

# Currencies Weekly Report

Week of 14.02.2022

## Global Economic Review & Outlook

Geopolitical tensions over an impending Russian invasion into Ukraine intensified. The risk of war has traders flowing into safe-haven assets, pushing gold to its highest level since November 19, as the U.S. and the UK warned its citizens to leave the country as soon as possible. Earlier last week, the US reported its highest rate of inflation in 40 years, causing the yield curve to flatten as traders priced in a more aggressive outlook on monetary tightening.

The ECB's more hawkish stance immediately caused worries that some Euro-area countries could not handle a tighter policy. Look at the debt metrics it seems that the outlook is not all that dark. The biggest worry, however, seems to be that ECB tightening and higher interest rates will push many Euro-area countries into another debt crisis – with Italy often seen as the largest concern. Our baseline remains a gradual rise in interest rates, with 3 ECB rate hikes on forecast horizon until end of 2023. We do see higher bond yields ahead and also wider bond spreads, which means that Italian yields are heading towards higher levels. ECB can remove accommodation gradually which the Italian public finances should handle smoothly. We do expect bigger challenges to surface, in case upward inflation surprises continue and the financial markets start to price in a faster and longer ECB tightening cycle. In such a scenario, the ECB may need to become creative again.

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	--	74.75	74.81	74.95	75.36
EURINR	--	85.40	85.54	85.73	85.84
GBPINR	--	101.25	101.50	101.66	102.13
JPYINR	--	64.82	64.73	64.69	64.94

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	13791.15	14098.01	-2.18
DOW JONES	34737.47	35089.74	-1.00
NIKKEI	27696.08	27439.99	0.93
HANGSENG	24906.66	24573.29	1.36
CAC	7011.60	6951.38	0.87
DAX	15425.12	15099.56	2.16
FTSE	7661.02	7516.40	1.92
FX	Last Close	Previous Week	% CHANGE
DXV	96.05	95.48	0.59
EURUSD	1.1346	1.1451	-0.92
GBPUSD	1.3560	1.3528	0.23
USDJPY	115.45	115.18	0.23

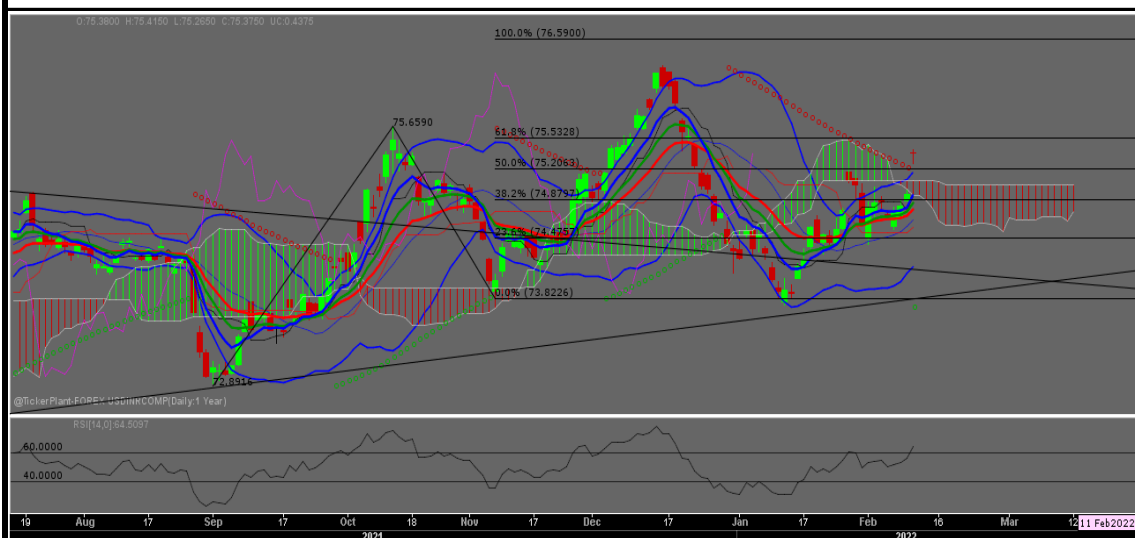
	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	--	--	--	--	--
Tuesday	74.8675	75.5225	76.3325	77.1625	77.9725
Wednesday	74.9175	75.5525	76.3525	77.1625	77.9525
Thursday	75.0225	75.6175	76.3675	77.1475	77.9175
Friday	75.4500	76.0050	76.7100	77.4250	78.1450

## Dollar Outlook

Higher-than-expected US CPI readings triggered fears that the Fed may tighten monetary policy more aggressively in the months to come, sending the Dollar Index to a weekly high. The CPI hit a fresh four-decade high of 7.5%, compared to a 7.3% estimate. The core reading came in at 6% in January, compared to a 5.9% estimate. This suggests that price pressures are probably more 'entrenched' than the Fed has anticipated, urging the central bank to raise interest rates faster and end its asset purchasing program sooner at the next policy meeting.

