	13088.21	-2.65
FTSE	7236.68	7351.07	-1.56
FX	Last Close	Previous Week	% CHANGE
DX	109.64	108.97	0.61
EURUSD	1.0012	1.0039	-0.27
GBPUSD	1.1421	1.1588	-1.44
USDJPY	142.93	142.55	0.26

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	79.6776	79.0640	79.5837	79.5830	79.8180
EURINR	80.3671	80.2268	79.3391	79.2726	79.7164
GBPINR	92.5742	92.6809	91.4024	91.6186	91.2320
JPYINR	55.56	55.62	55.40	55.41	55.60

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	79.6150	80.0100	80.5450	81.1800	81.7350
Tuesday	79.2250	79.6250	80.1550	80.7900	81.3450
Wednesday	79.5150	79.9075	80.4300	81.0500	81.5850
Thursday	79.7625	80.1550	80.6800	81.2925	81.8250
Friday	79.8000	80.2000	80.7250	81.3500	81.8850

## Dollar Outlook

The US Dollar warded off a failed bullish breakout last week, posting a 0.61% gain in the wake of August US inflation report (CPI). Stubbornly high US inflation rates had financial markets reconsidering the near-term path of Fed rate hikes, translating into higher US real yields and a mid-week surge by Dollar.

All things considered, it is a fairly light week on the US economic calendar. But the limited schedule of releases will be punctuated by the September Federal Reserve rate decision, far and away the most important item on the calendar among any major currency over the coming days.

A 75-bp rate hike along with a hawkish forward guidance may produce a bullish reaction in Dollar and it remains to be seen if fresh projections from Powell and Co. will influence near-term outlook for the Dollar as the central bank is slated to update the Summary of Economic Projections (SEP).

The Fed may utilize the SEP to further its commitment in combating inflation if Powell and Co. project a steeper path for interest rates, and another upward adjustment in the dot-plot may push Dollar even higher as the FOMC sticks to its hiking-cycle.

At the same time, more of the same from Fed officials may point to a looming shift in FOMC policy as the Fed Funds rate is forecasted to peak around 4.00%, and Dollar may witness steep fall over the near-term should the central bank show a greater willingness to implement smaller rate hikes.



The USDINR Weekly chart indicates the pair witnessed an increased volatility, leading to a move from lows of 79.02 to 79.84 while settling at 79.74 last week.

The pair still holds itself above the bullish 8-13-20 EMA crossover which could be a threat to bears.

While the pair has been technically overbought as indicated by the Bollinger-RSI combination, where the RSI is making lower lows, we might see 80-80.30 as a strong resistance zone in short term.

The Parabolic SAR penetrating the bullish Ichimoku cloud from beneath might help the pair to correct a little for traders to go long again.

This week we expect the pair to show some correction towards 79.55 & 79.25.

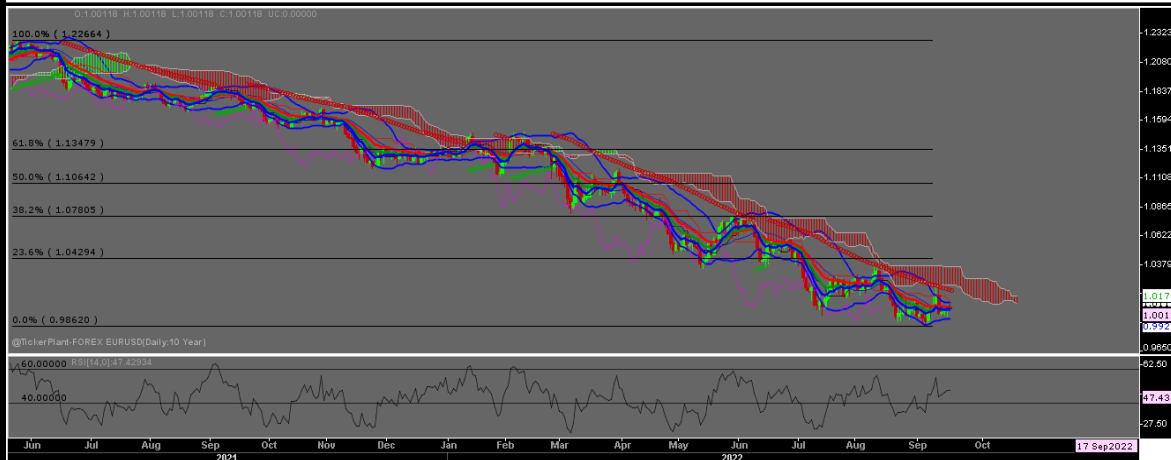
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 80.05 SL 80.35 TGT 79.55-79.25								79.20-79.90		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		77.07	77.89	78.71	79.23	79.53	80.05	80.35	81.17	81.99	
Exporters Strategy	Exporters were advised to hedge their September exposure fully around 80.00.										
Importers Strategy	Importers were advised to hedge September payables partially (30%) around 79.30. Pending to be held open with Stop above 80.20 targetting 78.80.										

