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Forex Market Insights

Newsletter

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Welcome

Dear Members,

The past few weeks have brought significant shifts in global markets, driven by changing interest rates, inflation dynamics, and geopolitical tensions. I want to address these developments and their potential impact. Wall Street now anticipates that reductions might not start until 2025, a stark contrast to earlier expectations of cuts in 2023.

This shift is driven by Fed Chair Jerome Powell's comments and persistent inflation trends. Powell highlighted that progress towards the 2% inflation target has been insufficient, delaying policy easing. Market reactions reflect this change, with rate cut expectations pushed out and increased volatility in pricing. The dollar weakened, dragging the USD Index (DXY) to the 104.00 zone alongside a drop in US yields.

In the UK, declining inflation could pave the way for rate cuts as early as June, provided economic momentum remains strong. The Eurozone's flash PMI data will shed light on growth prospects, influencing ECB rate cut expectations. Japan's lower inflation figures may hinder the Bank of Japan's policy normalization efforts, as an inflation print close to 2% combined with shrinking GDP could delay further rate hikes. Overall, while the Fed may delay cuts, other central banks might act sooner, creating a dynamic currency market environment. We will monitor these developments closely.

Thank You

Yours' Sincerely
Mr. Karan Rathore
Chairman

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Key Takeaway Summaries

₹ INR

India's upcoming national elections has caused foreign investors to sell $3.3 billion worth of Equities in May, the largest monthly outflow since January

€ EUR

EUR gained by a notable drop in the DXY following the release of US CPI and retail sales data, which suggest a moderation in inflation

£ GBP

The Pound gained and made a 5-week high of 1.2711 level. The pair benefitted from the positive UK economic sentiment and the decline in the DXY .

¥ JPY

The pair dropped sharply to 154.15 following lower-than-expected US CPI and retail sales data, indicating cooling inflation in the US.

₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.50%	2.1%	4.83%	7.64%	$-19.1B

