

# Currencies Weekly Report

Week of 06.02.2023

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February 6, 2023

## Global Economic Review & Outlook

Central banks continued raising rates last week, with markets hoping the final phase of the rate hike cycle is near. Both the ECB and the BoE raised rates by 50bp, to 2.5% and 4% respectively while the Fed wound down the hiking pace to 25bp, bringing the Fed funds rate in the range 4.50-4.75%. The Fed and BoE will likely continue with 25bp rate hikes ahead, while the ECB signaled at least one more 50bp rate hike in March before likely stepping down to 25bp hikes.

Fed's Chairman Powell specified that "a couple of more interest rate hikes" are on the cards while ECB President Lagarde did not commit to forward guidance beyond the March meeting. Stock and bond markets cheered that central banks are moving into the final stretch of rate hikes. Stronger than expected U.S. nonfarm payrolls and ISM Services on Friday spoiled the fun and added to the dissonance. Now that the markets have had enough time to process the dovish FOMC and another robust nonfarm payroll report, the focus shifts predominantly to Fed speak and initial jobless claims, the University of Michigan sentiment report. Eurozone Inflation is falling at a decent rate but unfortunately it's primarily driven by energy prices reflected by the fact that core inflation remained unchanged at its highs. The monetary policy report hearing on Thursday when BoE policymakers will be grilled by the Treasury Select Committee is important for GBP.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	12006.96	11621.71	3.31
DOW JONES	33925.06	33977.55	-0.15
NIKKEI	27509.46	27382.56	0.46
HANGSENG	21660.47	22688.90	-4.53
CAC	7233.94	7097.21	1.93
DAX	15476.43	15150.03	2.15
FTSE	7901.80	7765.15	1.76
FX	Last Close	Previous Week	% CHANGE
DX	102.92	101.93	0.97
EURUSD	1.0793	1.0868	-0.69
GBPUSD	1.2051	1.2394	-2.77
USDJPY	131.17	129.82	1.03

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	81.6552	81.7387	81.8494	81.9536	82.2296
EURINR	88.7331	88.5982	88.9938	90.2555	89.5985
GBPINR	101.1915	100.8983	100.8390	101.5340	100.4813
JPYINR	63.04	62.77	62.84	63.68	63.94

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	81.6000	81.9975	82.4775	82.9275	83.3850
Tuesday	82.0200	82.4200	82.9075	83.3750	83.8400
Wednesday	82.0225	82.4150	82.8975	83.3625	83.8300
Thursday	82.2700	82.6475	83.0975	83.5500	83.9975
Friday	81.9075	82.2875	82.7525	83.2025	83.6575

## Dollar Outlook

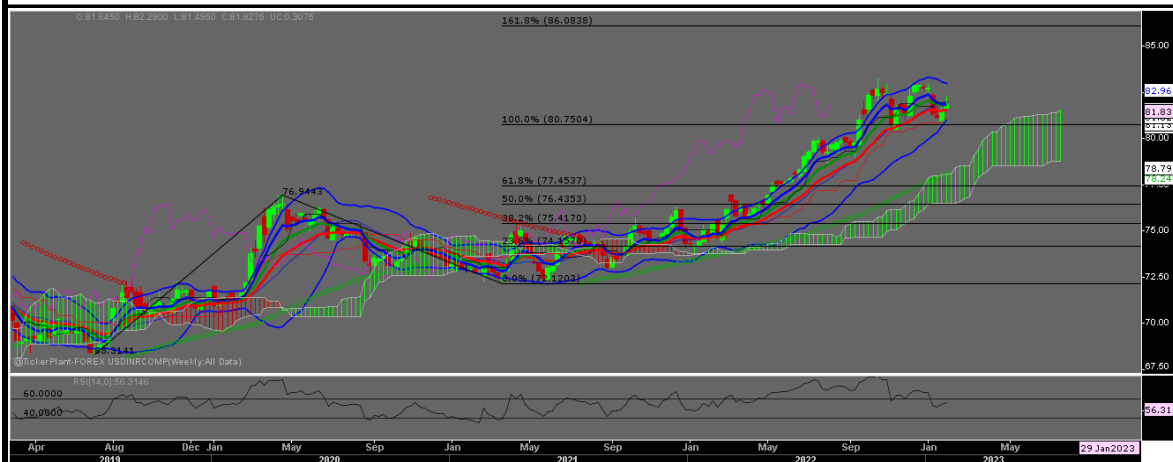
The US Dollar managed to finally generate significant volatility this past week, breaking a long stretch of indecision that brought in extreme moves towards the end. The question now is whether this move was enough to restore some trend to the currency.

