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SEPC
SERVICES EXPORT PROMOTION COUNCIL

Forex Market Insights

Newsletter

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Exclusively for SEPC members:

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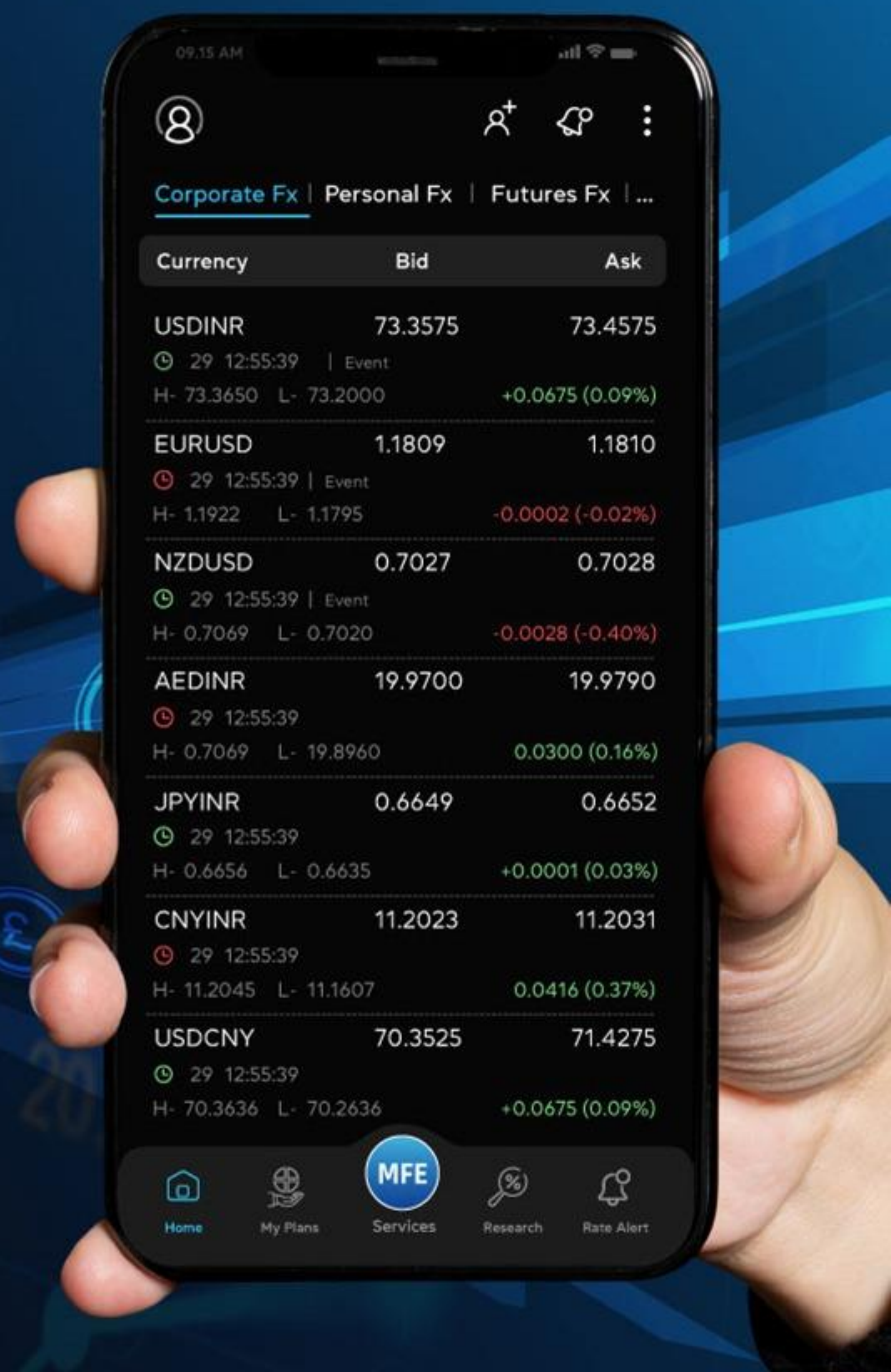

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Welcome

Dear Members,

I wanted to give you a quick overview of recent market trends and how they might impact our business moving forward. This week, we saw a remarkable increase in the Dow Jones Industrial Average, hitting a record high of 37,090, and the S&P 500 coming close to its own record at 4,707. This positive momentum was largely influenced by the Fed's decision to keep interest rates steady for the third time in a row. The markets responded positively to comments from Fed officials hinting at potential rate cuts in the future, leading to a rally on Wall Street. Notably, U.S. equity funds received net inflows of $1.98 billion during the week, reversing two weeks of net selling.

