

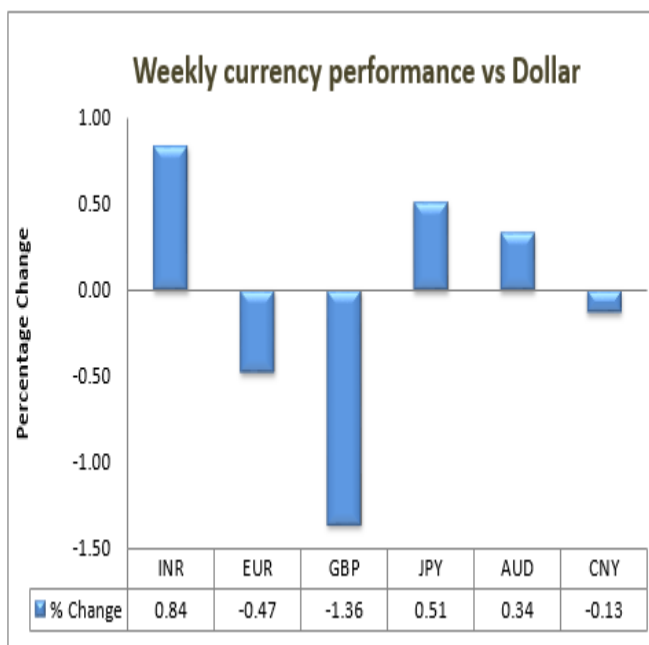


# FOREIGN EXCHANGE OUTLOOK

WEEKLY RESEARCH REPORT

27 February 2022

## Key Highlights:



U.S. grew 7% in 4th quarter, GDP shows, but economy enters more uncertain period.

The RBI MPC minutes show monetary policy will support domestic growth over global concerns amid the Ukraine crisis.

The German economy contracted in the final quarter of 2021 due to rising Covid-19 cases and related restrictions as the GDP slipped an adjusted 0.3% q-o-q.

India's forex reserves increased by USD 2.76 billion to USD 632.95 billion for the week ended February 18.

## FX Market Update

### USDINR Weekly performance & Outlook



- The USDINR pair made a gap-down opening at 74.50 levels. The pair remained volatile during the week and closed at 75.29 levels.
- The USDINR pair rose as the safe-haven US dollar remained sharply up against other major currencies after the Russian President announced that he had authorized a military operation in Ukraine. The USDINR pair also rose because foreign and state-owned banks persistently purchased US dollars on behalf of oil marketing companies.
- Prices of crude oil surged globally with Brent crude prices breaching the \$100-a-bbl mark for the first time since 2014 after Russia attacked Ukraine, leading to concern that a war in Europe could disrupt global energy supply. The RBI announced a USDINR sell/buy swap auction of \$5 billion will be scheduled to take place on 8<sup>th</sup> March. This move is likely to help in levelling the rupee liquidity in the system ahead of the LIC IPO, which could lead to a gush of US dollar inflow.
- US President Biden's comments that US forces would not engage in the Ukraine conflict gave a feeling that this could well end up being a localized conflict. Risk sentiment has improved. Crude has retreated with Brent now at USD 98 per barrel. China's central bank kept its benchmark loan prime rates unchanged after trimming the official rates for two months in a row. The PBoC kept the one-year loan prime rate at 3.7%.



## Outlook

- In the week ahead, the USDINR is likely to trade with a sideways bias after closing at 75.06 implied spot in NDF market.
- The Federal Reserve reiterated its view that it will “soon” be time to raise interest rates to counter high inflation amid a buoyant U.S. job market. The Fed stated that it will soon be appropriate to raise the target range for the federal funds rate,” citing inflation well above its 2% target and a “strong” labor market in its semi-annual report to Congress released, ahead of testimony to lawmakers next week by Chair Jerome Powell. Powell told reporters after officials met in January that they were leaning toward raising rates at their March 15-16 meeting to confront the hottest inflation in 40 years. The report drew attention to indebtedness among certain types of financial institutions. One common measure of hedge fund leverage, the ratio of gross notional exposures to equity capital, is near its peak since data became available in 2012. It also noted that low-interest rates, which the Fed slashed to almost zero as Covid-19 spread in early 2020, were contributing to elevated prices among risky assets.
- Markets would remain cautious ahead of key macroeconomic datasets such as GDP Annual, Federal Fiscal Deficit, Nikkei Markit Manufacturing PMI and Trade Balance from India and President Biden Speech, ADP Nonfarm Employment Change, Initial Jobless Claims, PMI, Fed Chair Powell Testimony, Unemployment Rate and Nonfarm Payrolls data from the US. Market would also closely watch out for the OPEC Meeting. The pair is likely to trade in a range of 74.80-75.70 in the coming week.

