

Currencies Weekly Report

Week of 25.10.2021



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Global Economic Review & Outlook

Hike expectations have increased everywhere except in Turkey where the strategy is the exact opposite. EM hikes are already on the table across the board, but how soon will DM central banks follow? Inflation pressures are piling up! Chile, Peru, Poland, Romania, the Czech Republic, Mexico and the list goes on. A lot of EM central banks have started to hike interest rates due to the surging global inflation pressure and more is coming as pricing of hikes is getting increasingly frontloaded.

The EU remains stuck in tricky discussions with Poland and Hungary, rather than focusing on solving the energy crunch. Meanwhile, according to the Climate Prediction Center, there is an 87% probability of the so-called La Nina phenomenon again this winter, leaving an elevated risk of high-pressure systems over Siberia, which will usually result in colder than usual winter formation in Europe.

Inflation and stagflation continue to be the themes. The commodity price boom and the energy crisis – likely growth-negative – are further strengthening the stagflationary narrative.

Team Biden is making everything worse not only because of its war against brown energy/re-regulation/shutting down pipelines, etc. Vaccine mandates are intensifying the distortions on the US labour market.

The Bank of England appears to believe that it's all transitory, but this hasn't prevented them from flagging an imminent rate hike. The inflation swap rates have been leading nominal rates in the UK by 10 trading days.

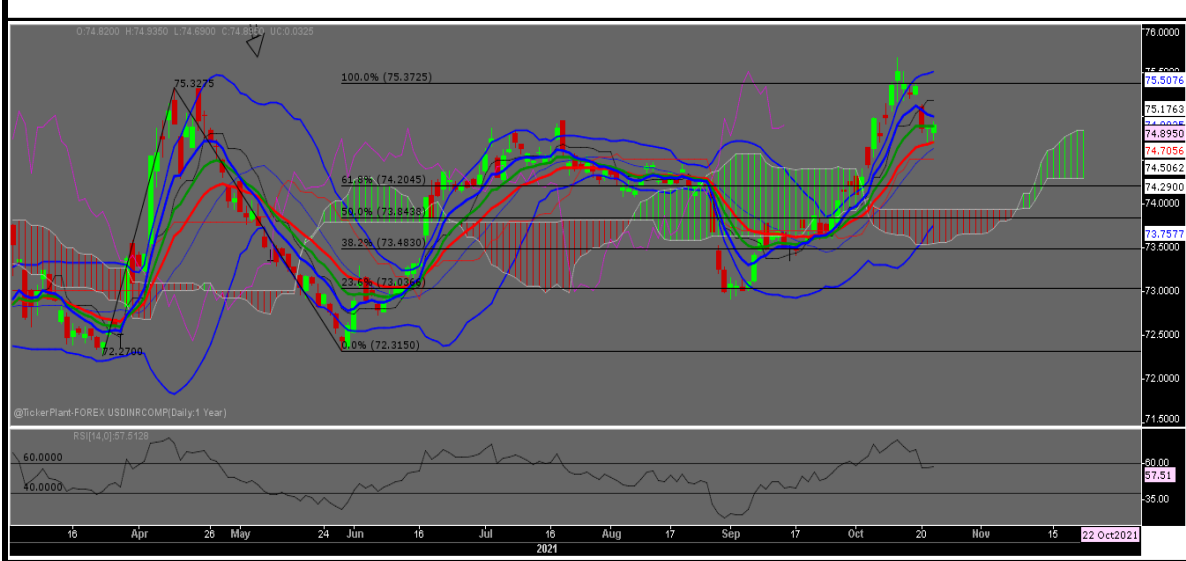
INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	15090.20	15146.92	-0.37
DOW JONES	35677.68	35295.48	1.08
NIKKEI	28804.85	29068.63	-0.91
HANGSENG	26126.93	25330.96	3.14
CAC	6733.69	6727.52	0.09
DAX	15542.98	15587.36	-0.28
FTSE	7204.55	7234.03	-0.41
FX	Last Close	Previous Week	% CHANGE
DX	93.61	93.95	-0.36
EURUSD	1.1645	1.1598	0.41
GBPUSD	1.3756	1.3744	0.09
USDJPY	113.48	114.26	-0.68

