

AFRASIA BANK

Quarterly Forex Market Outlook October 2022

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Quarterly Forex Market Outlook

October 2022



02

Highlights on the US
Dollar

03 – 08

USD/MUR
Retrospective

10 – 17

Trading Strategies in
Q4 - 2022

18

Synopsis of Elliott
Wave Principle

19

Motive v/s Corrective
Waves

20

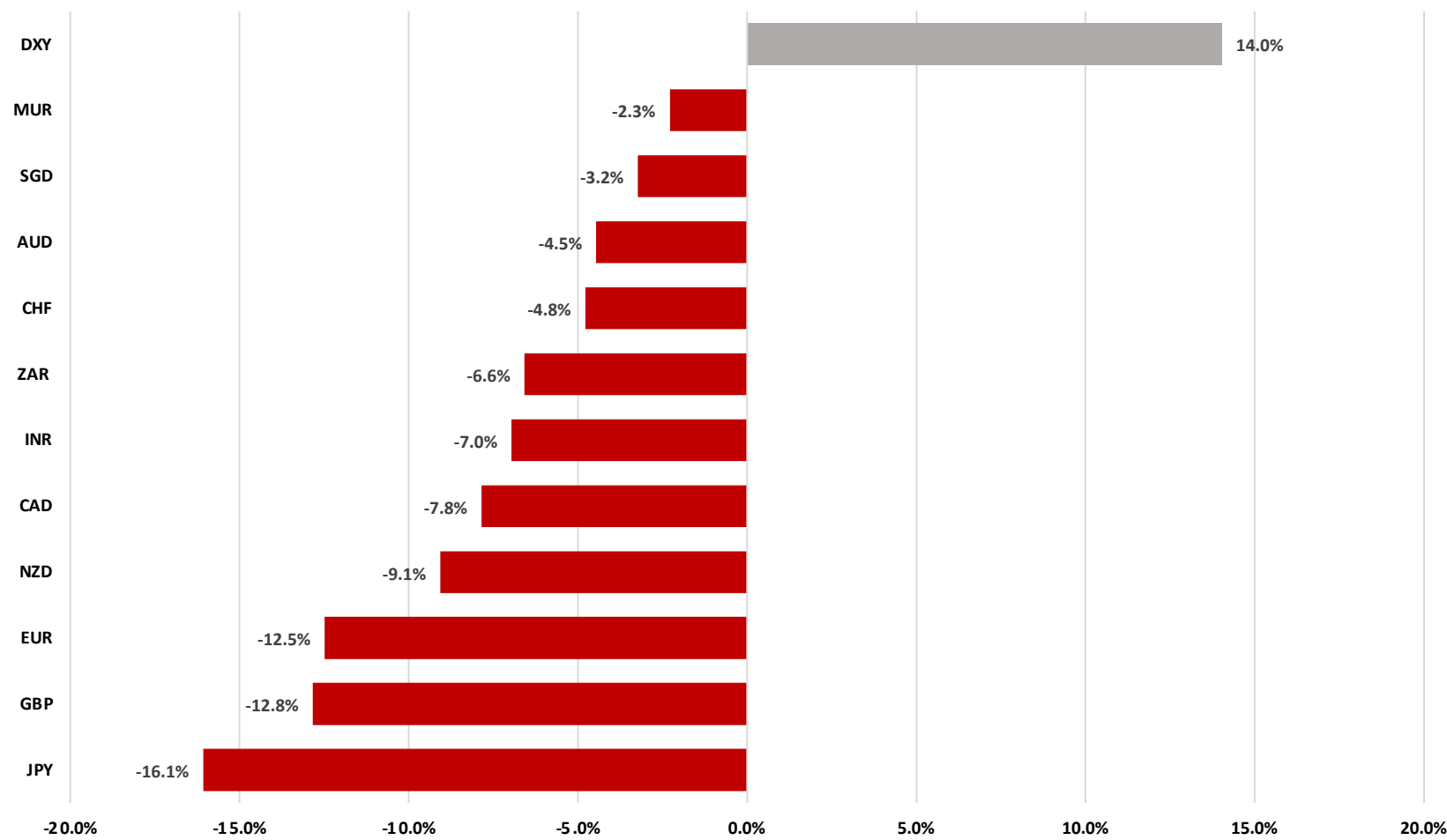