## EURUSD:



- The Euro was volatile through the week. On Thursday it dropped to as low as 1.1106 but recovered to end the week at 1.1260. Europe would have been worst affected from the Russia-Ukraine war as it heavily depends on Russia for its energy requirements. The Euro however bounced back as the West did not impose sanctions on Russia's energy sector.
- The latest optimism in the pair movement could be linked to US President Joe Biden’s readiness to gather global leaders, virtually, to discuss the security situation in and around Ukraine, per the White House. News of the Ukrainian border post in the Zaporizhzhya region hit by missile strike partially weighed on sentiment and challenged the EURUSD pair bulls.
- The German economy contracted in the final quarter of 2021 due to rising coronavirus cases and related restrictions. However, the GDP slipped an adjusted 0.3% q-o-q, a smaller drop than the 0.7% seen at the time of the first estimate and economists' expectations. The Eurozone’s economic recovery regained momentum this month as an

easing of coronavirus restrictions gave a boost to the bloc's dominant service industry. The EURUSD pair is expected to trade with a neutral to bearish bias on the back of the ongoing Ukraine and Russia tensions.

## GBPUSD:



- The cable pair dropped as the US dollar cheered safe-haven demand amid ongoing Russia-Ukraine tussles. However, hawkish comments from BoE Deputy Governor Dave Ramsden joined an absence of major negatives on the Brexit front to trigger the pair's bounce. Ramsden said that the UK economy has so far proved

resilient, notwithstanding the scarring effects of COVID and Brexit. BOE's Ramsden added that in the near term, some further tightening seems likely to be needed, to prevent current high inflation becoming embedded in wage and price settings.

- CME's BOEWatch tool flashes 100% probabilities of a 0.30% rate hike in March. The BoE Governor Bailey said that inflations risks are tilted to the upside but still "two-sided," cautioning investors against aggressive betting on future interest rates. So, geopolitical anxiety and BoE Governor slightly dovishness boosted the prospects of the dollar, weighing on the GBP. The GBPUSD bull's failure to break the 1.3600 mark exacerbated cable's downward move, caused by profit-taking and selling pressure.
- A Russian attempt to overthrow the Ukrainian government could further weigh on sentiment and cause GBPUSD to stay on the back foot. So far, however, experts think that sanctions against Russia are unlikely to have a significant impact on global inflation or economic activity as they don't target the Russian energy sector or the global payment system SWIFT. It is difficult to say, however, whether or not the west will ramp up sanctions. The pair is expected to trade with a sideways bias.

## Dollar Index:



- The appetite for riskier assets continues to weigh on the dollar and keeps the index under pressure around the 96.00 zone. In the meantime, bouts of risk aversion are expected to support the dollar as well as the current elevated inflation narrative and the probability of a more aggressive start of the Fed's normalization of its monetary conditions.

- Looking at the longer run, and while the constructive outlook for the dollar appears well in place for the time being, hawkish messages from the BoE and the ECB meetings, carry the potential to undermine the expected move higher in the dollar in the next months. Although the expectations of a ceasefire have increased after the Kremlin and Ukraine have agreed to discuss upon. Following that, the market participants have witnessed ease in the highly volatile trading activities.
- However, a risk-off impulse is still intact and any negative development on the Russia-Ukraine war may channel funds back to the square. In the US calendar, inflation tracked by the headline PCE rose 6.1% YoY and 5.2% when excluding food and energy costs. Additional data noted Durable Goods Orders expanding 1.6% MoM in January, Personal Income coming in flat vs. the previous month and Personal Spending growing 2.1% MoM. The index is expected to trade with a neutral to bullish bias.

Indian market at glance		Weekly range		Bias
USDINR	75.29	USDINR	74.80-75.70	Sideways
Sensex	55859 (+2.44%)	EURUSD	1.1170 - 1.1360	Neutral to Bearish
Nifty	16658 (+2.53%)	GBPUSD	1.3300 - 1.3500	Sideways
India 10Y Bond	6.749%	USDJPY	114.60 - 116.70	Neutral to Bullish
1Y MIFOR	5.368%	DXY	95.90 - 97.10	Neutral to Bullish

### Macro-economic calendar

Time	Cur.	Event	Forecast	Previous
<b>Monday, Feb 28, 2022</b>				
05:30 PM	INR	GDP Quarterly (YoY) (Q3)	6.0%	8.4%
08:15 PM	USD	Chicago PMI (Feb)	63.0	65.2
<b>Tuesday, Mar 01, 2022</b>				
08:30 PM	USD	ISM Manufacturing PMI (Feb)	58.0	57.6
08:30 PM	USD	Construction Spending (MoM) (Jan)	0.2%	0.2%
<b>Wednesday, Mar 02, 2022</b>				
10:30 AM	INR	Nikkei Markit Manufacturing PMI (Feb)		54.0
06:45 PM	USD	ADP Nonfarm Employment Change (Feb)	350K	-301K
<b>Thursday, Mar 03, 2022</b>				
07:00 PM	USD	Initial Jobless Claims		248K
08:30 PM	USD	ISM Non-Manufacturing PMI (Feb)	61.0	59.9
<b>Friday, Mar 04, 2022</b>				
07:00 PM	USD	Unemployment Rate (Feb)	3.9%	4.0%
07:00 PM	USD	Nonfarm Payrolls (Feb)	450K	467K

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