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	75.0507	--	75.0507	74.7635	74.7836
EURINR	87.3600	--	87.3600	87.1359	87.0137
GBPINR	103.4614	--	103.4614	103.2977	103.1555
JPYINR	65.55	--	65.55	65.55	65.63

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	75.3900	75.8850	76.6800	77.6450	78.5150
Tuesday	--	--	--	--	--
Wednesday	74.9100	75.4150	76.2150	77.1900	78.0550
Thursday	74.8825	75.3925	76.2025	77.1825	78.0525
Friday	74.9100	75.4225	76.2425	77.2250	78.0950

Dollar Outlook

The safe haven US Dollar has recently lost momentum against major currency pairs as fundamentals continue to weigh on risk appetite. Treasury Secretary Yellen has stated that the debt ceiling needs to be fixed by early December, providing us with a new so-called X-date. Fixing the debt ceiling would enable the Treasury to rebuild its crisis account (TGA) at the Fed, which will zap more than 750bn of dollar liquidity over a couple of months – if the latest refunding estimate of a 800bn target for the TGA is to be believed. This boils down to quantitative tightening (QT). At roughly the same time, the Fed is expected to start tapering its bond purchases. Assuming both processes unfold in December through March, Fed may add 340bn of USD via its QE program while the UST will sterilize >750bn of USD – a net negative of >400bn! Less liquidity and more issuance could be factors which will underpin the USD in unexpected ways as Christmas starts to approach. For the week ahead, we have enough data like Durable goods, GDP, Pending home sales, etc. to keep the Dollar volatile but will mostly push Dollar lower sighting week readings as compared to previous ones.



The USDINR Daily chart indicates the Dollar after breaching the resistance of 74.35 at the beginning of the month, rallied straight to breach the psychological 75 mark and rise even further printing a high of 75.65.

The pair also managed to close for the week earlier above the 8-13 20 EMAs bullish crossover.

However, as USDINR was trading near the upper end of the Bollinger band and with the RSI showing the pair to be highly overbought, the pair was expected to fall in the week gone which it followed. We expect the pair to correct a little back to 74.75 and it did so. In the week ahead, the pair is expected to find resistance in the 75-75.30 zone and see further more correction at-least till 74.50. USDINR managed to hold at the 20 D-EMA but also closed near the 8&13 D-EMAs where the EMAs are about to give a bearish crossover.

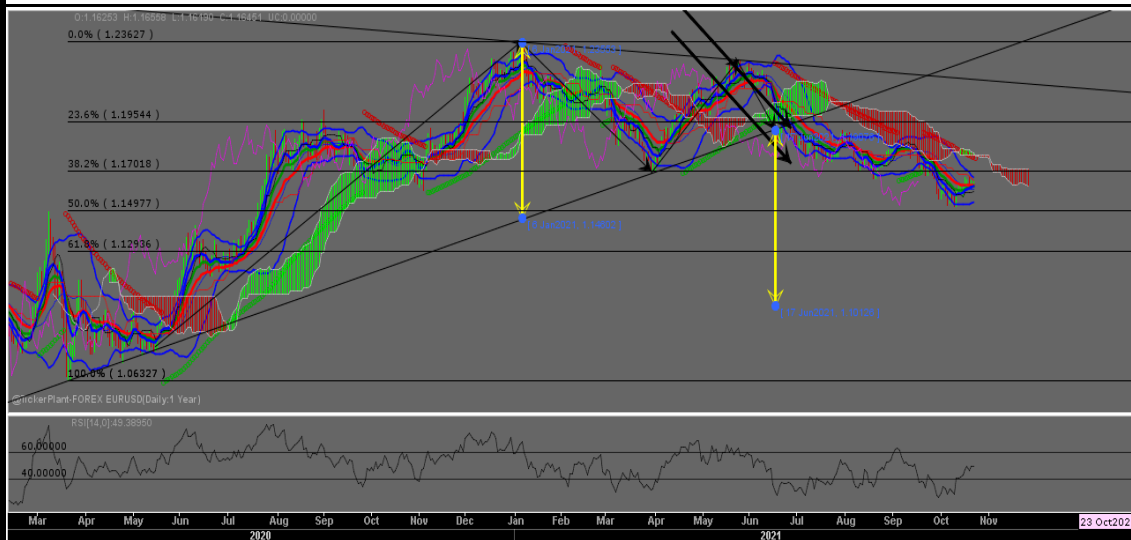
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 75.00/30 SL 75.50 TGT 74.60-74.30								74.30 - 75.30		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		72.92	73.61	74.30	74.60	74.99	75.29	75.68	76.37	77.06	
Exporters Strategy	Exporters were suggested to hedge their October exposure in parts around 73.90, 74.35 and 75.30 Spot.										
Importers Strategy	Importers were suggested to hedge 50% October payables at 73.60 Spot. Pending to be held open with Stops above 74.20 Spot. Stop triggered.										

