

Currencies Weekly Report

Week of 21.03.2022

www.phillipforex.in

March 21, 2022

Global Economic Review & Outlook

The war in Ukraine continues, heightening uncertainties for the economic outlook and financial markets. Central banks are concerned about the mounting inflation pressures that need action.

We now expect the Fed to need to raise rates to above neutral. The ECB will move more slowly, but it is already on the move. We see more upside for longer yields but EURUSD may have already bottomed.

The global economic outlook and inflation got exposed to extreme uncertainties due to the Russian attack on Ukraine, and financial markets became highly volatile.

Bond markets struggled to decide, whether yields should rise or fall due to these new uncertainties, as inflation expectations rose and growth outlook darkened at the same time. At such a time we are of a view that:

- Inflation pressures will push the Fed to tighten further, and see 25bp hikes six times in 2022 and four hikes in 2023.
- The ECB will end its net asset purchases by June, but will need more time to get ready to raise rates. The first hike might come in December.
- EURUSD has rebounded from its lows lately, and we expect the pair to hold those lows and witness a recovery.
- Long bond yields continue to have more upside potential, but is limited in the near term as the market is already pricing in quite a lot of monetary policy tightening for this year.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	13893.84	12843.81	8.18
DOW JONES	34749.36	32943.33	5.48
NIKKEI	26827.43	25162.78	6.62
HANGSENG	21412.40	20553.79	4.18
CAC	6620.24	6260.25	5.75
DAX	14413.09	13628.11	5.76
FTSE	7404.73	7155.64	3.48
FX	Last Close	Previous Week	% CHANGE
DX	98.23	99.12	-0.90
EURUSD	1.1055	1.0910	1.33
GBPUSD	1.3180	1.3035	1.11
USDJPY	119.21	117.26	1.66

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	76.6086	76.4879	76.3482	75.8935	--
EURINR	99.7582	83.9801	83.7906	83.6549	--
GBPINR	83.6551	99.7142	99.6324	99.8349	--
JPYINR	65.04	64.64	64.54	63.88	--

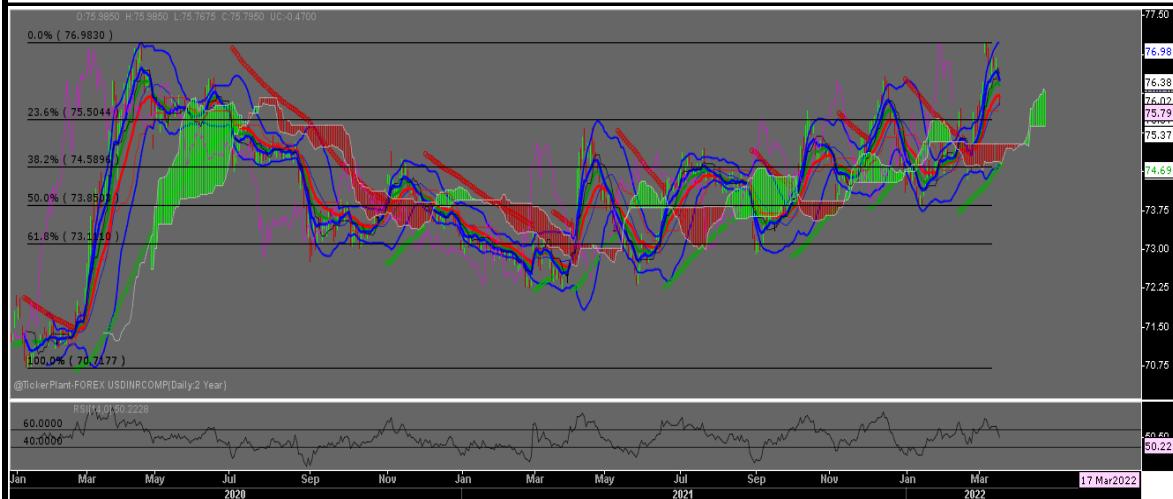
	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	76.6600	77.2750	78.0100	78.7550	79.4800
Tuesday	76.6850	77.2850	78.0100	78.7550	79.4750
Wednesday	76.3200	76.9000	77.6250	78.3650	79.0850
Thursday	75.8450	76.4250	77.1400	77.8550	78.5650
Friday	--	--	--	--	--

Dollar Outlook

Powell outlined the road ahead for tighter US monetary policy on Wednesday by starting a series of rate hikes and highlighting how the Fed will start reducing its \$9 trillion balance sheet. It is a tough task as Powell tries to cool off multi-decade high inflation without hampering growth in the near term.

The roadblock for Fed in near term is shown clearly by the 2-year/10-year UST spread. The flatter the curve between these two US Treasuries, the greater the market expectation that growth will slow down. The spread is currently quoted at just 24 basis points, its narrowest level in over two years, suggesting that rate cuts will be needed sometime next year, unless inflation and growth follow the Fed's current thinking.