How the Waves
improve Risk
Management

Highlights

U.S dollar reigns on Fed tightening policy to curb inflation

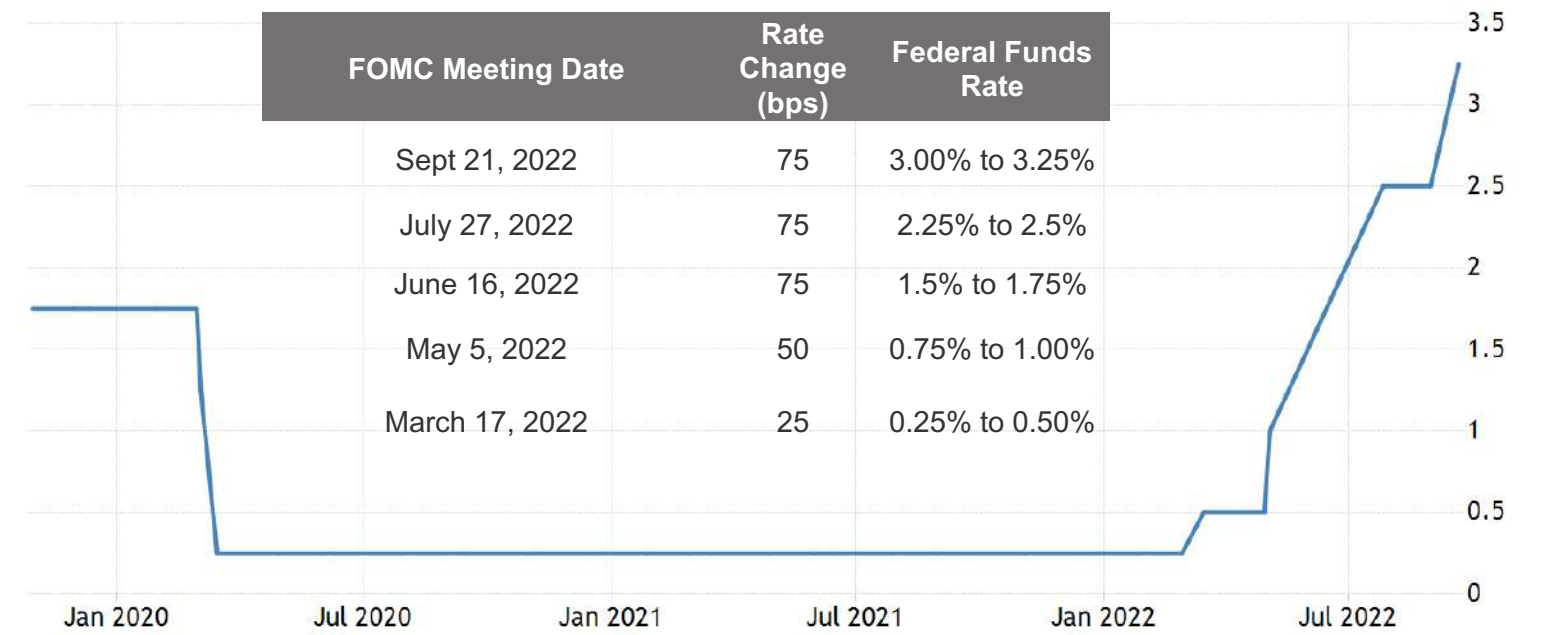
The rampant U.S. dollar has pinned down almost every currency since the start of 2022 as the Federal Reserve has embarked on an aggressive monetary policy path since March 2022, amid stubbornly high inflation in the United states.