The S&P 500's recent climb, reaching a 23-month high, reflects optimism following a robust U.S. jobs report. It's noteworthy that the Fed's indication of a potential end to its stringent monetary policy has also impacted the dollar, which is on track for its biggest weekly decline in five months. European markets have shown resilience, with the STOXX 600 recording its fifth straight weekly high. The European Central Bank's decision to maintain interest rates and signal an early end to its bond purchase scheme has contributed to this stability.

Looking ahead, there are factors that could drive near-term dollar strength, such as potential rate cuts by the Federal Reserve in 2024. However, we should remain vigilant, considering risks like geopolitical tensions in the Middle East and concerns about financial stability. Recent economic signals are mixed - equity gains on potential Fed cuts and ECB policy shifts may continue, but risks like inflation, geopolitics, and uneven Chinese growth remain. Though some positive signs exist, volatility is likely to persist, warranting a focus on resilience.

Thank You

Yours' Sincerely,
Mr. Karan Rathore
Chairman

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Key Takeaway Summaries

₹ INR

The Indian Rupee finally did move out from its old boring range and recovered to 82.93(3-month low) on the last trading session of the week.

€ EUR

ECB charted its own course during the MPC meeting on Thursday, delivering a hawkish outlook.

£ GBP

The pair gained and made a 4-month high of 1.2793 after the dovish Fed remarks signaling the rate-cuts and BoE's hawkish comments, signaling higher interests rates for longer.

¥ JPY

The narrowing Yield differentials between US and Japan has contributed to the Yen gaining as FED turned dovish on Thursday exiting its monetary tightening policy.

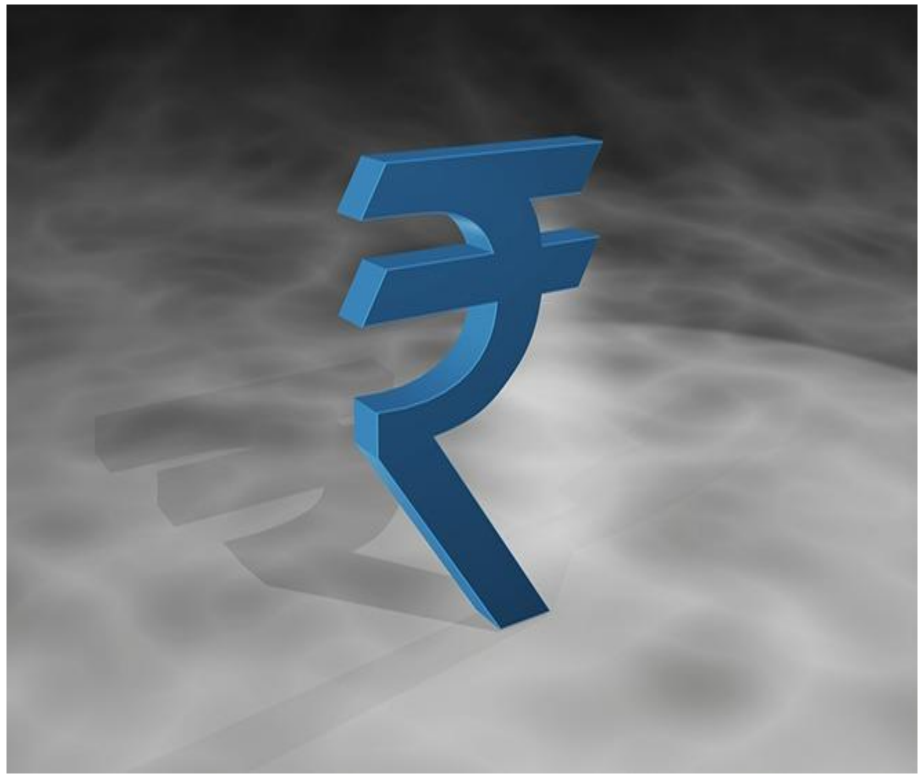
INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.50%	1.9%	5.55%	7.1%	$-20.58B

