



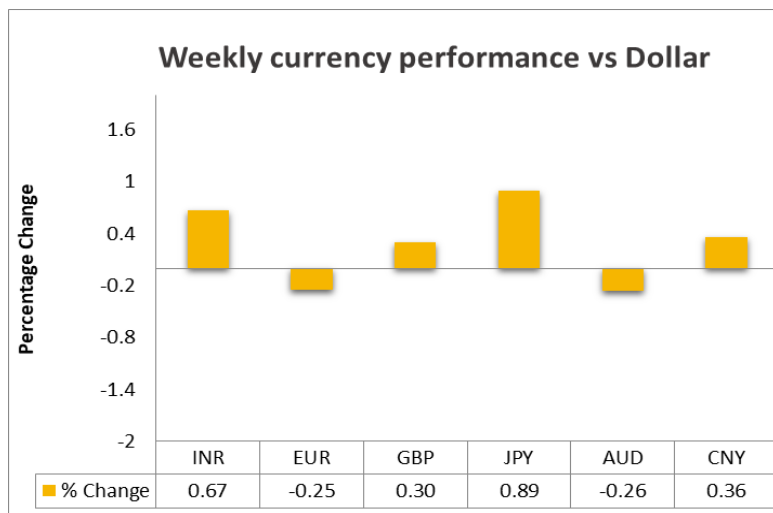
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# FOREIGN EXCHANGE OUTLOOK

WEEKLY RESEARCH REPORT

3 April 2021

## Key Highlights:



UK GDP in the final quarter of 2020, expanded by 1.3%, up from an initial estimate of 1% growth.

Nonfarm Payrolls (NFP) in March surged by 916,000, beating the market expectation of 647,000 by a wide margin.

India's forex reserves declined by USD 2.98 bn to reach USD 579.28 bn in the week ended on 26<sup>th</sup> March.

## FX Market Update

### USDINR Weekly performance & Outlook



The Indian rupee initially had a gap up opening at 72.85 levels, 34 paise higher from its previous closing of 72.51, and closed the week at 73.11 levels. In a holiday-shortened week, USDINR remained volatile. The rupee slumped to its lowest level in nearly three weeks against the US dollar on the back of global dollar strength, rising US bond yields, huge infrastructure spending package in the

US, and as the passage of a massive stimulus package in the US fuelled inflationary concerns. US yields continued to inch higher with 10-year at 1.70% levels. On the domestic front, the currency pair remained choppy as traders refrained from placing any fresh bets on the rupee on the last week of the financial year. The nationalized banks were persistently on the bid, likely on behalf of the RBI. Correcting recent Rupee overvaluation and securing a higher USDINR rate as on financial year-end could possibly have been the twin motives of the central bank. The premium on dollar/rupee forwards contracts slumped because foreign banks continued to sell the greenback for forwarding delivery to take advantage of arbitrage opportunity between the onshore forward rates and offshore non-deliverable forwards rates. Reduction in cost of carry has also contributed to the upside in USDINR as some carry positions got unwound in offshore. RBI forward book shows long position has increased from USD 56 bn to USD 81 bn. So total forex Reserves would be ~ USD 660bn if the RBI does not roll over forwards and takes it on the balance sheet on maturity. While Oil prices slipped south after shipping traffic through Egypt's Suez Canal resumed, it again rose after OPEC+ agreed to ease production curbs by 350,000 barrels per day (bpd) in May, another 350,000 bpd in June, and further 400,000 bpd or so in July. America's employers unleashed a burst of hiring in March, adding 916,000 jobs in a sign that a sustained recovery from the pandemic recession is taking hold.



## Outlook

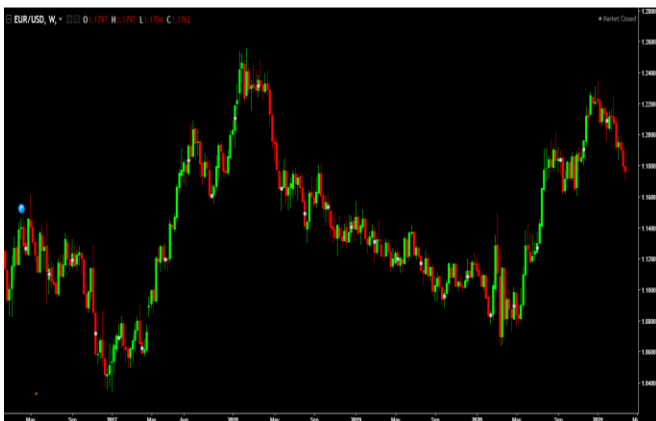
In the coming week, the Indian rupee is likely to trade in a narrow range with a neutral bias after closing in the futures market around 73.17 levels.

