

Currencies Weekly Report

Week of 06.12.2021

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December 6, 2021

Global Economic Review & Outlook

The new virus variant added a degree of uncertainty to the global economy, but could not stop the Fed from signalling faster tapering ahead. Meanwhile, Euro-area inflation continues to surge even further above the ECB's forecasts.

Euro-area inflation hit another record-high in November at 4.9% y/y. Core inflation also hit record-highs at 2.6% y/y. Energy prices remain the largest contributor to headline inflation, but underlying price pressures are clearly building.

Financial markets faced great uncertainty as the Omicron, wreaked havoc. The variant is surrounded by a lot of uncertainty, but its quick spread in South Africa brought in fears that it could be the most dangerous variant yet.

Comments from Moderna's CEO that current vaccines were likely to be materially less effective against Omicron caused worries, while head of BioNTech suggested the fully vaccinated still enjoyed high protection. The new strain emerged at a time when many European countries were already implementing or planning stricter restriction measures to prevent widespread of Delta variant.

Added uncertainty and economic restrictions will continue to support demand for goods vs services, which in turn will keep global supply chains strained and maintain inflation pressures due to shortages of many goods. On the other hand, the restrictions will dampen activity and with that especially price pressures in the service sector.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	15085.50	15491.70	-2.62
DOW JONES	34579.55	34908.10	-0.94
NIKKEI	28029.57	28751.62	-2.51
HANGSENG	23766.69	24080.52	-1.30
CAC	6765.52	6739.73	0.38
DAX	15169.98	15257.04	-0.57
FTSE	7122.32	7044.03	1.11
FX	Last Close	Previous Week	% CHANGE
DX	96.15	96.07	0.08
EURUSD	1.1313	1.1317	-0.04
GBPUSD	1.3230	1.3335	-0.79
USDJPY	112.78	113.36	-0.51

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	75.0910	75.0885	74.9163	74.9989	74.9852
EURINR	84.7092	84.9366	84.9166	84.9243	84.6888
GBPINR	100.1399	99.9863	99.8554	99.6560	99.6678
JPYINR	66.40	66.34	65.96	66.33	66.21

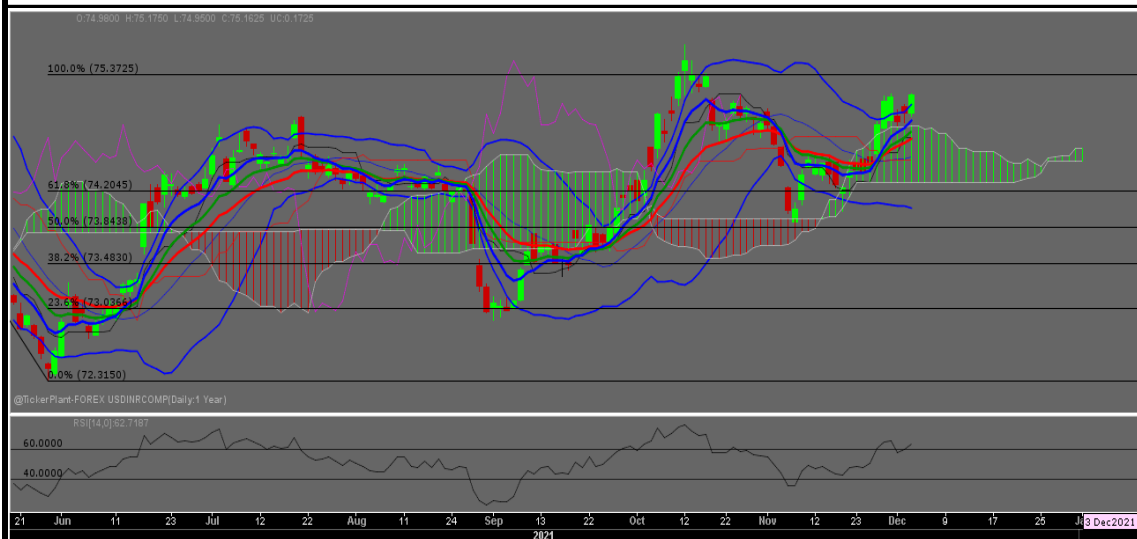
	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	75.3050	75.7825	76.8400	77.7425	78.6225
Tuesday	75.3450	75.8175	76.8875	77.7925	78.6775
Wednesday	75.0925	75.5625	76.6275	77.5375	78.4275
Thursday	75.1550	75.6300	76.6925	77.5950	78.4850
Friday	75.3225	75.7925	76.8425	77.7400	78.6225

Dollar Outlook

The US Dollar finished higher for the sixth consecutive week after November's non-farm payrolls report last Friday. However, Dollar bulls appear to be easing off the gas despite increasingly strong Fed rate hike bets. Meanwhile, stock market volatility increased last week due to the Omicron threat which likely helped the safe-haven Dollar gain.

