

Currencies Weekly Report

Week of 13.06.2022

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Global Economic Review & Outlook

The era of low global interest rates is coming to an abrupt end. The highest inflation in decades has made 50bp hikes the new normal for most G10 central banks, at least for now. The Fed will try to further tighten financial conditions in the week ahead.

The ECB's earlier pledges towards gradual rate hikes are as good as gone, even if rate hikes will start with a 25bp move in July. A 50bp hike will likely follow in September, and the current momentum could easily push rate expectations further up.

Central banks are clearly in a hurry to remove the ultra-loose monetary policy due to the highest inflation in decades. It's the end of an era and even the ECB is on board.

The Fed is due with its upcoming rate meeting coming Wednesday (15 June). It is certain that the Fed funds rate will rise by 50bp this week. Markets will closely follow the new dot plot for signs of the pace of further hikes.

Risk appetite seems to have improved in markets lately. China is slowly reopening and economic data from the US remains resilient with strong ISM readings and nonfarm payrolls.

Markets need to brace themselves for the coming week. The Fed has made it clear that it wants tighter financial conditions, but the pace of tightening has taken a pause over the past couple of weeks. If risk-off comes back due to a hawkish Fed, the USD will gain once more. FOMC & rate meetings in UK, Switzerland and Japan are due this week.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	11340.02	12012.73	-5.60
DOW JONES	31392.36	32898.91	-4.58
NIKKEI	27824.29	27761.57	0.23
HANGSENG	21806.18	21082.13	3.43
CAC	6187.23	6485.30	-4.60
DAX	13761.83	14460.09	-4.83
FTSE	7317.52	7532.95	-2.86
FX	Last Close	Previous Week	% CHANGE
DX	104.15	102.14	1.97
EURUSD	1.0516	1.0717	-1.88
GBPUSD	1.2314	1.2489	-1.40
USDJPY	134.37	130.81	2.72

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	77.6718	77.7239	77.7251	77.7870	77.8400
EURINR	83.2823	82.9661	83.0980	83.3420	82.6879
GBPINR	97.1115	96.7321	97.7010	97.3582	97.2341
JPYINR	59.45	58.48	58.40	58.12	58.14

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	77.7800	78.2500	78.9525	79.6450	80.4800
Tuesday	77.8550	78.3250	79.0300	79.7300	80.5750
Wednesday	77.8650	78.3300	79.0400	79.7400	80.5700
Thursday	77.8750	78.3350	79.0250	79.7250	80.5550
Friday	77.9250	78.3725	79.0475	79.7125	80.5275

Dollar Outlook

The Dollar index rallied this past week, jumping almost 2% and breaking above the 104.00 handle. Yields have risen sharply in recent days, but the upswing was particularly large on Friday after May U.S. inflation surprised to the upside, surging 8.6% y-o-y, the hottest since 1981. The Treasury curve thus shifted upwards across all tenures, with the 2-yr yield topping 3% for the first time since 2008.

In the week ahead, when the FOMC meeting is the highlight of the economic calendar, the Dollar is likely to remain biased to the topside as markets position for the possibility of a much more aggressive tightening cycle in response to the price pressures in the U.S. economy.

Prior to Friday's CPI release, Wall Street only discounted a 50 bp hike for the June FOMC, but now expectations of a 75 bp hike are increasing, with traders marking a 40% probability just before the weekend. If these expectations solidify, the Dollar should be well positioned to strengthen against G-10 currencies. Focusing on the FED, traders closely track the rhetoric and also the quarterly summary of economic projection, which includes the famous dot-plot. Also, PCE forecasts are likely to be revised upward for 2022 and 2023, while GDP projections should see negative revisions for both years, but no recession yet.

In terms of the monetary policy outlook, Fed officials may opt in for a steeper path of rate hikes for this year tracking recent developments on the inflation front, opening the door to 50bp hikes at every remaining meeting for the year. This could be quite bullish for U.S. yields and the Dollar, allowing the DXY to retest its 2022 high of 105 and possibly head towards new multi-decade highs.



The USDINR Weekly chart indicates the pair traded positive the past week and printed a new lifetime high of 77.87.

USDINR manages to trade well above the 8-13-20 EMAs, just above the 61.8% Fibo price extension level of 77.45 and has moved past the Upper Bollinger band.

The pair has all reasons to continue its upward move but the RSI has been in the overbought region, with no clear indications whether it will continue upward move or cool off for a while. USDINR has been very stable recently and is bound to find trigger from the US CPI data released last week.

We recommend going long on USDINR this week.

