

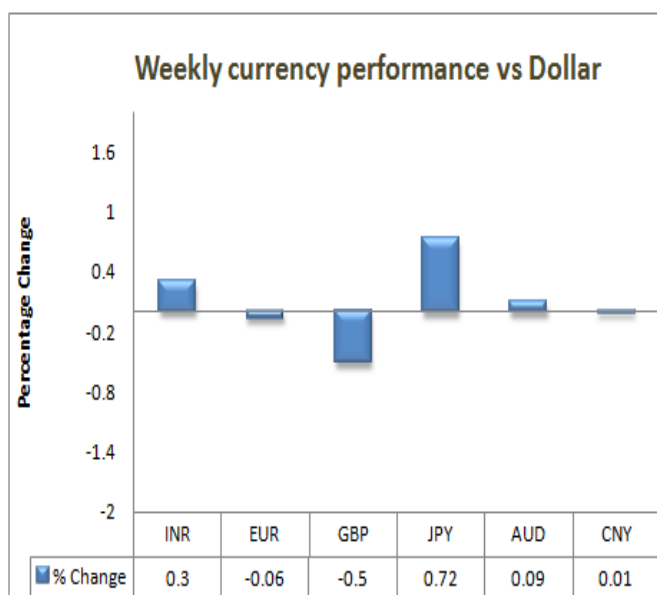


# FOREIGN EXCHANGE OUTLOOK

WEEKLY RESEARCH REPORT

25 September 2021

## Key Highlights:



Policymakers at the BoE voted unanimously to leave its main interest rate unchanged at a record low of 0.1%.

The US Federal Reserve kept its interest rate unchanged at 0.25%.

First-time filings for unemployment benefits jumped for the week ending Sept.18, hitting the highest level in a month. On a seasonally adjusted basis claims totalled to 351K, an increase from the previous week`s upwardly revised of 335K.

India's foreign exchange reserves declined by \$1.47 billion to \$639.642 billion in the week ended 17 September.

## FX Market Update

### USDINR Weekly performance & Outlook



- The USDINR pair made a gap up opening at 73.81 levels. The pair remained volatile during the week and finally closed at 73.70 levels. News regarding the default of China`s second largest real estate developer Evergrande started to revolve around the market.
- The USDINR pair remained steady the first half of the week as investors eagerly waited for the FOMC meeting outcome.
- The Federal Reserve held its benchmark interest rates near zero but indicated that rate hikes could be coming sooner than expected, and it significantly cut its economic outlook for this year. Along with this they also indicated that they will start pulling back on some of their stimulus that the central bank had been providing during the financial crisis.
- Indian benchmark indices surged over 1% each amid strong global cues after a weaker dollar across the board. The number of Americans filing for unemployment benefits increased by 16000. On a seasonally adjusted basis claims totalled to 351K, an increase from the previous week`s upwardly revised of 335K.
- Powell stated that he felt the economy had mostly met the bar and he feels that one more month of "good jobs" data and they could start pulling the trigger in November. Officials also published updated quarterly projections which showed officials are now evenly split on whether or not it will be appropriate to begin raising the federal funds rate as soon as next year, according to the median estimate of FOMC participants. In June, the median projection indicated no rate increases until 2023.

## Outlook

- In the week ahead, the Indian rupee is likely to trade with a sideways bias after closing at 73.99 levels in the NDF market.
- U.S. Policy makers signalled through their updated "dot plot" forecast of the fed funds rate that they're evenly divided about whether to raise the short-term benchmark next year. That's a shift from June, when 11 of 18 officials expected to leave it unchanged in the current range of 0% to 0.25%. What's more, the median expectation is now for the rate to climb to 1% and 1.75% at the end of 2023 and 2024. Powell, as is customary at his press conferences, sought to downplay any concerns about tighter policy. "Those are very modest overshoots," he said of the inflation forecasts. "I don't think households are going to notice a couple of tenths of an overshoot."
- The Fed and the BoE prepared the markets for trimming of asset purchases. Yields across DM economies inched higher this week. However risk sentiment continued to remain supported as markets viewed it as a sign of central banks being confident about the sustainability of economic recovery. Reflation trades were back in vogue with equities and commodities rallying despite a sell-off in bonds.
- Markets would remain cautious ahead of key macroeconomic datasets such GDP and PMI datasets from U.S and Manufacturing PMI numbers from India. The USDINR pair is likely to trade in a range of 73.40-74.40 in the coming week.

## EURUSD:



- The EURUSD pair opened flat around 1.1716 at the start of the week. ECB's Board member De Guindos reiterated the transitory stance of the rise in inflation, adding that consumer prices could peak in November at around 3.4%-3.5%.
- The Eurozone manufacturing sector activity deteriorated in the reported month, the latest manufacturing activity survey from IHS/Markit research. The Eurozone Manufacturing

PMI arrived at 58.7 in September vs. 60.3 expectations and 61.4 last. The index was at its weakest in seven months.

- S&P Global stated that they have lifted both its euro area economic growth and inflation forecasts for this year, but expected inflation to fall back below its 2% target next year. They have raised the growth forecasts to 5.1% for the current year, from 4.4% previously. They also have revised up its inflation forecast for this year to 2.2% from 1.8%.
- ECB's President Lagarde mentioned that the recent spike in euro zone inflation are temporary and due to fade in the next year. She added "things will fall into place" when new sources of supply are found but cautioned higher energy prices might persist as they related to a transition away from fossil fuels.

