



# Forex Market **Insights** Newsletter

Volume 10 → May 15<sup>th</sup> to May 21<sup>st</sup> 2022

# Welcome

Dear Stakeholders,

The dollar index sky rocketed to a 20-year peak, sending international major currencies and Asian currencies plunging into multi-year bottoms. US inflation continues to trend higher and the Fed reiterates their stand on taking remedial actions, indicating more hikes. Inflation was higher in China and India as well and this could complicate matters for policy makers in the growth vs inflation debate. With crude prices persisting at elevated levels and the Russia-Ukraine war showing no signs of cooling off, inflationary pressures could dominate 2022. No wonder there is a massive flight to risk aversion (*equities declining, dollar surging*).

Back home, Rupee weakened to all-time lows and benchmark equity indices plunged to near its lowest levels since Jul'21. The successful LIC IPO was a green shoot in the overall gloomy environment as the insurance major fixed the IPO price at 949 ahead of its listing on May 17.

With global growth expected to slow down, are we heading towards stagflation?

Regards

Mr Vijay Gauba  
Additional Director General  
Trade Promotion Council of India

## Key Takeaway Summaries

### ₹ INR

Persistent FII outflows are expected to weigh on the domestic currency.

### € EUR

Markets were distressed by fears of high inflation, worries about more interest rate hikes.

### £ GBP

UK's CPI is set to release in the mid of week, which is expected to come 2.1% higher.

### ¥ JPY

Treasury yields fell lower through Thursday, supporting the yen's rebound.

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## Events to WATCH

May 17, 12:00  
WPI Food (YoY) (Apr)

May 17, 12:00  
WPI Manufacturing Inflation (YoY) (Apr)

May 17, 12:00  
WPI Fuel (YoY) (Apr)

May 17, 12:00  
WPI Inflation (YoY) (Apr)

The Indian rupee ended the week at 77.45. It is likely to depreciate in the upcoming week as global inflation pressure in major economies provides strength to the dollar. Persistent FII outflows are expected to weigh on the rupee. The pair may continue to be range-bound between 77.05 and 77.70 levels due to the intervention of RBI. The US 10-year yield came down along with DXY breaking its 20-Year high.



Major global parameters contributing to the slump in the rupee include Ukraine-Russia geopolitical tensions, surging crude oil and commodity prices, interest rate increases by central banks and an economic slowdown. The upcoming week events for the rupee are WPI Food (YoY) (Apr), WPI Manufacturing Inflation (YoY) (Apr), WPI Inflation (YoY) (Apr) and WPI Fuel (YoY). Vital data points due in the US are Core Retail Sales (MoM), Retail Sales (MoM), Industrial Production (YoY), Crude Oil Inventories and Initial Jobless Claims.

# \$ USD

REPO RATE

1.0%

GDP

-1.4%

INFLATION

8.3%

UNEMPLOYMENT

3.6%

TRADE BALANCE

\$-109.80B

## Events to WATCH

May 17, 18:00

Core Retail Sales (MoM) (Apr)

May 17, 18:00

Retail Sales (MoM) (Apr)

May 17, 18:45

Industrial Production (YoY) (Apr)

May 12, 18:00

PPI (MoM) (Apr)

May 18, 20:00

Crude Oil Inventories

May 19, 18:00

Initial Jobless Claims



Early this week, Rupee plunged to its all-time low of 77.52. On 12 May, INR further plummeted to a fresh all-time low of 77.6350. Two consecutive all-time lows in the same week do not bode well. After forming a price up gap last week - 76.295 to 76.56 (orange horizontal lines), US\$/INR has formed a new price up gap this week as well – 76.97 to 77.125 (red horizontal lines). There are 2 long standing price gaps yet to be filled (blue and purple horizontal lines). Momentum indicators (MACD, RSI and Slow Stochastics) have inched up to the overbought territory. There are negative divergences in MACD and RSI – prices have made a new high (May over March) while indicators have failed to make a new high. Such indicators tend to suggest a cooling off in the US\$/INR pair – at least towards filling up the recent two price gaps. An upward moving trendline (pink colour), connecting dollar lows of 73.7725 (12 Jan'22), 74.535 (23 Feb'22) and 75.31 (5 Apr'22) comes around 76.10 – 76.20. This region could be an important short-term support. Dollar exporters should look to continue increasing their hedge ratios & vanilla options in addition to simple forwards, typically a 50-50 ratio. Dollar importers have a more challenging task at hand. Do vanilla options if mandated to hedge. If time is on your side, one can hold on for the markets to cool off. Restart hedging using forwards if rupee recovers towards 76.10 – 76.30.

## Events to WATCH

May 16, 14:30  
Trade Balance  
(Mar)

May 17, 14:30  
GDP (QoQ)  
(Q1)

May 17, 14:30  
GDP (YoY)  
(Q1)

May 18, 14:30  
CPI (YoY) (Apr)

May 20, 11:30  
German PPI  
(MoM) (Apr)

Euro has slid significantly last week after having touched its lowest level in more than five years at 1.0350 wherein EUR/US\$ rebounded from the lowest intraday level since 2017 and climbed back above 1.04 late on Friday followed by an improvement in risk sentiment and correction of the US dollar. Week-end flows into London seem to be helping the pair edge higher. Still, euro is heading toward the lowest weekly close since December 2002. The shared currency missed to finding support from upbeat Eurozone industrial figures. Market sentiments are on the downside with huge jump in economic uncertainty and large real disposable income shocks for households. Meanwhile, market participants are still discussing an embargo on Russian oil imports. Despite withdrawal of opposition by Germany to prohibit Russian oil on a sudden note, the EU is facing headwinds of supply chain bottlenecks, restricted oil production, and unemployment fears. Major events awaited this week from Eurozone are GDP nos and ECB president speech.