Events to WATCH

Dec 22, 17:00
FX Reserves, USD

The Indian Rupee finally did move out from its old boring range and recovered to 82.93(3-month low) on the last trading session of the week. Notably, Friday (15 Dec'23) showed the highest volatility of 39.75 paise since 14 Mar'23. The situation was hard to digest for those who thought that this is the general nature of the USDINR pair i.e. being controlled by the RBI whereas the others who were well aware of the uncertainties were already hedged till now, allowing them to observe the unfolding events with a sense of preparedness. Expectations of Rupee recovery gained heat following the US Monetary Policy Meeting, wherein the Federal Reserve shifted its focus from curbing inflation to pursuing a soft landing to avoid recession. Fed Chair Powell flagged probabilities of rate cuts by 75-100bps in 2024. The Fed rate monitor reflects a 62% probability of a rate cut in March, surpassing 90% for the May meeting. This shift prompted reactions in US Treasury bond yields, with the 2-year yields dropping from 4.73% to 4.42%, and the 10-year yields sliding to 3.92% from 4.21%.



When everyone thought that the pair would continue to be stable and trade in a small range, it suddenly dropped to register the highest volatile session in the past 9 months. Such price actions underscore the unpredictable and volatile nature of the forex markets. Their nature is fundamentally marked by volatility, with stability or sideways movement being the exception rather than the norm. India's trade balance dropped by $10.88 bio in November whereas our FX Reserves surged to a 4-month high at $606.86 bio. We still expect the rupee to recover towards 82.00 amid a weak dollar index, lower crude, yields falling and a surge in Asian currencies.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.5%	5.2%	3.1%	3.7%	$-64.26B

Events to WATCH

Dec 19, 19:00
Housing Starts (Nov)

Dec 19, 19:00
Building Permits (Nov)

Dec 20, 20:30
CB Consumer Confidence (Dec)

Dec 21, 19:00
GDP (QoQ) (Q3)

Dec 21, 19:00
Philadelphia Fed Manufacturing Index (Dec)

Dec 22, 19:00
Core Durable Goods Orders (MoM) (Nov)

Dec 22, 19:00
New Home Sales (Nov)

The most awaited volatility was back again in the picture. USDINR opened the week trading high at 83.33 but eventually dropped to close at 83.00, registering its strongest close since 22 Sep’23. It also broke the initial support at 83.00(Green line) to test its 3-month low of 83.93.

As repeatedly mentioned in the previous reports, the USDINR pair is characterized by initial support levels at 83.00 (Green Line) and 82.80 (White Line). The 100-day EMA (Blue Line) aligns with these levels at 83.00 whereas the 200-day EMA (Orange Line) marks the next support at 82.58, reinforcing the expectation that these levels will serve as strong support. A potential short-term retracement towards 83.10-15 is possible, based on the resilience of these support levels. However, a breach of the second support at 82.50 may result in a sustained fall towards 82.00. Following an extended period of stability, a significant shift in market dynamics is evident, wherein even a minor dip attracted dollar buyers. Yesterday's massive dip of over 30 paisa suggests the activation of dollar buyers in the upcoming trading sessions, pushing the market up.

Exporters who still have their unhedged exposure should certainly hedge targeting 83.10-15 whereas importers should start hedging their short-term exposure through forwards as we expect the rupee to continue its gaining trajectory.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.50%	-0.1%	2.4%	6.5%	€10B

Events to WATCH

Dec 18 14:30
German Ifo Business Climate Index (Dec)

Dec 18 14:30
German Business Expectations (Dec)

Dec 19, 15:30
CPI (YoY) (Nov)

Dec 19, 15:30
Core CPI (YoY) (Nov)

Dec 19, 15:30
CPI (MoM) (Nov)

Dec 20, 12:30
German PPI (MoM) (Nov)

Dec 20, 12:30
GfK German Consumer Climate (Jan)