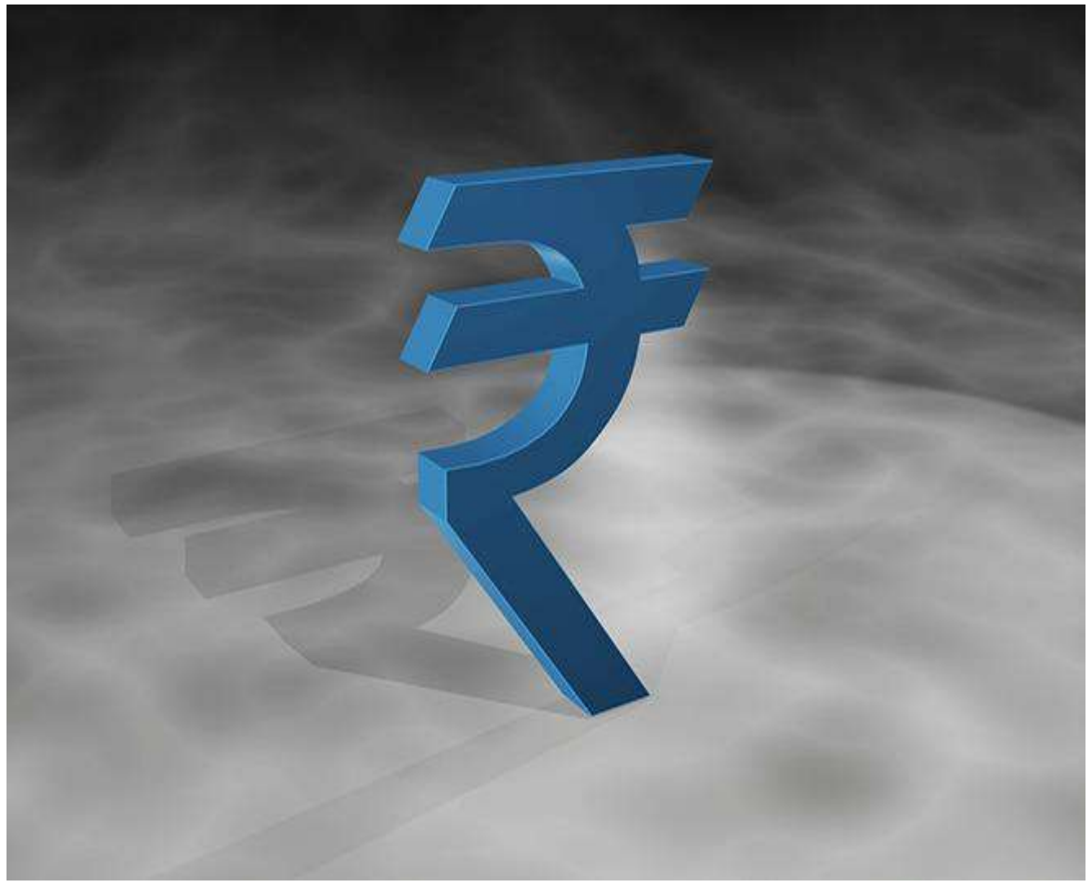
Events to WATCH

May 23, 10:30
Nikkei Services PMI(May)

May 23, 10:30
Nikkei S&P Global Manufacturing PMI

May 24, 17:00
FX Reserves, USD

Before Friday's sudden fall, the USDINR pair had been steadily moving in a small range until Thursday. This week, the pair started at 83.4975, hit a weekly high of 83.5375 at the beginning of the week, and ended at 83.335. The rupee rose 0.2% on Friday to its highest level in two weeks, owing to the dollar inflows from Warburg Pincus' on the purchase of a stake in Shriram Finance, as well as debt market inflows of around $109 million. However, the rupee remained under pressure and moved in the opposite direction till Thursday due to the dollar demand from oil firms and an outflow of foreign funds from domestic markets. The RBI's possible intervention around 83.52-83.53 levels helped to keep the rupee in a range-bound and below the 83.53 mark for a majority of the week. Although the dollar index fell to a monthly low of 104.08 on Wednesday due to weaker-than-expected CPI data and softer retail sales data, which was expected to provide the rupee a little boost but there was no substantial impact on the local currency on Thursday.



The Reserve Bank of India released its most recent figures on Friday, indicating that India’s foreign exchange reserves had increased by $2.56 billion to $644.15 billion as of May 10. India can now cover more than 11 months of imports with its foreign exchange reserves, including the central bank's forward holdings a two-year high. However, Concern over the results of the country's upcoming national elections has caused foreign investors to sell $3.3 billion worth of Indian stocks so far in May, the largest monthly outflow since January of last year. Meanwhile, The United Nations has revised up its growth estimate for India to around 7% in 2024, citing strong public investment and robust private consumption as the main drivers of the country's positive economic trend.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.5%	1.6%	3.4%	3.9%	$-69.37B

Events to WATCH

May 22, 19:30
Existing Home Sales (Apr)

May 24, 18:00
Durable Goods Orders (MoM) (Apr)

May 22, 20:00
Crude Oil Inventories

May 23, 18:00
Initial Jobless Claims

May 23,18:00
Building Permits

May 23,19:15
Manufacturing PMI (May)

May 23,19:15
Services PMI (May)

May 23,19:15
Services PMI (May)

The USDINR pair started the week at 83.4975 and traded throughout the week in the same range of 83.45 to 83.55. But, on Friday the pair suddenly dropped to test its 2-week low at 83.325 and also closed weaker around this level only.

On the daily frame chart, a significant drop is clearly visible in the last trading session. The 100-day EMA now shifts below the current spot level, pointing towards the bearishness in the pair. The spot has come close to its previously identified support region of 83.20-83.25, aligning with the 100-day EMA(blue line). Similarly, the next support for the pair still stands strong around the 83.00 level, continuing to align with the 200-day EMA. With the support levels, the resistance zones also remain unchanged at 83.53-83.57.

Exporters must be hedged by now at comfortable levels, if not then they can target levels around 83.35-83.40 to start with. On the contrary, importers should be ready to hedge now if the pair continues on its downward trend. The initial target to hedge the payables is at 83.25 (1st support).