Euro Outlook

This week's ECB meeting will end with all its monetary levers left where they are and the bank will be delighted if Thursday's statement and the subsequent press conference by President Lagarde end with no movement in the Euro. There is a deep rift at the ECB between hawks and doves but the difficult decisions will not be made until December, when its staff's economic projections will be published.

The last few sessions have been better for EURUSD which recovered some of its recent losses, but a sustained rally from here remains unlikely. As the ECB, along with the BoJ and the Swiss National Bank, has been at the back of the queue of central banks intending to increase interest rates.

That will continue to hold back EURUSD even though it is more sensitive to changes in “risk on, risk off” sentiment in the markets and interest rate expectations are less of an influence. Still, the meeting of the ECB’s policy-setting Governing Council will be the focus of attention for Euro traders this week, even though it will end with Eurozone interest rates and all the bank’s various bond-buying programs left unchanged.



The EURUSD Daily chart indicates, the Euro has slipped below the 38.2% Fibo supports of 1.17 which had acted as a support multiple times in recent past.

The pair moved sharply below 1.17 few weeks earlier and continued trading below the 8-13-20 DEMA bearish crossover but managed to close between 8 & 13 EMAs last week, after it found support at 1.1520 a week earlier which is close to the 50% Fibo retracement of 1.15.

The Bollinger bands have converged indicating a sudden sharp move, mostly in the downward direction, ahead of a bearish ichimoku cloud formation.

Levels close to 1.17 are ideal to go short for this week with strict stops above 1.1740 for targets of 1.1620.

In longer term, EURUSD still continues to hold bearish trend after it breached the triangle supports.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.1680-1.17 SL 1.1740 TGT 1.1620				Sell 87.30/50 SL 87.80 TGT 86.80-86.50				1.1580-1.1700 86.50-87.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		85.31	85.94	86.57	86.88	87.20	87.51	87.83	88.46	89.09	
Exporters Strategy	Exporters were advised to hedge 50% around 86.70 & maintain strict stops at 86.20 on Spot for the remaining 50% of the October exposure. Stops triggered already.										
Importers Strategy	Importers were suggested to hedge 50% at 86.40 on Spot. Hedge another 30% around 86 & maintain stops above 86.50 for pending October exposure. Stop triggered.										

