

Currencies Weekly Report

Week of 18.07.2022

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July 18, 2022

Global Economic Review & Outlook

Global financial markets suffered from a continued selling pressure last week as recession fears spread across asset classes, pulling equity indices, commodities, and risk-sensitive currencies lower.

The closely-watched U.S. 10-Yr/2-Yr yield spread, a so-called recession indicator, fell deeper into inversion; suggesting markets losing confidence in the Federal Reserve's ability to put together a "soft landing."

Global economic growth is expected to be considerably soft going forward. China's Q2 GDP data was the latest sign that global growth is facing increasing resistance.

The US CPI for June recorded its highest print in more than 40 years. Markets began pricing in possible hike by 100bps from the Fed later this month. Those bets were slashed by weekend after several Fed officials mentioned their comfort with a 75bps hike.

The US consumer long-term inflation expectations fell in early July and the US retail sales were reported stronger, which pushed US equities up to end the week on a high note.

Gold prices continued to slide into the weekend despite some softening in the Dollar. Brent crude and WTI crude oil prices fell more than 5% amid the pickup in growth fears.

The BoJ is expected to keep its ultra-loose policy in place and ECB is expected to kick off its rate-hike cycle with a 25 bps hike on Thursday.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	11452.42	11635.31	-1.57
DOW JONES	31286.02	31339.20	-0.17
NIKKEI	26788.47	26517.19	1.02
HANGSENG	20297.72	21725.78	-6.57
CAC	6036.00	6033.13	0.05
DAX	12864.72	13015.23	-1.16
FTSE	7159.01	7196.24	-0.52
FX	Last Close	Previous Week	% CHANGE
DX	107.98	106.89	1.02
EURUSD	1.0086	1.0185	-0.97
GBPUSD	1.1863	1.2027	-1.36
USDJPY	138.47	136.05	1.78

	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	79.4098	79.6401	79.6592	79.8710	79.8797
EURINR	80.4988	79.8259	79.9497	80.0078	80.0134
GBPINR	95.0445	94.4935	94.8890	94.6131	94.4034
JPYINR	57.98	57.99	58.12	57.61	57.53

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	79.5450	79.9550	80.5100	81.0500	81.7350
Tuesday	79.6925	80.1125	80.6825	81.2375	81.9275
Wednesday	79.7200	80.1450	80.7100	81.2700	81.9600
Thursday	79.9400	80.3450	80.8800	81.4200	82.1050
Friday	79.9375	80.3625	80.9325	81.4925	82.1875

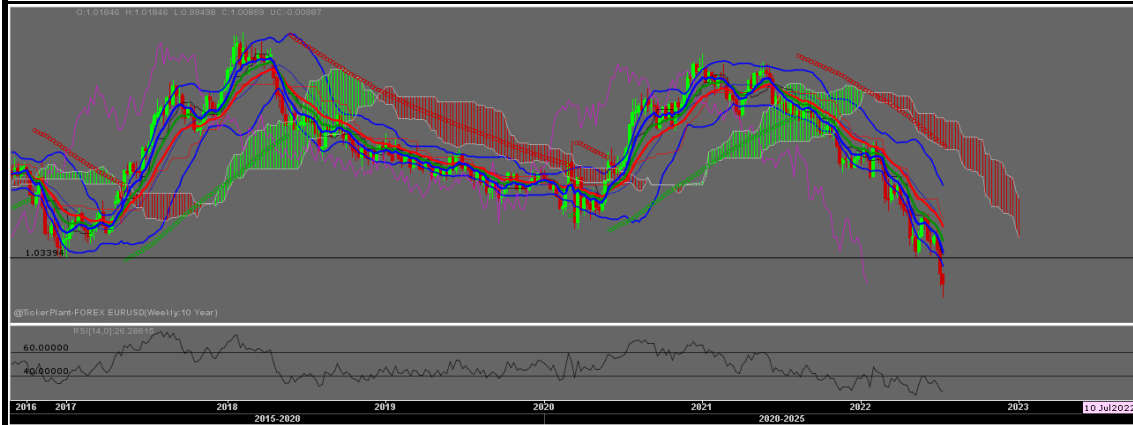
Euro Outlook

The ECB this week will begin raising interest rates to try controlt inflation and will give the market further details of its anti-fragmentation facility in order to keep Euro Zone bond yields from rising too quickly. ECB is behind most other central banks in monetary tightening, due to which Euro is suffering heavily.

The ECB is expected to have a 25 bp hike on Thursday, the first hike since April 2011, trimming the deposit rate from -0.50% to -0.25% which has been in negative territory since June 2014. While next week's hike has been almost confirmed, markets want more and currently price in around 35bps rate hike. With Euro Zone annual inflation currently at 8.6%, a larger-than-expected hike may be needed.

The ECB will give more details on their anti-fragmentation facility which is expected to be unlimited and will have a flexible framework to allow the central bank to buy bonds whenever necessary.

