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TPC Trade Promotion Council of India

Forex Market Insights

Newsletter

Volume 139 → Nov 02 to Nov 08, 2024

Welcome

Dear Stakeholders,

Looking at our market performance this week, we have noticed some interesting developments in the dollar's movement. While we've seen the dollar hold steady around familiar levels, it's about to break its four-week winning streak. I believe this shift deserves our attention, especially with several major events on the horizon.

Looking at EURUS$, I've observed consolidation with a modest 0.30% gain, though staying below 1.0850 suggests continued bearish pressure. For US$JPY, we've seen contained movement around 151.70 to 153.90, particularly after the BoJ maintained rates at 0.25%.

From my perspective, there are three key factors influencing our current market position:

1. The upcoming US Presidential elections have kept investors cautious
2. Ongoing Middle East tensions continue to affect market stability
3. The Federal Reserve's strategy is showing promising signs of achieving a soft landing.

I expect market volatility to increase around these events. The Euro faces challenges with upcoming EU economic data, while the Yen might see movement following the BoJ's minute’s release. My outlook remains cautious, particularly given the complex interplay between political events and economic indicators in the coming weeks.

Thank You
Vijay Gauba
Additional Director General
Trade Promotion Council of India

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Key Takeaway Summaries

₹ INR

Despite notable foreign equity outflows, U.S. election uncertainty, and U.S. Treasury yields reaching multi-month highs, the rupee's 10-day daily annualized realized volatility fell to under 0.5%.

€ EUR

Markets are now fully expecting a 25 bps cut by the ECB’s in December, the fourth cut following those in October, September, and June.

£ GBP

Reeves aims to adjust fiscal rules to focus on public sector net financial liabilities, which might make room for tens of billions to be spent on capital projects.

¥ JPY

Japan’s Economy Minister Akazawa mentioned the mixed effects of a weak yen but didn’t comment on specific exchange rates.

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₹ INR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
6.50%	1.3%	5.49%	7.8%	$-20.8B

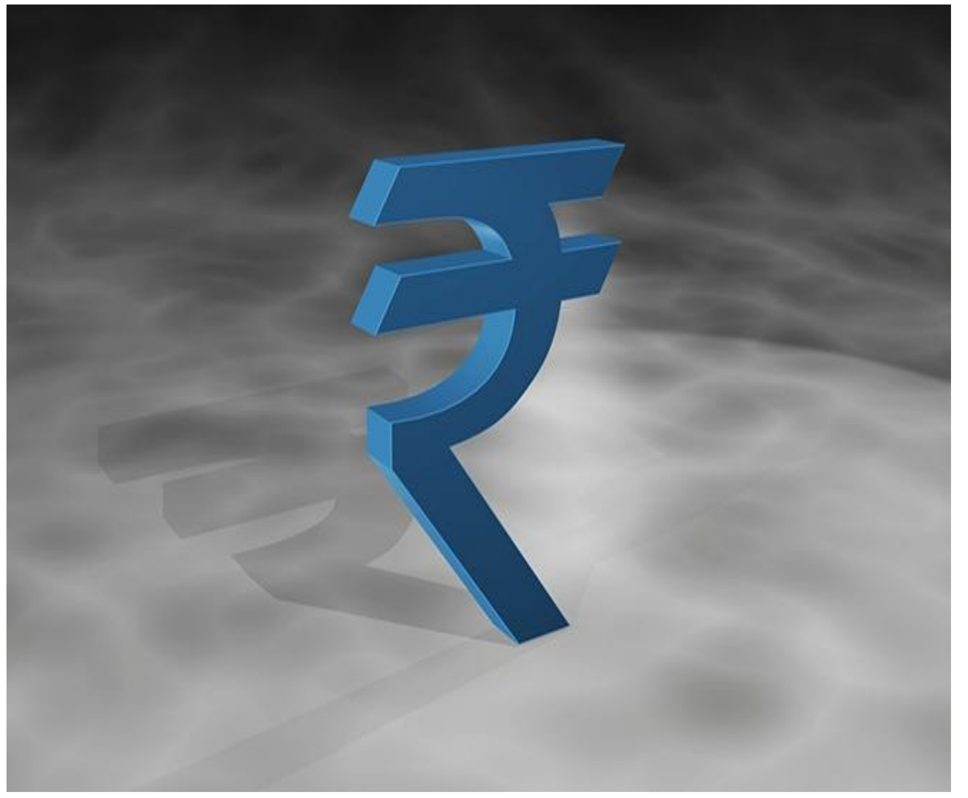
Events to WATCH

Nov 04, 10:30
Nikkei S&P Global Manufacturing PMI (Oct)