The Euro initially rallied a bit during the trading week, but then lost its footing below the 1.05 level. After slicing through that support level, the market looks as if it is going to go much lower, perhaps reaching down to parity level over the longer term. Any rally observed currently will more than likely be shorted quick, as the downtrend is firm. Because of this, there is no real reason that the Euro should find its footing, unless of course the ECB's stance changes. As long as the poor fundamentals shadow the EU, there's no reason to think that Euro will turn around for anything more than a short-term bounce. That short-term bounce can be sold into, while watching the 1.05 level, and then the 1.06 level on the short term charts, perhaps even the 1.08 level.

## Events to WATCH

May 17, 11:30  
Claimant Count  
Change (Apr)

May 18, 11:30  
PPI Input  
(MoM) (Apr)

May 18, 11:30  
CPI (YoY) (Apr)

May 20, 11:30  
Retail Sales  
(MoM) (Apr)

GBP/US\$ fell for the continued 4th straight week, bear pressure remained on the pair from the start of the week amid Inflation fear and revival of economic growth. US dollar got the benefit of safe haven, and UK GDP numbers were quite disappointing. It's quite an important week ahead for the pair as BOE MPC member speak is due on Tuesday along with labor data of UK. On the same day, Fed Chair Jerome Powell's speech will be closely followed, as he is likely to speak about inflation. UK's CPI is set to release in the mid of week which is expected to be 2.1% higher than the previous 7%. The end of the week will see monthly UK retail sales numbers, which showed a sharp contraction in consumer spending a month ago. Apart from macroeconomic events, Fed expectations and broader market sentiment will be closely watched.



The British pound initially tried to rally during the trading week, but then fell hard as it continues the unhinged downtrend. At present, it's obvious that we see fading rallies happening, and an attempt much lower towards 1.20 level. We can expect small bouts of a rebound, but that will almost certainly get sold into. The 1.25 level could offer significant resistance, so any attempt at this point in time will offer an opportunity to sell the pound. Monitoring a smaller timeframe will present more opportunities to take advantage of the trend but also keep an eye on the weekly chart. The weekly chart has formed four very negative candlesticks in a row, so at this point, we are most certainly oversold. Markets will continue to see a lot of noise, but bear markets do tend to have short & strong burst rallies occasionally, so you need to pay close attention.

# ¥ JPY

REPO RATE

-0.10%

GDP

1.1%

INFLATION

1.2%

UNEMPLOYMENT

2.6%

TRADE BALANCE

¥-412B

## Events to WATCH

May 18, 05:20  
Services PMI  
(Apr)

May 18, 10:00  
Industrial  
Production  
(MoM) (Mar)

May 19, 05:20  
Trade Balance  
(Apr)

May 20, 05:20  
National Core  
CPI (YoY) (Apr)



US\$/JPY trades at its bottom in previous trading sessions and rebounds on Friday. US Treasury yields plunge from recent highs, supporting the yen, and regain. Recession threats are behind the equity sell-off and US dollar safety trade. The last two-month rush in the US\$/JPY has interrupted as a decline in Treasury yields eroded the currency pair's most rigorous logic, amid slowing development in China, equity turbulence and forecasted drag of US Fed rate hikes on the US economy guided a modest survival to yen safety trade. The huge loss came with Thursday's 1.1% fall only four days after the US\$/JPY traded to a 20-year high at 131.25. The yen's rebound came out even as the US dollar proceeded sharply higher versus all major currencies.

Since January, increasing spread between the US and Japanese government debt has supported a higher dollar. The summary of the Bank of Japan Apr meeting underlined the accommodation policy of the central bank. The contrast to the US, Canadian and British central banks, is the main source of yen weakness. MACD and Relative Strength Index signals on May 3 have proved accurate. The MACD price line crossed the signal line along with RSI plunged out of overbought status and the pair duly tacked lower. Lack of following underscores the fundamental, interest rate nature of the pair's 6-week jump. The support level for US\$/JPY is 127.51. The first psychological resistance point is 130.00 (pink horizontal line). If the pair breaks the 1<sup>st</sup> resistance, it could test 130.81.



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\*Till December 2022



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Currency	Bid	Ask
USDINR	73.3575	73.4575
🕒 29 12:55:39   Event		
H- 73.3650	L- 73.2000	+0.0675 (0.09%)
EURUSD	1.1809	1.1810
🕒 29 12:55:39   Event		
H- 1.1922	L- 1.1795	-0.0002 (-0.02%)
NZDUSD	0.7027	0.7028
🕒 29 12:55:39   Event		
H- 0.7069	L- 0.7020	-0.0028 (-0.40%)
AEDINR	19.9700	19.9790
🕒 29 12:55:39		
H- 0.7069	L- 19.8960	0.0300 (0.16%)
JPYINR	0.6649	0.6652
🕒 29 12:55:39		
H- 0.6656	L- 0.6635	+0.0001 (0.03%)
CNYINR	11.2023	11.2031
🕒 29 12:55:39		
H- 11.2045	L- 11.1607	0.0416 (0.37%)
USDCNY	70.3525	71.4275
🕒 29 12:55:39		
H- 70.3636	L- 70.2636	+0.0675 (0.09%)

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