RBI heads into the April monetary policy and the decision is expected to be announced on 7th April under a considerably uncertain and volatile macro backdrop, both globally and locally. Post the February 2021 monetary policy, US interest rates have continued to sell off quite aggressively, thereby having a knock-on impact on Indian bond yields as well. Global oil prices have also exhibited a considerable amount of volatility, with Brent currently being 20-25% higher than end-December 2020 levels. And at home, new Covid-19 cases have increased rapidly, raising questions about the downside risks to growth. Considering all the above-given factors, RBI is still trying its best to keep the interest rates low to support the economic recovery and also facilitate the government's huge borrowing plan in 2021-22. The MPC is expected to keep the repo rate unchanged at 4% while continuing with the accommodative stance.

In liquidity front, RBI is expected to reiterate that surplus liquidity will remain ample to support growth and that the space created by CRR reversal will be offset by OMO purchases of bonds to help bridge the gap between demand-supply of bonds and prevent longer-end bond yields from shooting up excessively in a short period of time.

President Joe Biden outlined his USD 2 trillion infrastructure plan, including proposals to modernize 20,000 miles of roadway, fix 10,000 bridges and install 500,000 electric-vehicle charging stations. This marks the second major spending push after he approved a USD 1.9 trillion Covid relief package in early March. U.S. government bond yields ticked higher after new data showed a big jump in hiring in March, giving investors further cause for optimism about the economic outlook. Expectations for a strong economic recovery have been the major force behind a sharp increase in U.S. Treasury yields this year, as investors bet that faster growth could lead to higher inflation and eventually interest-rate increases from the Federal Reserve. However, Fed officials have repeatedly said that they won't raise rates until there is clear evidence that inflation can be sustained above their 2% target to make up for the years that it has spent mostly below that level. The dollar is expected to strengthen gradually. Consistent with the view on the broad Dollar, the Rupee is expected to depreciate in a calibrated manner towards 76.50 against the Dollar in FY22.

Markets would remain cautious ahead of RBI's Monetary Policy Committee meeting and macroeconomic dataset releases such as Services PMI, Trade Balance, PPI, and Initial Jobless claims data from the U.S. USDINR is likely to trade in a range of 72.90-73.90 in the coming week.

**EURUSD:**

The Euro initially started at the levels of 1.1762 and traded in the narrow range. The strong pullback in the pair seen as of late came along with the persistent bid bias in the greenback, which has been undermining the constructive view in the pair. The deterioration of the morale in Euroland coupled with the poor pace of the vaccine rollout in the region vs. the solid performance of the US economy has all been

collaborating with the renewed offered stance around the single currency. However, the steady hand from the ECB in combination with the expected rebound of the economic activity in the region in the post-pandemic stage is likely to prevent a much deeper pullback in the pair in the longer run. The German inflation came as expected at 1.7% YoY in March while Spain's Consumer Price Index surprised to the upside, with the European standard HICP hitting 1.2%. Economic confidence in the Eurozone rebounded sharply in March, returning to above its long-run average. The European Commission's Economic Sentiment Index for the euro area jumped by 7.9 points from 90.9 in February to 97.7 for March.

**GBPUSD:**

The GBPUSD pair started the week at 1.3793 levels and remained range-bound. It closed the week at 1.3826 levels. The UK has moved to the next stage of its roadmap out of lockdown that has been in place for over three months being eased. This may provide a small boost to the economy but the big relief is coming on 12th April when non-essential retail stores are given the green light to reopen. Bank of England Monetary Policy Committee member

Gertjan Vlieghe speaking to the UK press, sounded dovish stating that a few strong quarters of growth should not mean the bank alters its monetary policy stance. Also adding that some inflation this year would not be nearly enough to conclude that the economy no longer needs monetary help. UK Q4 Gross domestic product (GDP) came in at 1.3% better than the expectation. The pound also received a boost from Markit's final Manufacturing PMI for March month, which was upgraded to 58.9 points, showing optimism. The UK's improving prospects stand out against a new shuttering imposed in France and similar moves in Germany and Italy. Potential dollar strength may outweigh sterling. With a helping hand from the Fed, the GBPUSD has room to resume its gains. However, the strength of the US economy may make any gains short-lived.