Nov 06, 10:30
Nikkei Services PMI (Oct)

Nov 08, 17:00
FX Reserves, US$

During the holiday-shortened week, with markets closed on Friday, November 1, for Diwali, the US$INR pair held steady in a tight range of less than 3 paisa across all trading sessions. Despite notable foreign equity outflows, U.S. election uncertainty, and U.S. Treasury yields reaching multi-month highs, the rupee's 10-day daily annualized realized volatility fell to under 0.5%. Recent U.S. labor data presented mixed signals: job openings reached a three-and-a-half-year low in September, and nonfarm payrolls grew at their slowest monthly pace since December 2020. Meanwhile, consumer confidence surged to a nine-month high in October, reflecting optimism about labor market conditions. This combination of a softening job market and resilient consumer outlook created ambiguity around the Federal Reserve's rate trajectory, weakening the dollar slightly alongside sliding Treasury yields. The market has largely priced in a quarter-point rate cut by the Federal Reserve next Thursday, with the CME watch tool indicating a 98.9% probability for a 25bps cut, and only a 1.1% chance of no change.



Elevated stock valuations, slowing earnings growth, geopolitical tensions, and developments in China have prompted Foreign Portfolio Investors (FPIs) to withdraw significant funds from Indian equities, pressuring the rupee and resulting in the worst monthly performance for Indian front-line indices in over four years. The Nifty 50 and S&P BSE Sensex fell by 6.22% and 5.83%, respectively, in October, marking their steepest monthly declines since March 2020. Meanwhile, India's foreign exchange reserves dropped for the fourth straight week, down by $3.4 billion to $684.8 billion as of October 25, driven primarily by a $4.48 billion decline in Foreign Currency Assets (FCAs) to $593.75 billion, according to the RBI's latest Weekly Statistical Supplement.

$ USD

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5%	2.8%	2.4%	4.1%	$-70.43B

Events to WATCH

Nov 05, 15:30
US Presidential Elections

Nov 05, 20:15
Services PMI (Oct)

Nov 07, 23:30
Fed Interest Rate Decision

The US$INR pair continued its rangebound movement over the four trading sessions this week, staying within a narrow range of under 3 paisa, with markets closed on Friday for Diwali. The rupee faced pressure as foreign investors withdrew $10 billion from India's equity and debt markets in October, marking the largest monthly outflow of the year.

On the daily chart, US$INR remains within the previously identified ascending trend channel, forming higher highs and lows since early October. The pair currently trades near the lower boundary of this channel, with a break below potentially signaling a shift from the bullish trend. The 14-day RSI stands at 60, further supporting the bullish outlook. Initial resistance remains near the all-time high, while the first support aligns with the lower boundary of the channel and the 21-day SMA (blue line) at 84.02. The next support level is at the 50-day SMA (white line) around 83.90.

Following prior guidance, exporters are advised to keep their positions hedged as the pair hovers near historic highs. Meanwhile, importers eagerly awaiting an entry opportunity should consider even a slight dip of 5–10 paisa as a starting point.

€ EUR

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
3.40%	0.4%	2%	6.3%	€4.584B

Events to WATCH

Nov 04, 14:30
Manufacturing PMI (Oct)

Nov 06, 14:25
German Services PMI (Oct)

Nov 07, 12:30
German Industrial Production (MoM) (Sep)

The EURUS$ rose to 1.087, reaching a two-week high, after inflation in the Euro Area came in higher than expected, leading investors to believe the ECB will continue with small, cautious rate cuts. The annual inflation rate in the Eurozone increased to 2%, up from the 2021 low of 1.7% and above the 1.9% forecast. The core inflation rate held steady at 2.7%, even though markets expected a drop to 2.6%. Earlier in the week, stronger-than-expected economic growth added to this outlook. The Eurozone's economy grew by 0.4% quarter-over-quarter in Q3, doubling Q2's growth and surpassing predictions of 0.2%. Germany unexpectedly avoided a recession with a growth rate of 0.2%, while France and Spain also reported better-than-anticipated growth, though Italy's economy stalled. Markets are now fully expecting a 25 bps cut in the ECB's deposit rate in December, the fourth cut following those in October, September, and June. The EURUS$ may remain under pressure as markets expect another ECB rate cut in December, though stronger-than-expected growth and persistent inflation could provide some support for the euro in the near term.