Looking at the movements in the respective pairs shows that the US Dollar's strength has largely stemmed from British Pound weakness last week, with GBP/USD dropping over half a percent on the week. EUR/USD was nearly unchanged. DXY's direction in the coming weeks might get affected if scientists assess that Omicron doesn't pose a more grave threat than the Delta variant, leading markets back into a risk-on stance.

Removal of market risks would likely leave the other driving force in charge: interest rate differentials. The Dollar has an advantage in that regard, given the Fed is in a relatively more hawkish position on policy versus ECB. With that in mind, the Dollar is likely to continue gaining versus Euro should Omicron risks fade. That brings focus back to economic data concerning Fed rate hike bets. This week's inflation data via CPI will be key for DXY direction.



The USDINR Daily chart indicates the Dollar after printing a high of 75.65 in October, slipped to test 73.84 in 2nd week November. As expected a correction of almost Rs. 2 in less than a month brought in heavy buying which supported the pair taking it up again beyond 75.

73.85 is a strong support, which the pair has tested and moved north where 75.30 is the next minor resistance and 75.45/50 a major resistance.

The Bollinger-RSI combination supports a further upmove in the pair to 75.30.

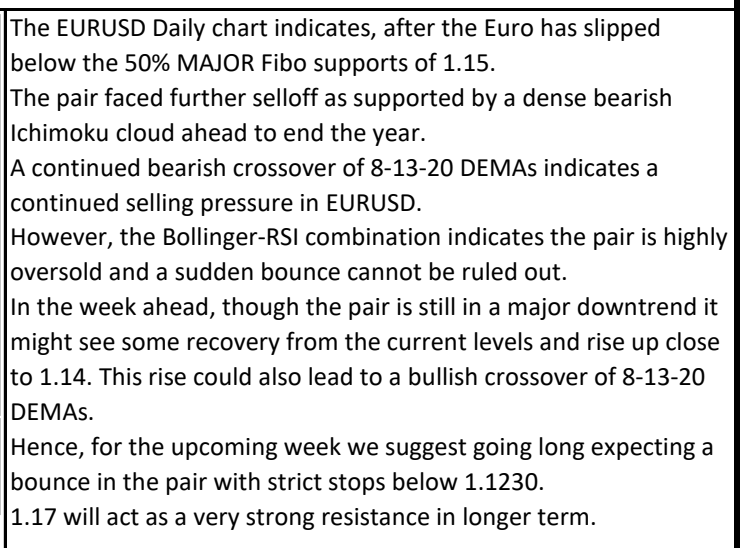
USDINR last week, as expected, has given a bullish crossover of 8-13-20 DEMAs confirming a further upward move in USDINR atleast till 75.30.

Although, sudden spikes lead to corrections but the current flight to safety can keep Dollar higher.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Buy 74.90 SL 74.60 TGT 75.30-75.45								74.80-75.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		73.87	74.26	74.65	74.91	75.04	75.30	75.43	75.82	76.21	
Exporters Strategy	Exporters were suggested to hedge their December exposure partially (30%) around 75 Spot. Next 30% to be hedged at 75.30/35.										
Importers Strategy	Importers are suggested to hold December payables open with a strict Stop above 75.50 Spot & target 74.80 Spot to book 50% of the total exposure.										

Euro Outlook

To date the ECB, and particularly Lagarde, have been adamant that EZ inflation will be transitory and that there is hence no need for tighter monetary policy. It would therefore take a remarkable course change – and loss of credibility – for it to switch from dovish to hawkish; and that means further losses for Euro, particularly now Powell no longer sees US inflation as transitory.



