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SEPC
SERVICES EXPORT PROMOTION COUNCIL

# Forex Market Insights

## Newsletter

Volume 24⟶ Jul 02nd to Jul 08th 2022

Exclusively for SEPC Members: Complimentary

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*Till December 2022

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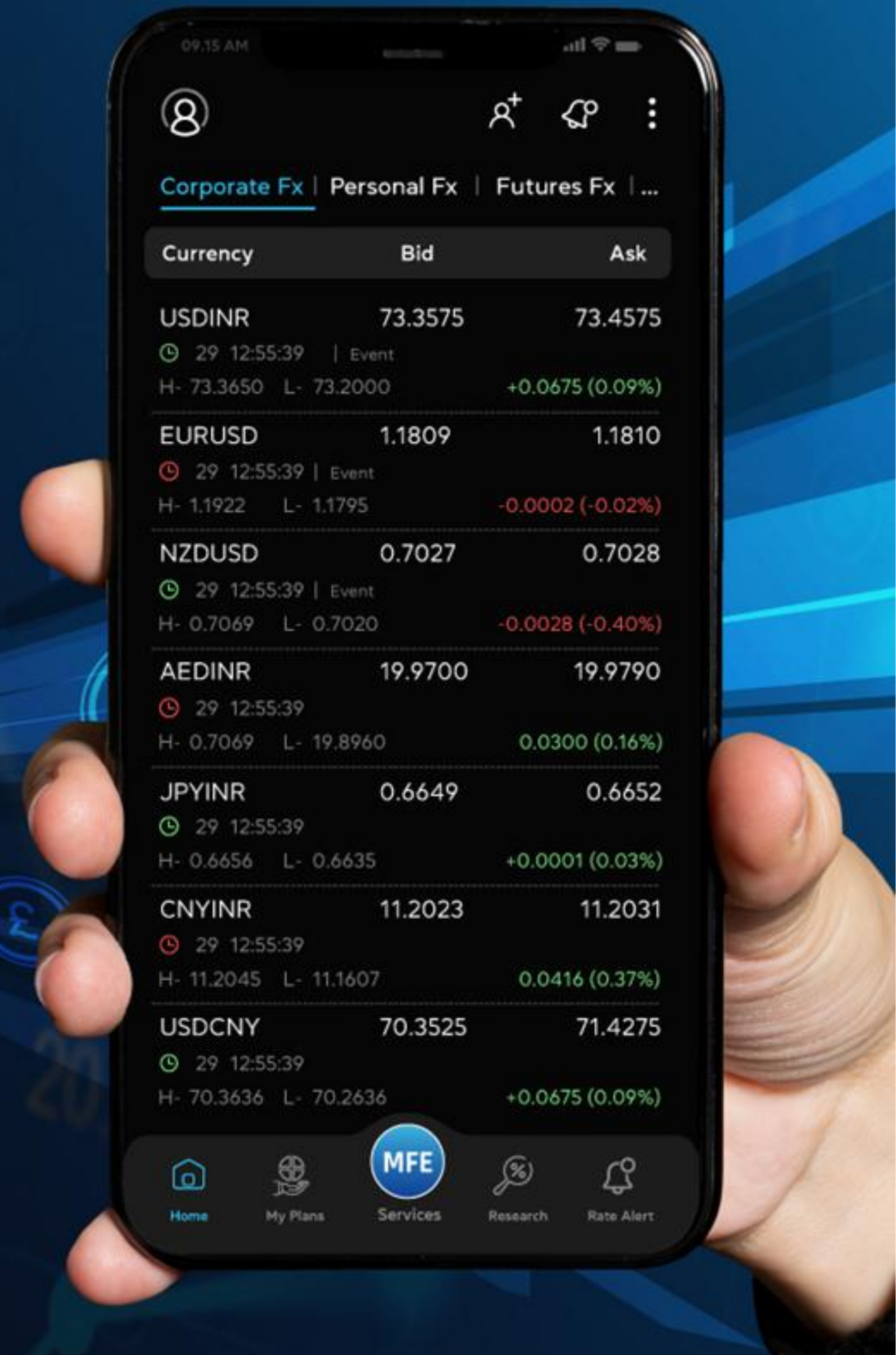


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# Welcome

Dear Members,

All-time depreciation of the Indian Rupee at 79.13 and increasing interest rates could hit domestic corporates that impacted on overseas loans riding low-interest rates as rating companies begin to relook at them. Companies with major business revenues generated in rupees will be more vulnerable to a downgrade. Indian rupee pair's recent gains could be linked to the firmer oil prices, around $110.00. Due to the heavy dependence on energy imports domestically, strong oil prices pressurize the Domestic unit amid a record budget deficit.

