

Currencies Weekly Report

Week of 02.05.2022

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Global Economic Review & Outlook

The rise in rates has been rapid and some sort of a correction would be warranted. However, central banks are pushing ahead with their rate hike plans and the development of inflation expectations supports hikes also from the ECB relatively soon.

Euro-area Inflation is close to peak at 7.5% y/y, but will remain high before falling in 2023. It is no longer about the peak, but about the durability. Growth was weak in Q1 and mostly due to Omicron, while higher prices will hurt consumption going forward.

This week is a big central bank week. The main event of this week will be the FOMC meeting concluding on Wednesday, but we also have Bank of England meeting (Thursday).

In the economic calendar we get new US ISM sentiment figures for manufacturing (Monday) and services (Wednesday). On the US labour market, we have JOLTs (Tuesday) and the official job report (Friday). At the May meeting the primary objective of FOMC is to bring inflation down by aligning itself with the market's expectation of "frontloading" rate hikes and starting quantitative tightening (QT). Fed Chair Powell has pretty much confirmed that there will be a 50bp hike and that the Fed will make a formal announcement of balance sheet run-off.

The BoE has raised rates at each of its last three meetings and started unwinding its balance sheet on the back of rising inflation concerns and a strong labour market. BoE had a more cautious stance in March, which does tilt the odds towards waiting until June.

| INDICES | Last Close | Previous Week | % CHANGE |
|-----------|------------|---------------|----------|
| NASDAQ | 12334.64 | 12839.29 | -3.93 |
| DOW JONES | 32978.52 | 33813.44 | -2.47 |
| NIKKEI | 26847.90 | 27105.26 | -0.95 |
| HANGSENG | 21089.39 | 20638.52 | 2.18 |
| CAC | 6533.77 | 6581.42 | -0.72 |
| DAX | 14097.88 | 14142.09 | -0.31 |
| FTSE | 7544.55 | 7521.68 | 0.30 |
| FX | Last Close | Previous Week | % CHANGE |
| DX | 102.96 | 101.22 | 1.72 |
| EURUSD | 1.0542 | 1.0795 | -2.34 |
| GBPUSD | 1.2571 | 1.2835 | -2.06 |
| USDJPY | 129.83 | 128.40 | 1.11 |

| | RBI Reference Rate | | | | |
|--------|--------------------|---------|-----------|----------|---------|
| | MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY |
| USDINR | 76.7366 | 76.5612 | 76.6414 | 76.6167 | 76.4242 |
| EURINR | 82.2673 | 82.0103 | 81.4509 | 80.6003 | 80.5807 |
| GBPINR | 97.8535 | 97.5380 | 96.4767 | 96.0191 | 95.7086 |
| JPYINR | 59.80 | 59.88 | 59.89 | 58.88 | 58.66 |

| | USDINR Forward Rates (Month End) | | | | |
|-----------|----------------------------------|---------|---------|---------|----------|
| | 1 Month | 3 Month | 6 Month | 9 Month | 12 Month |
| Monday | 76.7050 | 77.1950 | 77.9200 | 78.6750 | 79.4250 |
| Tuesday | 76.5750 | 77.0550 | 77.7600 | 78.4800 | 79.2350 |
| Wednesday | 76.7775 | 77.2325 | 77.9425 | 78.6625 | 79.4675 |
| Thursday | 76.7050 | 77.1650 | 77.8700 | 78.5900 | 79.3650 |
| Friday | 76.6300 | 77.0875 | 77.7900 | 78.5150 | 79.3050 |

Dollar Outlook

The DXY hit its highest level since 2022 last week, adding to a strong rally that has been aided by global growth concerns while the Fed grows increasingly hawkish relative to its peers. There is even chatter of a possible 75 bps hike, although the market seems unconvinced.

That opens the door for a surge in the Greenback if the Fed does deliver a jumbo 75 bps hike. However, the USD may have fully priced in the smaller 50 bps hike, leaving the door open to a “sell the news” event.

The chance for a reversal in the Dollar's bullish trend is unlikely to occur, given the Fed remains poised to deliver another 50 bps hike in the June FOMC.

Moreover, the Fed is likely to announce details on trimming its balance sheet, which ballooned to over USD 9 trillion through the pandemic. This move will most likely cause a reduction in liquidity in the rates market, which would also pressure the broader market through higher short-term interest rates. The announcement may trigger further risk-off flows amid already growing economic concerns. That would favour the Dollar, but given the impressive run-up to this week, it could trigger a short-term pullback.