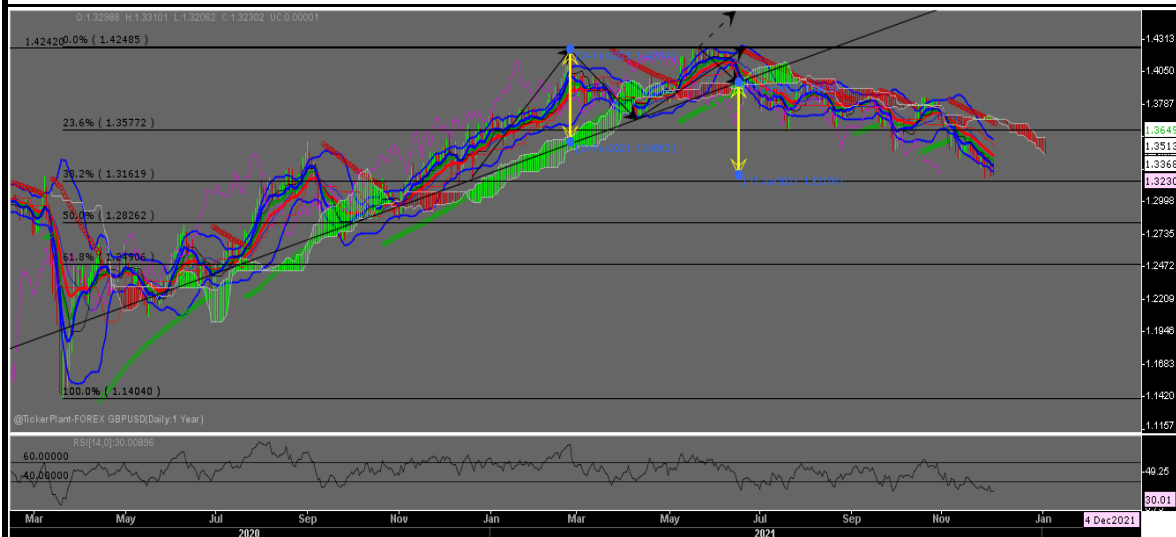
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 1.1300-1.1280 SL 1.1230 TGT 1.1380-1.1420				Buy 84.90/84.60 SL 84.30 TGT 85.40-85.90				1.1260-1.1450 84.60-85.90		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		81.76	82.81	83.85	84.38	84.90	85.43	85.94	86.99	88.03	
Exporters Strategy	Exporters were advised to hedge 50% around 85 & maintain strict stops at 83 on Spot for the remaining 50% of the December exposure. Another 30% to be hedged at 85.50.										
Importers Strategy	Importers are suggested to hedge 50% of December payables around 84.60 on Spot. Pending to be held open with Stop above 85.20.										

British Pound Outlook

A 2nd consecutive weekly drop for GBPUSD, in which it posted a fresh 2021 low following a brief break below 1.32. Support from Powell regarding a faster QE taper among the main catalysts behind the fresh downside in GBP, coupled with continued concerns over the Omicron.

On the UK front, doubts over a December BoE rate hike rose after cautious comments from BoE's Saunders. Saunders noted that there may be an advantage in waiting for more information on Omicron before deciding to adjust policy settings. He also stated he sees a limited increase in Bank Rate, which contrasts the OIS markets pricing in near 1% interest rates by end of 2022. In turn, probability for a Dec. rate hike fell from 50% to 30%, with scientific data on omicron seemingly another condition for a rate rise.

Next week, headlines regarding vaccine's effectiveness against Omicron will be among the main focal points. However, given that this will be headline-driven, there is little edge to be had. Elsewhere, BoE's Broadbent is due to speak on Monday where the focus will be on his views over Omicron variant.



The GBPUSD Daily chart indicates, Pound halted the short term reversal and continued to move lower after it found a strong resistance at the 23.6% Fibo retracement at 1.3575 which it had breached recently.

GBPUSD, however, recovered a little in the week earlier as the pair was highly oversold as indicated by the Bollinger-RSI combination. Last week however, the pair further slipped approaching the 38.2% Fibo retracement at 1.3160 as mentioned in the last report. In longer term, GBPUSD still continues to hold bearish trend after it breached the triangle supports.

But, in the weeks ahead, one can expect a further recovery in the pair at least to the 23.6% Fibo level of 1.3575 which will act as a strong resistance yet again.

1.3230 could be used to go long on the pair with strict stops below 1.3150.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Buy 1.3230 SL 1.3150 TGT 1.3330/80				Buy 99.60/40 SL 98.90 TGT 100.40				1.3200-1.3400 99.40-100.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		96.95	97.94	98.93	99.37	99.92	100.36	100.91	101.90	102.89	
Exporters Strategy	Exporters are suggested to hedge their December exposure partially (50%) around 100.50. Pending to be held open with Stops below 98.80.										
Importers Strategy	Importers are suggested to hedge partially near 99.50 for December exposure. Pending exposure to be held open with Stop above 100.50 Spot.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
06.12.2021	05:00 PM	GBP	MPC Member Broadbent Speaks		
07.12.2021	Tentative	CNY	Trade Balance	575B	546B
	03:30 PM	EUR	ZEW Economic Sentiment	22.4	25.9
		EUR	German ZEW Economic Sentiment	25.9	31.7
08.12.2021	08:30 PM	USD	JOLTS Job Openings		10.44M
	09:00 PM	USD	Crude Oil Inventories		-0.9M
	11:31 PM	USD	10-y Bond Auction		1.44 2.4
09.12.2021	07:00 PM	USD	Unemployment Claims	225K	222K
	11:31 PM	USD	30-y Bond Auction		1.94 2.2
10.12.2021	07:00 PM	USD	CPI m/m	0.7%	0.9%
		USD	Core CPI m/m	0.5%	0.6%
	08:30 PM	USD	Prelim UoM Consumer Sentiment	68.2	67.4

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