It is domestically expected that, the bullish challenges on the Non-Deliverable Forwards hint at the further USD/INR pair upside which is hovering around 79.10 latest. On the global front, Wall Street begins the session on a dull note on Friday as investors worried over the risks to economic growth from the Fed to decide firmly on a course of action to curb rising prices at all costs. Further, the S&P index recorded new 52-week highs and 39 new lows, while the Nasdaq recorded five new highs and 90 new lows.

Thank You

Yours' Sincerely
CA. Sunil H. Talati
Chairman

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## Key Takeaway Summaries

### ₹ INR

USDINR remained on front foot from the start of the week as 78.23 open was the low also for the pair and made a fresh peak of 79.12.

### € EUR

One of the prime currency pairs broke down to sustain above the 1.0600 level and plunged as low as 1.0382.

### £ GBP

The prospects for an aggressive Fed rate hike along with growing recession fears boosted demand for the USD and prompted fresh selling near the GBPUSD on Friday.

### ¥ JPY

Fading US Treasury yields set a floor below the yen post reached a 24-year low versus the greenback at 137.00 on Wednesday.

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# ₹ INR

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 4.9% | 0.8% | 7.04% | 7.8% | $-24.29B |

## Events to WATCH

Jul 04,20:00
Trade Balance

Jul 04,20:00
Exports(USD)

Jul 04,20:00
Imports(USD)

Jul 05,10:30
Nikkie Services PMI( Jun)

USDINR remained on front foot from the start of the week as 78.23 open was the low also for the pair and made a fresh peak of 79.12, weighed down by major strength in the dollar and as market participants retreated from the domestic equity markets. Greenback remained strong versus major peers due to the prospects of aggressive U.S. interest rates and concerns of a widespread recession. Though Market participants saw intervention by RBI to protect our beloved Rupee but couldn't help much as the depreciation pressure on the local unit was large. Looking at current scenario of fear of widespread recession and dollar index at 105+ levels could depreciate Rupee further in the near-term, RBI might intervene to protect local unit but we recommend Importers to hedge for near term payments on every dip.

The global inflation pressure and aggressive indication by the US fed could put further pressure on the pair. Market participants are expecting the possibility of the downturn in some of the major economies. Forward premiums came down substantially in USDINR since last month. It's an important week ahead for the pair as Nikkei Services PMI for Jun month is scheduled in the start of the week while on the US side Services PMI is and ISM Non-Manufacturing PMI is set to release in the mid of week along with Initial jobless claims. Market participants will be eying on the US job data scheduled for the last trading day of the week, A higher than expected reading should be taken as positive for the pair, while a lower than expected reading should be taken as negative.

# $ USD

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 1.75% | -1.6% | 8.6% | 3.6% | $-87.077M |

## Events to WATCH

Jul 06, 19:30
JOLTs Job Openings (May)

Jul 06,19:30
ISM Non Manufacturing PMI (Jun)

Jul,07 17:45
ADP Nonfarm Employment Change (Jun)

Jul 07, 18:00
Initial Jobless Claims

Jul 07 , 20:30
Crude Oil Inventories


USD/INR has failed to stay above the crucial all-time-high recorded above 79.20. Indian rupee takes support from options market signals to renew record low near 79.20 although bracing for the biggest weekly jump since late February during Friday's Asian session.
Any pullback remains elusive until the pair stays above the previous resistance line from early March, at 78.60. In the daily chart of USD/INR the simple moving average trends up to 78.06 then to 77.50 the breach of which leads to 76.68 in the average levels of SMA20, SMA50 & SMA100 respectively.