U.S dollar against majors- 2022 YTD



Sources; Reuters, BOM, Trading economics .com

2022 Fed Rate Hikes: Taming Inflation

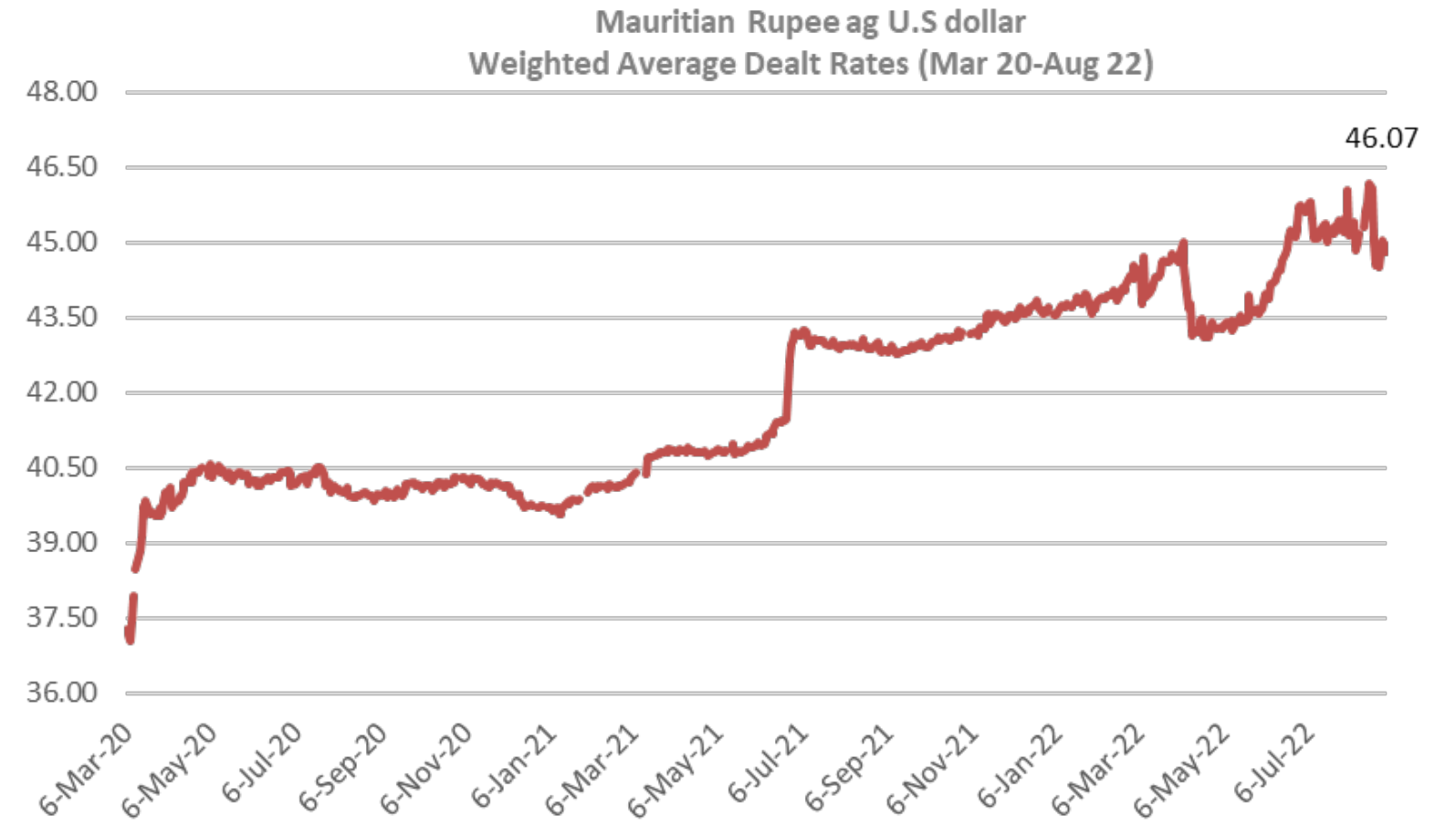


The U.S. central bank raised interest rates by three quarters of a point at its September meeting for the third time this year, officially bringing the benchmark interest rate that influences almost all borrowing costs throughout the economy up to a target range of 3-3.25 percent — the highest since 2008 — after sitting at near-zero until March 2022. Officials haven't raised rates three percentage points in a single year since the 1980s

