

Currencies Weekly Report

Week of 11.07.2022



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July 11, 2022

Global Economic Review & Outlook

Last week was great for the global stock markets.

Market sentiment improved, flipping from hopes of a slowdown and betting on easing interest rates to going bullish despite economic data supporting a continuously hawkish Fed.

The week ahead will likely be one of the most important of the year for U.S. markets at least.

On Wednesday, July 13, the U.S. Bureau Of Statistics will release the widely-anticipated inflation data for May. Headline CPI is expected to register an 8.7% y-o-y growth, up slightly from the previous 8.6% reading. Oil had a noisy week. It dropped in the double digits on Monday as the recession surpassed a tight market. Yet, in the last two days of the week, the falling supplies returned to the forefront of traders' minds amid positive economic data.

Sri Lankan President Rajapaksa was said to have stepped down in the wake of a protest crowd. This comes after years of financial mismanagement, exacerbated by the onset of Covid-19 pandemic and pushed over the top by recent commodities inflation.

Russia's war on Ukraine shows no signs of compromise or negotiations.

Could keep the inflationary pressure on.

British PM Johnson's resignation opens the door to more uncertainty in the UK as the jockeying for his replacement begins.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	11635.31	11127.84	4.56
DOW JONES	31339.20	31097.46	0.78
NIKKEI	26517.19	25935.62	2.24
HANGSENG	21725.78	21859.79	-0.61
CAC	6033.13	5931.06	1.72
DAX	13015.23	12813.03	1.58
FTSE	7196.24	7168.65	0.38
FX	Last Close	Previous Week	% CHANGE
DX	106.89	105.12	1.68
EURUSD	1.0185	1.0427	-2.33
GBPUSD	1.2027	1.2094	-0.55
USDJPY	136.05	135.23	0.61

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	78.9866	79.0790	79.3320	79.0235	79.2499
EURINR	82.3978	82.5147	81.3766	80.6846	80.5834
GBPINR	95.6238	95.8000	94.6928	94.4004	95.1236
JPYINR	58.33	58.08	58.61	58.17	58.40

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	79.0900	79.4900	80.0450	80.6000	81.3000
Tuesday	79.5050	79.9000	80.4500	80.9900	81.6700
Wednesday	79.4350	79.8300	80.3750	80.9150	81.6100
Thursday	79.2900	79.6950	80.2600	80.8100	81.5100
Friday	79.3550	79.7650	80.3200	80.8700	81.5650

Dollar Outlook

The U.S. Dollar had another strong week, rising more than 1.7% to close near 107.00, one of its best levels since late 2012. While bullish momentum may be overextended after a y-t-d advance of nearly 12%, the broader outlook remains positive from a fundamental standpoint.

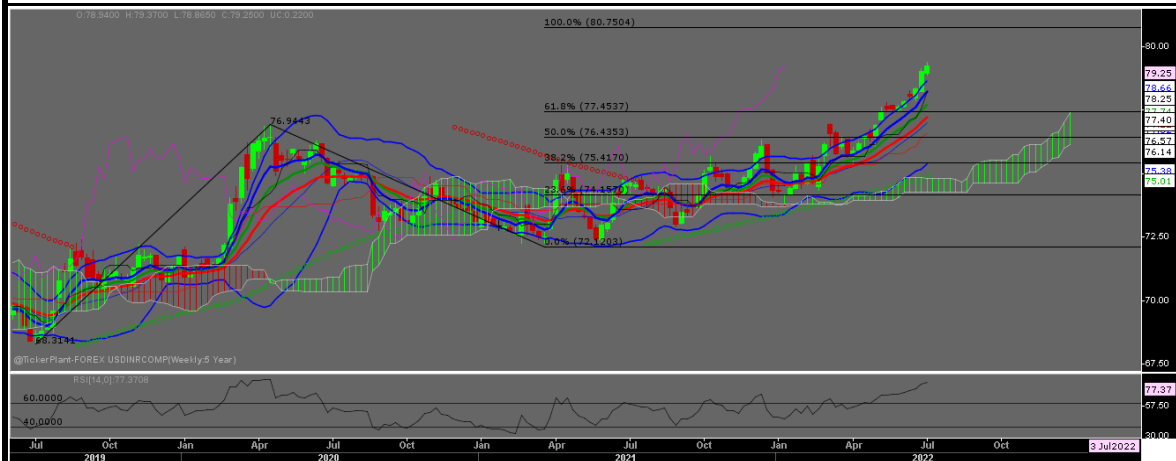
Since mid-June, Treasury yields have repriced lower on the assumption that the Fed would blink and pivot to prevent a significant economic downturn.

However, the Fed has not given any indications that it intends to step on the brakes; on the contrary, policymakers have signaled that they will press ahead with their plans to remove policy accommodation aggressively in their effort to restore price stability.