In a surprising twist, the ECB charted its own course during the MPC meeting on Thursday, delivering a hawkish outlook and choose to maintain its interest rate at a 15-year high of 4.50%. The ECB, emphasizing the necessity of prolonged high rates due to anticipated inflation rebounds. Projections foresee inflation at 5.4% in 2023, 2.7% in 2024, 2.1% in 2025, and 1.9% in 2026. This announcement triggered an upward surge in the pair, pushing it to 1.10.However, Friday brought a twist with the release of PMI data from the Eurozone and US. Eurozone data revealed a contracting service sector, which comprises over 60% of its GDP, and the largest manufacturing economy in the Eurozone, Germany was also in contraction. This contradicts the ECB's stance, suggesting that high-interest rates may be hindering economic growth. If the economic data continues to paint a grim picture, rate cuts could happen sooner than the ECB indicated. In the ongoing narrative where the Fed hints at rate cuts while the ECB hesitates, the Euro appears to be entering a gaining phase.

The EURUSD began the week close to its weekly low at 1.0758 and displayed a bullish trend throughout. On the weekly candlestick chart, the pair tested both the 200-Week EMA (1.1017) and the 50-Week EMA (1.0750), illustrating these levels as significant resistance and support points. Progressing through the week, the euro notably advanced toward the 1.10 mark. If the EURUSD manages to surpass the 200-Week EMA and this week's highs, particularly breaching above 1.10 and consolidating above those levels, it suggests potential movement towards 1.1250. However, there's been a slight pullback in this week from 200-Week EMA due to the market being overbought. Notably, the pivotal level at 1.07 holds significant importance; a breach beneath this level could lead to heightened market volatility and pair can enter again to the bearish flag. As the holiday season approaches, characterized by reduced liquidity in the market, there's a query regarding potential volatility for the remainder of the year. Currently, the 1.10 level plays a crucial role in determining bullish confidence in the Euro. Moreover, momentum indicators also signal an overbought status for the pair.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.25%	0.0%	4.6%	4.2%	£ -4.480B

Events to WATCH

Dec 20, 12:30
PPI Input (MoM) (Nov)

Dec 20, 12:30
CPI (YoY) (Nov)

Dec 22, 12:30
GDP (QoQ) (Q3)

Dec 22, 12:30
GDP (YoY) (Q3)

Dec 22, 12:30
Retail Sales (YoY) (Nov)

Dec 22, 12:30
Retail Sales (MoM) (Nov)

Despite declining on Friday, sterling had a positive week. The pair gained and made a 4-month high of 1.2793 after the dovish Fed remarks signaling the rate-cuts and BoE's hawkish comments, signaling higher interests rates for longer. With UK's core inflation still above 5%, which is the highest among all the other G10 countries, Suggesting BoE's fight against inflation is still on. Out of 9 members, 3 members from BoE's MPC still voted for a 25 bps hike and Governor Bailey stated that it is premature to assert that interest rates have reached their peak. While the lower dollar index and Central bank's outlook support the currency. But the bearish labor data and negative GDP of UK in October suggests that the economy is not performing well. The service sector, however performed well and is in the expansionary phase. The overall outlook for the pair is still positive, but the chances of growth remains limited. UK's CPI, GDP (Q3), US Core PCE Price Index and Core Durable Goods Orders will be eyed for further clarity on the future trajectory of the pair.

GBPUSD gained throughout the week, only to give away some of its gains, but held to its weekly gains. The pair surged nearly 2%, reaching a four-month high of 1.2793. Analyzing the weekly chart, it's evident that GBP/USD retraced its path and recovered from the previous week's losses. Cable buyers face strong resistance at 1.2735(200-week EMA), though the pair managed to breach the level this week, but succumbed to the resistance and ended the week below the 200-week EMA by closing at 1.2679. The formation of a green candle signifies sustained bullish sentiment, supported by a positive signal from the MACD indicator, suggesting potential upward momentum in the near future. A breakthrough above 1.2735 could trigger an uptrend, encountering significant resistance at the psychological level of 1.2900, while downside risks appear limited with the 50-week EMA (1.2431) serving as a crucial support level.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
-0.10%	-0.7%	3.3%	2.5%	-¥ -661B

Events to WATCH

Dec 19, 08:30
BoJ Interest Rate Decision

Dec 20, 05:20
Trade Balance (Nov)