Evolution of the Mauritian Rupee post Global COVID-19 pandemics

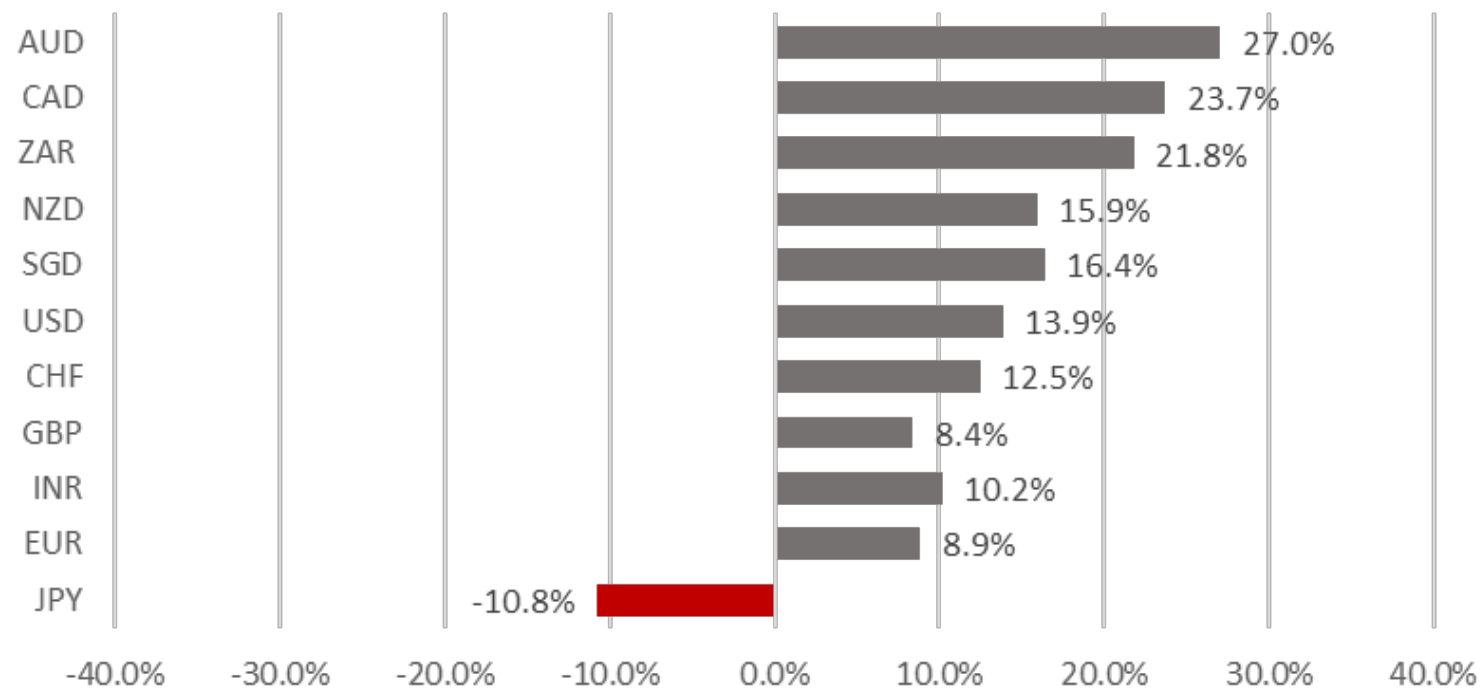
After the COVID-19 global pandemic breakout, followed by two lockdowns in Mauritius, the Rupee was caught in a severe spiral of losses against the majors, except against the Yen.

The Commodity-linked currencies, namely the AUD, CAD and the ZAR, outperformed the Mauritian Rupee on the back of supply constraints and production bottleneck post global pandemics, while the outbreak of war between Ukraine and Russia in February this year kept prices surging for oil and other raw materials in 2022.



Source; BOM Fx Dealt Rates

Consolidated Indicative Exchange rate of the Rupee (End of Period)
Post Covid-19 MAR 20/AUG 22



- The Mauritius Rupee fell by nearly 13.9% against the greenback throughout the Global pandemic and in the wake of the ongoing Russia-Ukraine conflict.
- Indeed, the USD/MUR weighted Average Selling Dealt Rates rallied sharply from 39.72 in March 2020 to reach a high of 46.07 on 22nd August 2022 before closing the month of September at 44.96.

