

9 May 2022

## PCG Currency Update

### USDINR last week

**Indian rupee spot depreciated by 50 paise and closed at 76.93 vs previous week's close of 76.43.**

- ❑ Rupee weakened despite RBI's rate hike ahead of FOMC meeting, owing to a stronger dollar index, rally in US treasury yields and sell-off in equities. Investors turned risk averse and FII's have been selling for the past seven months. Elevated crude prices continue to weigh on the net importers domestic currency and widen the trade deficit.
- ❑ Both the benchmark indices, Nifty and Sensex fell by more than 4% in the previous week, tracking global markets as investors evaluated the need for a higher rate hike to tame inflation and feared a possible recession.
- ❑ Meanwhile, RBI unexpectedly raised its key repo rate by 40 bps to 4.4% during an off cycle meeting on 4<sup>th</sup> May 2022, though it did little to strengthen the Rupee. The central bank also raised the cash reserve ratio by 50bps to 4.5%.
- ❑ On the economic data front, Annual inflation rate in India increased to 6.95% in March of 2022, the highest since October of 2020, above RBI's upper limit. The S&P Global India Manufacturing Purchasing Managers' Index rose in April, coming in at 54.7, up from 54.0 in March.
- ❑ India's FX reserves fell by \$2.695 billion to \$597.728 billion for the week ended 29<sup>th</sup> April, marking the eighth straight week of declines. Forex reserves have declined nearly \$34 billion, or about 5.4 per cent, since Russia invaded Ukraine on February 24. That import cover wiped out in just two months is about what the country took to build in a year.
- ❑ **Dollar index closed higher at 103.66, against previous week's close of 102.96.**
  - ❑ The Federal Reserve hiked its benchmark policy rate by half a percentage point for the first time since 2000, sending a strong signal that it intended to do so again at the next two meetings.
  - ❑ The yield on the 10-year US Treasury note, jumped above 3.1%, a level not seen since November 2018, as investors digest the narrative of a looming policy tightening cycle against a backdrop of slowing global growth.
  - ❑ US economy added 428K jobs in April 2022, marking a 12<sup>th</sup> straight month of job gains above 400K but easing from a February gain of 714K amid an increasingly tight labour market. Meanwhile, US unemployment rate was unchanged at 3.6 percent in April of 2022, remaining the lowest since February 2020.

Global Currencies w/w Change			
Currencies	Last	Abs Chg	% Chg
Dollar Index	103.66	0.70	0.68%
EUR Spot	1.0551	0.00	0.06%
GBP Spot	1.2348	-0.02	-1.80%
JPY Spot	130.56	0.86	0.66%
US 10 Year	3.1265	0.19	0.19%

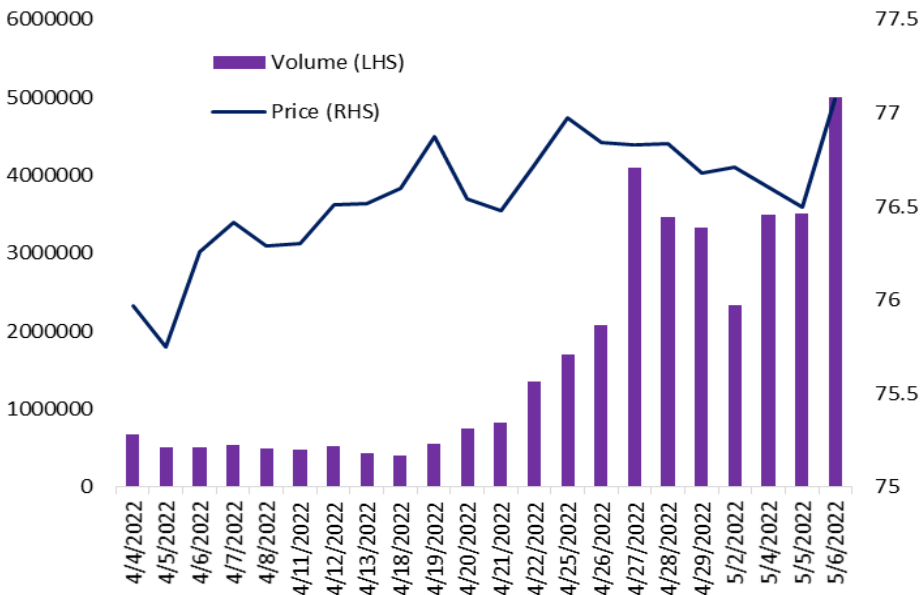
Domestic Currencies w/w Change			
Currencies	Last	Abs Chg	% Chg
Rupee spot	76.93	0.50	0.65%
USDINR	77.07	0.40	0.52%
EURINR	81.65	0.52	0.64%
GBPINR	95.37	-1.08	-1.12%
JPYINR	59.2	0.12	0.21%

