Forex Market Insights

Newsletter

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Exclusively for PDEXCIL members: Complimentary

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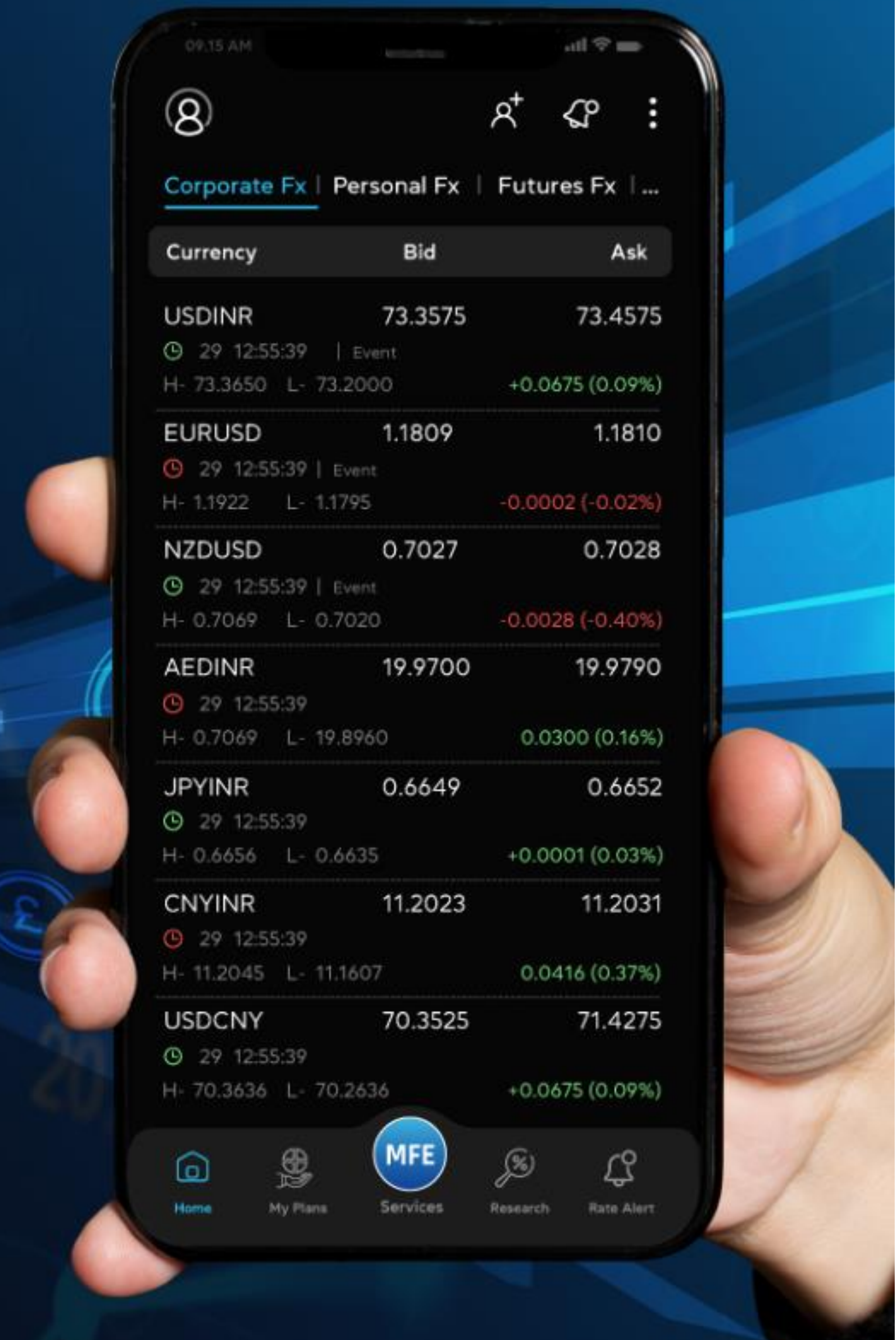

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Welcome

Dear Members,

The Fed interest rate decision dominate the economic calendar next week which signals that the aggressive pace of rate hikes might slow, but not yet fade away given price pressures. Investors awaiting cues from year-end U.S. news when Tuesday's release of November consumer inflation data is followed by the Fed’s last rate decision of this year on Wednesday.

