

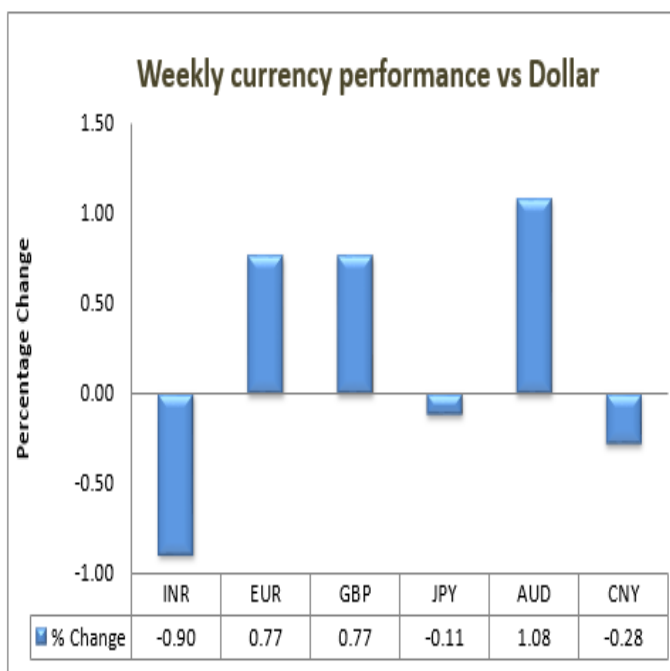


FOREIGN EXCHANGE OUTLOOK

WEEKLY RESEARCH REPORT

5 September 2021

Key Highlights:



India's economy expanded in the June quarter, helped by the low base of the year-earlier record contraction and a strong rebound in manufacturing and construction. GDP grew 20.1% in the first quarter of FY22.

The US Non-Farm Payroll print for August added just 235,000 jobs to the economy vs 750,000 expected. On the positive side, the Unemployment Rate fell to 5.2% from 5.4%.

The Eurozone CPI came in at 3.0% (y-o-y) in August, beating expectations of 2.7% while rising from June's reading of 2.2%.

India's forex reserves soared by \$16.66 billion to touch a lifetime high of \$633.56 billion in the week ended August 27.

FX Market Update

USDINR Weekly performance & Outlook



- The USDINR pair made a gap down opening at 73.47 levels. The pair remained volatile during the week and finally closed at 73.02 levels.
- The rupee rose against the dollar as foreign banks sold the dollar for overseas investments into Indian companies that are looking to raise funds through various means. A few foreign banks were on aggressive offers for the pair in anticipation of inflows likely dollar bond issues.
- A rise in domestic benchmark equity indices also supported the Indian rupee. Moreover, the dollar remained weak globally, which further lifted sentiment for emerging-market assets, including the Indian rupee. Investors worldwide were on the sidelines due to caution ahead of the release of key employment data in the US.
- August trade deficit (USD 13.9bn) came in at the highest in four months with Exports at USD 33.1bn and imports at USD 47bn. While exports continued to do well, the increase in gold imports to a 5 month high of USD 6.7bn contributed primarily towards widening the deficit.
- Surplus liquidity in the Banking system has risen to Rs 9 lakh crs and that is proving to be a constraining factor for the RBI in intervening in the spot. It is therefore likely that the RBI may pay forwards to sterilize spot USD purchases and also roll over its maturing long forward positions.

Outlook

- In the week ahead, the Indian rupee is likely to trade with a sideways bias after closing at 72.99 levels in the NDF market.
- Disappointment over the U.S. August payroll report is all but certain to push Federal Reserve policymakers to delay considering a move to scale back asset purchases at their Sept. 21-22 meeting. The addition of 235,000 jobs last month, falling well short of forecasts and the smallest jobs gain in seven months, suggests U.S. central bankers will need to see additional gains before starting to slow bond buying. Officials want to see "substantial further progress" in jobs and inflation, and the hiring slowdown, blamed on a flare-up in Covid-19 cases means moves in November or December are now more likely. Some regional Fed presidents have been pushing for a move as soon as September. Others have argued for patience to assess the economic impact of a rise in Covid infections stemming from the spread of the delta variant.
- The RBI governor stated that as markets settle down to regular timings and functioning and liquidity operations normalize, the Reserve Bank will conduct fine-tuning operations from time to time as needed to manage unanticipated and one-off liquidity flows so that liquid conditions in the system evolve in a balanced and evenly distributed manner. The October MPC may see more active debate on pace/mode of accommodation. Variable reverse repo rates are expected to be gradually increased further, either on tenor or amounts. The evolving growth, inflation, pandemic situation will be key in driving the shift from liquidity to the policy normalization process as we approach the October policy.
- Markets would remain cautious ahead of key macroeconomic datasets such JOLTs Job Openings, Initial Jobless Claims and PPI from the U.S. The USDINR pair is likely to trade in a range of 72.75-73.75 in the coming week.

EURUSD:



- The industrial sentiment declined from 14.5 in July to 13.7 in August. This decline was better than the median estimate of 13.4. In the same period, the sentiment among service providers declined to 16.8 as the Delta variant continued to hinder growth.
- The headline CPI for August hit 3% YoY and Core CPI reached 1.6% in the preliminary read for August, both above estimates. Higher inflation has reached the old continent and prompted both Klaas Knot and Robert Holzmann of the ECB to suggest the bank should reduce its bond-buying scheme. Nevertheless, a hawkish shift in ECB policy is now in play for next week's decision.
- With the Eurozone economic recovery broadly improving on the back of widening vaccination campaigns and inflation at a 10-year high, the ECB is expected to announce on Sept. 9th a reduction in monthly purchases from its 1.85 trillion euro

Pandemic Emergency Purchase Programme ahead of the Federal Reserve's own taper decision. The EURUSD pair jumped to its highest level since late June at 1.1910 on Friday after the greenback came under strong selling pressure during the American trading hours. The focus will be on the ECB Interest Rate Decision which is scheduled for 9th Sept. The EURUSD pair is expected to trade with a neutral to bullish bias.

