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Forex Market Insights

Newsletter

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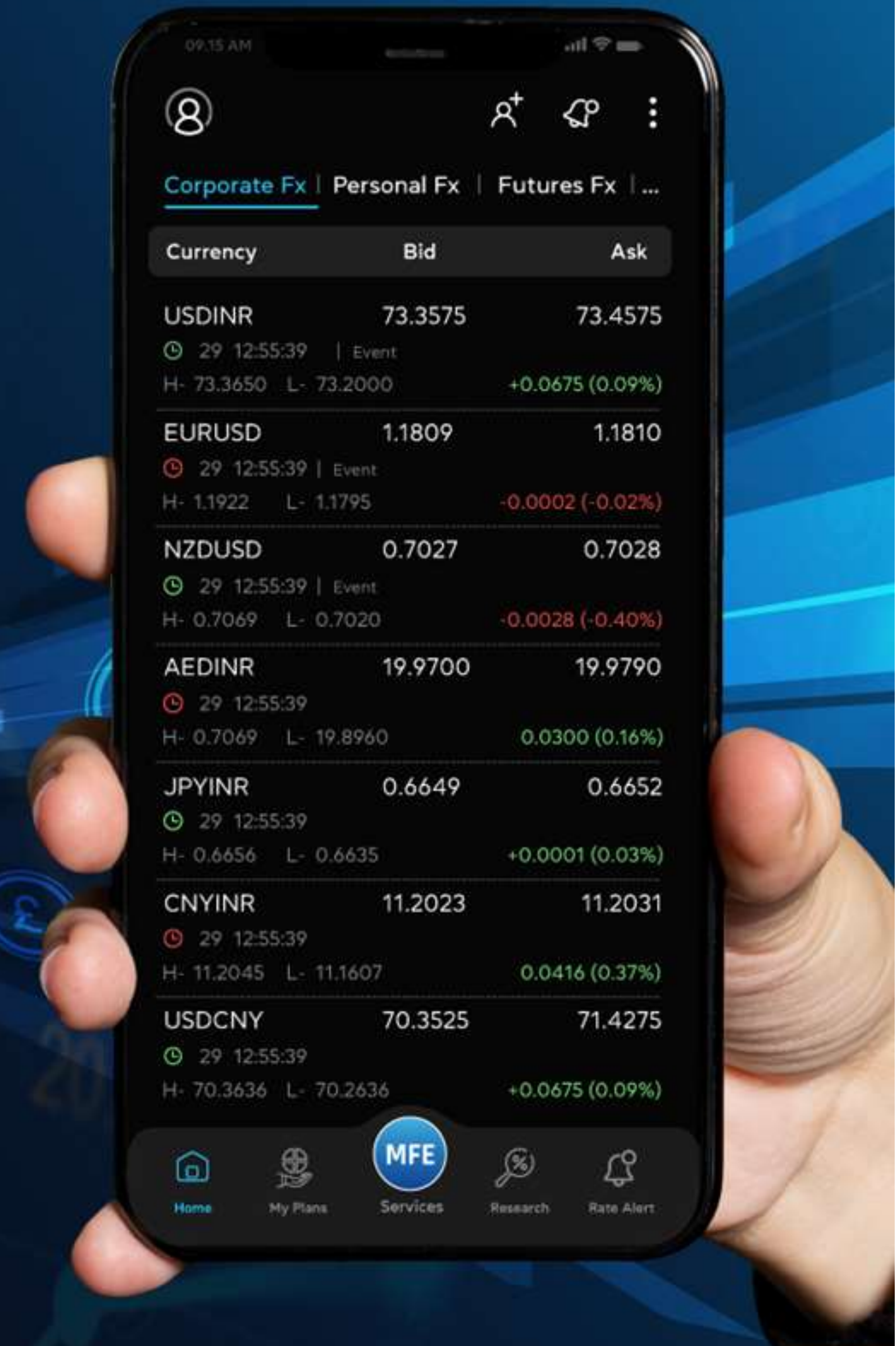

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Welcome

Dear Members,

Major central banks ramped up interest rates at the fastest pace and biggest scale in at least two decades in 2022 as policy makers involved in the fighting of containing inflation risk. Central banks overseeing the 10 most heavily traded currencies delivered 2,700 basis points (bps) of tightening in 54 rate hikes over the past 12 months. On a monthly basis, data showed that seven out of the 10 major central banks lifted rates in December.

