

Currencies Weekly Report

Week of 03.01.2022



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Global Economic Review & Outlook

The US Federal Reserve announced a significant shift in its monetary policy stance to end 2021, but the more hawkish move barely had any positive impact on the Dollar in general.

Nothing is certain in the world of central banking but the forward guidance from the ECB suggests that early in 2022 it will reduce bond buying via its Pandemic Emergency Purchase Program and perhaps balance that by increasing buying via its older Asset Purchase Program: essentially making no change in monetary policy overall.

As we enter a new year, markets will be transitioning into different monetary policy waters. While there are still some very notable doves among the major central banks (such as the ECB and BoJ); the majority are tapering, projecting near-term rate hikes or already lifting their benchmarks. This gives context of relative value. Were it only the Fed that were on course to raise rates while other major peers were static or easing, there would be a distinct carry advantage to the Dollar.

With reference to the Euro, one unknown is whether the new German government coalition of social democrats, liberal democrats and greens will loosen fiscal policy to such an extent that the ECB would be forced to react by tightening monetary policy to balance out economic policy overall. This is very unlikely though and traders will almost certainly ignore it.

The BoE started the cycle of tightening monetary policy by hiking Base Rate by 15 bps to 0.25%, the first-rate hike in over three years.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	15645.00	15653.40	-0.05
DOW JONES	36338.30	35950.63	1.08
NIKKEI	28791.71	28782.59	0.03
HANGSENG	23397.67	23223.76	0.75
CAC	7153.03	7086.58	0.94
DAX	15884.86	15756.31	0.82
FTSE	7384.54	7372.10	0.17
FX	Last Close	Previous Week	% CHANGE
DX	95.67	96.02	-0.36
EURUSD	1.1371	1.1317	0.48
GBPUSD	1.3520	1.3385	1.01
USDJPY	115.09	114.34	0.66

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	75.1082	74.8528	74.7375	74.5823	74.3025
EURINR	84.9819	84.7803	84.4798	84.4321	84.0450
GBPINR	100.6325	100.5548	100.3336	100.5265	100.3014
JPYINR	65.62	65.16	65.04	74.77	64.54

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	74.9950	75.4750	76.4450	77.3100	78.1700
Tuesday	74.6525	75.1200	76.0850	76.9550	77.8100
Wednesday	74.9700	75.4650	76.4400	77.3150	78.1550
Thursday	74.6200	75.1200	76.0950	76.9750	77.8200
Friday	74.5325	75.0325	76.0175	76.8925	77.7325

Dollar Outlook

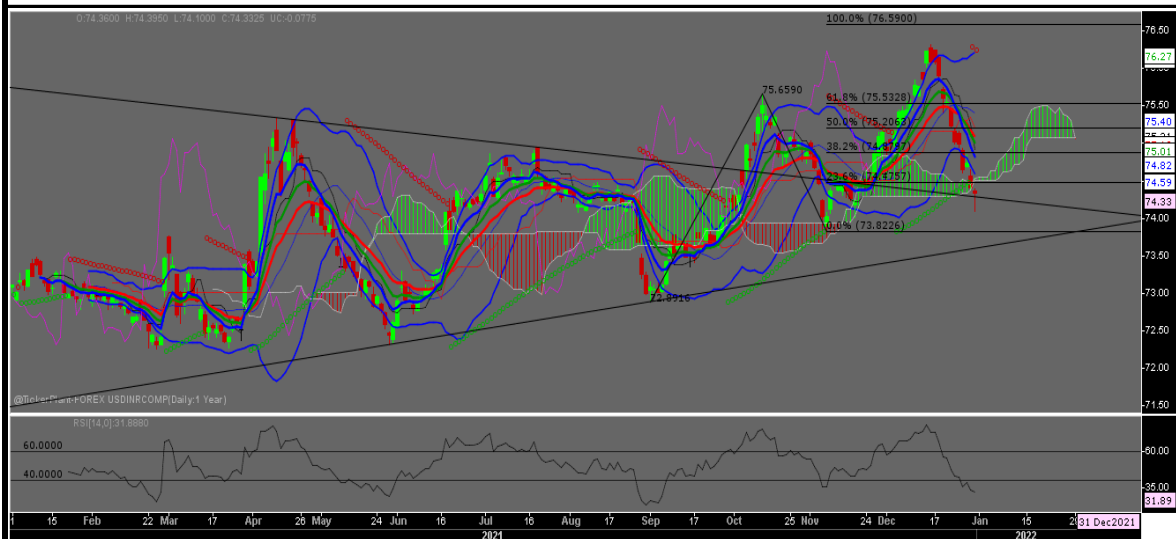
With the Dollar's safe haven status in mind and a shift in focus from localized monetary policy, there are other matters that Dollar traders need to look into through the opening run of 2022.