Different from the 2015-2018 rate-hike cycle, inflation is much higher this time due to unprecedented monetary and fiscal stimulus put in place to shore up growth amid the Covid-19 pandemic. Labor market conditions have improved tremendously in recent months, with the latest nonfarm payrolls report showing a robust increase in job numbers and solid wage growth. This suggests that the Fed may tighten monetary policy more aggressively than the previous cycle, leading to a stronger US Dollar ahead.

St. Louis Fed Chair Bullard said the central bank should raise rates by 100bps over next three meetings, inferring that a 50bps hike in March is possible.



The USDINR Daily chart indicates the pair earlier tested the bottom of the Fibo Price extension plotted at 73.80 which happens to be a very strong multiple support level. USDINR last week rallied sharply to breach the Fibo 50% level at 75.20 and also managed to settle above the same. 75.50 happens to be the next Fibo resistance.

This week however, although the DOLLar is in a strong upward momentum as indicated by the Bollinger-RSI combination, we see a correction in the pair from levels around 75.50 and hence suggest going short in the pair with strict stops placed above 76 for targets of 75.10 & 74.80.

The downward momentum has come to an end as the Dollar restricts itself from breaching 74.05 in the downside. In Long-term, USDINR can revisit 76, but the pair will remain highly volatile in short term, swinging between 74.30 & 75.80.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 75.50-75.70 SL 76.00 TGT 75.10-74.80								74.60-75.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		72.55	73.41	74.26	74.82	75.12	75.67	75.97	76.83	77.68	
Exporters Strategy	Exporters were suggested to hedge their February exposure partially (30%) around 75.30 and 30% at 75.70 Spot. Pending to be held open with Stop at 75.10.										
Importers Strategy	Importers were suggested to hedge February payables 50% around 74.80. Pending were held open with a strict Stop above 75.40 Spot which has triggered last week.										

## Euro Outlook

The Euro weakened this past week, leaving prices at a precarious position amid Russia-Ukraine geopolitical risks. A strong US inflation report also pressured EURUSD lower. Odds of a 50-bps rate hike from the Fed at the March meeting soared.

One-week EURUSD IV is at its highest since mid-December after reports that Russia could invade Ukraine this coming week. The Euro could be vulnerable to a rapid selloff if tensions between the two countries continue escalating.

Oil prices are rising amid supply disruption concerns between the west and Russia, Higher oil prices may also be a conundrum for the ECB.

Lagarde has spent most of her time downplaying increasingly hawkish expectations since the central bank's February monetary policy announcement that resulted in a brief 2-day surge in Euro earlier this month. Still, the ECB Chief noted that if the central bank 'acts too fast now, the recovery could be weaker'.

Traders will also be keeping an eye on Eurozone GDP and industrial production data. ECB Chief Economist Philip Lane will also be speaking this week.



The EURUSD Daily chart indicates, the Euro, towards the end last week slipped below 1.14 to settle at 1.1345 just below the 8-13-20 EMAs.

The pair faced heavy resistance at the 50% Fibo level of 1.15 and also around the Upper Bollinger band.

If the pair fails to move above the 8-13-20 EMAs a fresh downward move could emerge and the pair could slip below 1.1250 yet again.

As mentioned in our earlier reports where we expected EURUSD to recover atleast till 1.15 has happened and a further upward move seems to be unlikely immediately.