Italy is in the headlines after PM Mario Draghi offered his resignation to the President last week. Italian President Sergio Mattarella rejected the resignation and asked him to continue discussions in the Senate. Draghi resigned after the 5-Star Party, his largest coalition partner, withdrew their support over a new cost of living aid package. If Draghi goes, Italian bond yields will rise on heightened political uncertainty, at the very time that the ECB is looking to dampen higher borrowing costs. Energy crisis in Europe could intensify if Russia refuses to re-open the Nord Stream 1 gas pipeline that it closed for maintenance.



The EURUSD Weekly chart indicates the pair continued its downtrend last week to test 0.9950 before settling at 1.0086. 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.

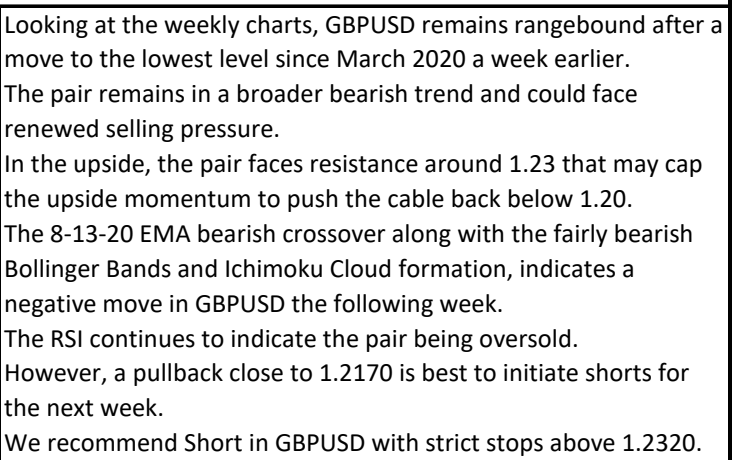
Major resistance stands at 1.04. We suggest going short on the pair at 1.0250 & 1.04 for targets of 1.0020 in the week ahead.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways	Sell 1.0200 & 1.04 SL 1.03 TGT 1.00				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	
		76.84	77.93	79.02	79.60	80.12	80.70	81.21	82.30	83.39	
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 Triggerred.										
Importers Strategy	Importers were advised to hedge 60% of July payables around 81.50 and pending around 79.50 on Spot.										

British Pound Outlook

As the UK braces itself for a heatwave, the race for the next Prime Minister heats up ahead of TV debate. The top 5 contenders Rishi Sunak, Liz Truss, Penny Mordaunt, Kemi Badenoch and Tom Tugendhat will partake in a debate on Friday at 7:30 PM UK time. The race of 5 will be down to 2 on Thursday in the week ahead as the question of who will be the next PM, becomes clearer.

UK focused data appears via unemployment data followed by the unavoidable CPI inflation print which is expected to rise to 9.3% for June. The Bank of England still anticipates that inflation will hit double digits before peaking.



Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bearish-Sideways	Sell 1.20 SL 1.21 TGT 1.1750				Sell 95.20 SL 96.00 TGT 93.80-93.30				1.1750-1.2000 93.30-95.20		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		90.67	91.98	93.28	93.87	94.59	95.18	95.89	97.20	98.50	
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 and 30% around 94 Spot for July exposure. Pending to be held open with Stop above 96.30 Spot.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
19.07.2022	11:30 AM	GBP	Average Earnings Index +Bonus (May)	6.9%	6.8%
		GBP	Claimant Count Change (Jun)		-19.7K
	02:30 PM	EUR	CPI (YoY) (Jun)	8.6%	8.6%
	06:00 PM	USD	Building Permits (Jun)	1.650M	1.695M
	11:15 PM	GBP	BoE Gov Bailey Speaks		
20.07.2022	11:30 AM	GBP	CPI (YoY) (Jun)	9.2%	9.1%
	07:30 PM	USD	Existing Home Sales (Jun)	5.38M	5.41M
	08:00 PM	USD	Crude Oil Inventories		3.254M
21.07.2022	08:30 AM	JPY	BoJ Outlook Report (YoY)		
	Tentative	JPY	BoJ Press Conference		
	05:45 PM	EUR	Deposit Facility Rate (Jul)	-0.25%	-0.50%
		EUR	ECB Monetary Policy Statement		
		EUR	ECB Interest Rate Decision (Jul)	0.25%	
	06:00 PM	USD	Initial Jobless Claims	240K	244K
		USD	Philadelphia Fed Manufacturing Index (Jul)	-2.5	-3.3
	06:15 PM	EUR	ECB Press Conference		
22.07.2022	11:30 AM	GBP	Retail Sales (MoM) (Jun)	-0.4%	-0.5%
	01:00 PM	EUR	German Manufacturing PMI (Jul)	51.0	52.0
	02:00 PM	GBP	Manufacturing PMI	53.5	52.8
		GBP	Services PMI	53.6	54.3
	07:15 PM	USD	Services PMI	51.6	52.7

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