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
4.50%	0.3%	2.4%	6.5%	€23.607B

Events to WATCH

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

May 23, 13:00
German Manufacturing PMI (May)

May 23, 13:00
German service PMI (May)

May 23, 13:30
Services PMI (May)

May 23, 13:30
Manufacturing PMI (May)

May 24, 11:30
German GDP (QoQ) (Q1)

The EURUSD pair continued its upward trend for the fifth consecutive week, reaching a seven-week high of 1.0894. This increase was driven by a notable drop in the dollar index following the release of US CPI and retail sales data, which suggest a moderation in inflation and a slowdown in consumer spending. These factors raise the likelihood of interest rate cuts by the Federal Reserve in its September meeting. Additionally, positive data from the Eurozone showed that the economy rebounded as anticipated in the first quarter after contracting for two consecutive quarters. Gross domestic product (GDP) experienced a sequential growth of 0.3 percent, reversing the declines observed in the third and fourth quarters of 2023, further supporting the pair's upward movement. Next week, attention will be directed towards significant data releases, particularly the German Manufacturing PMI, German GDP, and US Manufacturing and Services PMI. These data points will play a crucial role in determining the direction of movement for the pair.

The EURUSD pair has gained upward momentum this week, opening lower at 1.0768 and reaching an almost 2-month high of 1.0894. The consolidation zone between the 1.0850-1.0900 mark is significant, as observed during the pair's previous correction phase. On the technical front, the pair found support at the 50-Week EMA, located at 1.0770. This strong upward movement led to the pair breaking above the 200-Week EMA at 1.0800. Toward the end of the week, the pair experienced a retracement, closing at 1.0867. If the pair drops below the short-term support at 1.0800 (where the 200-Week EMA lies), it could initiate a downward trend, potentially reaching the next key support level at 1.0750, as indicated on the chart. On the upside, strong resistance is expected at 1.0900.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5.25%	0.6%	3.2%	4.3%	£ -1.098B

Events to WATCH

May 22, 11:30
CPI (YoY) (Apr)

May 22, 11:30
CPI (MoM) (Apr)

May23, 14:00
Composite PMI

May 23, 14:00
Manufacturing PMI

May 23, 14:00
Services PMI

May 24, 11:30
Core Retail Sales (MoM) (Apr)

May 24, 11:30
Retail Sales (MoM) (Apr)

It was a blockbuster week for the sterling, as the pair gained by 1.5% this week. The pair benefitted from the positive UK economic sentiment and the decline in the dollar index. Despite a third consecutive monthly decline in the UK's labor market, wage growth remained robust. BoE Chief Economist noted that wage growth is significantly above levels needed to achieve the 2% inflation target, emphasizing the necessity of restrictive monetary policy to curb domestic inflation. Lower April CPI and bearish retail sales data pushed the dollar index down to a one-month low of 104.08, boosting equity markets. As a result, the Pound gained and made a 5-week high of 1.2711 level. However, cautious remarks from Fed officials about the timing of rate cuts limited the dollar's decline this week. Overall, the chances of upside remains limited with the dovish comments from BoE Governor Bailey and other members, who emphasized recent improvements in inflation and expressed a preference for cutting rates in the upcoming quarters. Markets are currently pricing a 55% chances of a BoE rate-cut in June month.

The GBPUSD pair gained almost by 1.5% this week and made a 5-week high of 1.2711. The formation of continuous green candle in 4 out 5 trading sessions confirms the buyer's interest in the pair. On the daily chart frame of the pair, it can be seen that the pair has broken the descending triangle (blue lines) on the upside, suggesting the bullish momentum of the pair. The MACD Indicator further confirms the bullishness as the MACD line is well above the 0 line in the positive territory. The pair however faced a resistance at the 1.2705 level (orange line), as the pair tested the resistance, but ultimately closed below the resistance. If the pair is able to breach this level, the next resistance can be seen at 1.2765(yellow line), capping further upside in the pair.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0%	-0.5%	2.7%	2.6%	¥ 366B

Events to WATCH

May 22, 05:20
Trade Balance (Apr)

May 22, 05:20
Exports (YoY) (Apr)

May 22, 5:20
Adjusted Trade Balance

May 23, 6:00
Services PMI)

May 24,5:00
National Core CPI (YoY) (Apr)

May 24,5:00
National CPI (MoM)

USDJPY pair opened higher at 155.66, continuing its uptrend from previous week. The pair made a weekly high of 156.78, as stronger-than-expected US PPI data, suggested the Fed might keep rates higher for longer. However, the pair dropped sharply to 154.15 following lower-than-expected US CPI and retail sales data, indicating cooling inflation in the US. Despite this, Fed Chair Jerome Powell emphasized the need to maintain current interest rates for an extended period. The pair found some support after a rise in US import prices and weaker-than-expected Japanese GDP data, pushing it up to 155.54 and further reducing the likelihood of the BoJ raising its low interest rates. USDJPY ended the week at 155.64, struggling to maintain the gains due to weak labor market data. The overall outlook for the pair appears bullish as the chances of a Fed interest rate cut reduces due to overall strong US economic data. Additionally, the wide interest rate gap between the economies continues to put pressure on the Japanese currency.