The Dollar has been strong over the last few months in anticipation of tighter US monetary policy. Higher interest rates will push USD higher, **especially against currencies with a lower interest rate**. Since mid-May, when the Fed first openly recognized that a series of rate hikes were needed to counter inflation, USDJPY has risen from around 109 to 119.40, GBPUSD has fallen from 1.42 to 1.30, while EURUSD has dropped from 1.2250 to 1.08. Looking ahead, the US dollar is likely to continue to appreciate against a prism of currencies although the pace and extent of this appreciation will be more gradual as other countries start their own rate hiking cycle.



The USDINR Daily chart shows the pair recently made a new lifetime high of 76.9825, from where it slipped to test 75.80.

The pair also has dropped below the 20-DEMA thus indicating a short-term reversal to its upward trend.

As the prices have been able to manage trading below the 8-13-20 EMAs and the Bollinger Band being wide enough, one can expect a further correction in the pair and USDINR will most likely test atleast 75.50 (23.6% Fibo retracement) before it restores the upward momentum.

The Bollinger-RSI combination indicates the pair being overbought based on which we recommend going short around 76.00 with Strict Stops above 77.10.

USDINR turns strongly bullish above 77.10 yet again.

Hence, the short positions are advised to be kept light.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 76.10-76.40 SL 77.10 TGT 75.10								75.00-76.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		73.32	74.24	75.16	75.48	76.08	76.40	77.01	77.93	78.85	
Exporters Strategy	Exporters were suggested to hedge their March exposure partially (50%) around 75.60 and 25% around 76.60. Pending to be hedged around 76.50 Spot.										
Importers Strategy	Importers were suggested to hedge March payables (50%) around 74.60. Pending to be held open with a strict Stop above 75.80 Spot, which has been triggered.										

Euro Outlook

The Euro had a mixed performance last week, gaining against safe havens but giving up ground versus the commodity currencies.

The economic calendar will take a backseat again this week, as few 'high' rated data releases means that focus will continue to revolve around developments between Russia and Ukraine.

Markets continue to focus on the Russian invasion of Ukraine and its knock-on effects for the European economy. In the coming week, a thin economic calendar—marked mainly by speeches from ECB policymakers—will leave plenty of room for headlines out of Eastern Europe to catalyze volatility.

ECB rate expectations are evolving, but the ECB continues to push back on the idea of rate hikes anytime soon.

With expectations for a more aggressive ECB, European sovereign bond markets saw higher yields last week. Long-end bond yields in France, Germany, and Italy rebounded to fresh yearly highs after dipping in early-March. In particular, the German 10-year Bund yield touched its highest level since late-2018.



The EURUSD Daily chart indicates the pair losing 1.13 levels recently and further slipping to 1.08, has turned the Euro extremely oversold against the Dollar.

The pair however, saw a recovery being able to breach the 20-DEMA & rose to close around 1.1050.

The Bollinger-RSI combination continues to show the pair is extremely oversold supported by the continued bearish 8-13-20 EMAs which the prices might move above, and one can initiate fresh long positions in the pair around 1.1020.

The bearish Parabolic SAR is about to penetrate the thin bullish Ichimoku cloud and one can expect a sharp reversal in the pair till 1.12.

For the next week, we suggest going long on the pair at 1.1020.

1.13 now happens to be a deciding level for EURUSD to reverse its bearish trend in near medium term.

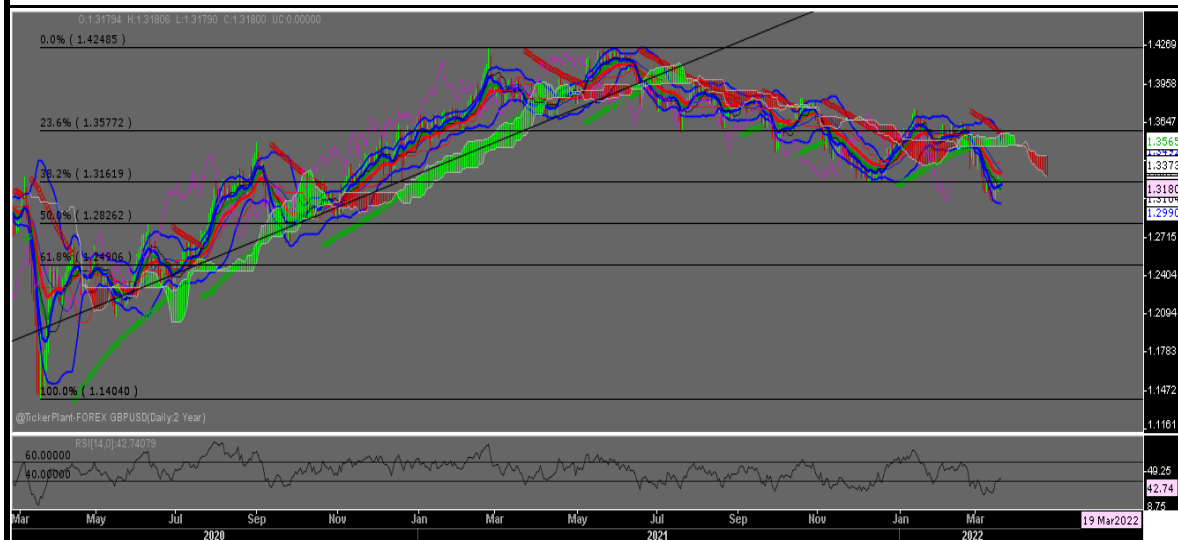
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Buy 1.1030/20 SL 1.0900 TGT 1.1160				Buy 83.80/60 SL 83.30 TGT 84.70				1.1000-1.1160 83.60-85.10		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		81.24	82.10	82.96	83.31	83.83	84.17	84.69	85.55	86.41	
Exporters Strategy	Exporters are advised to hedge 50% of the March exposure around 85 Spot. Further pending exposure to be held open with Stop below 83										
Importers Strategy	Importers were advised to hedge 50% of March payables around 83.50 on Spot. Pending to be hedged around 83.50/80.										