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

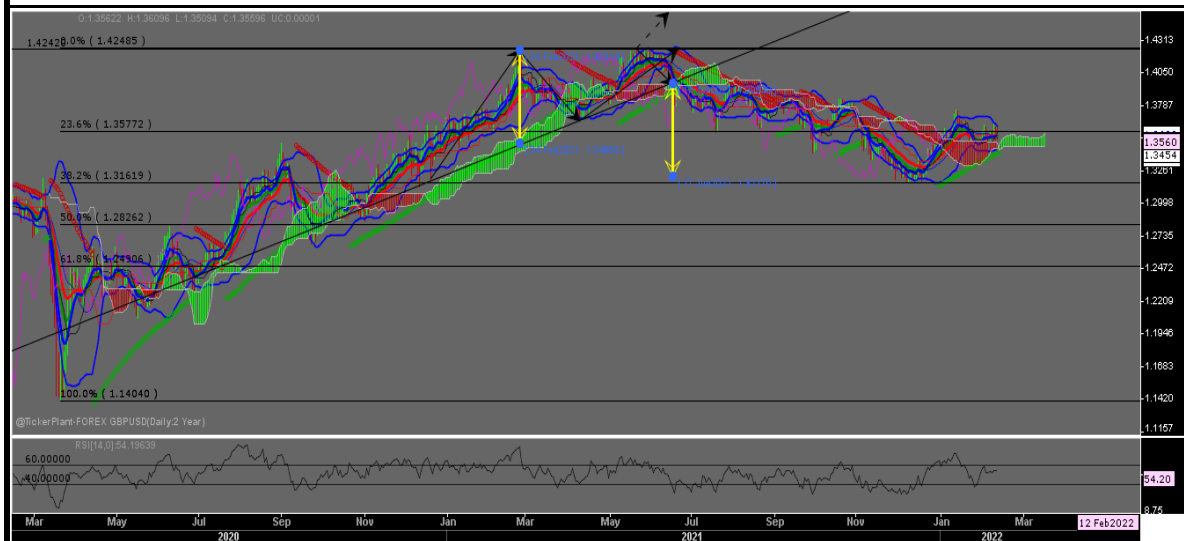
For the week ahead, one should go short around 1.1450 for targets of 1.1280 with stops placed above 1.1550.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.1420/50 SL 1.1550 TGT 1.1280				Sell 86.00/30 SL 86.60 TGT 85.30-84.90				1.1250-1.1450   84.50-86.30		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		83.48	84.19	84.91	85.36	85.62	86.07	86.34	87.05	87.77	
Exporters Strategy	Exporters were advised to hedge 50% around 84.30. Further pending February exposure to be hedged at 85.80 Spot.										
Importers Strategy	Importers were advised to hedge 50% of February payables around 83.50 on Spot. Pending was held open with Stop above 84.40 which has been triggered.										

## British Pound Outlook

On Friday it was announced that the UK economy had advanced 7.5% in 2021, the highest GDP growth rate since World War II. Figures for December were expected to decline in light of Omicron and related Government guidance during the holiday period.

The employment figure for December is also due. Unemployment is currently at 4.1% and is expected to remain unchanged on Tuesday.



The GBPUSD Daily chart indicates, Pound has seen a strong reversal recently, after it tested 38.2% Fibo supports at 1.3160. GBPUSD has also achieved the Long-term short target of around 1.32 as indicated by the breach of a Triangle pattern. GBPUSD then moved past the bearish Ichimoku cloud and rallied above the 23.6% Fibo resistance at 1.3575 when the Bollinger-RSI combination indicated the pair to be overbought in short term and was expected to witness a fall. This fall happened where the pair was seen trading near 1.3350. In the last week GBPUSD tried to hold the 1.3575/80 levels but failed and any small bounce in the pair next week close to 1.3650 should be used to go short in the pair. The Bollinger-RSI combination although indicates small upmoves in the pair, we suggest to avoid going long in the pair. The bullish Parabolic SAR is almost close to signal weakness.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 1.3640/60 SL 1.3720 TGT 1.3500				Sell 102.50/60 SL 103.20 TGT 101.20				1.3500-1.3650   100.50-102.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		97.52	98.92	100.32	101.22	101.72	102.62	103.12	104.52	105.92	
Exporters Strategy	Exporters were advised to hedge their February exposure partially (50%) around 101.50. Pending to be hedged around 102.20.										
Importers Strategy	Importers were advised to hedge partially (30%) near 100 for February exposure. Pending was held open with Stop above 101.50 Spot which has been triggered.										

## Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
14.02.2022	09:30 PM	USD	<b>FOMC Member Bullard Speaks</b>		
	09:45 PM	EUR	ECB President Lagarde Speaks		
15.02.2022	03:30 PM	EUR	ZEW Economic Sentiment	54.4	49.4
		EUR	German ZEW Economic Sentiment	55.1	51.7
	07:00 PM	USD	<b>PPI m/m</b>	<b>0.5%</b>	<b>0.2%</b>
		USD	Core PPI m/m	0.4%	0.5%
		USD	Empire State Manufacturing Index	11.9	-0.7
16.02.2022	12:30 PM	GBP	<b>CPI y/y</b>	<b>5.4%</b>	<b>5.4%</b>
	07:00 PM	USD	<b>Core Retail Sales m/m</b>	<b>1.0%</b>	<b>-2.3%</b>
		USD	<b>Retail Sales m/m</b>	<b>1.8%</b>	<b>-1.9%</b>
	07:45 PM	USD	Industrial Production m/m	0.4%	-0.1%
	09:00 PM	USD	Crude Oil Inventories		-4.8M
17.02.2022	12:30 AM	USD	<b>FOMC Meeting Minutes</b>		
	07:00 PM	USD	Philly Fed Manufacturing Index	19.9	23.2
		USD	Unemployment Claims	219K	223K
	Day 1	All	G20 Meetings		
	09:30 PM	USD	FOMC Member Bullard Speaks		
18.02.2022	12:30 PM	GBP	Retail Sales m/m	1.2%	-3.7%
	08:30 PM	USD	Existing Home Sales	6.10M	6.18M
	Day 2	All	G20 Meetings		
19.02.2022	12:00 AM	USD	FOMC Member Brainard Speaks		

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