The EURUS$ pair opened the week around 1.0800, making a modest 40-pip gain and attempting a recovery after 4 consecutive weeks of decline. The pair continued to face selling pressure, closing just below the 1.0900 mark, establishing this as a key resistance level in the near term. The upside potential remains constrained by the strong dollar, largely fueled by expectations surrounding a Trump victory in the upcoming U.S. elections and consistent outlooks on the Fed's monetary policy, where a modest rate cut is already anticipated. Immediate resistance levels are at 1.0900 and 1.1000, with a significant resistance range between 1.1100 and 1.1200. If EURUS$ fall below the 1.0750 threshold, it may target the 1.0650-1.0700 support zone. Upcoming Eurozone economic data will be essential for gauging the region's economic direction, potentially influencing the pair's movement in the short term.

£ GBP

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
5%	0.5%	1.7%	4%	£ -0.955B

Events to WATCH

Nov 05, 15:00
Composite PMI (Oct)

Nov 05, 15:00
Services PMI (Oct)

Nov 06, 15:00
Construction PMI (Oct)

Nov 07, 17:30
BoE Interest Rate Decision

The GBPUS$ moved closer to 1.3, bouncing back from a two-month low after reports hinted that Finance Minister Rachel Reeves might permit more borrowing in the upcoming budget. This move could push back any potential rate cuts by the BoE. Reeves aims to adjust fiscal rules to focus on public sector net financial liabilities, which might make room for tens of billions to be spent on capital projects. The Institute for Fiscal Studies noted that this approach could have allowed an extra £53 billion in borrowing as of last March, though the Treasury stated it won't use this capacity right away. Bank of England Governor Andrew Bailey expressed concerns about ongoing inflation, highlighting that while inflation has eased, underlying issues in the economy and high service costs still pose challenges. As a result, market confidence in a rate cut by November dropped to 86% from 100%. Additionally, initial PMI data revealed slower-than-expected growth in UK manufacturing and services for October. The GBPUS$ stance will remains cautious, with potential upside limited by delayed BoE rate cuts and economic challenges, while fiscal flexibility could lend modest support depending on policy actions.

Sterling continued to face downward pressure this week, marking its fourth consecutive weekly decline with an overall drop of about 0.45%. The GBPUS$ pair hit a 10-week low at 1.2843 before recovering slightly, closing modestly higher at 1.2913. Testing near-term support at 1.2900, the pair managed to hold above this level, signaling some resilience. The MACD remains in the negative zone, suggesting a potential for further downside movement. If the pair stabilizes above the critical 1.3000 level, it could encounter initial resistance at 1.3045, which may act as a cap on further losses. A bullish candle formation next week could signal a possible reversal, allowing the pair to recoup some losses from recent weeks. Traders will be closely monitoring momentum indicators to assess whether GBPUS$ is poised for consolidation or a potential recovery.

¥ JPY

REPO RATE	GDP	INFLATION	UNEMPLOYMENT	TRADE BALANCE
0.25%	0.7%	2.5%	2.4%	¥ -294B

Events to WATCH

Nov 06, 06:00
Services PMI (Oct)

Nov 08, 05:00
Household Spending (YoY) (Sep)

Nov 08, 05:00
Household Spending (MoM) (Sep)

US$JPY ended its fourth straight week of gains, closing Friday with bids testing above 152.00 for the first time since July. This comes as Japan heads into a general election, where the coalition government risks losing its majority, adding political uncertainty that could affect the Bank of Japan's plans to adjust monetary policy. On the economic side, Tokyo's core inflation—a key indicator for nationwide prices—dropped to a six-month low of 1.8% in October, below the BOJ's 2% target. Japan's Economy Minister Akazawa mentioned the mixed effects of a weak yen but didn't comment on specific exchange rates. Markets stayed alert for a potential intervention after the yen weakened past 150 per dollar. The yen also faced external pressure from a strong dollar, driven by expectations of cautious Federal Reserve rate cuts and bets on Trump's win in November. US$JPY may see continued upward pressure due to political uncertainty in Japan, subdued inflation, and potential Bank of Japan delays in policy changes. However, intervention risks remain if the yen weakens further amid a strong dollar environment.