The USDJPY pair touched a weekly low of 153.60 following US CPI and retail sales data indicating cooling inflation. However, the pair faced renewed pressure towards the end of the week due to rebounding US yields. The yen has struggled against widening interest rate gaps in recent weeks, closing the week at 155.64. Technically, the pair exhibited a "buying the dips" tendency, rising over 5% in the last two weeks and attracting trader interest. A breach below the support at 152 (S1) could trigger further declines toward 150 (S2), a historically strong support level. Conversely, if the pair rallies above 155 (R1 & current levels), it could potentially reach 157 (R2) due to the absence of Bank of Japan (BoJ) intervention. Technical analysis suggests a neutral stance, with last week's daily chart showing bearish candles followed by a partial retracement of gains. Potential BoJ interventions, especially if the pair surpasses 158, might limit upside potential, favoring the yen.

BLOG

Sortino vs. Sharpe Ratio

The art of making informed investment decisions involves a delicate balance between risk and reward. Investors constantly seek ways to gauge the performance of their portfolios, and that's where performance metrics like the Sortino and Sharpe ratios come into play. These ratios serve as valuable tools to assess an investment's risk-adjusted returns, shedding light on the intricate dance between gains and potential losses.

Understanding the Sharpe Ratio

The Sharpe ratio, developed by Nobel laureate William F. Sharpe, has been a staple in investment analysis since 1960s. This ratio measures the excess return of an investment (or portfolio) per unit of its volatility, or standard deviation. In simpler terms, the Sharpe ratio quantifies the compensation an investor receives for taking on additional risk. A higher Sharpe ratio indicates a better risk-adjusted performance, as the investment is generating higher returns relative to its volatility. Mathematically, the Sharpe ratio can be calculated using the formula: **Sharpe Ratio = Return of portfolio – Risk free rate / Standard deviation**

Where:

Return of portfolio is the historical performance of the fund for which you are computing the Sharpe Ratio? Returns can span any time frame, though opting for a long-term period is generally advisable**.**

Risk-free rate of return, which can encompass various options such as the 365-day Treasury bill yield or the State Bank of India's fixed deposit return.

Standard deviation, indicating the volatility or variations in its returns during the given period. Increased fluctuations signify elevated risk levels.

A higher Sharpe Ratio indicates that the investment has generated higher returns for the level of risk taken. Investors often use the Sharpe Ratio to compare different investment options and determine which one offers a better risk-adjusted return. However, one limitation of the Sharpe Ratio is that it considers both upside and downside volatility equally, which might not align with the preferences of all

Sortino Ratio

The Sortino Ratio, developed by Frank A. Sortino, addresses one of the limitations of the Sharpe Ratio by focusing specifically on downside risk. While the Sharpe Ratio considers all volatility, the Sortino Ratio only takes into account the volatility associated with negative returns. This makes it particularly relevant for risk-averse investors who are more concerned about minimizing losses.

Sortino ratio = Average asset return – Risk Free rate / Standard Deviation of downside risk

Where:

Average asset return: Portfolio's performance, whether assessed through historical outcomes (actual results) or expected returns.

Risk free rate: The money you make without any risk of financial loss like through mutual funds or government securities.

Standard deviation of downside risk: exclusively evaluates negative returns, with positive values in the historical returns replaced by 0.