## Euro Outlook

Euro Area headline inflation (August) was confirmed at 9.1% last Friday, a fresh record high. Energy prices continue to rise, along with food, alcohol and tobacco, and services. On a monthly basis, consumer prices rose by 0.6%, a fraction higher than the preliminary reading of 0.5% and a prior reading of 0.1% in July.

Next week sees four major central banks announce their latest monetary policy decisions, with Wednesday's FOMC release arguably the most important of them all. Market expectations of a super-sized 100-bp hike rose sharply earlier this week after the latest US inflation data showed price pressures increasing further. One week ago, it was doubtful if anyone would have suggested that the Fed would hike by one point but the market now sees a 24% chance of an oversized hike next week.

EURUSD has been trading on either side of parity over the last month as buyers and sellers jockey for control of the pair. Commentary from ECB officials remains hawkish with further front loading of rate hikes regularly mentioned. The next ECB policy meeting is far away on October 27 and if the Fed raises rates by 100-bp, or by 75-bp with a hawkish view, EURUSD looks set to fall further.



The EURUSD Daily chart indicates the pair failed to hold itself above the 8-13-20 DEMA which have not given a bullish crossover yet.

Euro faced a strong resistance at the upper Bollinger band last week, but the RSI has been making higher lows moving up slowly, thus building hopes of a decent bounce in the pair.

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

If EURUSD manages to hold on to parity, a bounce back to 1.0150 and further to 1.03 could be seen in the pair.

Traders, in the week ahead, should go long only above 1.0050 in the Euro with stops placed below 1.00.

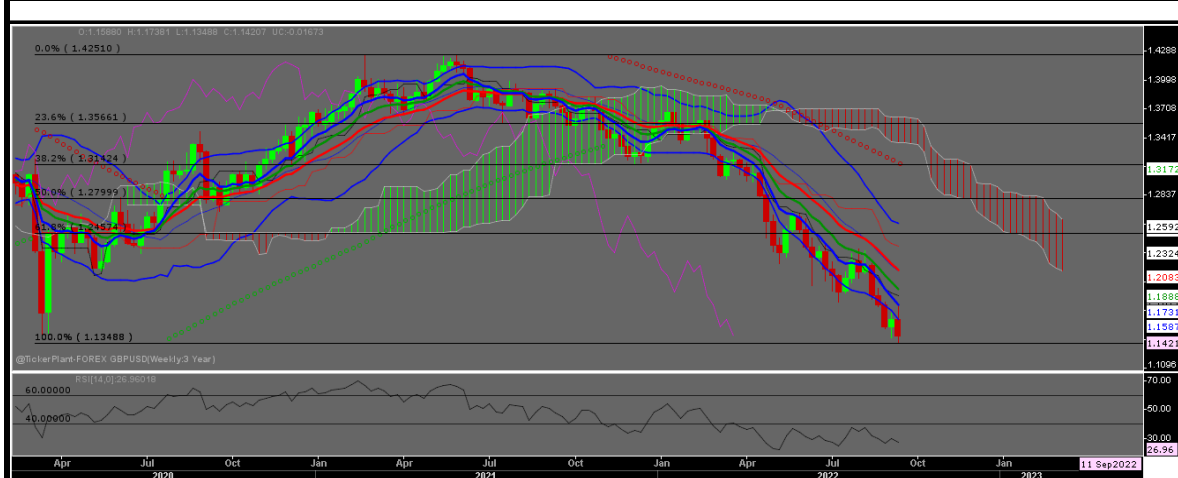
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy above 1.0050 SL 1.00 TGT 1.0150-1.03				Buy above 79.90 SL 79.20 TGT 80.60-81.80				0.9900-1.0150   79.30-81.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		74.14	76.07	78.00	78.73	79.93	80.66	81.85	83.78	85.71	
Exporters Strategy	Exporters were advised to hedge 40% of September exposure around 80.30 Spot and Pending around 81.										
Importers Strategy	Importers were advised to hedge 60% of September payables around 79.50. Pending to be held open with Stop above 80.50 on Spot. Stop Triggered.										