The significant beat in NFPs (a net 517,000 increase beating forecast by 332,000) and the ISM service sector report (jumping to 55.2) forced the market to curb its push against the Fed's credibility.

A bounce in the implied rate from Fed Funds futures and a rise in 2-year Treasury yields indicated that the market's insistence that the US central bank will not be able to hit its own forecast for a terminal rate (5.125 percent according to the SEP) has wavered.

In the week ahead, we shall see if the Dollar remains supported by a rise in safe haven demand. The Initial Jobless claims data shall play a pivotal role in market's understanding about the U.S. Jobs market and the decision making of market participants about the trend in the currency.

Markets will also pay close attention to both what evolves with the pressure hitting the Adani Group and the RBI rate decision. The RBI is expected to raise rates by 25bp to 6.50%, which might be the last hike in this tightening cycle.



The USDINR Weekly chart indicates the pair, after being very much stagnant, has showed wild moves last week between 81.50 and 82.30.

USDINR continued to appreciate last week as it managed to rise upto 82.29 and with the bullish sentiments developing over the weekend can open further higher breaching the interim resistance of 82.30. However, this upside could be limited to 82.70 from where USDINR can retrace back to the 81.50 mark. 81.50 is the 20- Weekly EMA level which can act as a strong support in the near term.

While we suggest going short in the pair around 82.50/82.60 we also suggest going long on the pair only if the Spot moves and sustains above 82.70.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 82.40-82.70 SL 83.30 TGT 81.80-81.40								81.40-82.70		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		79.49	80.28	81.08	81.45	81.87	82.25	82.67	83.46	84.26	
Exporters Strategy	Exporters were advised to hedge 50% of their January exposure between 82.50-82.80 Spot. Pending to be held open with Stop below 82.00. Stop Triggered.										
Importers Strategy	Importers were advised to hedge 50% of their January exposure around 82.00 Spot. 25% to be hedged around 81.30. Pending to be held open with Stop above 82.30.										

# Euro Outlook

This past week has been all about the position the euro area economy is in, the ECB's perception of it, and the market's trust in the central bank.

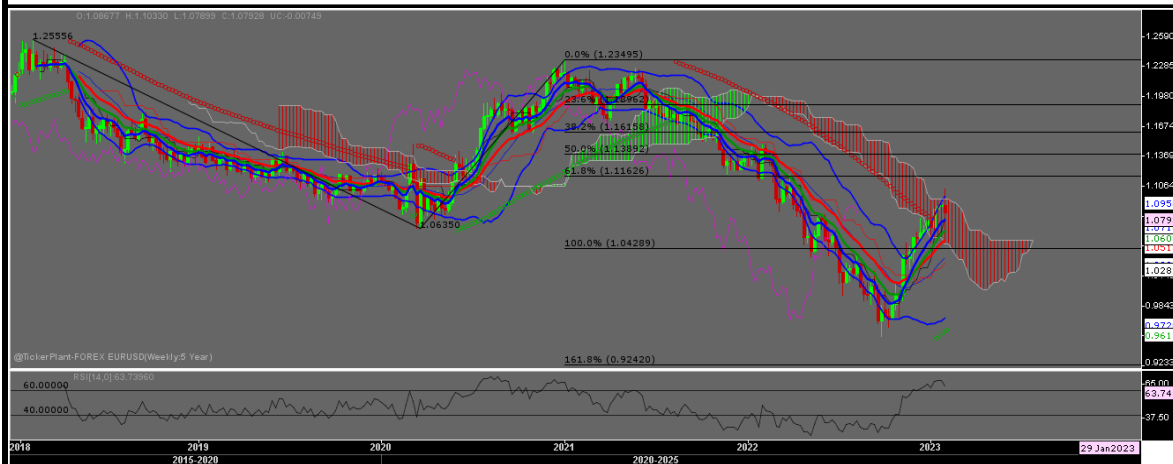
The ECB thinks there's further to go on interest rates in order to deal with inflation including more super-sized rate hikes and the market is giving it the Fed treatment.

The ECB appears to be the only bank who is committed to raise rates further by a magnitude as large as 50bps. Although, the policymakers shall watch the upcoming economic data closely in order to develop a clear view on the price pressures and related need of future rate hikes.

Markets view the next decision on 16th March as a coin toss between 25 and 50 basis points with the peak in rates coming in July, 75-100 bps above where it now lies. Unfortunately for the ECB, central banks don't have a good record of being right these past 18 months.