The complication of the forthcoming US debt limit is a deadline that keeps resetting. After another last-minute delay, threat of an unthinkable US default has shifted to the first quarter of 2022. It is likely, the government will find enough support for another delay, but the markets will never doubt this move.

More uncertain is the situation with the newest wave of the coronavirus. The omicron variant has seen a resurgence in infections while certain countries have already acted to shut down their economies to halt the spread. Will US officials be forced to eventually follow a similar solution?

Inflation has proven more persistent than authorities had bargained for and that happens to be the focal point for the Fed and Dollar traders as the implications are very real and have a direct impact on costs of goods at the wholesale, business and consumer level.

If the markets slide into a period of 'major risk off', only in that case the Dollar would be treated as a safe haven & otherwise as a risk asset in the H1 2022.



The USDINR Daily chart indicates the Dollar last week, in thin volume trades, has slipped below the 23.6% Fibo supports of 74.47, closing at 74.33 and now is extremely oversold as indicated by the Bollinger-RSI.

This move however, can be related to very thin volumes on account of year end holidays.

This week we suggest going long in the pair around 74.30 with strict stops placed below 73.90 for targets of 74.90 & 75.50.

The current southward momentum can come to an end if the Dollar restricts itself from breaching 74.05 and fresh buying can push USDINR higher back to 75.

However, it is advised to keep positions light as the volumes might return towards the end of this week.

In longer term, USDINR can revisit the 76 levels, but the pair will remain highly volatile in short term swinging between 74 & 75.50.

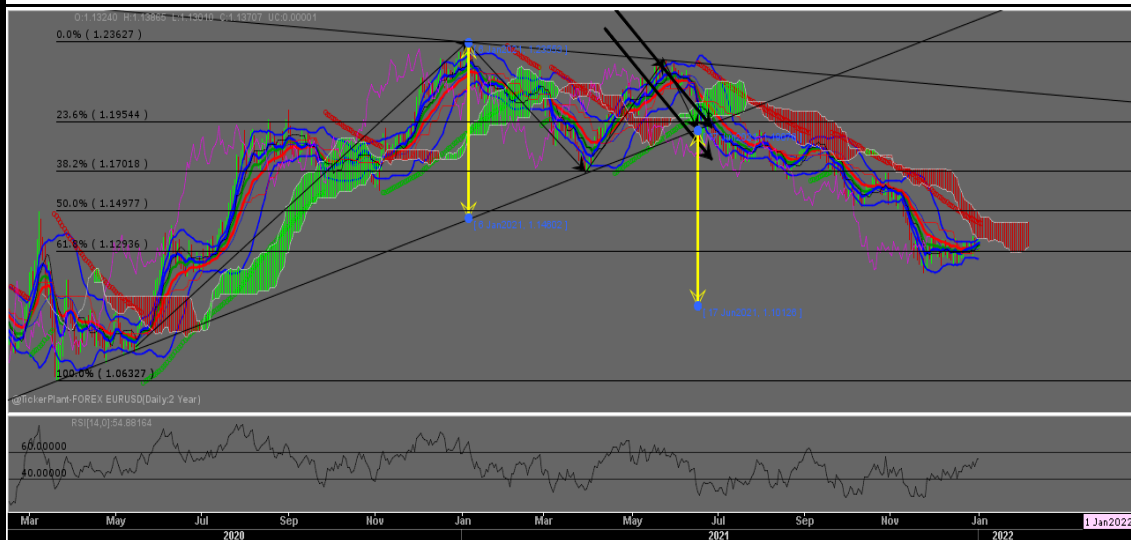
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 74.20-74.40 SL 73.90 TGT 74.90-75.50								74.20-75.60		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		71.34	72.41	73.47	73.90	74.53	74.96	75.59	76.66	77.72	
Exporters Strategy	Exporters are suggested to hedge their January exposure partially (30%) around 74.50 Spot and 30% at 75.30/35. Pending to be held open with Stop at 73.40.										
Importers Strategy	Importers are suggested to hedge January payables 50% around 74.30. Pending to be held open with a strict Stop above 75.00 Spot.										