Despite the ongoing headwinds, macro-related data have held up well, particularly from the labor market, with the latest NFP survey confirming this assessment. The June non-farm payroll report showed a net gain of 372,000 jobs, well above consensus expectations of a 268,000 increase, a sign that hiring conditions remain solid. This could lead the markets to fear that the economy is headed towards recession.

We'll get a better picture of the inflation profile this week when June CPI is released. Another hot reading could boost bets for super-sized hikes at upcoming FOMC meetings and put upward pressure on the terminal rate, which now stands at around 3.58%.

In the current environment, the Dollar is likely to maintain a bullish bias, especially if Treasury yields recover strongly in the very near term.



The USDINR Weekly chart indicates the pair traded positive the past week and printed a new lifetime high of 79.37.

USDINR manages to trade well above the 8-13-20 EMAs, above the 61.8% Fibo price extension level of 77.45 & has moved past the Upper Bollinger band approaching 100% extension marked at 80.75.

The pair has all reasons to continue its upward move to this level but the RSI has been in the overbought region, with much ambiguity whether it will continue upward move or cool off. USDINR had been very stable recently and was bound to find trigger soon where it rallied past 79.

However, it is early to say if USDINR will hold 79.

We recommend going short on rise in USDINR this week too.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 79.50-79.70 SL 79.85 TGT 78.95-78.65								78.65-79.70		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		77.65	78.15	78.66	78.95	79.16	79.46	79.67	80.17	80.68	
Exporters Strategy	Exporters were suggested to hedge their July exposure partially (50%) around 79. Add 25% at 79.50. Pending to be held open with Stop below 78.50.										
Importers Strategy	Importers were suggested to hold July payables open with Stop above 79.50. Partial hedging done around 78.80.										

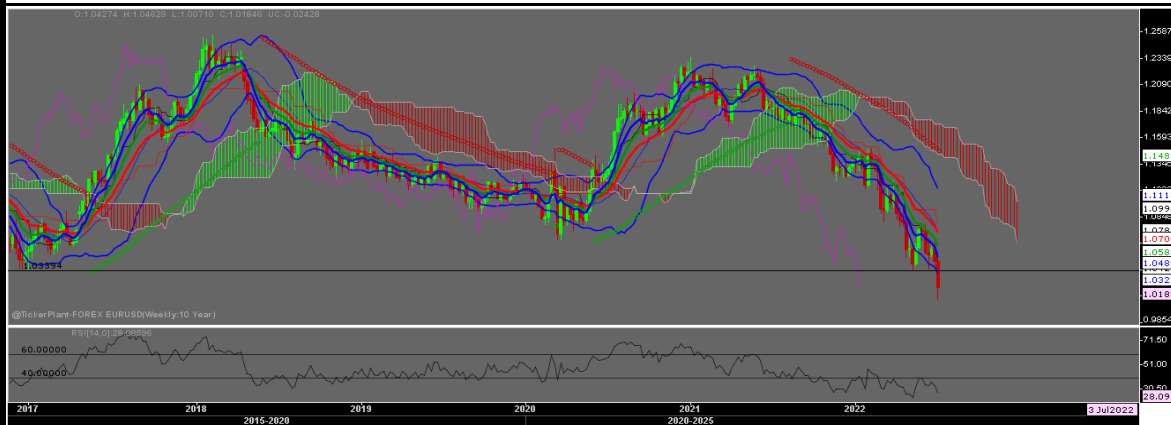
Euro Outlook

In May, Germany recorded its first trade deficit since 1991 as the higher cost of imports compounded a decline in exports and recorded a 1 billion euros trade deficit after a surplus of 3.1 billion euros in April. To put the move into context, the May 2021 surplus was as high as 13.4 billion euros which highlights the negative effects of higher imported inflation as a result of the Russian invasion. The trade deficit adds to a number of concerns in the EU as markets look for clues on growth slow downs and potentially, a recession.

The ECB is set to achieve lift-off this month with a 25 bp hike as the economy shows signs of stress. Hiking into a weakening outlook is extremely tricky and has the potential to cause havoc for sovereign bond yields of the EU's more indebted nations. The Fed has already hiked by 150 bps and BoE by 115 bps.

ECB President Lagarde introduced the concept of an anti-fragmentation tool at last meeting but refused to go into any details further. It could be a matter of ECB looking to keep their powder dry until such time as they are required to act in order to prevent a blowout in periphery bond yields.

Risks to the euro appears in the form of Russian gas. Russia has been delivering far less gas than requested by Germany, blaming this on the delays in getting equipment back from Canada due to sanctions on Russia. Germany's main gas pipeline, Nord Stream 1, is due to undergo routine maintenance From 11th July to 21st July with some highlighting this as an opportunity for Russia to politicize gas.