However, a lot of economic data releases will keep Dollar volatile.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bullish-Sideways	Buy 77.93-78.03 SL 77.67 TGT 78.03-78.30								77.80-78.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		76.99	77.25	77.51	77.67	77.77	77.93	78.03	78.29	78.55	
Exporters Strategy	Exporters were suggested to hedge their June exposure partially (60%) around 77.70. Pending to be held open with stop below 77.50 Spot.										
Importers Strategy	Importers were suggested to target hedging June payables partially (50%) around 77.00. Pending to be held open with stop above 78.10 Spot.										

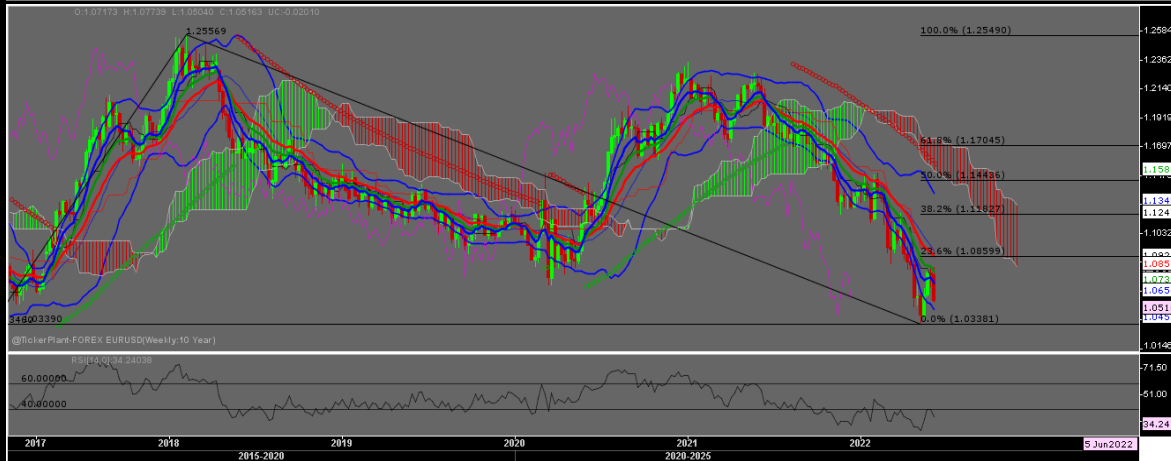
Euro Outlook

The Euro performed its worst against the Dollar last week since late April, with EURUSD falling about 1.88%. This was despite a hawkish European Central Bank that announced imminent rate hikes, an end to monthly asset purchases and an upgrade to inflation expectations. The central bank did however downgrade growth estimates.

The Euro has too much competition from the FED. In one year, forward curves imply the Fed bringing benchmark lending rates to 3.78% while the ECB falling short at 1.93%. This was amplified by the latest headline inflation report out of the US.

The Fed is falling increasingly behind the curve and faces more immediate pressure to tackle the highest inflation in 40 years. Comparatively, the Euro Area inflation is lower by much, it is not. Headline CPI in the Euro Area was 8.1% y-o-y in May.

But, the focus this coming week is on the Federal Reserve on Wednesday now that the ECB has had its turn. This is leaving the Euro at risk. The Bank of England and Bank of Japan are also up. Its not that the Euro can't find momentum from a hawkish ECB, it certainly can. But, it seems this coming week, that story will have to wait.



The EURUSD Weekly chart indicates the pair has recently tested levels close to the 2016 lows of 1.0340.

Recently the Euro had gained little versus Dollar and was able to rise close to 8-13-20 EMAs also finding support at Lower Bollinger. However, the Euro could maintain the strength and has slipped back close to lower Bollinger band. Also, the bearish Ichimoku cloud indicates the overall trend is expected to further remain bearish in near term.

The pair being held back at the 13-DEMA indicates a little weakness in the week ahead.

Major resistance stands at 1.0860, as indicated by the Fibonacci Price Extension.

This week, we suggest going short on the pair near 1.0580.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 1.0550-1.0580 SL 1.0680 TGT 1.0430				Sell 83.20-83.40 SL 83.90 TGT 82.20-81.80				1.0400-1.0600 81.80-83.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		79.68	80.73	81.77	82.15	82.82	83.19	83.87	84.92	85.96	
Exporters Strategy	Exporters are advised to hedge 40% of the June exposure around 84.20 Spot. Total exposure to be held open with Stop below 82.30 Spot.										
Importers Strategy	Importers were advised to hedge 60% of June payables around 82.80 on Spot. Pending to be held open with Stop above 84.10.										

