

Currencies Weekly Report

Week of 16.08.2021



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Global Economic Review & Outlook

The U.S. July CPI validates the transitory nature of inflation spikes, as used car prices softened, and airfares and car rental prices showed outright declines. It is hilarious that we debate whether the price development in used cars should lead to a tapering decision or not. Underlying price growth is still trending up, and the Fed is about to turn hawkish.

The small setback in the July CPI report was celebrated by doves as if the regime shift crowd had argued that the price of used cars would be the main driver of a regime shift.

The median CPI growth is rising, which is essentially what the Fed is after. Powell, Clarida and Brainard are not going to take a decision on tapering based on the price of used cars.

Covid-spread and production halts are worse in Asia now than during most of 2020. If we are currently experiencing supply side inflation due to shortages in 2020, then 2nd wave of supply side price effects is still due. House prices up = wages up or vice versa. If house rents are up 4-4.5% YoY in a couple of quarters from now, it spells WAGE GROWTH. In other words, the kind of inflation that Powell aimed for is about to show up, no matter whether the total figure will drop back a little bit in yearly growth terms. The Fed will turn hawkish once this is realized, and that is not a discussion for 2022, but in the next few months.

There are more job openings than unemployed in the US Now, which in the old world would have led the Fed to turn super hawkish, but the Fed wants to see the realized improving employment ratios before moving.

INDICES	Last Close	Previous Week	% CHANGE
NASDAQ	14822.90	14835.80	-0.09
DOW JONES	35515.91	35208.64	0.87
NIKKEI	27977.15	27820.04	0.56
HANGSENG	26391.62	26179.40	0.81
CAC	6896.04	6816.96	1.16
DAX	15977.44	15761.45	1.37
FTSE	7218.71	7122.95	1.34
FX	Last Close	Previous Week	% CHANGE
DX	92.52	92.78	-0.28
EURUSD	1.1793	1.1761	0.27
GBPUSD	1.3862	1.3873	-0.08
USDJPY	109.59	110.23	-0.58

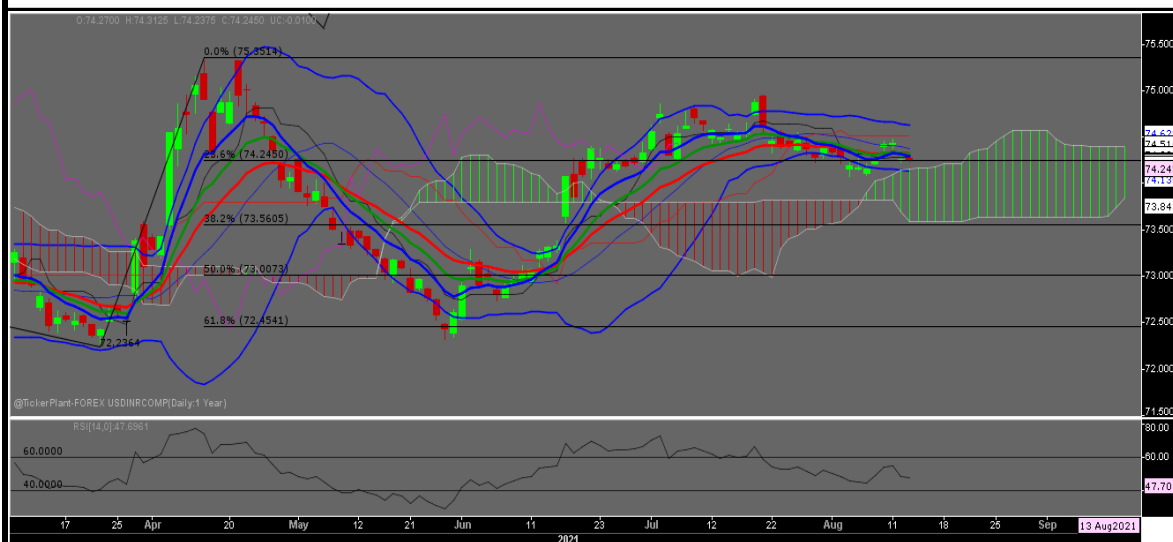
	RBI Reference Rate				
	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
USDINR	74.2261	74.3855	74.4276	74.2816	74.2971
EURINR	87.3166	87.3201	87.1686	87.1997	87.1931
GBPINR	103.0036	102.9927	102.9091	103.0068	102.5691
JPYINR	67.39	67.39	67.22	67.28	67.30

