

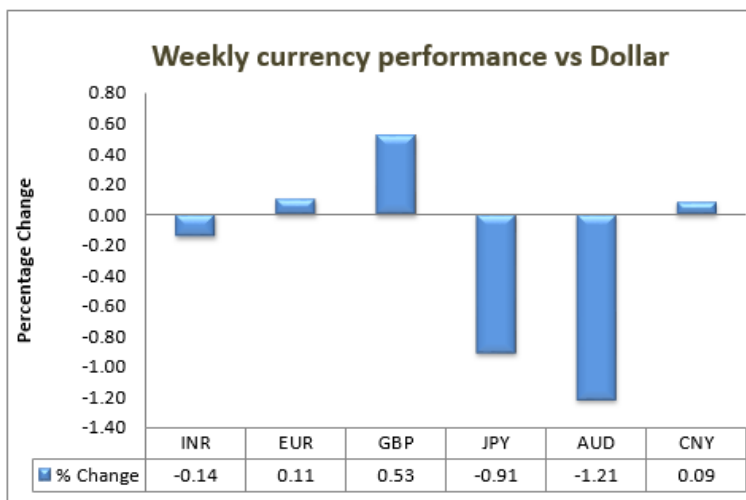


# FOREIGN EXCHANGE OUTLOOK

WEEKLY RESEARCH REPORT

10 July 2021

## Key Highlights:



According to minutes released, Federal Reserve officials talked tapering at their most recent meeting, but few seemed in rush to get the process going.

The British economy grew a less-than-expected by 0.8% MoM in May, well below the forecast of 1.5%.

India's foreign exchange reserves rose to a lifetime high of \$610.01 billion as of 2 July, compared with \$609 billion a week earlier, as per the Reserve Bank of India.

## FX Market Update

### USDINR Weekly performance & Outlook



- The USDINR pair made a gap down opening at 74.52 levels during the eventful week. The pair remained volatile and finally closed the week at 74.64 levels.
- The upside was capped in the rupee as foreign banks continued to sell the greenback likely for overseas inflows into Indian companies which are raising funds

through initial public offering.

- The FOMC minutes indicated that many Fed members saw inflation risks tilted to the upside and that the Fed should be prepared to act if those risks materialize. Some Fed members were of the view that purchases of MBS should be scammed back first given the valuation pressures in the housing market. The minutes were therefore as hawkish as the policy itself.
- Officials also continued monthly purchases of \$80 billion of Treasuries and \$40 billion of MBS until "substantial further progress" was made on inflation and employment. Policymakers discussed the MBS buying but were split on whether they should prioritize these assets when it came time to scale back buying.
- PBoC cut Reserve Requirement Ratio for banks which would infuse liquidity into the banking system. After a pent up demand led spike in economic activity, the growth momentum seemed to be waning in China and therefore the PBoC resorted to a RRR cut. The RRR cut led to a recovery in global risk sentiment.
- The government's cost of borrowing is likely to go up in FY22 as the RBI, accepted bids at the auction of the new 10-year G-Sec at a higher cut-off yield of 6.10%.

## Outlook

- In the week ahead, the Indian rupee is likely to trade with a neutral to bullish bias after closing at 74.49 levels in the NDF market.
- The RBI Governor Shaktikanta Das stated that India's central bank wants to anchor inflation expectations as it focuses on reviving economic growth and urged the government to look at lowering fuel taxes to ease price pressures. Das also added that the RBI would like to keep inflation expectations anchored at around pre-pandemic levels at 4% as it reduces uncertainty for investors and supports growth. He also cautioned about the risks of volatility in capital flows as ultra-accommodative policies of the advanced economies have kept global liquidity flush and said emerging economies must build their own safety nets.
- In its twice-a-year report to Congress on monetary policy released, the Fed indicated that it planned to maintain that support until further progress is made in recovering from last year's severe recession. The report repeated wording used by the central bank since last year, explaining that it does not expect to begin raising interest rates until its goals on maximum employment and inflation have been reached. The new report will be the subject of two days of hearings next week. Our take is that the Fed communication itself has brought about the effect the Fed would have intended and that would give it more time to wait and see how the economic recovery progresses, without having to actually act in a hurry.
- Markets would remain cautious ahead of key macroeconomic datasets such as CPI, PPI, Initial Jobless Claims and Retail Sales from the U.S. and CPI, WPI Inflation and Industrial Production from India. The USDINR pair is likely to trade in a range of 74.20 - 75.20 in the coming week. With a lot of IPO-related flows lined up and crude prices having relented, the upside in the USDINR pair should remain capped.