The pivot points of the daily chart signals the resistance are at 79.26 & 79.44 on the upper side wherein the support levels are at 78.86 &78.70 on the downside.

# EUR

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 0 % | 0.6% | 8.6% | 6.6% | €-32.438M |

## Events to WATCH

Jul 04, 11:30
German Trade Balance (May)

Jul 0 5 , 13:30
Services PMI (Jun)

Jul 0 6 , 11:30
German Factory Orders (MoM)(May)

Jun 06, 14:00
Retail Sales (MoM)(May)

Jul 07 11:30
German Industrial Production (MoM)(May)

EURUSD ended the week with a deep fall, renewing the latest bearish sentiment after noting a brief remission in the previous week. One of the prime currency pairs broke down to sustain above the 1.0600 level and plunged as low as 1.0382, reaching its bottom level since mid-June. Bulls tried to put on a rebound but stepped back while current recession concerns, which carried on the sentiment near to the US dollar floated throughout the week. Market participants will start preparing for the US Nonfarm Payrolls report on Thursday, along with the US ADP jobs data release ahead of the weekly Jobless Claims. The ECB policy accounts will also consider being studied for new intuition on the central bank's coming policy action. The main event risk of the last trading day of the week but rests in the US labor market figure with the hourly incomes explicitly in focus. The Euro initially tried to rally during the last trading week of June, but couldn't hold on to gains as it seems like we are going to continue to short the rallies every time they occur.


On the weekly chart, this region is worth paying close attention to, because the 1.04 level has been a significant support in the past and if the pair manages to stay above there, it opens up the possibility of trying to build up some type of base, but currently it looks like everybody's focusing on buying US dollars, and therefore I'm not looking for any signs of a turnaround. If the market were to rally from here, the 1.06 level is an area that's been very resistive and difficult to break above in the last three weeks, followed by the 1.08 level. With all the present factors in mind, I do believe that it is probably only a matter of time before we break through the 1.04 level and go much lower. Once the pair breaks down, the 1.02 level is my next target, followed by parity. I do think that we will see parity in a few months, especially as economic conditions continue to show no signs of improvement. With the world heading into recession, the greenback will continue to be very strong, at least through foreseeable future. In the meanwhile, it's about trying to buying cheap US dollars.

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# £ GBP

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| 1.25% | 0.8% | 9.1% | 3.8% | -£85.03M |

## Events to WATCH

Jul 05, 14:00
Service PMI
(Jun)
(MoM) (Apr)

Jun 05, 14:00
Composite PMI
(Jun)

Jul 06,14:00
Construction PMI
(Jun)

Bank of England monetary policy divergence with the US Fed weighed on the Pound. BOE Governor Bailey spoke at the ECB Forum on Central Banking, stating that the Bank of England may not need to forcefully get inflation under control adding that cracks were appearing in the economy of the UK. The pair added to its heavy intraday losses and plunged to over a 2-week low, close to 1.2030. The prospects for an aggressive US Fed rate increase along with growing recession fears boosted demand for the safe haven and prompted fresh selling close to the GBPUSD on Friday. The subsequent decline below the 2-week-old descending trend support confirmed a fresh bearish breakdown and supports a further near-term depreciating move. The negative outlook is reinforced by the fact that technical indicators on the daily chart are away from being in the oversold territory.


The British pound initially tried to rally during the last trading week of June, but then fell hard slamming into the 1.20 level. This is a big, round, psychologically important support level, which has been recently attempted. It has been an important historical level too, so I think a lot of market participants are going to be paying attention to it. A break below the 1.20 level opens up the possibility of 1.18, followed by 1.16. The British pound itself is not necessarily a currency that we should worry about, the pair is being dominated by the US dollar right now rather than anything else. Rallies at this point in time should be considered as selling opportunities because quite frankly there are no good economic fundamentals backing up the pound. Because of this, people will continue to flock towards the US dollar, as it is considered to be a safe haven currency. It is not until the Federal Reserve changes has a shift in its overall attitude that I see the US dollar's strength fading, and at this point that does not look likely to happen anytime soon. With the Federal Reserve becoming increasingly hawkish, the US dollar will strengthen a lot more.