Latest inflation numbers have increased expectations that EZ pressures are finally abating, the ECB will deliver a 50 bps rate move on Dec. 15. Britain's economic situation is unlikely to stop the BOE from raising borrowing costs again on Thursday. The Hang Seng had its worst day last week in more than a month, selling the fact after a multi-week rally. Wednesday's long-awaited shift has residents, who a week ago were protesting in the streets, now enjoying on social media.

New measures include home quarantine for the COVID-positive instead of isolation centres and no more testing for domestic travel. Composite PMI output indices for the US, Britain, Germany, France and the wider euro zone are expected to show some mild improvement, but activity in all five regions is expected to have declined again. Japan is also on the docket - its manufacturing November PMI staged the sharpest contraction in two years.

Thank You

Mahesh Sanil
Executive Director

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Key Takeaway Summaries

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RBI a sounded a hawkish note on Wednesday after its policy meeting

€ EUR

It's possible that the European Central Bank will make a hawkish conclusion.

£ GBP

A recent slowdown in the United States Dollar's fall restrained the rise in the British pound.

¥ JPY

Traders need to pay close attention to the interest rate markets, mainly because the Japanese are fighting here at increasing rates

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.25%	-1.4%	6.77%	8%	$-26.91B

Events to WATCH

Dec 12 17:30
Industrial Production (YoY) (Oct)

Dec 12 17:30
CPI (YoY) (Nov)

Dec 14 12:00
WPI Inflation (YoY) (Nov)

Dec 15 17:50
Trade Balance

The Indian rupee ended 1.2% lower for the week, bruised by sustained demand of dollar by corporates, in spite of notching gains in the last trading session against a softer greenback. The local unit settled at 82.27 per dollar after touching a USDINR low of 82.0950 (on Friday), against its Thursday close of 82.42. The Indian rupee had dragged rapidly since the start of the week to 82.50 and found stability only after the RBI sounded a hawkish note on Wednesday after its policy meeting. Foreign exchange reserves of India climbed for a 4th week to an over 3-month peak of $561.16 billion in the week through 2nd Dec, data showed on Friday. The central bank in the past has said changes in its foreign exchange reserves is a function of market interventions and revaluation gains or losses. For the week ended 25th Nov, the reserves were at $550.14 billion. At the beginning of this year, reserve was $632.7 billion later on RBI has sold a part of the reserves to ease volatility in the markets.

On Friday, Indian benchmark 10-year yield ended higher for the 6th straight session, settled at 7.29%. The yield has risen 8 bps this week, its biggest such surge since the week ended 23rd Sept. The decline in forward premium to more than a decade low can impact carry trades and fuel the dollar demand, leading to weakness in the local unit. The USDINR 1-year forward premium has fallen to 1.70%, down almost 300 bps (YTD). A narrower interest rate differential between the US and India is primarily responsible for this slump. Interest rate narrowed due to the divergent pace at which the US Fed and the RBI have raised rates to manage inflation. The economic data points for India in next week are CPI(YoY) and Industrial production. In US upcoming week events are Fed interest rate decision and Retail Sales.

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$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.0%	2.9%	7.7%	3.7%	$-73.162B

Events to WATCH

Dec 13, 19:00
Core CPI (MoM) (Nov)

Dec 13,19:00
CPI (YoY) (Nov)

Dec 15, 00:30
Fed Interest Rate Decision

Dec 15, 19:00
Core Retail Sales (MoM) (Nov)

Dec 15,19:00
Retail Sales (MoM) (Nov)

Dec 15,19:00
Philadelphia Fed Manufacturing Index (Dec)

After a few weeks of rangebound trades, Rupee witnessed sudden volatility this week. The Indian unit weakened from 81.23 to 82.75 in 3 working days. Quite a surprise since during that time Chinese Yuan and other Asian currencies had gained, while dollar index was stable. Our beloved rupee was completely detached from global factors/influences.

In the daily candlestick chart, recent large volatility ensured that a couple of old price gaps filled up this week – one at 82.33 – 82.43 and the other at 81.33 – 81.40. A new price up gap was formed this week – 81.835 (5 Dec'22) to 81.935 (6 Dec'22), highlighted by pink horizontal lines. Interestingly, all price gaps towards rupee weakness have been filled up. The unfilled ones are towards rupee gains. Momentum indicators have spiked but not reached the overbought territory yet.