The US$JPY pair opened with a significant 100-pip gap up on Monday, hitting a fresh three-month high at 153.87. This rally was fueled by election results in Japan, where the ruling Liberal Democratic Party (LDP) lost its parliamentary majority for the first time in over a decade. The LDP's defeat dims the immediate prospects of a Bank of Japan rate hike, contributing to yen weakness. Immediate support sits at the 150 level (S1), with the prior resistance at 147 (S2) now anticipated to serve as critical support if the pair retraces. Near-term resistance stands at the psychological 152-153 zone, and a sustained move above this area may set the stage for a push toward the 155 mark. Key political developments and any BoJ commentary on monetary policy will likely guide the pair's direction in the days ahead.

BLOG

What is CPI in Forex? And How You can use it for Trade?

The Consumer Price Index (CPI) measures changes in the prices of a standard basket of goods and services, making it a key indicator of inflation. For central banks, CPI data is crucial for setting monetary policy, as rising inflation may lead to higher interest rates, strengthening the currency. Conversely, low inflation might prompt rate cuts, potentially weakening the currency.

Using CPI Data in Forex Trading

Forex traders leverage CPI data to inform their trading strategies. Here are some ways to make the most of CPI data:

1. **Anticipating Market Moves:** Monitoring CPI trends helps traders forecast potential market movements and adjust their positions.
2. **Timing Trades:** CPI releases often cause market volatility. Skilled traders use this by timing trades around these announcements.
3. **Trend Analysis:** CPI data provides insights into long-term economic trends, supporting the development of more robust strategies.
4. **Correlation Analysis:** By understanding currency responses to CPI, traders can identify correlations and unlock new trading opportunities.

Forex Risk Management with CPI Data

Managing forex risk is essential for successful trading, and CPI data can play a vital role in this process:

1. Hedging: CPI trends help guide hedging strategies, protecting against adverse currency moves.

2. Risk Assessment: Analyzing CPI data allows for a better assessment of risks associated with different currency pairs.

3. Position Sizing: Traders can adjust position sizes based on CPI data to account for market volatility.

4. Stop-loss Placement: CPI-based insights help in setting effective stop-loss levels to minimize potential losses.

Hedging Forex Risk with CPI Data

Traders often hedge forex risk to limit potential losses, and CPI data can enhance these efforts. Here are some approaches:

1. **Currency Diversification:** Examining CPI data across economies allows traders to diversify holdings and spread risk.
2. **Options Strategies:** Traders use options to hedge positions based on anticipated CPI-driven market moves.
3. **Correlation Hedging:** Understanding how currencies react to CPI helps traders find negatively correlated pairs for effective hedging.
4. **Time-based Hedging:** Traders may adapt hedging strategies around CPI release dates to guard against price swings.

Forex Advisory Services and CPI Data

Forex advisory services can be invaluable for understanding CPI data. These services provide:

1. Expert Analysis: Professionals offer insights into CPI trends and their potential market impact.

2. Real-time Updates: Many services offer timely updates on CPI releases and other key economic indicators.

3. Strategy Suggestions: Based on CPI data, advisory services may recommend specific trading or hedging strategies.

Creating Forex Trading Strategies with CPI Data

To develop effective forex trading strategies with CPI data, traders can:

1. **Analyze Data:** Regularly examine CPI data for key economies.
2. **Study Correlations:** Identify how various currency pairs respond to CPI data.
3. **Back Test:** Use historical CPI data to test strategies.
4. **Risk Management:** Ensure CPI-driven decisions align with broader risk management goals.

Conclusion

Incorporating CPI data into forex trading and risk management strategies is key to making informed decisions. While CPI is a vital indicator, successful trading requires combining it with other economic data and insights from advisory services. With careful analysis, continuous learning, and sound risk management, traders can confidently navigate the dynamic world of forex.