Dec 20, 05:20
Exports (YoY) (Nov)

Dec 20, 05:20
Adjusted Trade Balance

After going down for about seven months, Yen bounced back to a five-month high, closing the week at 142.13. The catalyst behind this revival lies in the narrowing yield differentials between the US and Japan, fueled by the Federal Reserve's dovish stance that emerged on Thursday, signaling an exit from its monetary tightening policy and projecting a 75 basis point rate cut by the end of next year. The Tankan Index, a report that tells us how businesses are doing, also gave a thumbs up. Both the manufacturing and service sectors in Japan are growing. The Yen's gaining rally, predominantly influenced by external factors, is expected to continue, with the upcoming Bank of Japan (BOJ) interest rate meeting on Tuesday drawing considerable attention. While a shift away from the negative interest rate policy seems unlikely at this gathering, any subtle indication from the BOJ could amplify the Yen's gains, providing traders and investors with a strategic outlook for the currency's performance in the coming weeks. So, keep an eye on the Yen – it might have more surprises in store!

This week the USDJPY pair had a significant fall making a low of 140.95 with the close at 142.14 level, falling 1.8% from its open at 144.81 on Monday. The pair has been on a downward trajectory for the last five weeks, with Yen gaining around 6% over the weeks. We are currently hovering near the 142 level. This particular level has shown some resistance, and there is also an uptrend line positioned just below it. The current prices are situated beneath the 50-week EMA, suggesting a short-term vulnerability or a possible shift in the trend direction. However, it's noteworthy that the price remains above the 200-week EMA, signifying that the long-term trend is still intact and has not been compromised. If there's a reversal leading to an upward surge, the market may aim for the 145 level. Conversely, a decline below the 141 level might result in a test of the 140 level. In the long run, a breakdown below that point, especially if the BOJ exits its ultra-loose policy, it could lead to a further decline to the 136 level. The pair's direction in the near term will be mostly defined by the fundamentals.

BLOG

Impact Of Currency Exchange Fluctuations On Imports And Exports

For any corporate dealing in multi nationals the changes in currency rate with their local currency changes the possible transaction value which in turn impacts their revenue numbers. Any change in the foreign exchange markets, changes the Currency Rate, directly changes the import and export value of the country.

Trade balance

Excess of exports over imports results in a trade surplus which indicated a growth in the economy as there is more surplus funds at the hands of the consumers thus leading to more spending from them. Alternatively, when the imports are higher than exports, then the country has a trade deficit. This indicates a high demand for imports which maybe in the form of capital expenditure like equipments and machines. These are productive assets as they will lead to higher production of goods and thus employ more people as demand further increases. Both imports and exports should be growing for a healthy economy.

Convertible foreign exchange

Ideally in foreign exchange markets, currency value is determined, amongst other factors, by supply and demand of the currency pair. So for a free and fully convertible foreign currency, the economies will decide the natural equilibrium rate. But sometimes central banks of a country intervenes in the currency market, like in developing economies, the Foreign Exchange Rate is held down to encourage exports whereas the rates are kept up to decrease the inflationary pressure. Thus the foreign exchange rate is said to be manipulated.

Goods and raw material price changes

When the exchange rate falls, for an exporter the products will become relatively cheaper but the importer will have to pay more as currency price falls as now the raw material costs has increased. Thus exchange rate directly impacts the value of the imports for a country. Thus Foreign Exchange Risk increases with the change in the currency value.

Other way to look at this would be through an example, where the USDINR exchange rate is assumed at 70. When an auto component is exported from India to US and is sold at USD 10, then the exporter would get INR 700 against the export proceeds. Now, assume that the foreign exchange rate is now increased to 72 per USD, so now the same product can be sold at USD 9.72 instead as his inflow remains the same at INR 700, thus making his pricing more competitive in the US market than it was earlier with no change in any quality of the product.

Conclusion

To ensure the impact of Foreign Exchange Fluctuation is not affecting one's bottom line, it is important to hedge the foreign exchange risk. This calls for minimizing the effects of fluctuation on the exports and imports. There are several ways to hedge one's forex portfolio. The same should be discussed with forex advisors to ensure the portfolio is not exposed to volatility and is hedged appropriately. Myforexeye has been a pioneer in aligning foreign currency rates with the real-time market rates to ensure transparency is achieved especially when transacting in derivative forex products like forward contracts, futures and options. Each importer or exporter who has forex transactions should understand the impact of the currency volatility to their portfolio.