My sense is for a rupee recovery – towards 81.20 – 81.50 range. The 81 mark will be an important short term dollar support. Current levels above 82.25 are good for exporters to restart their hedging plan. USDINR forward premiums have declined below 2% annualized – as such using an optimum mix of forwards and vanilla options are recommended. Importers to target spot levels below 81.50 to hedge. Consider vanilla options along with forwards.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
2.0%	0.3%	10%	6.5%	€-34.374B

Events to WATCH

Dec 13, 12:30
German CPI (YoY) (Nov)

Dec 15, 18:45
ECB Interest Rate Decision (Dec)

Dec 16, 14:00
German Manufacturing PMI (Dec)

Over the last week, the EUR/USD pair resumed its upward trend and reached the 1.0530 resistance level to end the week. EURUSD has continued to rise, reaching a six-month high of 1.0594 and staying there as the week ends. As market participants prepare for the US Federal Reserve (Fed) and the European Central Bank (ECB) monetary policy decisions, EUR/USD trades around the 1.0540 level. It's possible that the European Central Bank will make a hawkish conclusion. At the end of September, the EUR/USD pair hit an over twenty-year low of 0.9535 before turning upward on expectations that central banks will be more cautious in their approach to quantitative tightening. The Euro Area provided conflicting signals. The November PMIs were revised downward by S&P Global, pointing to a worse decline in the economy. Retail sales decreased by 2.7% YoY and 1.8% MoM in October. Positively, the Gross Domestic Product Q3 estimate shows that GDP increased by 0.3% in the three months leading up to September, which is somewhat more than the 0.2% anticipated. In fact, we'll have brand-new interest rate figures next week with the German CPI also to be released in the upcoming week.

The EUR/USD pair weekly chart shows that the pair posted a higher high and a higher low, maintaining the risk skewed to the upside. The chart also portrays that the 20 SMA advances far below the current level, at around 1.0080, while technical indicators consolidate near overbought readings, all of which favors a bullish continuation. Finally, the 100 SMA is crossing below the 200 SMA, both far above the current level, losing relevance as a bearish signal. It is further forecasted that the EUR/USD pair needs to break above 1.0580 to be able to extend its gains towards 1.0620 first, and 1.0700 later. A break above the latter should bring the pair to 1.1000 figure. Buyers stand at around 1.0490, while the next support level is 1.0420. An unlikely slide below the latter could favor a downward extension towards 1.0300. The trend on the daily chart SMA20 lies at 1.0402, SMA 50 is at 1.0085 and SMA 100 is at 1.0062 respectively.

Support: 1.0433, 1.0461 and 1.0508.
Resistance: 1.0584, 1.0612 and 1.0659.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.0%	-0.2%	11.1%	3.6%	£-03.135B

Events to WATCH

Dec 12, 12:30
Manufacturing Production (MoM) (Oct)

Dec 12, 12:30
GDP (QoQ)

Dec 13, 12:30
Average Earnings Index +Bonus (Oct)

Dec 13, 12:30
Claimant Count Change (Nov)

Dec 14, 12:30
CPI (YoY) (Nov)

Dec 15, 17:30
BoE Interest Rate Decision (Dec)

Dec 16, 12:30
Retail Sales (MoM) (Nov)

GBP/USD closed the week largely unchanged, ending a streak of four consecutive weekly gains, after failing to gain approval above the 1.2350 level. A recent slowdown in the United States Dollar's fall restrained the rise in the British pound. At the beginning of the week, the British pound maintained its positive trend versus the US dollar and reclaimed its six-month highs at 1.2344. GBP/USD fluctuated between the 1.2300 and 1.2100 price range for the rest of the week due to a lack of important economic news from both the economies. In preparation for a week with several significant events, traders also worked in repositioning. Both the Federal Reserve and the Bank of England are anticipated to raise their policy rates by 50 basis points (bps). However, the positive effects of the PPI data released yesterday on the currency were only temporary, and the GBP/USD pair was able to keep positive at around the mid-1.2200s. As we get closer to the Christmas and New Year holidays, investors prepare for a busy week before the market settles into a quiet.

After registering straight four weeks of gain, Sterling ended this week slightly lower i.e.30 pips (almost unchanged). On the daily charts, 1.23 above level is a resistance, if pair can get above there, we could see the levels of 1.25 soon. The 200 days SMA should play a role of major support 1.2118 as that is a long-term indicator and lot of people pay close attention towards this. Breaking of 200 days SMA could push pair towards psychological level 1.20 then we can expect again fall in the pair. Apart from the technical factors market participants will pay close attention towards fundamental factors much as we are moving into critical week where US CPI and most important interest rate decisions due by major central banks. Momentum indicator RSI trading at 64.53 which is considered to be an overbought zone while MACD giving mixed signals.