Euro Outlook

After dropping almost continuously for more than six months, one might think that EURUSD is overdue a substantial rally. The problem is that it remains almost impossible to imagine a catalyst for such a sustained move higher. The interest rates are being increased elsewhere but not in the Eurozone, and that points to further Euro weakness in longer term.

Later in the year though, perhaps in Q2, the ECB will begin cutting its monthly asset purchases until by year-end the programs end completely. This indirect tightening could then be followed by an interest rate increase early in 2023. This is, of course, no certainty, and the ECB is not a great communicator with the markets. However, it's a scenario that would leave the ECB way behind many other central banks in raising rates and would therefore likely lead to more losses for the Euro.

Inflation in the Eurozone is of utmost importance as the ECB shall purely rely on inflation numbers to make tweaks to the existing policy.



The EURUSD Daily chart indicates, last week the Euro has been able to manage hovering around the 61.8% Fibo retracement around 1.1290 (1.13 major).

Although the pair faces heavy resistance further north to end its bearish trend, we might see a further pullback in the prices in the week ahead.

A narrowed Bollinger Band with prices hovering above its mean along with the bearish Parabolic SAR penetrating the bearish Ichimoku cloud signals the pair can expect some revival, atleast till the next (50%) Fibo retracement at 1.1497 (1.15 major).

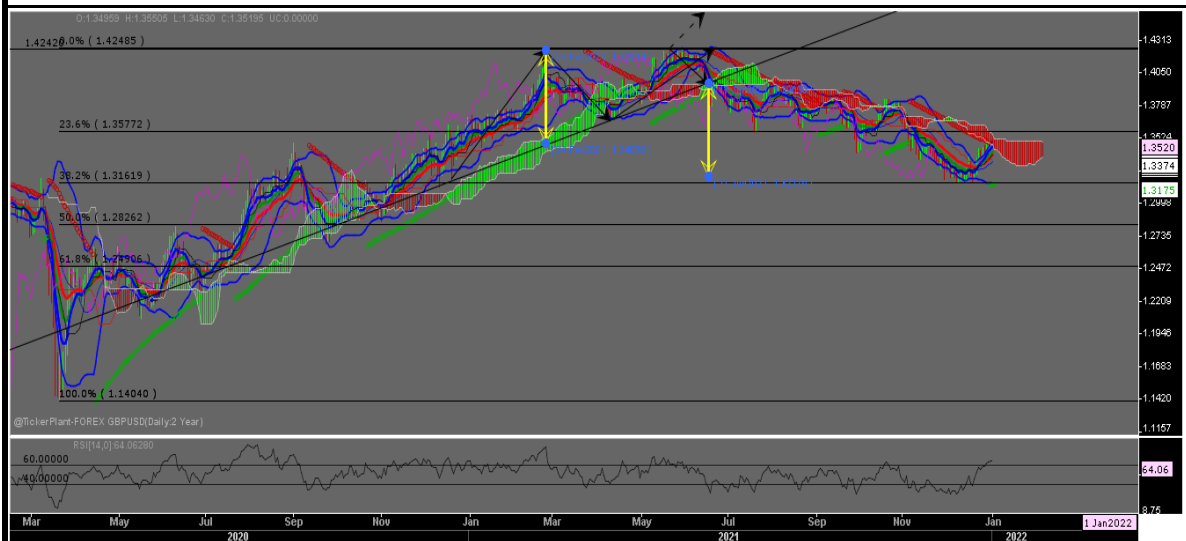
1.15 then will be a deciding level for EURUSD to reverse its bearish trend in near medium term.

