

23 May 2022

PCG Currency Update

USDINR last week

Indian rupee spot depreciated by 10 paise and closed at 77.55 vs previous week's close of 77.45.

- ❑ Rupee spot weakened amid elevated crude oil prices and persistent foreign outflows, even as dollar index declined for the week. Meanwhile, RBI's meeting minutes showed that off-cycle rate hike was done to avoid tougher move in June.
- ❑ Oil prices impact India's current account deficit and trade balance significantly as India imports more than 80% of its oil needs. Crude oil prices stay buoyed above \$110 per bbl amid supply concerns and rising demand.
- ❑ Both the benchmark indices, Nifty and Sensex rose more than 3% for the week, as sentiment received a boost from a move by Chinese banks to lower a key interest rate for long-term loans by a record amount.
- ❑ On the economic front, retail inflation in India increased to 7.79% in April, the highest since May 2014, as food inflation accelerated for the 7th straight month to 8.38%. Meanwhile, annual wholesale price inflation rate rose to 15.08 percent in April 2022 from 14.55 percent month earlier. This was the highest reading since December 1998, amid a broad-based price increase due to disruption in global supply chains caused by Russia-Ukraine conflict.
- ❑ India's foreign exchange reserves declined by USD 2.676 billion to stand at USD 593.279 billion for the week ended 13th May, as RBI continue to intervene in the forex market.

Dollar index closed lower at 103.15, against previous week's close of 104.56.

- ❑ The greenback eased from a two decade high of 105 touched in the previous week, on mounting speculation that the US economy is poised to slow. The drop marks a shift for the dollar, which had rallied strongly for most of the year as the Federal Reserve signaled that it planned to tighten monetary policy aggressively to drive down inflation.
- ❑ The hot inflation readings that helped drive Treasury rates across the maturity spectrum to multiyear highs earlier May have given way to economic growth concerns that have drawn money back into bonds.
- ❑ Hawkish comments from ECB policymakers also weighed down on the greenback. April meeting minutes showed that, ECB policymakers expressed concerns over high inflation and agreed for a gradual normalization of the monetary policy.

Global Currencies w/w Change			
Currencies	Last	Abs Chg	% Chg
Dollar Index	103.15	-1.41	-1.35%
EUR Spot	1.0564	0.02	1.46%
GBP Spot	1.248	0.02	1.78%
JPY Spot	127.88	-1.34	-1.04%
US 10 Year	2.7811	-0.14	-0.14%

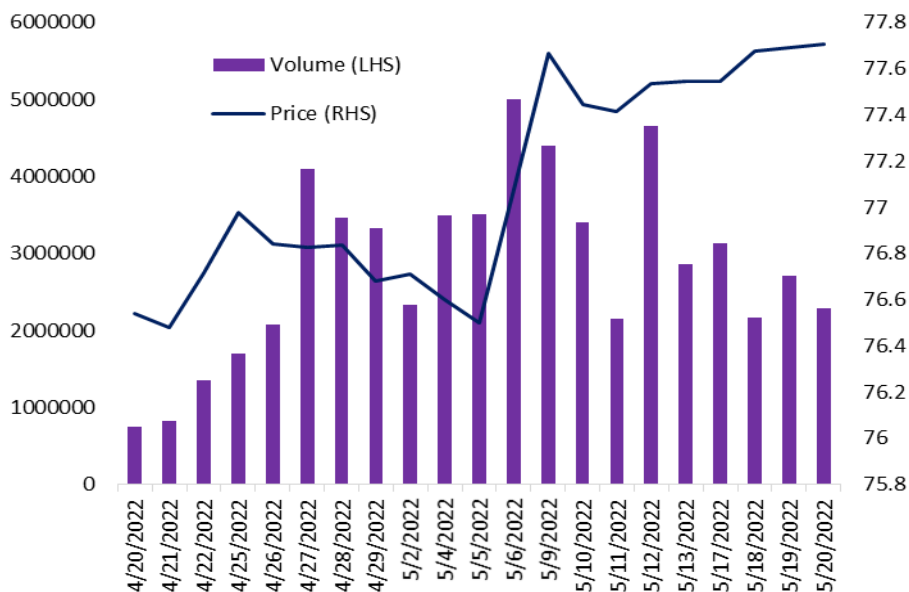
Domestic Currencies w/w Change			
Currencies	Last	Abs Chg	% Chg
Rupee spot	77.546	0.10	0.13%
USDINR	77.705	0.16	0.20%
EURINR	82.22	1.55	1.93%
GBPINR	96.923	2.25	2.38%
JPYINR	60.753	0.57	0.94%

❑ What lies ahead?

Rupee spot (CMP: 77.65) might trade in the range of 77.25- 77.95, with a depreciation bias, as:

- Surging inflation, lower growth and the prospect of aggressive monetary tightening by US is roiling emerging markets. Crude oil prices might stay elevated ahead of US peak driving season and China reopening, prompting FII outflows.
- Meanwhile, India will probably borrow almost the entire \$12.9 billion that the government will forgo as revenues due to the cut in excise duties, widening fiscal deficit from originally budgeted 6.4% to 6.8% for FY23.
- However, short term weakness in dollar index might limit the downside in Rupee, as investors turned hopeful that loosening lockdowns in China can help global growth and boost demand.
- FOMC meeting minutes due on Wednesday can offer some clues about whether the US central bank can curb the most aggressive inflation in four decades without tipping the economy into recession. PMI surveys for major economies coupled with personal spending and income for the US are the other major events to look out for the week.

NSE USDINR May 2022 Future



**Levels to watch out for
(USDINR May'22 contract)
CMP: 77.67**

Immediate Support	77.30	Range bound for the week.
Major Support	76.90	
Immediate Resistance	77.90	
Major Resistance	78.10	

Source: Bloomberg

Technical Levels For the Week

Currencies	Expiry	Close	Trend	S1	S2	S3	Pivot	R1	R2	R3
Dollar Index	-	103.150	▼	102.725	102.256	101.497	103.483	104.242	104.711	105.469
USDINR Spot	-	77.55	▼	77.48	77.41	77.28	77.60	77.73	77.80	77.93
USDINR	May	77.74	▲	77.58	77.49	77.35	77.71	77.85	77.94	78.07
EURINR	May	82.22	▲	81.43	81.16	80.73	81.87	82.30	82.57	83.01
GBPINR	May	96.95	▲	95.20	94.32	92.90	96.61	98.03	98.91	100.32
JPYINR	May	60.73	▲	60.18	59.95	59.56	60.56	60.95	61.18	61.56
EUR spot	-	1.056	▲	1.044	1.039	1.030	1.052	1.060	1.065	1.074
GBP Spot	-	1.091	▼	1.083	1.075	1.063	1.095	1.107	1.114	1.126
JPY Spot	-	127.880	▼	127.180	126.531	125.480	128.230	129.281	129.930	130.980

Upcoming Key Economic Indicators (US)

24 th May, 2022	S & P Manufacturing PMI	Higher than expected PMI positive for dollar
24 th May, 2022	S & P Services PMI	Higher than expected PMI positive for dollar
24 th May, 2022	New Home sales	Higher than expected home sales positive for dollar
25 th May, 2022	Durable goods orders	Lower than expected goods orders negative for dollar
25 th May, 2022	FOMC Meeting minutes	Hawkish minutes positive for dollar
27 th May, 2022	Wholesale Inventories	Higher than expectations are negative for dollar
27 th May, 2022	UoM Consumer Sentiments	Higher than expectations are positive for dollar



Appendix

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