# ¥ JPY

| REPO RATE | GDP | INFLATION | UNEMPLOYMENT | TRADE BALANCE |
|---|---|---|---|---|
| -0.1% | -0.1% | 2.5% | 2.6% | ¥ -23.85B |

## Events to WATCH

Jul 05,06:00
Services PMI

Jul,08 05:00
Household Spending (YoY) (May)

The USDJPY assumption kept tied to US Treasury rates and the economy overview. This week issued the first solid information that inflation's upset has gone beyond just consumer disruptions and has started to dampen growth. Consumer purchasing power has diminished for 15 consecutive months, devastated by sharp price hikes, as wages and income have given out to keep pace. A recession is sensibly unavoidable if US consumers are pushed to lessen spending because of rate hikes in food, transportation, and shelter. The extending spread between Japanese Government Bonds (JGB) and US Treasuries had been steered solely by the American side. Credit markets showed the US Fed's inflation rate program, magnifying the 10-year yield from its close at 1.514% in 2021 to its June 14 high at 3.480%. This week Japanese data ahead will be contingent on the market moves. The June's Eco Watchers Survey following regional sentiment is the most compulsive.

The Treasury-JGB spread has been strong support for the pair, as it decreases it also takes the USDJPY down with it as a trend. The US Fed has given no quarter to the notion that its interest rate hikes could be halted due to recession. Market participants are not buying that hard talk. Treasury yields have come off sharply in the last 2 weeks and will continue to fade if US data points crumble. The MACD Wednesday cross of the signal line and its gap on Thursday and Friday is a classic sell signal in the early market hours. Confirmation is obtained from the Relative Strength Index which has plunged to its lowest point in 2 weeks. The strong resistance is at 136.81 (indicated by the green horizontal line). The major support can be seen at 134.44 (presented with the red horizontal line).  The Japanese Yen dropped more than 10% versus the USD in the 2nd quarter as the USDJPY pair bulls pressed higher with unrelenting pressure.

## Is Pegged Foreign Exchange Rate Better?

The foreign currency exchange rates can determine the relative strength of one country's currency to another since the disparity is manifested in the value gap observed upon currency exchange. The factors that hold influencing power over the economic condition of a country include the inflation rate, government stability, geopolitical conditions, prevailing interest rates and many more. In turn, these factors drive the fluctuations in the foreign exchange rates due to the changes brought in any currency's value, subsequently influencing the forex transactions. Any transaction in the foreign exchange market bears the impact of the market movements and also affects the international trade that happens between economies. However, in the case of the pegged foreign exchange rate, the market conditions do not contribute to the forex risk of exchange rate uncertainty since pegging a currency stabilizes the exchange rate between countries. The currency peg basically empowers the country's business planning by offering long term predictability of exchange rates. When the value of a country's currency is tied to a usually stronger currency like the Euro, UK pound sterling or US dollar, it is referred to as a pegged rate or fixed exchange rate. The exchange rate by pegging it to a more stable and internationally prevalent currency. The government sets the fixed or pegged rate against a major world currency wherein the central bank buys and sells its own currency in the foreign exchange market to maintain the exchange rate.

**Merits of a pegged exchange rate**

Countries prefer the pegged exchange rate regime due to the predictability of the exchange rate it extends and the profitability factor offered for trade and exports purposes. The fluctuation susceptibility of smaller economies is reduced due to pegging, which also strengthens the morale of larger economies in setting up trade deals owing to the rates that will not fluctuate beyond reasonable levels. Trade relationships with countries One of the major advantages that pegged exchange rates bring to smaller economies is that by controlling its domestic currencies, the exchange rates can be kept low, which aid the competitiveness of goods in the international market. One example of this merit extended by the pegged exchange rate is when China, in 2008, decided to go back to a fixed exchange rate regime during the global financial crisis.