THANK YOU

Disclaimer:- TPCI and Myforexeye are not responsible if one takes a decision based on the contents of the newsletter

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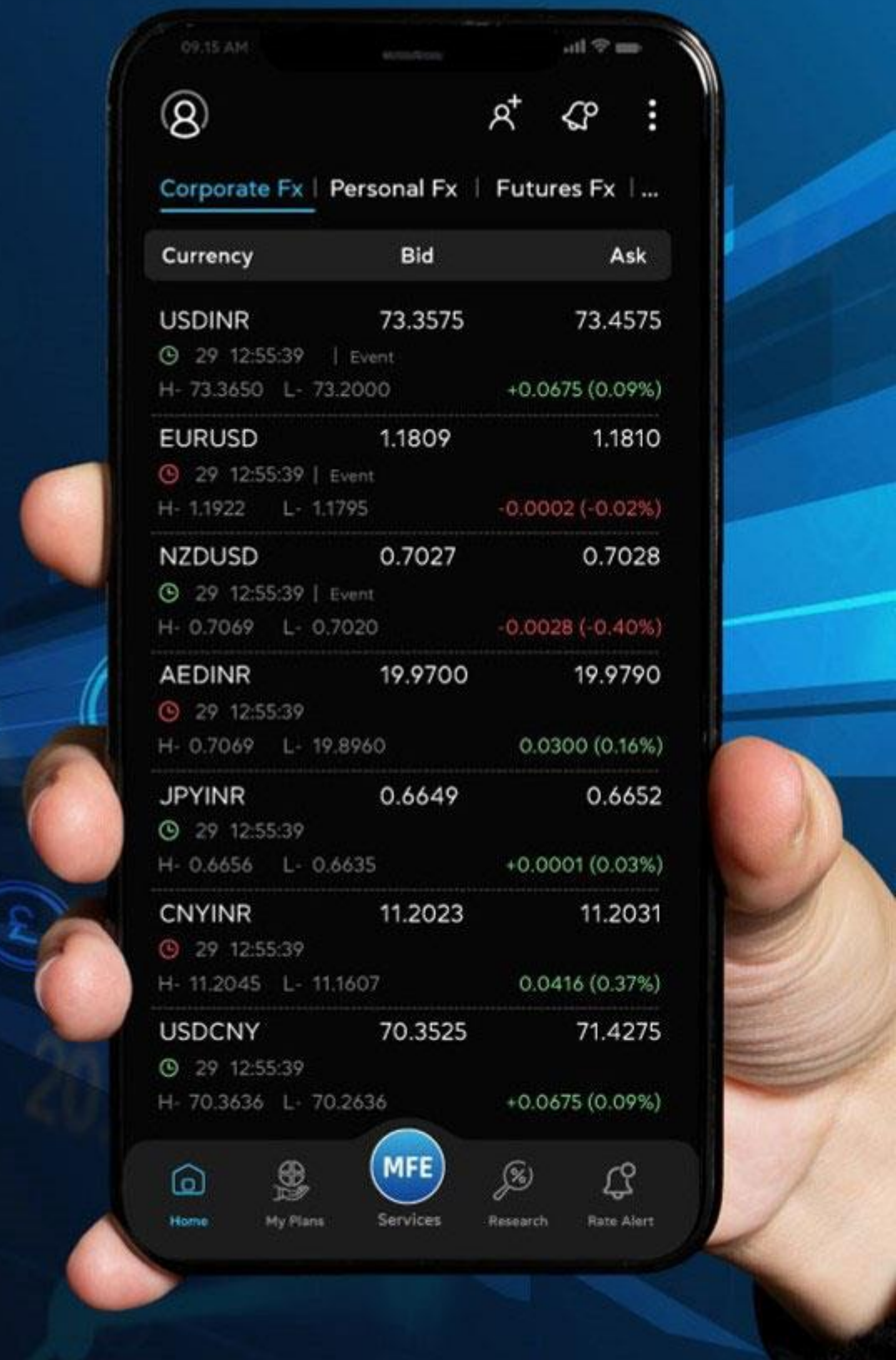

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