Mobile Application: Features

Live rates

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

Forward Calendar

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

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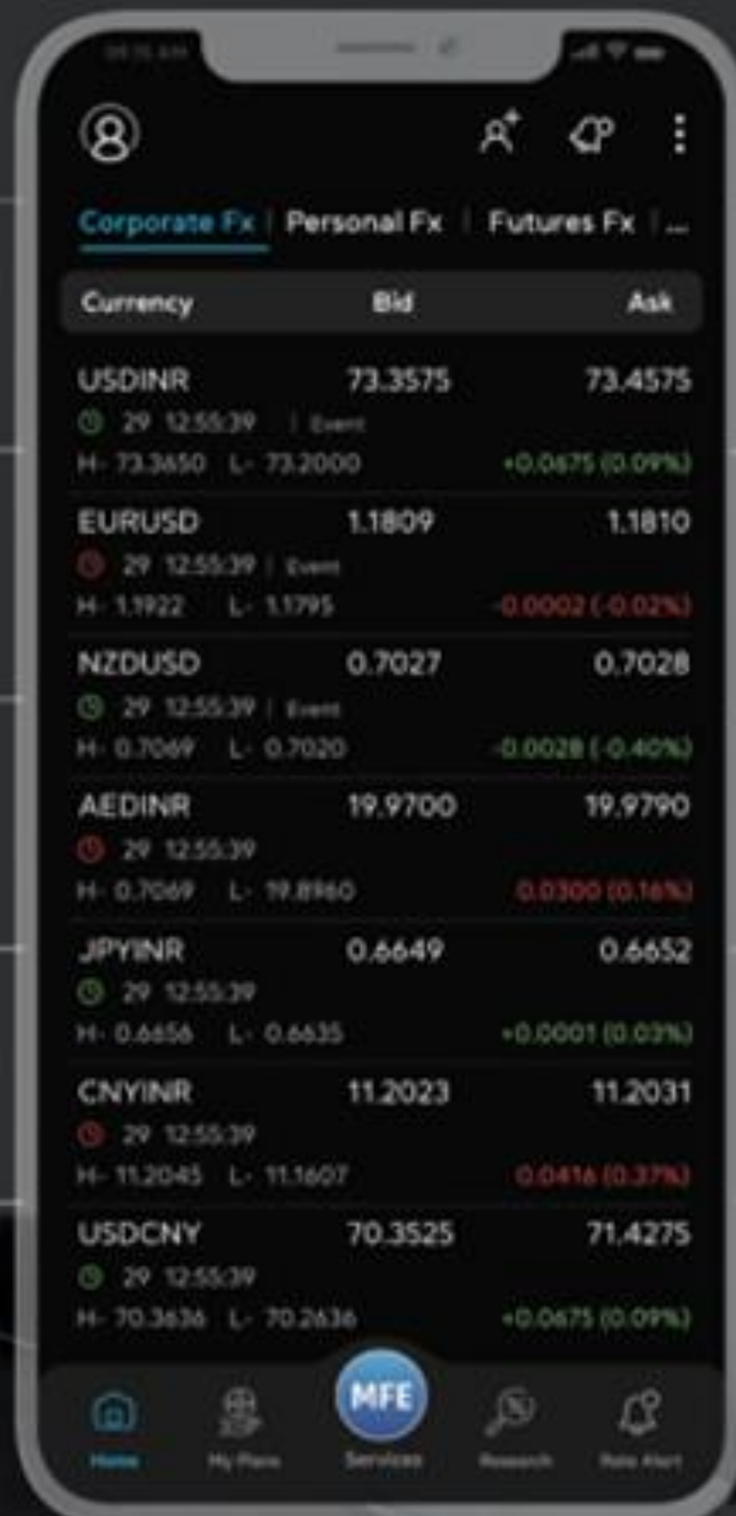

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Get access to trade services like Buyer's Credit, Supplier's Credit, Export LC Discounting and Export Factoring.

Forex Trading

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

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