**Demerits of a pegged exchange rate**

The need to maintain the fixed exchange rate and the measures that the government needs to take to ensure that, encompass the disadvantages associated with the pegged exchange rate. As the central bank is constantly buying and selling domestic currency, large foreign reserves need to be maintained wherein the massive amount of capital created can create economic side effects like inflation. Due to the directly proportional relation between currency reserve and monetary supply, the prices continue to rise, causing troubles for countries that are inclined to keeping things stable. While pegged exchange rate might empower countries to defend against the adverse global situation, they often fall short in navigating domestic situations. The Thai baht suffered tremendously following adverse market events during 1996-1997, the time it was pegged to the US dollar.

# 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

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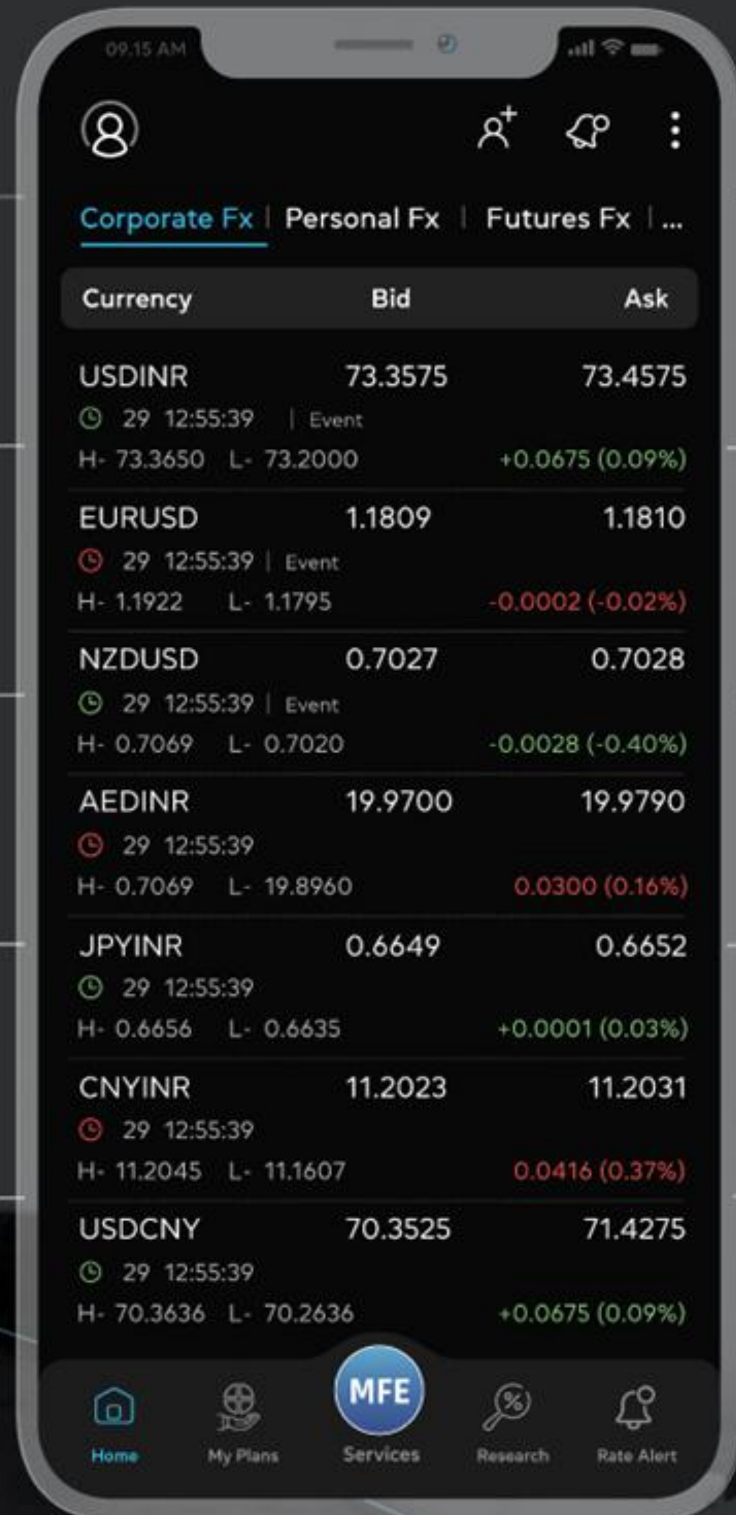


## FX on Call

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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