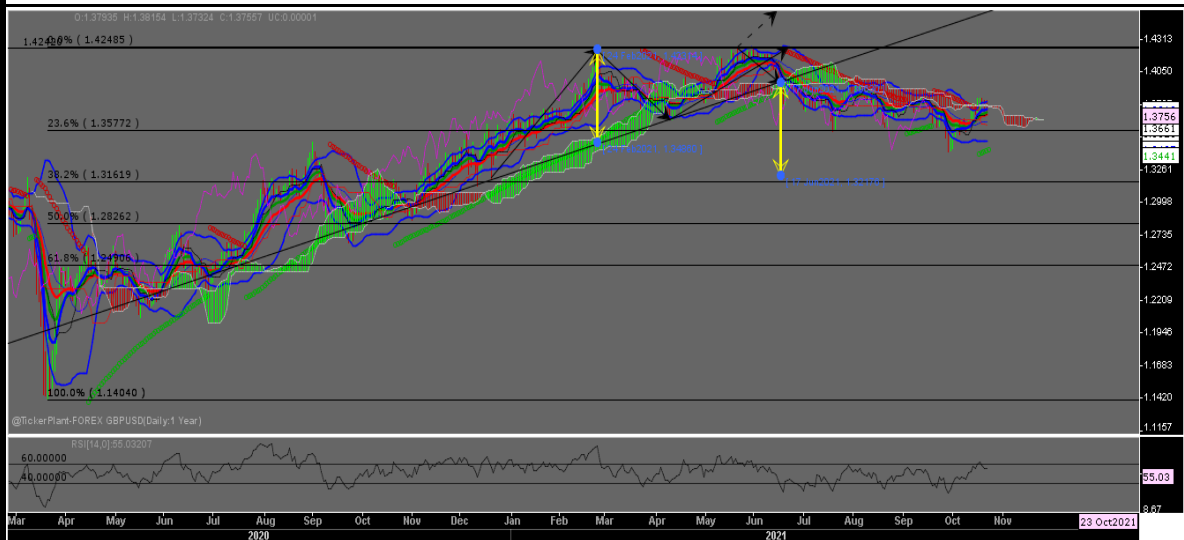
British Pound Outlook

There are a number of drivers and potential drawbacks to the Pound as we approach the November 4 rate decision which justifies a more cautious approach. UK retail sales for September, compared to September last year, declined significantly from expectations. The 1.3% contraction, spearheaded by lacking figures from the 'non-food retail stores' weighed heavy on the wider sector as only a 0.4% contraction was forecasted. The current series of declining retail data is described as, "the longest period of consecutive monthly falls in history of this series (which began in February 1996)".

Flash Markit PMI data beat expectations in both the manufacturing and services sectors. Both readings came in above 50 meaning purchasing managers anticipate an expansion in both sectors. Consumer confidence readings however, tell a different story as the reading posted (-17).

Global supply chain challenges and increasing demand has lead to sustained elevated fuel and gas prices which is passed on to consumers.

BoE's new chief economist, Huw Pill stated "there's a bit too much excitement in the focus on rates right now".



The GBPUSD Daily chart indicates, Pound has been on short term reversal and has been recovering since beginning of this month. The Bollinger-RSI combination indicates the pair is now overbought and might see a correction where one can expect selling in the pair again.

Levels between 1.38 & 1.3850 are ideal for medium term shorts. Last week we suggested sell on rise around 1.38 for targets of 1.3650 with strict stop above 1.39.

1.3850 has been a strong multiple resistance level which the pair failed to breach even in the last week when it tested 1.3835.

In longer term, GBPUSD still continues to hold bearish trend after it breached the triangle supports, indicating the pair might fall close to 1.3160 the 38.2% Fibo support.

GBPINR can witness a strong resistance between 103.60-104 levels and slip back to 102.50 mark.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.3800/20 SL 1.3900 TGT 1.3690/50				Sell 103.70/80 SL 104.20 TGT 103/102.60				1.3650-1.3830 102.50-103.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		100.79	101.64	102.49	102.92	103.34	103.77	104.20	105.05	105.90	
Exporters Strategy	Exporters were suggested to hedge their October exposure partially (50%) around 101.50 Pending to be held open with Stops below 100.50. Stops triggered.										
Importers Strategy	Importers were suggested to target levels near 100.60 to hedge their October exposure partially. Pending exposure to be hedged around 101.50.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
25.10.2021	01:30 PM	EUR	German ifo Business Climate	98.2	98.8
26.10.2021	07:30 PM	USD	CB Consumer Confidence	108.4	109.3
		USD	Rishmond Manufacturing Index	4	-3
27.10.2021	06:00 PM	USD	Core Durable Goods Orders m/m	0.4%	0.3%
		USD	Durable Goods Orders m/m	-1.1%	1.8%
	08:00 PM	USD	Crude Oil Inventories		-0.4M
28.10.2021	Tentative	JPY	BOJ Outlook Report		
	Tentative	JPY	Monetary Policy Statement		
	Tentative	JPY	BOJ Press Conference		
	05:15 PM	EUR	Monetary Policy Statement		
		EUR	Main Refinancing Rate	0.00%	0.00%
	06:00 PM	EUR	ECB Press Conference		
		USD	Advance GDP q/q	2.6%	6.7%
		USD	Advance GDP Price Index q/q	5.3%	6.1%
		USD	Unemployment Claims	290K	290K
	07:30 PM	USD	Pending Home Sales m/m	0.8%	8.1%
29.10.2021	01:30 PM	EUR	German Prelim GDP q/q	2.3%	1.6%
	06:00 PM	USD	Core PCE Price Index m/m	0.2%	0.3%
	07:15 PM	USD	Chicago PMI	63.2	64.7
	07:30 PM	USD	Revised UoM Consumer Sentiment	71.4	71.4

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