GBPUSD:



- The pound remained unattractive amid concerns related to persistent tensions with the EU, the latest related to food shortages in the UK amid disruption in the supply chain. Another factor undermining demand for the British currency is the spread of the Delta variant.

- While the broad US dollar rebound could initially be linked to the pair's losses, pessimism surrounding the UK's coronavirus conditions and Brexit headlines exert additional downside pressure on the quote. It's worth noting that the risk appetite improves as the market seems cautiously optimistic over the inaction of the key central banks ahead of important data from the UK and the US. Markit's final Manufacturing PMI for the UK came out at 60.3 points in August, an upgrade from the early read of 60.1 and a figure reflecting robust growth in absolute terms.

- Strong demand and high employment outweighed some issues with supplies, yet the pound hardly budged. According to the Currency Strength Index, the US dollar has fallen well behind as investors move into risk following Friday's dovish tilt in the Fed's narrative and US data disappointments earlier this week. The pair is expected to trade with a neutral to bullish bias.

Dollar Index:



- Markets had been positioning for an announcement to come as soon as September with expectations of tapering to start in October. However, Fed Chair Jerome Powell merely suggests it "could" be appropriate to begin the taper this year. Fed Chair gave no hint as to actual timings and instead explained that the decision-making

process would involve a delicate balancing act between the data and the spread of the coronavirus Delta Covid variant.

- It should be noted that the comments from the Fed policymakers, latest by Cleveland Fed President Loretta Mester, copy Fed Chairman Jerome Powell's cautious optimism and reject fears of a rate hike, which in turn heavy the greenback. The ADP National Employment Report has shown that private payrolls rose by 374,000 in August, up from 326,000 in July but well short of the 613,000 forecasts.
- On Friday, Powell made it very clear, again, that while the Fed has probably got to the point where substantial further progress has been made on inflation there is much ground to cover to reach maximum employment. The dollar index is expected to trade with a neutral to bearish bias in the week ahead.

| Indian market at glance | | Weekly range | | Bias |
|-------------------------|----------------|--------------|-----------------|--------------------|
| USDINR | 73.02 | USDINR | 72.75 - 73.75 | Sideways |
| Sensex | 58130 (+0.48%) | EURUSD | 1.1780 - 1.1980 | Neutral to Bullish |
| Nifty | 17324 (+0.52%) | GBPUSD | 1.3760 - 1.3960 | Neutral to Bullish |
| India 10Y Bond | 6.156% | USDJPY | 109.10 - 110.30 | Neutral to Bearish |
| 1Y MIFOR | 4.5569% | DXY | 91.50 - 92.70 | Neutral to Bearish |

Macro-economic calendar

| Time | Cur. | Event | Forecast | Previous |
|--------------------------------|------|--|----------|----------|
| Monday, Sep 06, 2021 | | | | |
| 11:30 AM | EUR | German Factory Orders (MoM) (Jul) | | 4.1% |
| 02:00 PM | EUR | Sentix Investor Confidence (Sep) | 29.0 | 22.2 |
| 02:00 PM | GBP | Construction PMI (Aug) | | 58.7 |
| Tuesday, Sep 07, 2021 | | | | |
| 08:30 AM | CNY | Trade Balance (USD) (Aug) | | 56.59B |
| 11:30 AM | EUR | German Industrial Production (MoM) (Jul) | 0.9% | -0.3% |
| 02:30 PM | EUR | German ZEW Economic Sentiment (Sep) | 30.0 | 40.4 |
| 02:30 PM | EUR | GDP (QoQ) (Q2) | 2.0% | 2.0% |
| Wednesday, Sep 08, 2021 | | | | |
| 05:20 AM | JPY | GDP (QoQ) (Q2) | 0.4% | 0.3% |
| 07:30 PM | USD | JOLTs Job Openings (Jul) | 9.281M | 9.209M |
| Thursday, Sep 09, 2021 | | | | |
| 07:00 AM | CNY | PPI (YoY) (Aug) | 8.8% | 9.0% |
| 07:00 AM | CNY | CPI (MoM) (Aug) | 0.2% | 0.3% |
| 11:30 AM | EUR | German Trade Balance (Jul) | 13.2B | 12.6B |
| 05:15 PM | EUR | Deposit Facility Rate (Aug) | -0.50% | -0.50% |
| 05:15 PM | EUR | ECB Marginal Lending Facility | | 0.25% |
| Friday, Sep 10, 2021 | | | | |
| 11:30 AM | GBP | Manufacturing Production (MoM) (Jul) | | 0.2% |
| 11:30 AM | GBP | Industrial Production (MoM) (Jul) | 0.3% | 0.8% |
| 11:30 AM | EUR | German CPI (MoM) (Aug) | 0.9% | 0.9% |
| 05:30 PM | INR | Industrial Production (YoY) (Jul) | 13.5% | 29.3% |
| 06:00 PM | USD | PPI (MoM) (Aug) | 0.6% | 1.0% |

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