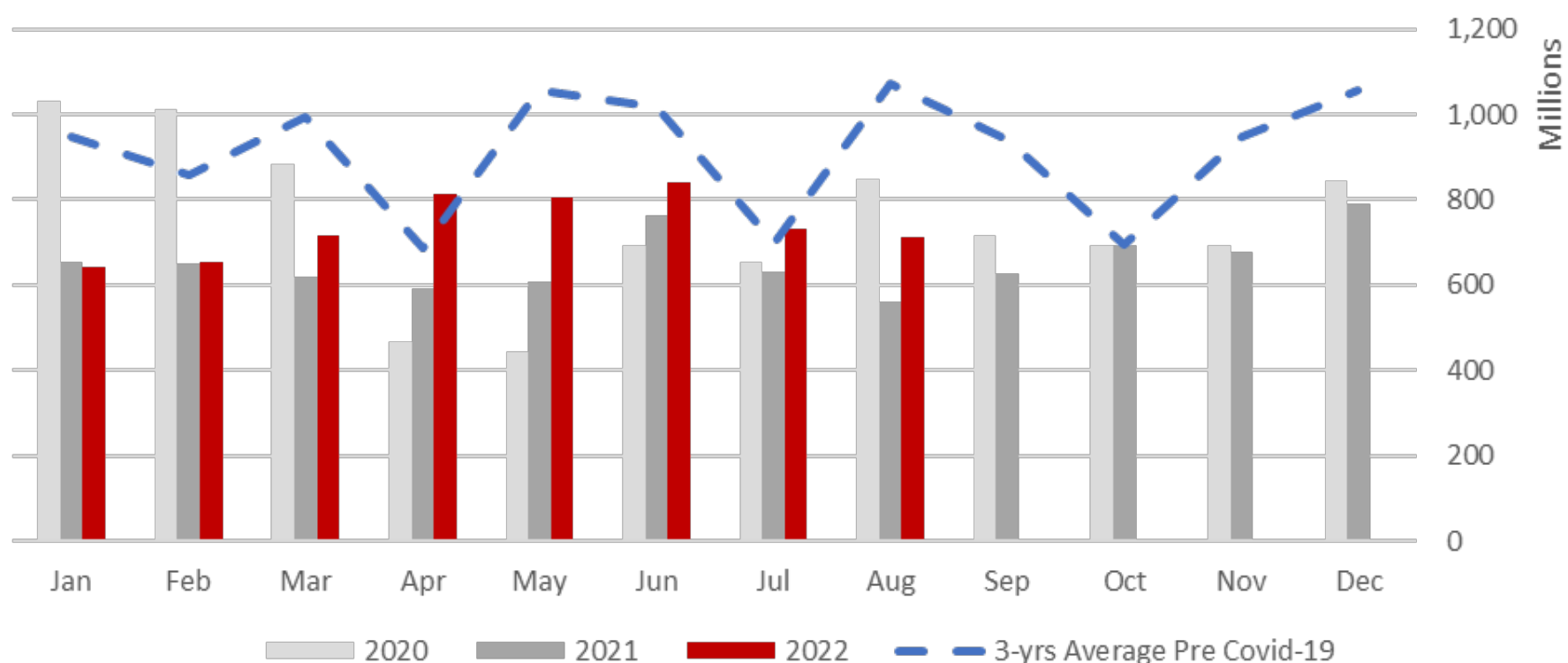
The possible reasons behind the backdrop of the Mauritian foreign Exchange rate against the U.S. dollar post Pandemic.

- › A drastic fall in the Forex Activity of the Domestic Market
- › Monthly Imbalances in Demand and Supply of FCY flows
- › It is felt that BOM's intervention did not succeed in injecting sufficient FX liquidity into the domestic Forex market, which led to undue volatility in the exchange rates.