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¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	-0.2%	3.7%	2.6%	¥ -2162B

Events to WATCH

Dec 14, 05:20
Tankan Large Manufacturers Index (Q4)

Dec 14, 05:20
Tankan Large Non-Manufacturers Index (Q4)

Dec 14, 10:00
Industrial Production (MoM) (Oct)

Dec 15, 05:20
Trade Balance (Nov)

The US dollar has gained a lot of ground this trading week. The 137.50 level, however, has served as a substantial amount of resistance and has been noteworthy at various points. This is equally valid as the level 135 support provided. Given that, the question at hand is whether the pair can resume our upward trend or not. After the Federal Reserve meets on Wednesday, several answers ought to surface at the end of the session. Furthermore, the traders need to pay close attention to the interest rate markets, mainly because the Japanese are fighting here at increasing rates and with varying degrees of severity. After all, they are attempting to maintain the 10-year JGB around 0.25%, which is required to maintain control over the Japanese debt markets. On the other side, if inflation starts to increase once more, the market may climb and even hit the 140 or even 142.50 level. Despite the fact that the market has been so overbought, there has been a severe downturn.

The USDJPY traded this week in a sideways trend and closed at 136.568 (1.66%) level compared to the previous week's close. The pair also touched the low of 134.13 level. Now, the eyes will be on the further movement of the dollar index. If the pair moves upward it could reach the top at the 50-day Moving Average of 141.047 levels. The support level must be at 133.622 level in case the pair depreciates and the resistance remains the same at 139.897 if the pair recovers. The MACD line has crossed over and is moving above the signal line. It may create a new divergence. If the pair weakens further then the MACD line may reverse toward the signal line. The pair ended the month at a higher level compared to the previous week's close but shows the price behavior is in the sideways trend. The Relative Strength Index is moving above parallel to its 14-day RSI's simple moving average which indicates mixed support to the pair.

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BLOG

Managing Foreign Exchange Risk Is Essential For Hedging?

Foreign exchange risk is a financial risk which exists when a home currency is converted into another during the transaction. The unfavorable currency movements lead to a lower value of assets which are quoted in the domestic currency in the international markets. All corporates dealing with international markets are exposed to foreign exchange risks. The foreign exchange markets fluctuate due to many factors which are beyond the control of a company and thus these risks have to be incorporated while quoting prices to the clients and suppliers overseas.

Factors such as the recent US China global trade war or geopolitical uncertainties due to UK Brexit or Pakistan’s terror attack on India etc lead to high fluctuations in the currencies and may trigger stop loss levels for high volume currency pairs. Thus dealing in currency is highly risky and calls for an expert who tracks the foreign exchange markets on a regular basis to assist corporates to manage them. The revenues earned abroad will be affected with the currency risks. Already the uncertainties due to global trade war have created havoc in the currency markets. Though some risk aversion assets like Gold, Japanese Yen, Swizz Franc have seen appreciation during such times, but in all it calls for better foreign exchange risk management.

Why manage currency risk?

Managing currency risk helps protect the cash flow both inflow and outflow along with the profit margins, which in turn helps to assimilate financial budgeting and forecasting. Once the cash flows are determined, it becomes easier for plan for the future and work around the costing accordingly.

With clarity around finances, the corporate is in a better position to understand the borrowing capacity especially when expanding from growth perspective.

Every change in currencies, affects the balance sheet which is turn affects the health of the corporate. Thus business benefits are many for effectively managing the foreign currency risks.

How does one go about managing forex risk?

The first step towards managing forex risk is to create a foreign exchange policy within the corporate. The corporate policy helps in understanding the risk which the company is ready to take along with key benchmark levels for all transactions.

Once the cash flows is in place, the process of understanding which currency fluctuation will affect which portion of the balance sheet is important as many factors are in place at one go. Periodic reviewing of the operating cycle helps in pin pointing the risks areas.

While negotiating with the clients (be it buyer or seller), the risk exposure before the execution of the transaction should be understood. Thus the level of hedging can be determined accordingly. Transaction risks occur due to time gap between the commitment of the contract and the actual cash flows.

More often than not, these risks are easier to manage as they can he hedged using financial derivative instruments. Thus understanding the quantum to hedge is important. Formulating a corporate policy is easy but to review it periodically is the key with the ever changing foreign exchange markets.

Mobile Application: Features

Live rates

Exact time Live Rates are provided for USD, INR, EUR,JPY, GBP and CNY.

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Shows the forward rate you'll receive if you book a contract today for the respective rate to hedge, for both import and export separately.

Rate Alert

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