Comparing Sortino and Sharpe Ratios

Both the Sharpe Ratio and the Sortino Ratio provide valuable insights into risk-adjusted performance, but they have distinct characteristics that make them suitable for different situations. The Sharpe Ratio provides a balanced view of risk and return, making it suitable for investors who are willing to tolerate a certain level of risk to achieve higher returns. It's particularly useful when comparing investments with similar return levels but varying levels of volatility. However, the Sharpe Ratio might not be the best choice for risk-averse investors who are more concerned about limiting potential losses. On the other hand, the Sortino Ratio is tailor-made for risk-averse investors. By focusing solely on downside volatility, it aligns more closely with the mindset of those who prioritize capital preservation. This metric is especially useful when evaluating investments in volatile markets or for strategies where minimizing losses is a priority. The choice between the Sortino and Sharpe ratios depends on the investor's objectives and risk preferences. A higher Sharpe ratio suggests efficient risk-adjusted returns overall, while a higher Sortino ratio highlights better performance in managing downside risk.

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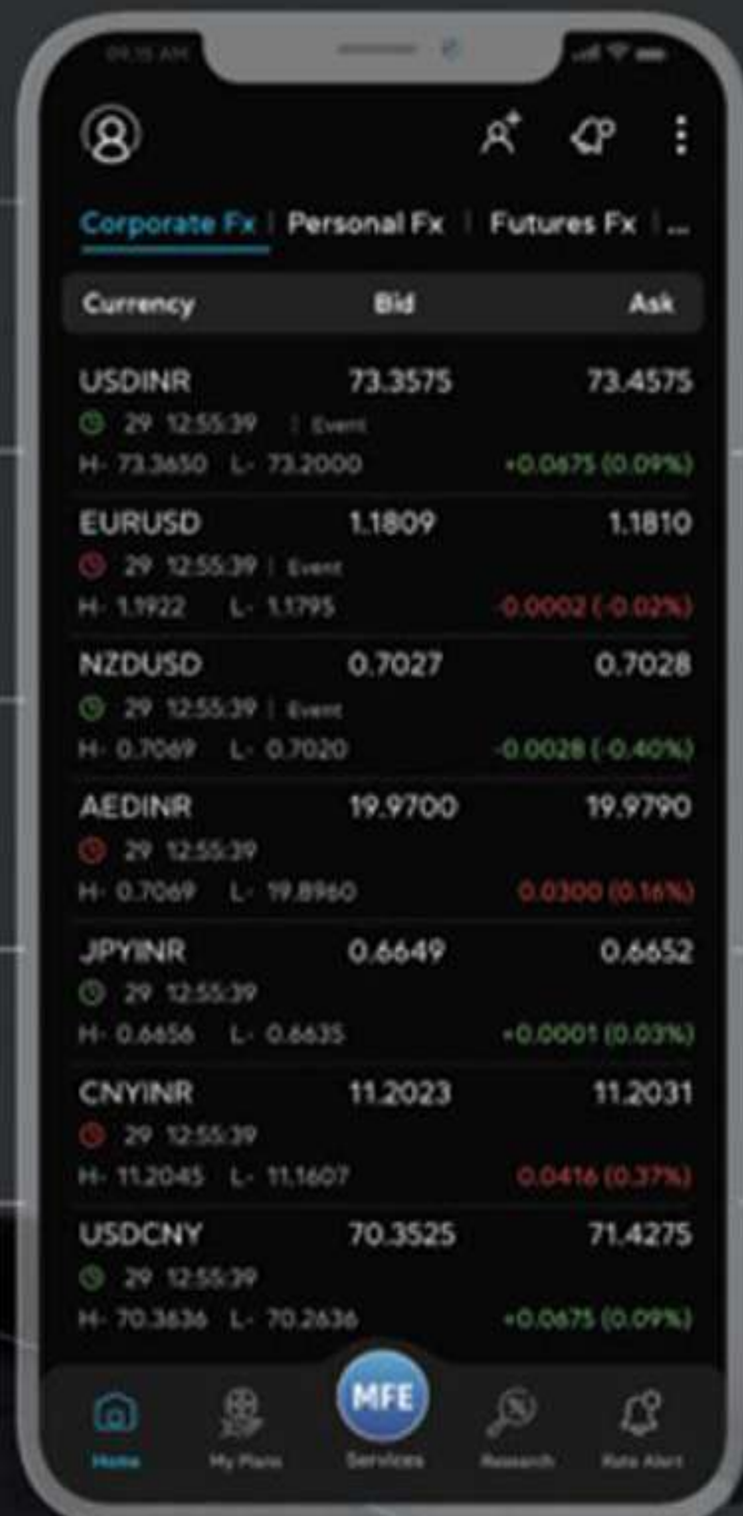

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