A drastic fall in the Forex Activity and imbalances in Demand and Supply of FCY

The strict lockdown during March–May 2020 and March– July 2021 led to an unprecedented fall in Foreign Exchange Activity, and imbalances in Demand and Supply of foreign currencies in the domestic market were the main factors that impeded the value of the U.S. dollar against the Rupee.

Domestic Market- FX turnover



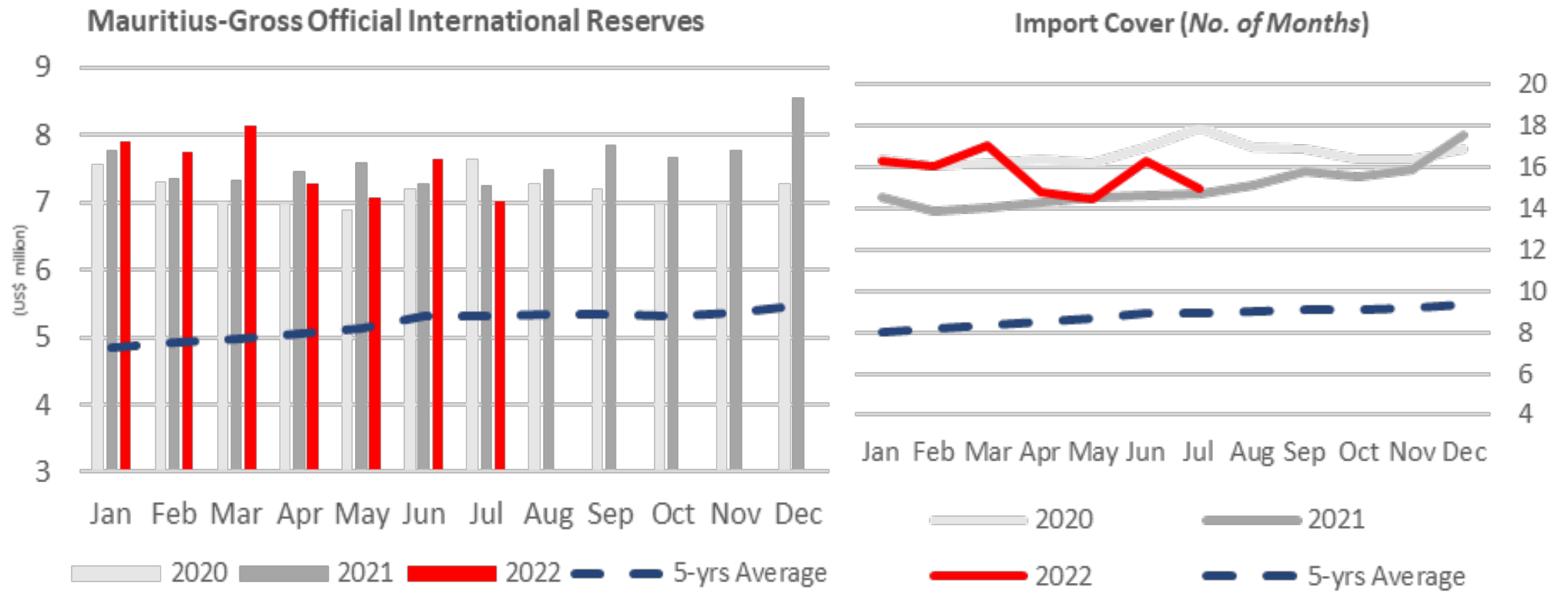
Indeed, the monthly FX turnover crumbled by 23% to an average of USD 702 Mio in 2020-21, well below the pre-pandemic 3-yrs average of USD 916 Mio. The monthly FX Turnover recovered mildly in 2022 to an average of USD 740 Mio.

The fall in Foreign Exchange activity resulted from severe imbalances in Demand and Supply of foreign currencies from key sectors of the domestic market. On average, Inflows of FCY from the Export and Tourism sectors witnessed a severe drawdown of 34% and fell to USD 332.1 Mio during 2020 & 2022 compared to the Pre-Pandemic 3-yrs average of USD 506 Mio flows. However, Sales of FCY to importers edged lower by 17%, only to reach a monthly average flow of USD 477.6M.