	USDINR Forward Rates (Month End)				
	1 Month	3 Month	6 Month	9 Month	12 Month
Monday	74.3950	74.8700	75.6550	76.5400	77.3800
Tuesday	74.5350	75.0000	75.7550	76.6150	77.4500
Wednesday	74.5450	75.0125	75.7675	76.6275	77.4625
Thursday	74.3400	74.8000	75.5550	76.3950	77.2250
Friday	74.3200	74.7850	75.5450	76.3950	77.2250

Dollar Outlook

The US Dollar weakened broadly and dragged the DXY -0.3% lower on balance this past week. This erased about half of the gains notched post-NFPs and leaves the DXY up 0.4% month-to-date. Recent selling pressure in USD largely follows disappointing economic data in the eyes of Fed hawks. Specifically, M-o-M inflation decelerated from 0.9% in June to 0.5% in July. CPI slowing gave some credibility to the Fed's transitory inflation narrative, which in turn, sparked an unwind of Fed taper bets and Dollar strength.

Dollar weakness accelerated further during Friday's US session as markets digested the latest consumer sentiment report. Largely fueled by concerns about the delta variant, the headline consumer sentiment index plunged from 81.2 in July to 70.2 in August, marking seventh largest fall on record and leaves consumer sentiment at the lowest since 2011. Treasury yields tumbled in response and even dragged the Dollar. The 10-year yield dropped 8-bps to 1.28%. Where the US Dollar heads next depends on how Treasury yields react to the upcoming release of FOMC minutes and retail sales data. FOMC minutes from the last meeting, which ultimately tweaked "substantial further progress" language in the press statement will put some light on the Fed taper debate.



The USDINR Daily chart indicates the Dollar has almost recovered from continued depreciation versus Rupee since 2nd half of April. Fibonacci price extension drawn for the period May 2020-Apr 2021 shows the pair, after testing the 61.8% Fibo major level of 72.45, has bounced back to test the psychological resistance at 75. The Bollinger-Rsi combination shows the pair is oversold and the prices are stuck below the 8-13-20 EMAs while hovering around the 23.6% Fibo support of 74.25. The bullish ichimoku cloud formation emerging ahead suggests the pair might see a bounce in price in the week ahead to rise above 74.25 again and continue its move up. The RSI however suggests a sluggish movement for a few sessions before the pair gathers a strong upward momentum. One can initiate long this week around 74 for targets of 74.50 & 74.80.

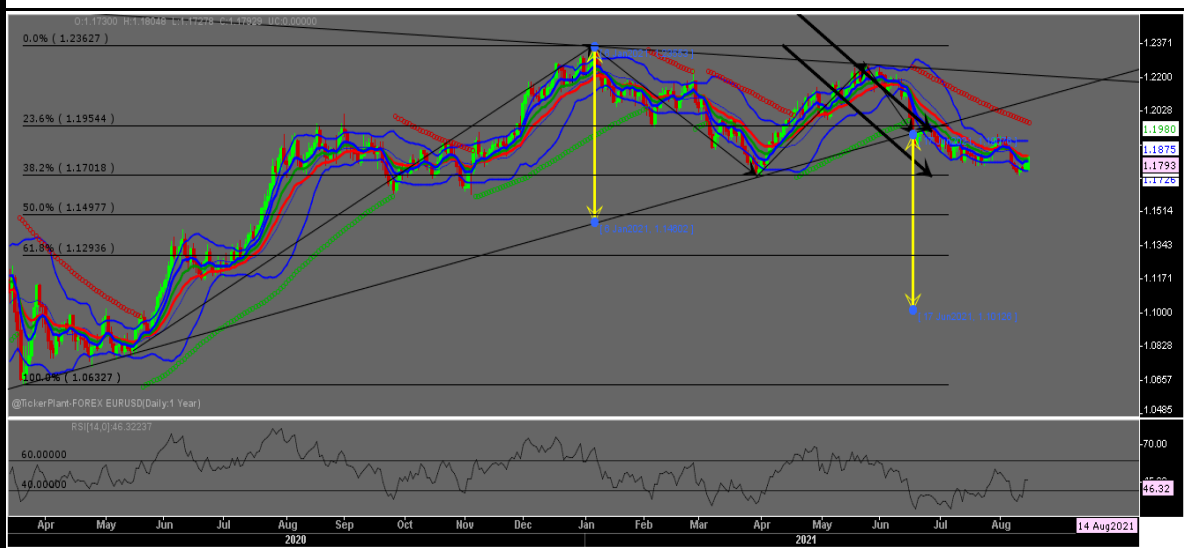
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bullish-Sideways	Buy 74.20-74.05 SL 73.85 TGT 74.55-74.85								74.00 - 75.00		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		73.51	73.77	74.04	74.14	74.31	74.41	74.58	74.84	75.11	
Exporters Strategy	Exporters were suggested to hedge their August exposure around 74.50 and 74.70 partially. Last week High 74.4750.										
Importers Strategy	Importers were suggested to target 74.25 for hedging August payables partially. Further advised last week to book around 74.20 fully.										