British Pound Outlook

The uncertainty around the pound is linked to the fact that despite lofty rate hike expectations, domestic challenges like inflation, higher taxes, weaker growth outlook continue to affect the prospects of a stronger Pound.

Wednesday is a rather busy day for the pound as it sees the latest UK inflation data as well as the half-yearly budget speech. UK inflation continues to hot up with early indications anticipating a 5.9% print for February. The real talking point shifts to next month's release which is likely to capture some of the inflationary pressures resulting from the extraordinary spike in oil prices earlier this month. Inflation is expected to peak in April at 8%.

UK finance minister Sunak has to deal with a crisis in the form of rampant inflation. Sunak is due to announce his half yearly budget update next Wednesday amid increasing pressure to spend billions of pounds to lessen the impact of a growing cost-of-living squeeze. At the same time, the UK government is looking to normalize levels of government spending after the Covid spending surge.



The GBPUSD Daily chart indicates, last week the Pound held on to the 38.2% Fibbo support at 1.3160 to close at 1.3180.

GBPUSD recently had been hovering around the 1.3575 major resistance level and failed to breach the same in the North which resulted into a sharp selloff in the pair.

However, as mentioned in our last report, the pair was extremely oversold & was expected to witness a small bounce back to the 38.2% Fibo level which was achieved last week, with further upward expectation now to 1.3260.

Major support in the pair now lies around 1.30 and 1.3250/60 is the next interim resistance.

The bearish Ichimoku cloud formation appears to be a threat at the beginning of the week ahead.

For this week we suggest going long in the pair with Strict Stops below 1.2870.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Buy 1.3130 SL 1.3050 TGT 1.3260				Buy 99.60/40 SL 98.60 TGT 100.30-101				1.31-1.3260 99.50-101		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		97.95	98.55	99.15	99.47	99.75	100.07	100.36	100.96	101.56	
Exporters Strategy	Exporters were advised to hedge their March exposure partially (50%) around 102.20. Pending to held open with Stop below 100 Spot. Stop Triggered										
Importers Strategy	Importers were advised to hedge partially (50%) near 100.80 and 30% around 99.50 Spot for March exposure. Pending to held open with Stop above 101.60 Spot.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
21.03.2022	01:00 PM	EUR	ECB President Lagarde Speaks		
	07:30 PM	USD	Fed Chair Powell Speaks		
22.03.2022	06:45 PM	EUR	ECB President Lagarde Speaks		
23.03.2022	12:30 PM	GBP	CPI y/y	6.0%	5.5%
	05:30 PM	GBP	BOE Gov Bailey Speaks		
		USD	Fed Chair Powell Speaks		
	Tentative	GBP	Annual Budget Release		
	08:00 PM	USD	Crude Oil Inventories		4.3M
24.03.2022	02:00 PM	EUR	German Flash Manufacturing PMI	55.9	58.4
		EUR	German Flash Services PMI	54.3	55.8
	03:00 PM	GBP	Flash Manufacturing PMI	57.0	58.0
		GBP	Flash Services PMI	58.0	60.5
	06:00 PM	USD	Core Durable Goods Orders m/m	0.5%	0.7%
		USD	Durable Goods Orders m/m	-0.5%	1.6%
		USD	Unemployment Claims	210K	214K
	06:40 PM	USD	FOMC Member Waller Speaks		
	07:15 PM	USD	Flash Manufacturing PMI	56.6	57.3
		USD	Flash Services PMI	56.0	56.5
25.03.2022	12:30 PM	GBP	Retail Sales m/m	0.6%	1.9%
	02:30 PM	EUR	German ifo Business Climate	94.2	98.9
	07:30 PM	USD	Revised UoM Consumer Sentiment	59.7	59.7

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.