## Dollar Index:



Early in the week DXY opened at 92.74 levels and rallied towards the 93.00 marks. The greenback pushed higher and lifted the US Dollar Index to new yearly tops in the area above 93.00 by the end of the week. The rally remains well supported by rising yields in the US bond markets. The Inflows into the dollar remained well underpinned by the expected outperformance of the US economy vs. its G10 peers, at least in the first half of the year. This

view is reinforced by the solid pace of the vaccine campaign in the US and extra fiscal spending, as per the recently approved new stimulus package worth USD 1.9 trillion. U.S. data further supported the upbeat outlook on the world’s largest economy. Reports showed that U.S. consumer confidence climbed in March to its highest level since the start of the COVID-19 pandemic, while housing prices soared year-on-year in January. The index moves higher and tested the level above the 93.00 marks after the US economy created 916K jobs during March, surpassing consensus for a 647K gain. Many states have started to reopen, which has led to more employment, evidenced by the latest employment figures.

### Short-term Treasury yields climb as investors debate Fed reaction

Yield on two-year US Treasury (%)



Indian market at glance		Weekly range		Bias
USDINR	73.11	USDINR	72.90-73.90	Neutral to Bullish
Sensex	50,029 (+520)	EURUSD	1.1680-1.1850	Neutral to Bearish
Nifty	14,867 (+176)	GBPUSD	1.3650-1.3870	Neutral to Bullish
India 10Y Bond	6.177%	USDJPY	109.20-110.80	Mixed
1Y MIFOR	5.3834%	DXY	92.50- 93.70	Neutral to Bullish

**Macro-economic calendar:**

Time	Cur.	Event	Forecast	Previous
<b>Monday, Apr 05, 2021</b>				
06:00 AM	JPY	Services PMI (Mar)		46.3
10:30 AM	INR	Nikkei Markit Manufacturing PMI (Mar)	57.5	57.5
07:15 PM	USD	Services PMI (Mar)		60.0
07:15 PM	USD	Markit Composite PMI (Mar)		59.1
07:30 PM	USD	ISM Non-Manufacturing PMI (Mar)	57.4	55.3
07:30 PM	USD	ISM Non-Manufacturing Employment (Mar)		52.7
<b>Tuesday, Apr 06, 2021</b>				
05:00 AM	JPY	Household Spending (YoY) (Feb)	-2.1%	-6.1%
02:30 PM	EUR	Unemployment Rate (Feb)		8.1%
07:30 PM	USD	JOLTs Job Openings (Feb)		6.917M
<b>Wednesday, Apr 07, 2021</b>				
05:20 AM	JPY	Foreign Reserves (USD) (Mar)		1,379.4B
10:00 AM	INR	RBI Interest Rate Decision	4.00%	4.00%
10:30 AM	INR	Nikkei Services PMI (Mar)		55.3
01:30 PM	EUR	Services PMI (Mar)	44.7	48.8
01:30 PM	EUR	Markit Composite PMI (Mar)	48.1	52.5
02:00 PM	GBP	Services PMI (Mar)		56.8
02:00 PM	GBP	Composite PMI (Mar)		56.6
08:00 PM	USD	Trade Balance (Feb)	-70.20B	-68.20B
<b>Thursday, Apr 08, 2021</b>				
12:30 AM	USD	Consumer Credit (Feb)	5.00B	-1.31B
10:30 AM	JPY	Household Confidence (Mar)		33.8
02:00 PM	GBP	Construction PMI (Mar)	51.0	53.3
02:30 PM	EUR	PPI (YoY) (Feb)		
<b>Friday, Apr 09, 2021</b>				
06:00 PM	USD	PPI (YoY) (Mar)	2.7%	2.8%
06:00 PM	USD	Core PPI (YoY) (Mar)	2.6%	2.5%

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