Euro Outlook

GDP growth in US and UK this year will likely be significantly higher than in Eurozone and that does not yet seem to be priced in fully to the exchange rates, suggesting further weakness in Euro. According to the IMF, economic growth in US and UK could reach 7% this year – the highest figure among the major advanced economies – compared with a relatively modest 4.6% in the Eurozone. This is one reason why both Fed and BoE are expected to tighten policy before ECB. Indeed, the Fed could outline its plans as soon as in Jackson Hole Symposium from August 26-28 while the ECB remains persistently dovish.

Is this in FX prices already? Some of it certainly is, but with the 10-year US Treasury yielding a full 1.8% points more than the 10-year German Bund – and with the gap likely to rise as Fed tightening draws nearer – it is hard to see anywhere for EUR/GBP and EUR/USD to go but down.

In the week ahead, there is little on the EZ calendar. Q2 GDP data Tuesday are second estimates and CPI figures for July Wednesday are also revised numbers. That leaves the GfK estimate of German consumer confidence and German PPI numbers for July, both released Friday, as the only statistics of note.



The EURUSD Daily chart indicates, the Euro after finding a Triangle resistance around 1.2266 slipped, to even breach lower end of triangle to move even lower to 1.1703 last week.

Euro continued to be weak against Dollar to trade below the 8-13-20 EMAs which has already given a bearish crossover earlier.

The pair saw a short upmove to end the week around 1.18 and even might rise further towards the Upper Bollinger band at 1.1875 but will find difficult to hold on to its gains.

The pair is soon expected to regain its bearish trend yet again, indicating a continued weakness in the pair for a target below 1.13 in the longer term.

1.1950 which is the 23.6% Fibo resistance confirms to be a long term resistance in the pair while it approaches the 38.2% Fibo support at 1.17.

This week one can go short around 1.1850 for targets of 1.17.

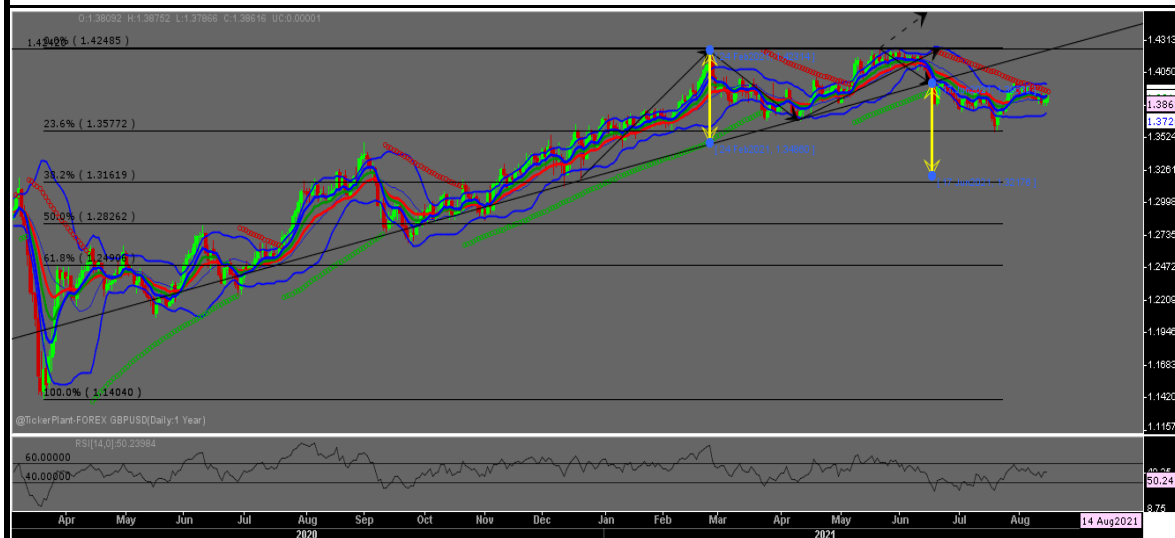
Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Bearish	Sell 1.1830-1.1860 SL 1.1880 TGT 1.1710-1.1680				Sell 87.40-87.60 SL 87.85 TGT 87.00-86.70				1.1660-1.1860 86.60-87.60		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		86.36	86.66	86.95	87.10	87.25	87.39	87.54	87.84	88.13	
Exporters Strategy	Exporters were advised to hedge 50% around 89.20 & maintain strict stops at 87.80 on Spot for the remaining 50% of the August exposure. Stop has been triggered.										
Importers Strategy	Importers are suggested to hedge 50% at 88.25 on Spot & maintain stops above 88.85 for remaining of their August. Advise hedging another 25% at 87.50 & pending around 87.00.										