Next week offers a number of data points but nothing overly significant.

China is likely to begin a more meaningful recovery after the New Year, with service consumption tending to recover strongly as life returns to normal. This might hit Dollar and work in favour of the Euro.



The EURUSD Weekly chart indicates the pair, after a continued upward move for the past few weeks, found resistance near the Upper Bollinger band and also at the upper end of the bearish Ichimoku cloud and retraced back to settle just below 1.08 last week after making a high of 1.1033.

Although EURUSD held back last week and is also expected to drop further down in the week ahead, we do not yet consider a reversal in the uptrend in the pair.

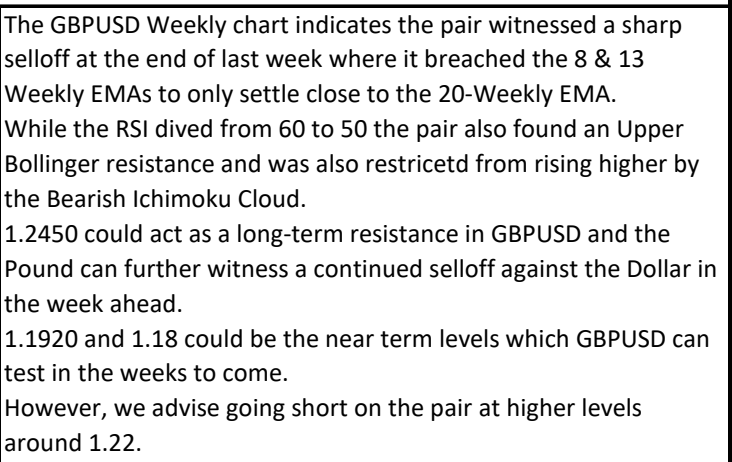
The Bollinger-RSI combination, for now, indicates the pair is overbought and might show some more correction, but EURUSD is expected to gain upward momentum yet again in near future. In the week ahead, one can go short on EURUSD & EURINR with strict Stops.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 1.0850-1.0870 SL 1.0950 TGT 1.0710				Sell 89.40-89.70 SL 90.40 TGT 88.40				1.0710-1.0870   88.40-89.70		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		83.34	85.37	87.40	88.40	89.42	90.43	91.45	93.48	95.51	
Exporters Strategy	Exporters were advised to hedge 30% of their January exposure around 89.00 Spot. Add 40% at 89.70 Spot. Pending to be hedged around 89.50 Spot.										
Importers Strategy	Importers were advised to hedge 50% of their January payables around 88.00. Pending to be held open with Stop above 89.50 on Spot targetting 88.50. Target Achieved.										

## British Pound Outlook

With that being said, the Bank Governor Andrew Bailey stated that this is uncharted territory for the MPC at a time when inflation has breached 10%. If inflation proves to be more persistent and widespread, the MPC aren't opposed to hike again and another 50 bps hike cannot be ruled out, although, markets only appear to be pricing in a hold or a 25 bps in March with any real conviction at this moment.

However, in the event of a negative print, the UK economy would fall into a technical recession and such bad news has the potential to pull Pound lower, as negative sentiment spreads through the market.



Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 1.2170-1.2220 SL 1.2280 TGT 1.1920				Sell 100.60-101.20 SL 102.30 TGT 99.50-98.90				1.1920-1.2220   98.90-101.20		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		95.56	97.24	98.91	99.51	100.59	101.19	102.26	103.94	105.61	
Exporters Strategy	Exporters were advised to hedge their January exposure (30%) around 100.50, 30% around 101.20 Spot. And pending 40% around 101.70. All targets achieved.										
Importers Strategy	Importers were advised to hedge partially (50%) near 99.70 Spot for January. Pending to be hedged around 99 Spot with Stop above 101.70.										

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
06.02.2023	03:00 PM	GBP	Construction PMI (Jan)	49.6	48.8
07.02.2023	10:30 PM	USD	Fed Chair Powell Speaks		
08.02.2023	10:00 AM	INR	Interest Rate Decision	6.50%	6.25%
	09:00 PM	USD	Crude Oil Inventories	0.376M	4.140M
09.02.2023	06:30 PM	EUR	German CPI (YoY) (Jan)	9.2%	8.6%
	07:00 PM	USD	Initial Jobless Claims	194K	183K
10.02.2023	12:30 PM	GBP	GDP (YoY) (Q4)	0.4%	1.9%
		GBP	GDP (QoQ) (Q4)		-0.3%

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