## GBPUSD:

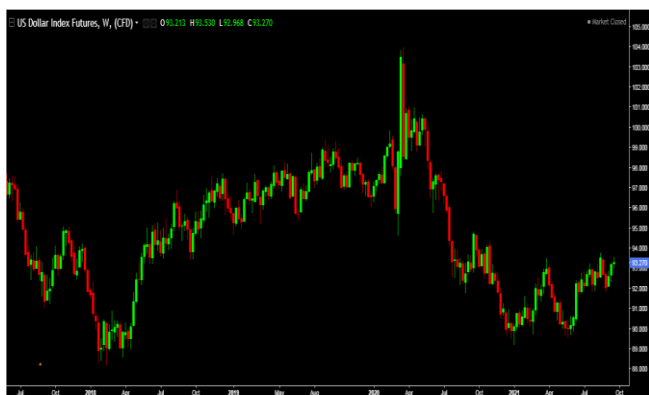


- The pound opened flat around 1.3720 levels and traded in a very volatile range as investors were awaiting the FOMC meeting and BoE interest rate decision outcome.
- The Bank of England kept monetary policy unchanged and downgraded economic growth projections for the third quarter of this year.

Policymakers voted unanimously to leave its main interest rate unchanged at a record low of 0.1% and opted to stick to its asset purchase target of £875 billion (\$1.2 trillion). The BOE reaffirmed its view that it expects inflation to fall back to close to the 2% target over the medium term.

- The seasonally adjusted IHS Markit Manufacturing PMI fell to 56.3 in September versus 59.0 expected and 60.3 in August's final reading. Chief Business Economist at IHS Markit stated that The September PMI data will add to worries that the UK economy is heading towards a bout of 'stagflation', with growth continuing to trend lower while prices surge ever higher.

## Dollar Index:



- The greenback, in terms of the US Dollar Index (DXY), looked to extend the recent breakout of the key 93.00 barrier at the beginning of the week.
- Tapering speculations, risk aversion, higher yields and some auspicious results from US fundamentals kept the upbeat mood around the buck unchanged in past sessions.
- The U.S. Dollar is holding steady against a basket of major currencies as investors focused on two major risk events i.e. a default by Chinese property developer Evergrande and the expected pace of U.S. monetary policy tightening.
- The dollar index later in the week touched the lowest since Sept.17 to 93.142. The safe haven dollar got hurt after Beijing injected fresh cash into the financial system on Thursday, when Evergrande announced it would make interest payments on an onshore bond.

Indian market at glance		Weekly range		Bias
USDINR	73.79	USDINR	73.40 - 74.40	Sideways
Sensex	60048 (+0.27%)	EURUSD	1.1620 - 1.1760	Neutral to Bullish
Nifty	17853 (+0.17%)	GBPUSD	1.3610 - 1.3750	Neutral to Bullish
India 10Y Bond	6.182%	USDJPY	110.00 - 111.50	Neutral to Bearish
1Y MIFOR	3.8800%	DXY	91.30 - 94.00	Neutral

## Macro-economic calendar

Time	Cur.	Event	Forecast	Previous
<b>Monday, September 27, 2021</b>				
7:00 AM	CNY	Chinese Industrial Profit (YoY) (Aug)		16.40%
6:00 PM	USD	Core Durable Goods Order (MoM) (Aug)	0.40%	0.80%
<b>Tuesday, September 28, 2021</b>				
5:20 AM	JPY	Monetary Policy Meeting Minutes		
10:30 AM	JPY	BoJ Core CPI (YoY)		0.20%
12:15 PM	EUR	French Consumer Confidence (Sep)		99
6:30 PM	USD	House Price Index (YoY) (Jul)		18.80%
<b>Wednesday, September 29, 2021</b>				
11:30 AM	GBP	Nationwide HPI (YoY)		11.00%
11:30 AM	EUR	German Retail Sales (MoM) (Aug)	-1.30%	-5.10%
7:30 PM	USD	Pending Home Sales (MoM) (Aug)	0.40%	-1.80%
<b>Thursday, September 30, 2021</b>				
5:20 AM	JPY	Retail Sales (YoY) (Aug)	-1.00%	2.40%
5:20 AM	JPY	Industrial Production (MoM) (Aug)	-0.50%	-1.50%
6:30 AM	CNY	Manufacturing PMI (Sep)	50.2	50.1
1:25 PM	EUR	German Unemployment Rate (Sep)	5.40%	5.50%
2:00 PM	GBP	GDP (YoY) (Q2)	-6.10%	22.20%
2:30 PM	EUR	Unemployment Rate (Aug)	7.50%	7.60%
5:30 PM	EUR	German CPI (YoY) (Sep)	4.10%	3.90%
6:00 PM	USD	GDP (QoQ) (Q2)	6.60%	6.60%
<b>Friday, October 1, 2021</b>				
5:00 AM	JPY	Unemployment Rate (Aug)	2.90%	2.80%
6:00 AM	JPY	Manufacturing PMI (Sep)		51.2
10:30 AM	JPY	Nikkei Market Manufacturing PMI (Sep)	55.0	52.3
11:30 AM	EUR	German Retail Sales (YoY) (Aug)	3.70%	-0.30%
1:25 PM	EUR	German Manufacturing PMI (Sep)	62.7	58.5
1:30 PM	EUR	Manufacturing PMI (Sep)	61.5	58.7
2:00 PM	GBP	Manufacturing PMI (Sep)		56.3
2:30 PM	EUR	CPI (YoY) (Sep)	3.30%	3.00%
7:15 AM	USD	Manufacturing PMI (Sep)		60.5

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