The USDINR Weekly chart shows the pair after printing a lifetime high of 76.9825 in the beginning of March has been showing large swings with upward bias for the last two months.

The pair touched 76.76 last week but couldn't manage to further rise and slipped down to settle at 76.43.

USDINR although manages to trade well above the 8-13-20 EMAs and is close to the Upper Bollinger band, the RSI has been hovering near the overbought region, with no clear indications whether the pair will again gather upward momentum or cool off for a while.

Despite the long term trend being bullish in USDINR, the penetration of Parabolic SAR into the Ichimoku cloud from below indicates minor downfall in the pair.

For the week ahead, we suggest going short on the pair for small targets of 76.20 and 76.

| Weekly Bias | Weekly Trading Strategy (SPOT) | | | | | | | | Weekly Range | | |
|--------------------|---|-------|-------|-------|-------|-------|-------|-------|--------------|-------|--|
| Sideways | Sell 76.50-76.70 SL 77.00 TGT 76.20-76.00 | | | | | | | | 75.80-76.70 | | |
| Pivot Levels | | S4 | S3 | S2 | S1 | Pivot | R1 | R2 | R3 | R4 | |
| | | 75.07 | 75.54 | 76.02 | 76.22 | 76.49 | 76.70 | 76.97 | 77.44 | 77.92 | |
| Exporters Strategy | Exporters are suggested to hedge their May exposure partially (60%) around 76.60. Pending to be held open with stop below 75.50 Spot. | | | | | | | | | | |
| Importers Strategy | Importers are suggested to target hedging May payables partially (50%) around 75.80. Pending to be held open with stop above 77.00 Spot. | | | | | | | | | | |

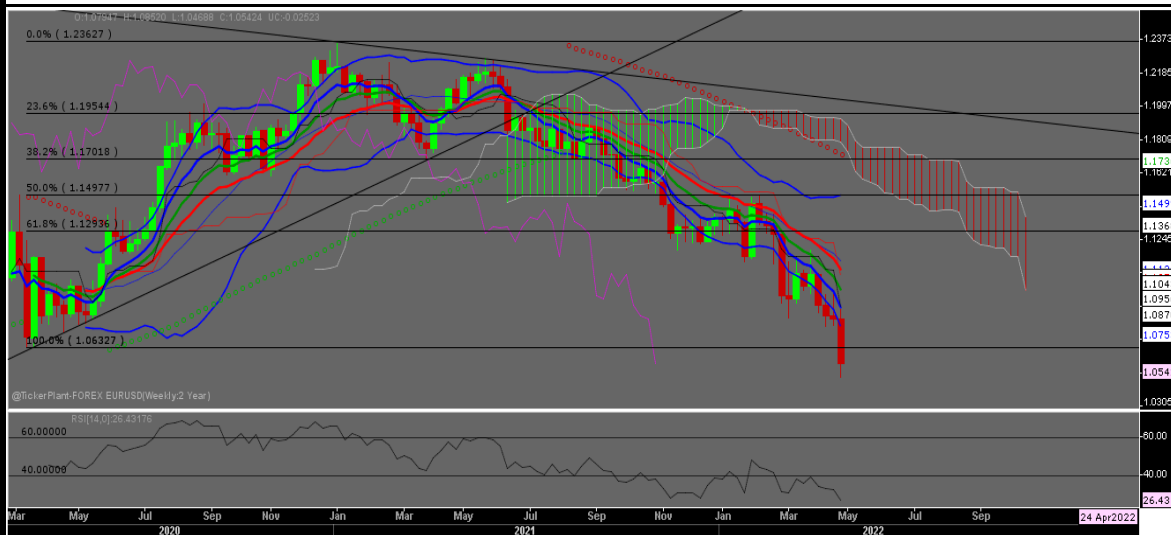
Euro Outlook

EURUSD bounced back from a fresh yearly low (1.0469) after depreciating last week, but the Fed's interest rate decision is likely to sway the exchange rate as it is widely expected to normalize monetary policy at a faster pace.

EURUSD appears to be reversing course ahead of the 2017 low (1.0340) as the core US PCE Price Index narrows to 5.2% from a revised 5.3% p.a. in February, and data prints coming out of the Euro Area may fuel a larger rebound in the pair as Germany's Unemployment report is anticipated to show a further improvement in the labor market.