### ❑ What lies ahead?

**Rupee spot (CMP: 77.35) might depreciate towards 77.8 levels for the week, as:**

- Stronger dollar index, elevated crude oil prices, weakness in equity markets and continuous sell-off by FII's from domestic securities might continue to put downward pressure on Rupee.
- In US, Fed has begun an aggressive tightening cycle in order to tame the surging inflation, by hiking 50 basis points in May meeting along with balance sheet run-off from 1<sup>st</sup> June. With inflation running at 40-year highs and the job market extremely tight, the Fed has no choice but to change the narrative and signal a faster tightening.
- US Real rates turned positive for the first time since the pandemic, which is one of the most fearful factor for emerging market currencies along with rising crude oil prices.
- US CPI data due on Wednesday will be the major focus for the week, which is expected to come at 8.1% yoy in April, compared to 8.5% rise in March. Dollar might rally further if inflation comes in hotter than expectations.

**NSE USDINR May 2022 Future**



Source: Bloomberg

**Levels to watch out for  
(USDINR May'22 contract)  
CMP: 77.54**

<b>Immediate Support</b>	<b>77.30</b>	<b>Depreciation bias for the week.</b>
<b>Major Support</b>	<b>76.90</b>	
<b>Immediate Resistance</b>	<b>77.70</b>	
<b>Major Resistance</b>	<b>78.10</b>	

<b>Technical Levels For the Week</b>										
Currencies	Expiry	Close	Trend	S1	S2	S3	Pivot	R1	R2	R3
Dollar Index	-	103.660	▲	102.705	102.302	101.649	103.358	104.011	104.414	105.067
USDINR Spot	-	76.93	▲	76.26	76.03	75.66	76.63	77.00	77.23	77.61
USDINR	May	77.97	▲	76.35	76.00	75.42	76.92	77.50	77.85	78.42
EURINR	May	81.67	▲	80.89	80.62	80.19	81.32	81.75	82.02	82.45
GBPINR	May	95.34	▲	94.79	94.59	94.27	95.12	95.44	95.64	95.97
JPYINR	May	59.22	▲	58.89	58.78	58.60	59.07	59.25	59.36	59.54
EUR spot	-	1.055	▼	1.050	1.046	1.040	1.056	1.062	1.066	1.072
GBP Spot	-	1.091	▼	1.083	1.075	1.063	1.095	1.107	1.114	1.126
JPY Spot	-	130.560	▲	129.167	128.653	127.820	130.000	130.833	131.347	132.180

<b>Upcoming Key Economic Indicators (US)</b>		
9 <sup>th</sup> May, 2022	Wholesale Inventories	Higher than expected inventories negative for dollar
11 <sup>th</sup> May, 2022	CPI	Higher than expected inflation positive for dollar
12 <sup>th</sup> May, 2022	PPI	Higher than expected PPI positive for dollar
12 <sup>th</sup> May, 2022	Initial Jobless claims	Lower than expected Jobless claims positive for dollar
13 <sup>th</sup> May, 2022	UoM Consumer Sentiments	Better consumer sentiments are positive for dollar



**Appendix**

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