British Pound Outlook

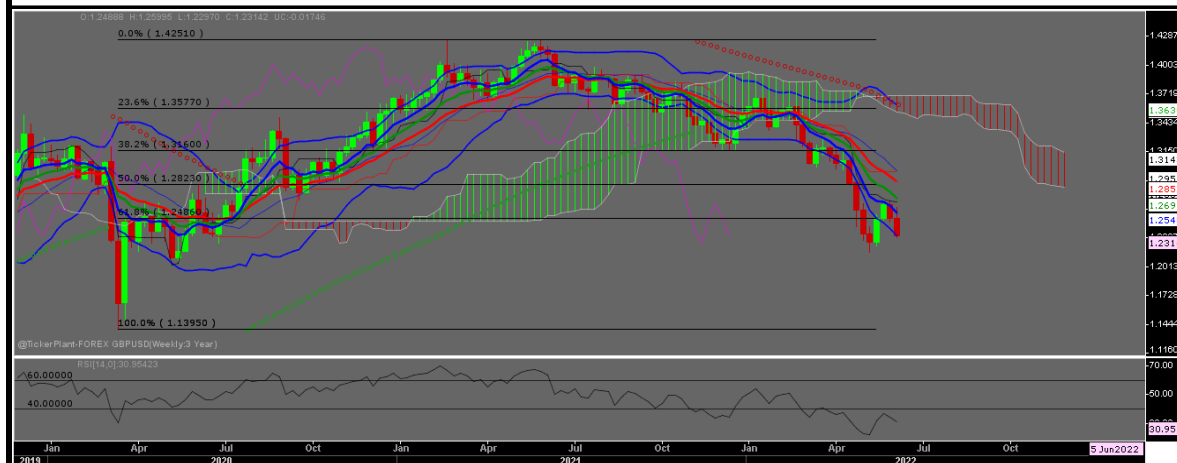
The coming week is a rather bumper week in terms of the economic calendar when we consider the amount of high impact data.

Higher than expected US CPI and shockingly low University of Michigan Consumer Sentiment data last week has put not just the Fed to work, but also other major central banks. Aggressive rate hikes are having little effect on rising prices and consumers hold a not so encouraging outlook as far as current and future economic conditions are concerned.

UK GDP is expected to have expanded in April when measured against March, although at a slower rate, and is set to show a slower rate of expansion y-o-y.

On Tuesday, employment data is expected to continue the trend of job gains for March with an estimated 106,000 jobs to have been added, taking the unemployment rate down to 3.6%, potentially. The strong job market is a welcomed sight for the BoE as it is left with little option but to hike into a weaker growth environment.

This week the BoE contemplates hiking rates by 25 bp despite markets pricing in 32 bp hike. This may create a scenario whereby a 25 bp hike instead of a 50 bp hike may result in a hawkish disappointment, which may see the pound depreciate against, the dollar and possibly the euro.



Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
13.06.2022	11:30 AM	GBP	GDP (YoY)		8.7%
		GBP	GDP (QoQ)		0.8%
		GBP	Manufacturing Production (MoM) (Apr)	0.2%	-0.2%
14.06.2022	11:30 AM	GBP	Claimant Count Change (May)	-42.5K	-56.9K
	02:30 PM	EUR	German ZEW Economic Sentiment (Jun)	-27.5	-34.3
	06:00 PM	USD	PPI (MoM) (May)	0.8%	0.5%
15.06.2022	06:00 PM	USD	Core Retail Sales (MoM) (May)	0.8%	0.6%
		USD	Retail Sales (MoM) (May)	0.2%	0.9%
	08:00 PM	USD	Crude Oil Inventories	-1.917M	2.025M
	11:30 PM	USD	FOMC Economic Projections		
		USD	FOMC Statement		
		USD	Fed Interest Rate Decision		
16.06.2022	12:00 AM	USD	FOMC Press Conference		
	04:30 PM	GBP	BoE Interest Rate Decision (Jun)	1.25%	1.00%
	06:00 PM	USD	Building Permits (May)	1.787M	1.823M
		USD	Initial Jobless Claims	215K	229K
		USD	Philadelphia Fed Manufacturing Index (Jun)	5.3	2.6
17.06.2022	08:30 AM	JPY	BoJ Monetary Policy Statement		
	Tentative	JPY	BoJ Press Conference		
	02:30 PM	EUR	CPI (YoY) (May)	8.1%	8.1%
	06:15 PM	USD	Fed Chair Powell Speaks		

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