Unemployment in Germany is anticipated to fall 15k in April after contracting 18K the month prior, and a positive development may encourage the ECB to adjust the forward guidance for monetary policy as a growing number of Governing Council officials show a greater willingness to switch gears.

However, the FOMC rate decision on May 4 will largely influence EURUSD. A delay in the Fed's exit strategy may generate a near-term rebound in the pair.



The EURUSD Weekly chart indicates the pair has fully lost the gains made between Mid-March 2020 & Beginning of Jan 2021, even breaching the March 2020 low of 1.0635 to print a low of 1.0469 last week. The pair somehow managed to recover late last week to settle at 1.0542.

The Bollinger-RSI combination continues to show the pair being extremely oversold trading well below the 8-13-20 EMA bearish crossover.

Also, the densely bearish Ichimoku cloud formation indicates that the overall trend in the pair is expected to further remain bearish for next few weeks.

However, the bearsish Parabolic SAR penetrating the ichimoku from above brings in hopes of small reversals and recovery in the pair.

Next week, we suggest going long on the pair above 1.0620.

| Weekly Bias | Weekly Trading Strategy (SPOT) | | | | | | | | Weekly Range | | |
|--------------------|---|-------|-------|-------|--|-------|-------|-------|-----------------------------|-------|--|
| Sideways-Bullish | Buy Above 1.0620 SL 1.0500 TGT 1.0770 | | | | Buy Above 81.30 SL 80.50 TGT 82.20-82.80 | | | | 1.0550-1.0770 80.50-83.00 | | |
| Pivot Levels | | S4 | S3 | S2 | S1 | Pivot | R1 | R2 | R3 | R4 | |
| | | 74.27 | 76.61 | 78.94 | 79.85 | 81.27 | 82.18 | 83.60 | 85.94 | 88.27 | |
| Exporters Strategy | Exporters are advised to hedge 40% of the May exposure around 82.30 Spot. Total exposure to be held open with Stop below 80.50 Spot. | | | | | | | | | | |
| Importers Strategy | Importers are advised to hedge 60% of May payables around 80.80 on Spot. Pending to be held open with Stop above 81.50. | | | | | | | | | | |

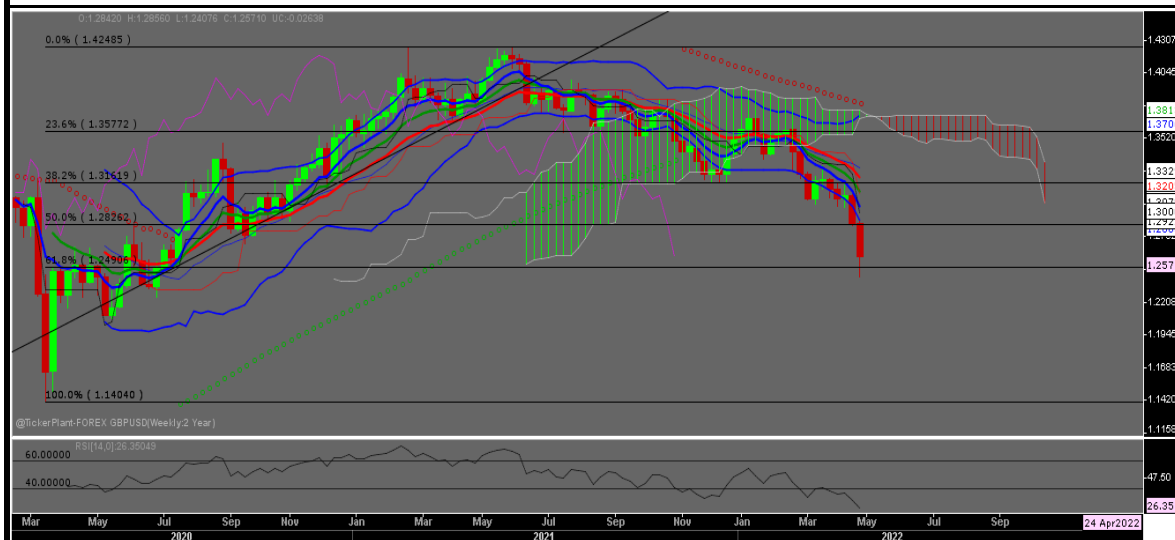
British Pound Outlook

Recent reports from the UK including retail sales, manufacturing output and services sector activity for March, surprised on the downside, a sign that the recovery is faltering and that the economy is starting the second quarter on a weaker footing as surging price pressures curtail demand.