The U.S. Fed, ECB, BOE, Reserve Bank of Australia, Norway's Norges Bank, the Bank of Canada and the Swiss National Bank all raised their benchmarks by a cumulative of 300 bps. Five out of 18 central banks delivered a total 260 bps of rate hikes in December, down from 400 bps in November and some way off the 800-plus bps monthly tallies in June and July. Meanwhile, there was more evidence that the tightening cycle in emerging markets was slowing down.

The majority of those came from policymakers in Asia, who are lagging in the tightening cycle Latin America and emerging Europe. Central banks in Indonesia, India and the Philippines raised rates, alongside Colombia and Mexico. Central banks of emerging economies have raised rates 93 times this year to lift benchmarks by a total of 7,425 bps this year, nearly three times the 2,745 bps tightening in 2021.

Thank You

Mahesh Sanil
Executive Director

CONTENTS

Key Takeaway Summaries

₹ INR

The 1-year forward premium jumped to 1.82 rupees, up 17 paisa from last week

€ EUR

Significant loss in Wall Street's key indexes gave the US Dollar a lift.

£ GBP

Positive US data that might keep the Federal Reserve's hawkish stance longer helped to strengthen the US dollar against pound

¥ JPY

BoJ said 10-year yield will be permitted to rise to a level of 50 basis point

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.25%	-1.4%	5.88%	8%	$-19.89B

Events to WATCH

Dec 30, 17:30
Infrastructue Output (YoY) (Nov)

The Indian rupee weakened 0.1% versus the USD, and ended the week at 82.8575 per dollar, as the central bank, through public sector banks, was suspected of selling US dollar to keep the USDINR below 83 and of conducting sell/buy swaps in the forward market. The Indian benchmark 10-year bond yield at 7.31% and US 10-year treasury yield settled at 3.75%. The Sensex dragged 1.61% to 59,845.29, while Nifty lost 1.78% to 17,804.15 and posted worst week in 6 months after robust data from the US economy revived worries of higher interest rates, while a rise in COVID infections in China also dampened risk appetite.

The USDINR 1-year implied yield climbed about 20 bps this week, to 2.20%. The 1-year forward premium jumped to 1.82 rupees, up 17 paisa from last week. The rupee was not impacted by the surging risk aversion globally due to the hawkish vision of major central banks. The BOJ unexpectedly lifted its cap on 10-year bond yield this week. US equities are poised for a 3rd straight week of declines, we can expect the rupee to hold to its current range between 82.20 and 83.00, with the boundaries being well protected by the state-run banks intervention.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.5%	3.2%	7.1%	3.7%	$-78.162B

Events to WATCH

Dec 28, 20:30
Pending Home Sales (MoM) (Nov)

It was the range bound week for our beloved Rupee, USDINR moved in a 30 paisa range(82.58 – 82.8875) amid we are very close to 2023, generally market participation remains very less in last days of the year and Importers were buying dollars near 82.60 as premiums are quite low while public sector banks were also selling dollars around 82.85 to protect psychological level of 83. Range bound trading is also expected in the last week of 2022.

In the daily candlestick chart, old price gaps continue to remain unfilled – observe the pink and blue horizontal lines. Interestingly, all price gaps towards rupee weakness have been filled up. The unfilled ones are towards rupee gains. Momentum indicators have spiked and reached at overbought territory.

My sense is for a rupee recovery – towards first down gap 81.83 – 81.93 range in the short run and towards 81.00 – 81.20 in the long. The 81 mark will be an important long term dollar support. Current levels near 82.85 are good for exporters to increase their hedge ratios. USDINR forward premiums have also gained during last days of week at 2.20% annualized, Importers to target spot levels below 82.00 to hedge. Consider vanilla options along with forwards.

EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
2.5%	0.3%	10.1%	6.5%	€-26.519B

Events to WATCH

After registering slight losses on Thursday, EURUSD was able to produce a comeback during the Asian trading session and recovered above 1.0600 and ended the week at 1.0618. Since the start of the week, EUR/USD has been varying in a constrained channel. The annualized Gross Domestic Product (GDP) growth for the third quarter was revised by the US Bureau of Economic Analysis (BEA) from 2.9% to 3.2% on Thursday. Due to the positive report, the US Dollar gained strength versus its main competitors, pushing down the EUR/USD exchange rate. Additionally, the significant loss in Wall Street's key indexes gave the US Dollar a lift and prevented the pair from regaining its ground. Additional information revealed that the Core PCE Price Index, the Fed's favored inflation indicator, increased by 0.2% MoM in November but slowed from 5.0% YoY to 4.7% YoY. Separately, the US Durable Goods Orders fell far short of consensus forecasts, which does little to encourage supporters of the US Dollar or give the EUR/USD pair any momentum.

EUR/USD continues to trade in positive territory slightly above 1.0600 on Friday. The data from the US showed that the annual core PCE inflation declined to 4.7% in November and New Home Sales increased by 5.8%. These data, however, failed to trigger a reaction. The pair faces strong support at around 1.0580, where the Fibonacci 23.6% retracement of the latest uptrend and the 100-period Simple Moving Average on the four-hour chart align. Below that level, 1.0530 is the Fibonacci 38.2% retracement could be seen as the next support before 1.0500. On the upside, the pair could target 1.0680 end-point of uptrend and 1.0700 is the psychological level could be tested once EUR/USD rises above 1.0620 of 20-period Simple Moving Average (SMA), 50-period SMA and confirms it as support.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.5%	-0.3%	10.7%	3.7%	£-01.785B

Events to WATCH

The GBP/USD pair picks up some momentum on Friday, breaking a two-day falling trend. The US Dollar experiences some fresh selling pressure, which ultimately plays a significant role in driving the GBP/USD pair stronger. Geopolitical risk and worries about the economic difficulties brought on by an increase in new COVID-19 cases in China could temper market confidence. On Thursday, the Cable pair dipped to its lowest point in three weeks. The final update showed on Thursday that the UK GDP (QoQ) shrank by 0.3% which tends to be more than the market expectation of 0.2% while the British Gdp grew by 1.9% annually in Q3, falling short of 2.4% projections. Positive US data that might keep the Federal Reserve's hawkish stance longer helped to strengthen the US dollar. The safe-haven dollar is expected to suffer from a small equities market recovery, but approaching recession worries may serve to minimize the damage. The British pound is still weak in the meantime, with the most recent macroeconomic data confirming that the country is in a recession that will probably last until at least 2023.

Bears remained heavy on bulls since the second day of this week and It's a third consecutive week where Sterling ended lower, even touched weakest level of 1.1992 in three weeks. Pair needs to break 1.21 to again move higher otherwise overall scenario seems to be bearish as pair is hovering very close to its 200 days moving average i.e. 1.2075 breaking of 200 days moving average comfortably could confirm bearish trend for the pair and can push pair toward it's long term support 1.1750. Apart from technical factors increasing covid cases boosting the demand for safe heaven dollar. On the daily time frame pair momentum indicator RSI trading at 49 which is considered to be a neutral zone and MACD also giving mixed signals.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	-0.2%	3.8%	2.6%	¥ -2027B

Events to WATCH

Dec 27, 05:00
Unemployment Rate (Nov)

Dec 27, 05:00
Jobs/applications ratio (Nov)

Dec 27, 05:20
Retail Sales (YoY) (Nov)

Dec 28, 05:20
Industrial Production (MoM) (Nov)

As the Bank of Japan surprised the market this week, the US dollar's early attempt to strengthen versus the Japanese yen failed. They said that the 10-year yield will be permitted to rise to a level of 50 basis points, which is significantly higher than the previous 25 basis points. As a result, the Japanese yen's pressure from the FX market, which required the Bank of Japan to create infinite amounts of yen to keep yields down, was greatly reduced. This pair may begin to descend much farther if we break through below the 130 level. On the other side, if the market were to rise from this point and cross over the 135.50 level, it's possible that we would eventually reach the 137.50 level. In the end, there will be a lot of loud behavior, but I believe we are now trying to establish a little bit of a base here. The next several weeks may be crucial since the US dollar is still making at least an effort to recover, indicating that there is competition in this market. The week after Christmas and before New Year's Day, however, has the potential to be chaotic and pointless.

