

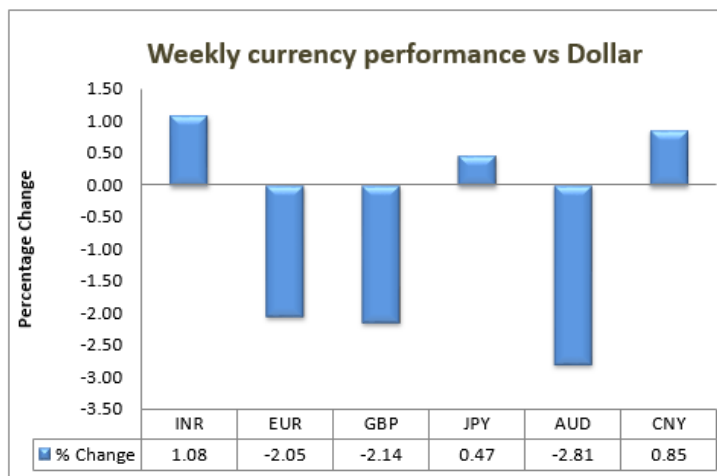


# FOREIGN EXCHANGE OUTLOOK

WEEKLY RESEARCH REPORT

19 June 2021

## Key Highlights:



India's retail inflation surged to 6.30% in the month of May, over and above the Reserve Bank of India's threshold of 6%.

Federal Reserve officials held interest rates near zero but signalled they expect two increases by the end of 2023, pulling forward the date of lift-off as the economy recovers.

India's forex reserves surged by \$3.07 billion to reach a record high of \$608.08 billion in the week ended on 11th June.

## FX Market Update

### USDINR Weekly performance & Outlook



➤ The USDINR pair made a gap up opening at 73.20 because the Dollar has strengthened against all major currencies. The pair remained volatile during the eventful week and closed the week at 73.86 levels.

➤ The Indian unit fell against the US dollar because the dollar strengthens across all major

currencies and a further rise in Brent crude oil prices during the week prompted oil marketing companies to step up their demand for dollars.

- India's CPI inflation accelerated to a six-month high print of 6.30% in May, breaching the upper band of the RBI's flexible inflation target. Meanwhile, the WPI inflation soared to a record high of 12.94% in May, on rising prices of crude oil and manufactured goods.
- The rupee further slumped against the US dollar because the greenback strengthened globally after the US Federal Reserve delivered a slightly hawkish stance on its monetary policy late on Wednesday.
- The Fed projected two interest rate hikes in 2023, earlier than previously expected. While the US central bank reiterated that the recent jump in inflation is transitory, it raised its forecast for headline personal consumption expenditures price index-based inflation to 3%, from 2% earlier.
- The RBI minutes of the meeting showed that the economic disruption caused by the Covid-19 pandemic has brought growth concerns to the top of Indian monetary policy makers' priority list, and relegated the inflation goal to a secondary position. The pivot for growth boosts the odds that interest rates will stay lower for longer to ensure the economy's recovery takes hold.

## Outlook

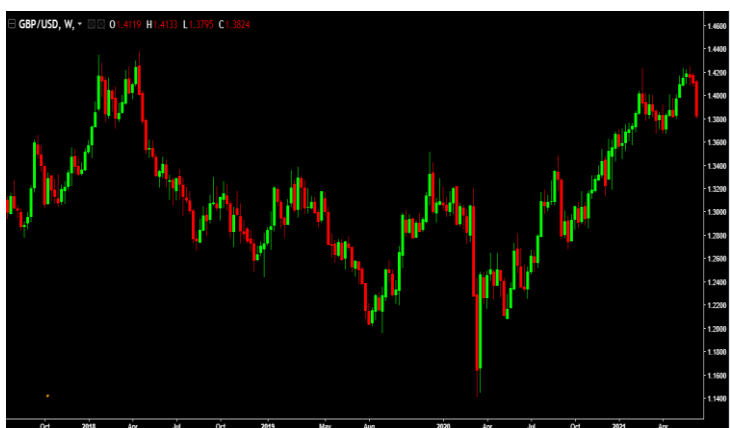
- In the week ahead, the Indian rupee is likely to trade with a neutral to upside bias after closing at 74.14 levels in the NDF market.
- The much anticipated Fed policy revealed that more US Fed members see rate hikes sooner given how the US economy is shaping up. Effectively, through its communication and optimistic growth and inflation projections, the Fed has delivered a twist. If the yield curve flattening continues for longer, we may see Fed officials try and talk down the market's expectations of tightening from time to time. We expect the transition to be non-disruptive. After the initial jolt, we expect the sentiment to stabilize and global recovery to unfold at a steady pace.
- The RBI Governor stated that the emphasis should be to continue with an accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of Covid-19 on the economy while ensuring that inflation remains within the target going forward. The RBI, at least into the August review, will be inclined to look through the likely high inflation prints. The statements will be slightly hawkish, and flag risks to inflationary expectations. But they will likely signal to continue an accommodative stance as the growth recovery remains fragile.
- Markets would remain cautious ahead of key macroeconomic datasets such as Existing Home Sales, PMI, New Home Sales, GDP, Core Durable Goods Orders, PCE Prices, Fed Chair Powell testimony and Initial Jobless Claims from the U.S. The USDINR pair is likely to trade in a range of 73.65-74.70 in the coming week.