With growth slowing rapidly, the BoE may not be as aggressive as other central banks in its fight against inflation. This means that we may only see moderate interest rate increases in the coming months, rather than front-loaded hikes like the Federal Reserve.

Looking ahead, there is no strong reason to be optimistic about Pound. The increasing probability that the UK economy will contract in the second quarter and that the BoE's normalization cycle will underwhelm expectations may keep GBPUSD subdued or show little recovery.

The Pound may be undermined in the near term due to deteriorating sentiment. Market volatility has been on the rise recently as stocks have plunged across the board. If vols climb further and equities extend their sell-off, demand for safe haven assets such as USD is likely to rise.



The GBPUSD Weekly chart indicates, last week the Pound breached the 50% Fibo support at 1.2826 to drop lower even below the 61.8% Fibo Support of 1.2490.

However, the pair managed to hold this 61.8% level to settle at 1.2571 for the week.

GBPUSD in last two week had been depreciating continuously and is now lacking fundamental backing.

The bearish Ichimoku cloud formation as mentioned in our earlier reports has proved to be a threat since the beginning of April. However, the Bollinger-RSI combination now indicates the pair is extremely oversold and might show minor bounces in the next few weeks.

The bearish Parabolic SAR if penetrates the ichimoku cloud from upside the short term reversal may be fruitful and lead to a continued upward move in the pair.

| Weekly Bias | Weekly Trading Strategy (SPOT) | | | | | | | | Weekly Range | | |
|--------------------|---|-------|-------|-------|--|-------|-------|-------|-----------------------------|--------|--|
| Sideways-Bullish | Buy Above 1.2610 SL 1.2500 TGT 1.2810 | | | | Buy Above 96.50 SL 95.50 TGT 97.60-98.20 | | | | 1.2500-1.2850 96.00-97.60 | | |
| Pivot Levels | | S4 | S3 | S2 | S1 | Pivot | R1 | R2 | R3 | R4 | |
| | | 88.44 | 91.15 | 93.85 | 94.90 | 96.55 | 97.60 | 99.25 | 101.96 | 104.66 | |
| Exporters Strategy | Exporters are advised to hedge their May exposure partially (40%) around 98.00. Total exposure to be held open with Stop below 95.50 Spot. | | | | | | | | | | |
| Importers Strategy | Importers are advised to hedge partially (60%) near 96.30 Spot for May exposure. Pending to held open with Stop above 96.80 Spot. | | | | | | | | | | |

Economic Data for the Week

| Date | Time | Currency | Data | Forecast | Previous |
|------------|----------|----------|--------------------------------|----------|----------|
| 02.05.2022 | 07:30 PM | USD | ISM Manufacturing PMI | 57.5 | 57.1 |
| 03.05.2022 | 07:30 PM | USD | JOLTS Job Openings | 11.19M | 11.27M |
| 04.05.2022 | 12:30 PM | EUR | Spanish Unemployment Change | | -2.9K |
| | 05:45 PM | USD | ADP Non-Farm Employment Change | 400K | 455K |
| | 07:30 PM | USD | ISM Services PMI | 58.5 | 58.3 |
| | 11:30 PM | USD | FOMC Statement | | |
| | | USD | Federal Funds Rate | <1.00% | <0.50% |
| 05.05.2022 | 12:00 AM | USD | FOMC Press Conference | | |
| | All Day | All | OPEC-JMMC Meetings | | |
| | 04:30 PM | GBP | BOE Monetary Policy Report | | |
| | | GBP | MPC Official Bank Rate Votes | 8-0-1 | 8-0-1 |
| | | GBP | Monetary Policy Summary | | |
| | | GBP | Official Bank Rate | 1.00% | 0.75% |
| | 06:00 PM | USD | Unemployment Claims | 180K | 180K |
| 06.05.2022 | 06:00 PM | USD | Average Hourly Earnings m/m | 0.4% | 0.4% |
| | | USD | Non-Farm Employment Change | 390K | 431K |
| | | USD | Unemployment Rate | 3.5% | 3.6% |

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