The USDJPY opened at 136.741 and fell 3.81% early this week and took support since then to close at 132.827 (-2.86%) level compared to the previous week's close. The pair also touched the low of 130.566 level. Traders will be keep focusing on 10-year yield as it will be permitted to rise 50 basis points. If the pair moves upward it could reach the top at the 50-day Moving Average of 138.98 levels. The support must be remaining same at 130.39 level in case the pair depreciates and the resistance remains at 138.176 if the pair rebounds. The MACD line has come down and moving below the signal line. It may further move towards the signal line in case the pair regains. The pair ended the month at a lower level comparing to the previous week close but the price behavior steered to regain. The Relative Strength Index is moving below but towards to its 14-day RSI's simple moving average which indicates some support to the pair.

Foreign Exchange Risk Management Is Decisive: Why Is It So?

Rationalizing FX Risk Management

Foreign exchange exposure refers to the responsiveness to a firm's cash flows to the changes in exchange rates. So in order to plan out Foreign Exchange & Risk Management strategy, it is first important to understand the various types of foreign exchange exposure that are

Transaction Exposure
Economic Exposure
Translation Exposure

Transaction exposure component of foreign exchange rates is referred to as a short term economic exposure. Transaction risk is the risk of an exchange rate changing between the transaction date and final settlement date. It can result to either a gain or loss at the conversion stage.

Economic exposure refers to a long-term effect of the transaction exposure. It occurs when firms are continuously affected by an unavoidable exposure to forex over the long term.

Translational risk is a major threat if one's organisation is conducting business in foreign markets. It occurs when your company has any assets and liabilities denominated in a foreign currency which may shift in value due to changes in exchange rate.

Operating exposure is caused by unexpected changes in exchange rates on an individual company's future cash flows from foreign operations.

Factors to Consider

In order to plan FX risk management, it is imperative to carefully assess FX exposure to foreign exchange rate risk. This assessment can be done in the following ways-

Figure out proportion of business relating to imports or exports or both
Identify the currencies involved & analyze the timing of payments
Evaluate impacts of adverse rate movement on profitability
Understand if the level of overseas business is likely to change
Check if the payment and receipt of currency is made on the same foreign currency
Check if there is any possibility to mitigate exchange risk by using a foreign currency bank account.

Conclusion

It is often tempting to defer a decision in order to implement foreign exchange risk management strategy, perhaps in the hope that rates may move in one's favour in the short term. Historically it has been observed that currency markets have been extremely volatile and unpredictable. Therefore once a conclusive strategy has been formulated, it should be implemented so as to safeguard the profits. Thus foreign exchange and risk management is critical for any corporate having forex exposure and an internal forex policy should be formulated to mitigate the risk related to any forex transaction.

Mobile Application: Features

Live rates

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

Forward Calendar

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

Set Rate alert for different types of transactions and know when the target rate has traded for the first time in forex market.

Economic Calendar

Stay updated about the economic events taking place round the globe. Also their impact on the currency- high, medium or low.

Forex Research

Publications- Daily Reports, Premium Research, Daily Trading Calls, News, Case Studies, Weekly Report, Monthly Report, Blogs.

FX on Call

Get the best rates as the dealers of Myforexeye do live negotiation with the Bank on a conference call, which includes the client too.

Order For Forex

This feature enables you to Buy/ Sell Forex and Transfer Money for any purpose.

Process Forex Transactions

This feature gives you access to Transaction Process Outsourcing service for transactions including Cash,Tom,Spot, Forward, etc for both export and import.

International Trade Finance

Get access to trade services like Buyer's Credit, Supplier's Credit, Export LC Discounting and Export Factoring.

Forex Trading

This feature enables you to Buy/ Sell Forex and make money transfer for any purpose.

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