## EURUSD:



- The EURUSD pair tumbled to multi-week lows, trading in levels last seen in mid-April. In fact, the sharp leg lower in the pair was triggered by the unexpected shift from the Federal Reserve.
- In the meantime, the optimism around the recovery in Europe on the back of the solid pace of the vaccine rollout continued to support the view of a strong rebound in the second half of the year.
- Final May inflation figures in Euroland noted the headline Consumer Price Index rose by 2.0% while the Core gauge rose by 1.0% from a year earlier. The EURUSD pair plummets to fresh levels below the 1.1900 mark, in response to the strong improvement in the sentiment surrounding the greenback exclusively following the FOMC event.
- The support for the European currency comes in the form of strong results from fundamentals in the bloc coupled with prospects of a strong rebound in the economic activity and the investors' appetite for riskier assets. The EURUSD pair is expected to trade with a neutral to bearish bias on the back of sell-off in the euro and strong demand for dollars.

## GBPUSD:



- The UK government's decision to delay the final stage of easing lockdown measures acted as a headwind for the British pound. In fact, UK PM Johnson pushed back the timeline to end restrictions fully to July 19 from June 21.
- Comments from BOE's Governor Andrew Bailey also weighed on the pound, as he said that the size of the central bank's balance sheet would be a major issue over the next five years.
- The latest developments dampen prospects for a rapid UK economic recovery from the pandemic amid the spread of the so-called Delta variant. Apart from this, concerns about the EU-UK stand-off on the Northern Ireland protocol further undermined the British pound and capped any meaningful upside for the GBPUSD pair.
- In the latest Brexit-related developments, UK PM Johnson said that they will have to take steps to make sure the post-Brexit trade between Britain and NI is uninterrupted. The UK CPI was up by 2.1% YoY in May, while the core reading hit 2%.
- Recent US Federal Reserve event sent the pair down below 1.3900 levels. The downtick was sponsored by the prevalent bullish sentiment surrounding the US dollar, which remained well supported by the Fed's sudden hawkish turn. The pair is expected to trade with a neutral to bearish bias. The market focus now shifts to the Bank of England monetary policy meeting scheduled for next week.

## Dollar Index:



- The dollar jumped to a multi-week high after the Federal Reserve brought forward its projections for the first post-pandemic interest rate hikes into 2023, citing an improved health situation and dropping a long-standing reference that the crisis was weighing on the economy. The US dollar index advanced on a firm footing and posted gains after the FOMC event.
- The strong rebound in DXY came in stark contrast to the steady performance of US yields. The index moved just beyond the 92.00 level as investors continue to adjust to the recent hawkish message from the FOMC at its meeting.

- The likeliness that the tapering talk could kick in before anyone has anticipated and the view of higher rates in 2023 fuel the sharp bounce in the buck to levels last seen in mid-April. However, the still unchanged view on “transient” higher inflation and hence the continuation of the dovish stance by the Federal Reserve carries the potential to temper the current momentum in the dollar. The dollar index is expected to trade with a bullish bias in the week ahead.

Indian market at glance		Weekly range		Bias
USDINR	73.86	USDINR	73.65 - 74.70	Neutral to Bullish
Sensex	52,344 (+21)	EURUSD	1.1750 - 1.1950	Neutral to Bearish
Nifty	15,683 (-8)	GBPUSD	1.3700 - 1.3920	Neutral to Bearish
India 10Y Bond	6.006%	USDJPY	109.50 - 111.00	Bullish
1Y MIFOR	4.796%	DX	91.50 - 93.00	Bullish

## Macro-economic calendar

Time	Cur.	Event	Forecast	Previous
<b>Monday, Jun 21, 2021</b>				
07:00 AM	CNY	PBoC Loan Prime Rate		3.85%
<b>Tuesday, Jun 22, 2021</b>				
10:30 AM	JPY	BoJ Core CPI (YoY)		-0.1%
03:30 PM	GBP	CBI Industrial Trends Orders (Jun)		17
07:30 PM	USD	Existing Home Sales (May)	5.74M	5.85M
07:30 PM	EUR	Consumer Confidence (Jun)	-2.8	-5.1
<b>Wednesday, Jun 23, 2021</b>				
06:00 AM	JPY	Manufacturing PMI (Jun)		53.0
06:00 AM	JPY	Services PMI (Jun)		46.5
01:30 PM	EUR	Services PMI (Jun)	57.5	55.2
01:30 PM	EUR	Manufacturing PMI (Jun)	62.5	63.1
02:00 PM	GBP	Manufacturing PMI		65.6
02:00 PM	GBP	Services PMI		62.9
07:15 PM	USD	Manufacturing PMI (Jun)	60.2	62.1
07:15 PM	USD	Services PMI (Jun)	64.5	70.4
<b>Thursday, Jun 24, 2021</b>				
04:30 PM	GBP	BoE Interest Rate Decision (Jun)	0.10%	0.10%
06:00 PM	USD	GDP (QoQ) (Q1)	6.4%	6.4%
06:00 PM	USD	PCE Prices (Q1)	1.5%	3.7%
<b>Friday, Jun 25, 2021</b>				
05:00 AM	JPY	Tokyo Core CPI (YoY) (Jun)	-0.1%	-0.2%
06:00 PM	USD	Personal Spending (MoM) (May)	0.5%	4.2%

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