The EURUSD Weekly chart indicates the pair continued its downtrend last week to test 1.0071 before settling at 1.0185. Recently the Euro has been facing strong resistance at all three 8-13-20 EMAs, thus keeping itself near to the Lower Bollinger band. Also, the bearish Ichimoku cloud indicates overall trend is expected to further remain bearish in near term.

EURUSD has failed to witness even a small bounce and continues to trade below the 8-13-20 EMAs.

A breach of long-term support around 1.0330 indicates further downward moves in EURUSD towards parity.

Major resistance stands at 1.04. We suggest going short on the pair at 1.0250 & 1.04 for targets of 1.0020 in the week ahead.

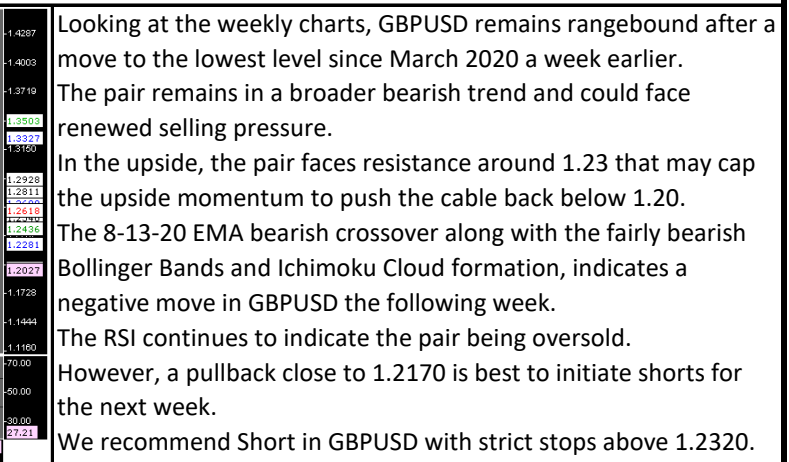
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 1.0250 & 1.04 SL 1.05 TGT 1.0020				Sell 80.90-81.20 SL 82.00 TGT 79.50				1.0020-1.0400 79.50-81.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		72.78	75.50	78.21	79.24	80.92	81.96	83.63	86.35	89.06	
Exporters Strategy	Exporters were advised to hedge 40% of the July exposure around 84.20 Spot. Total exposure to be held open with Stop below 82.30 Spot. Stop Triggered.										
Importers Strategy	Importers were advised to hedge 60% of July payables around 81.50 on Spot. Pending to be hedged around 79.50 levels Spot.										

British Pound Outlook

The reprieve that Pound has received from the resignation of UK PM Boris Johnson may be short-lived as the lingering woes present within the UK economy wait to reveal themselves once more.

While the Dollar continues to remain elevated, we look forward to key UK centric data including GDP which could exacerbate the worrying fundamental backdrop for GBP.

An escalating row over Northern Ireland's status following Brexit that could upend British trade ties with the European Union has also hurt sterling.



Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bearish-Sideways	Sell 1.2170-1.22 SL 1.2320 TGT 1.1880				Sell 95.50-95.80 SL 96.60 TGT 94.20-93.80				1.1880-1.2200 93.80-95.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		90.16	91.78	93.39	94.14	95.01	95.76	96.62	98.24	99.85	
Exporters Strategy	Exporters were advised to hedge their July exposure partially (60%) around 96.00. Total exposure to be held open with Stop below 94.80 Spot. Stop Triggered.										
Importers Strategy	Importers were advised to hedge partially (40%) near 94.80 Spot for July exposure. Add 30% around 94. Pending to be held open with Stop above 96.30 Spot.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
11.07.2022	07:45 PM	GBP	BoE Gov Bailey Speaks		
12.07.2022	02:30 PM	EUR	German ZEW Economic Sentiment (Jul)	-38.0	-28.0
	09:30 PM	USD	EIA Short-Term Energy Outlook		
	10:30 PM	GBP	BoE Gov Bailey Speaks		
13.07.2022	11:30 AM	GBP	GDP (QoQ)		0.8%
		GBP	GDP (MoM)		-0.3%
		GBP	GDP (YoY)		8.7%
		GBP	Manufacturing Production (MoM) (May)	0.1%	-1.0%
		GBP	Monthly GDP 3M/3M Change		0.2%
	06:00 PM	USD	Core CPI (MoM) (Jun)	0.6%	0.6%
	08:00 PM	USD	Crude Oil Inventories		8.235M
14.07.2022	06:00 PM	USD	Initial Jobless Claims	235K	235K
		USD	PPI (MoM) (Jun)	0.8%	0.8%
15.07.2022	07:30 AM	CNY	GDP (YoY) (Q2)	4.4%	4.8%
		CNY	Industrial Production (YoY) (Jun)	-0.7%	0.7%
	06:00 PM	USD	Core Retail Sales (MoM) (Jun)	0.6%	0.5%
		USD	Retail Sales (MoM) (Jun)	0.8%	-0.3%

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