For the week ahead, the RSI too suggests, one should go long around 1.1320 for targets of 1.1450 with stops placed below 1.1280.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bullish	Buy 1.1340/20 SL 1.1280 TGT 1.1410-1.1460				Buy 84.20/84.40 SL 83.90 TGT 84.90-85.50				1.1320-1.1460 84.20-85.50		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		80.46	81.76	83.07	83.64	84.37	84.94	85.67	86.97	88.28	
Exporters Strategy	Exporters are advised to hedge 20% around 85 & 30 % at 85.50. Hold further pending for January exposure Open with Stop at 83.60 Spot.										
Importers Strategy	Importers are advised to hedge 50% of January payables around 84.20 on Spot. Pending to be held open with Stop above 85.70.										

British Pound Outlook

Additional rate hikes are already jotted down by economists for 2022 as UK inflation hits extreme levels last seen over 10-years ago. The BoE hiked interest rates in December by 15 basis points, despite the ongoing surge in new Covid-19 cases. Markets had pushed back this rate hike until the next meeting in Feb. 2022 on fears that the UK government may introduce harsh lockdown measures at a time when the UK economy is finally pulling out of the pandemic crisis. The announcement of Omicron in late November took the market by surprise and dampened any prevailing rate hike expectations. However, it seems the BoE has chosen to look through these fears and concentrate on official UK labour and inflation data instead. UK headline inflation is now running at 5.1% on an annualized basis, the highest level since September 2011, as the cost of goods in the inflation basket surge and the BoE has been forced to act to get ahead of the situation. It is likely the BoE will hike the base rate by 25 basis points at its February 2 meeting with further hikes possible in March or May and beyond.



The GBPUSD Daily chart indicates, Pound saw a strong reversal in last 10 odd sessions, after it tested 38.2% Fibo supports at 1.3160. GBPUSD also found a Bollinger band support at these levels which helped the pair attract buying.

The RSI too indicated GBPUSD being oversold demanding further buying as also supported by the bearish Parabolic SAR penetrating the bearish Ichimoku downward.

GBPUSD now has penetrated the bearish Ichimoku cloud but has moved close to the 23.6% Fibo resistance at 1.3575 while the Bollinger-RSI combination indicates the pair is now overbought in short term and might witness a fall after it tests 1.3575/80 levels. In the week ahead one can still go long on the pair for targets of 1.3575/80 with strict stops below 1.34.

1.3580 could act as a very strong resistance taking the pair down again to levels close to 1.32.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Buy 1.3460/40 SL 1.3400 TGT 1.3580				Buy 100.30/10 SL 99.70 TGT 101.10				1.3180-1.3320 100.00-101.80		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		98.35	99.04	99.74	100.09	100.43	100.78	101.13	101.82	102.52	
Exporters Strategy	Exporters are advised to hedge their January exposure partially (30%) around 101.50. Pending to be held open with Stops below 99.50.										
Importers Strategy	Importers are advised to hedge partially (50%) near 100.20 for January exposure. Pending to be held open with Stop above 101.20 Spot.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
04.01.2022	01:30 PM	EUR	Spanish Unemployment Change	-33.5K	-74.4K
	All Day	All	OPEC-JMMC Meetings		
	08:30 PM	USD	ISM Manufacturing PMI	60.4	61.1
		USD	JOLTS Job Openings		11.03M
05.01.2022	06:45 PM	USD	ADP Non-Farm Employment Change	358K	534K
06.01.2022	12:30 AM	USD	FOMC Meeting Minutes		
	07:00 PM	USD	Unemployment Claims	199K	198K
	08:30 PM	USD	ISM Services PMI	67.2	69.1
07.01.2022	07:00 PM	USD	Average Hourly Earnings m/m	0.4%	0.3%
		USD	Non-Farm Employment Change	410K	210K
		USD	Unemployment Rate	4.1%	4.2%

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