## British Pound Outlook

The pound had a torrid week last week as we look ahead to a central bank filled bonanza ahead of us. The Bank of England has a tough task ahead but at-least the central bank has had a week more to analyze the current situation after the prior meeting date was postponed due to their Queen's unfortunate death.

Money markets are currently pricing in roughly 50% chance of either a 50-bp or 75-bp interest rate hike but after reviewing last week's UK economic data we tend to favor the former. With GBP so weak at the present moment, the 50-bp hike may add to further downside and heighten inflationary pressures for the UK. In addition, the Fed will be looking to continue its aggressive path towards quelling inflation so it will be interesting to see whether or not the BoE reacts to the Fed particularly if they choose to be ultra-hawkish and front load rates by 100-bp.

The BoE is in an awkward situation as they announce their decision one day before an emergency mini-budget is delivered by chancellor Kwarteng. UK inflation (9.9%) will fall sharply if the UK government lives up to its promise of capping consumer energy costs for the next two years. The BoE may rein in any thoughts of a 75-bp hike if they know that the chancellor will effectively cool price pressures the next day. This may leave GBPUSD vulnerable to a further sell-off, especially if the US Fed hikes by a minimum of 75-bp on Wednesday.



The GBPUSD weekly chart indicates the pair has been bearsih for a long time now and hit a fresh 37-year low last week. The pair has been countinuously trading below the 8-13-20 EMAs.

GBPUSD last week continued to trade below the lower Bollinger band and still holds a sell on rise view.

The Bollinger-RSI combination alongwith the penetration of bearish Parabolic SAR below the bearish Ichimoku cloud together indicate that GBPUSD is oversold and a breakout above 1.17 could see traders going long in the pair.

However, the dense Ichimoku cloud still indicates the pair might not breach 1.17 in the north and a fresh selling could be seen around 1.1630.

This week we suggest going short around 1.15.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.15 SL 1.16 TGT 1.13				Sell 91.40 SL 92.10 TGT 90.00				1.13-1.15   89.80-92.00		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		83.98	86.46	88.95	89.82	91.43	92.31	93.92	96.40	98.89	
Exporters Strategy	Exporters were advised to hedge their September exposure partially (60%) around 92.50. Pending to be hedged around 93.00 with Stop below 92.20 Spot. Stop Triggered										
Importers Strategy	Importers were advised to hedge partially (30%) near 91.60 Spot for September exposure. Add 50% around 90.00. Pending to be held open with Stop above 93.60 Spot.										

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
20.09.2022	06:00 PM	USD	Building Permits (Aug)	1.610M	1.685M
	10:30 PM	EUR	ECB President Lagarde Speaks		
21.09.2022	07:30 PM	USD	Existing Home Sales (Aug)	4.70M	4.81M
	08:00 PM	USD	Crude Oil Inventories	0.833M	2.442M
	11:30 PM	USD	FOMC Economic Projections		
		USD	FOMC Statement		
		USD	Fed Interest Rate Decision	3.25%	2.50%
22.09.2022	12:00 AM	USD	FOMC Press Conference		
	Tentative	JPY	BoJ Monetary Policy Statement		
	12:00 PM	JPY	BoJ Press Conference		
	04:30 PM	GBP	BoE Interest Rate Decision (Sep)	2.25%	1.75%
		GBP	BoE MPC Meeting Minutes		
	06:00 PM	USD	Initial Jobless Claims	218K	213K
23.09.2022	01:00 PM	EUR	German Manufacturing PMI (Sep)	48.3	49.1
	02:00 PM	GBP	Composite PMI		49.6
		GBP	Manufacturing PMI		47.3
		GBP	Services PMI		50.9
	11:30 PM	USD	Fed Chair Powell Speaks		

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