British Pound Outlook

It wasn't the best week for Sterling overall and focus next week is likely to shift towards inflation data for the UK. The yearly July CPI is expected to be a little softer than last month at 2.3%, which would be the first drop since March this year, whilst the monthly reading is expected to come in at 0.3%, down from 0.5%, being the second month with a weaker reading if confirmed. The core CPI reading is expected to come in at 2.2% Y-o-Y.

The July PPI will be worth keeping an eye on to try and gauge how price pressures are or aren't flowing down the production line, which will then have an impact on CPI and company profits. So far in June we saw an unexpected drop in the monthly PPI input data, from 1.2% to -0.1%, meaning that the prices of materials going into the production process were cheaper than the previous month. The monthly PPI output data came in at 0.4%, down from 0.8% the previous month, which showed that the drop in input prices hadn't yet fully translated into cheaper products.

The inflation data out next week is likely to have little effect on BoE's monetary policy decision, given the bank expects inflation to spike above 2% target.



The GBPUSD Daily chart indicates the Pound had faced strong resistance around 1.42 and had earlier breached the ascending triangle support of 1.3965 to test lows of 1.3730 at start of July. The pair earlier had been held near the 23.6% Fibo supports of 1.3575, following which it saw a recovery till 1.3980 and ended the past week around the EMAs.

Last week, GBPUSD was rangebound just hovering near the mean Bollinger band.

The pair now finds a strong resistance at 1.3950 holding which it may further fall back to 1.37 in near term.

The pair continues to be bearish in longer term after it has breached the triangle pattern in the downside.

Levels near 1.3950 will attract fresh selling going forward in the coming week.

Weekly Bias	Weekly Trading Strategy (SPOT)								Weekly Range		
Sideways-Bearish	Sell 1.3940/60 SL 1.40 TGT 1.3850-1.3800				Sell 103 SL 103.35 TGT 102.50-102.20				1.3800-1.3950 102.00-103.00		
Pivot Levels		S4	S3	S2	S1	Pivot	R1	R2	R3	R4	
		100.26	101.07	101.88	102.15	102.69	102.96	103.50	104.31	105.12	
Exporters Strategy	Exporters were suggested to hedge their August exposure partially (50%) around 104. Pending to be held open with Stops below 103. Stop triggered earlier before Last week.										
Importers Strategy	Importers were suggested to target levels near 103 to hedge their August exposure partially. Pending exposure was held open targetting 102.50 to cover fully. Last week Low 102.42.										

Economic Data for the Week

Date	Time	Currency	Data	Forecast	Previous
17.08.2021	06:00 PM	USD	Core Retail Sales m/m	0.2%	1.3%
		USD	Retail Sales m/m	-0.2%	0.6%
	06:45 PM	USD	Industrial Production m/m	0.5%	0.4%
	11:00 PM	USD	Fed Chair Powell Speaks		
18.08.2021	11:30 AM	GBP	CPI y/y	2.3%	2.5%
	08:00 PM	USD	Crude Oil Inventories		-0.4M
	11:30 PM	USD	FOMC Meeting Minutes		
19.08.2021	06:00 PM	USD	Philly Fed Manufacturing Index	24.3	21.9
		USD	Unemployment Claims	381K	375K
20.08.2021	11:30 AM	GBP	Retail Sales m/m	0.5%	0.5%

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