## EURUSD:



- The EU published July's Sentix Investor Confidence, which improved from 28.1 to 29.8. Eurostat showed that the country's retail sales rose by 4.6% in May after falling by 3.9% in the previous month.
- The ECB released its strategic framework review. The major change was that its mandate would be now a "symmetric 2% inflation target" instead of keeping inflation "below but close to 2%".
- Though the strategic framework would make the ECB more tolerant of inflation overshoots and is dovish, Christine Lagarde comments that the framework should not be interpreted as a sign that the timeline for a rollback of asset purchases would be pushed out, caused the Euro to recover from lows.

- The upbeat market mood continued to undermine the US dollar's safe-haven demand, lending support to the major, as the bulls remain defiant to the solid recovery in the US Treasury yields. The first regular monetary policy meeting of the Governing Council applying this new strategy will be held on July 22. The EURUSD pair is expected to trade with a sideways bias.

## GBPUSD:



- The pound found support on comments from UK PM, who announced all restrictive measures would be lifted on July 19, including the use of masks and social distancing rules. He also noted that people will no longer be instructed to work from home, despite surging cases. A final decision will be made on July 12.

- The supporting factor, to a larger extent, was offset by concerns about the spread of the highly contagious Delta variant of the coronavirus. Renewed COVID-19 jitters continued weighing on investors' sentiment, which, in turn, acted as a tailwind for the safe-haven greenback. The European Union threatened to take legal action against the UK amid violations of the Brexit agreement.
- In the absence of any major market-moving economic releases from the UK, the USD price dynamics will continue to play a key role in influencing the movement. The UK GDP monthly release showed that the economy expanded less-than-expected in May, arriving at 0.8% vs. 1.7% expectations. The GBPUSD pair is expected to trade with a neutral to bullish bias.

## Dollar Index:



- The dollar took a breather, after recent gains ran into a speed bump when details of last week's U.S. jobs report soothed jitters about the timing of U.S. interest rate hikes. The dollar gained against a basket of peer currencies following the U.S.
- The DXY eases some ground after hitting fresh 3-month peaks in the

92.80/85 band. If the dollar manages to gather further upside impulse, then the index is expected to meet an interim barrier at 93.00 ahead of the so far 2021 highs near 93.50 recorded in late March.

- The US dollar softened slightly, along with the Japanese yen and the Swiss franc, as risk appetite recovered, with the rally in US Treasuries running out of steam and global stock markets steadying. The dollar index is expected to trade with a sideways bias in the week ahead.

Indian market at glance		Weekly range		Bias
USDINR	74.64	USDINR	74.20 - 75.20	Neutral to Bullish
Sensex	52386 (-182)	EURUSD	1.1780 - 1.1990	Sideways
Nifty	15690 (-38)	GBPUSD	1.3810 - 1.4010	Neutral to Bullish
India 10Y Bond	6.186%	USDJPY	109.40 - 110.50	Neutral to Bearish
1Y MIFOR	4.7076%	DXY	91.50 - 92.80	Sideways

## Macro-economic calendar

Time	Cur.	Event	Forecast	Previous
<b>Monday, Jul 12, 2021</b>				
05:20 AM	JPY	PPI (YoY) (Jun)	4.7%	4.9%
05:30 PM	INR	CPI (YoY) (Jun)	6.58%	6.30%
05:30 PM	INR	Industrial Production (YoY) (May)	32.0%	22.4%
<b>Tuesday, Jul 13, 2021</b>				
11:30 AM	EUR	German CPI (YoY) (Jun)	2.3%	2.3%
06:00 PM	USD	CPI (YoY) (Jun)	4.9%	5.0%
06:00 PM	USD	Core CPI (YoY) (Jun)	4.0%	3.8%
<b>Wednesday, Jul 14, 2021</b>				
11:30 AM	GBP	CPI (YoY) (Jun)	2.2%	2.1%
12:00 PM	INR	WPI Inflation (YoY) (Jun)	12.23%	12.94%
02:30 PM	EUR	Industrial Production (YoY) (May)	22.5%	39.3%
<b>Thursday, Jul 15, 2021</b>				
07:30 AM	CNY	GDP (QoQ) (Q2)	1.3%	0.6%
07:30 AM	CNY	Retail Sales (YoY) (Jun)	11.0%	12.4%
05:00 PM	INR	Trade Balance (Jun)	-9.40B	-9.40B
06:00 PM	USD	Initial Jobless Claims		373K
<b>Friday, Jul 16, 2021</b>				
08:30 AM	JPY	BoJ Interest Rate Decision	-0.10%	-0.10%
02:30 PM	EUR	CPI (YoY) (Jun)	1.9%	2.0%
06:00 PM	USD	Retail Sales (YoY) (Jun)		28.15%

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