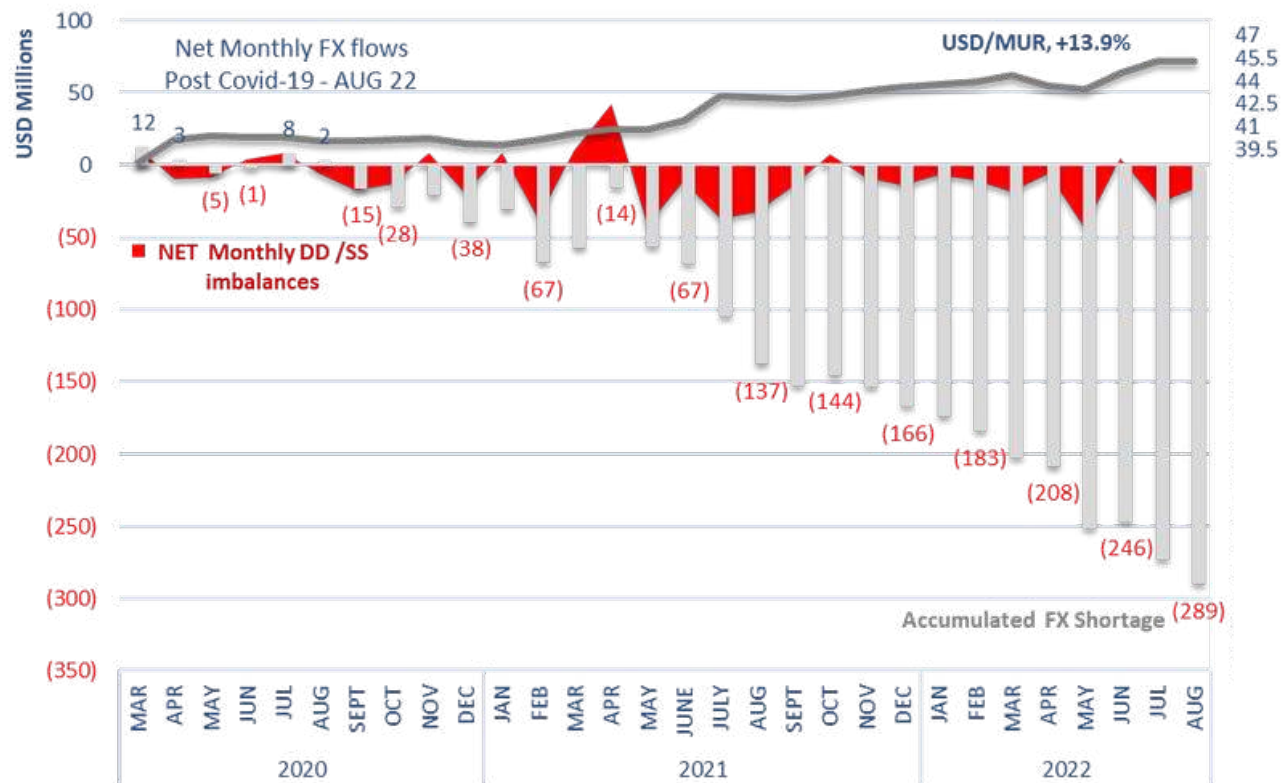
BOM 's interventions did not succeed to inject sufficient FX liquidity in the market

- During the Pandemic crisis, the FX interventions by Bank of Mauritius did not provide sufficient liquidity to the forex market which led to undue volatility in the exchange rates.
- Over the last 3 years, the Net accumulated imbalances in Demand and Supply of FCY amounted to \$2.558 bn, while BOM, through its several interventions, injected only \$ 2.269 bn , leaving the market with a Net FX shortage of approximately \$ 289 Mio as at August 2022.



Source; BOM MSB July 2022

- Mauritius's Gross Official International Reserve and Import Cover remained at comfortable levels since March 2020, well above the 5-yrs GOIR and Import Cover pre-COVID-19.
- The Gross official Fx reserves stood at USD 7.013 bn , representing 15 months of Import as of July 2022.
- It is felt that there was room for curbing the significant shortage in the market, reducing the undue pressure on the USD/MUR in 2021/2022

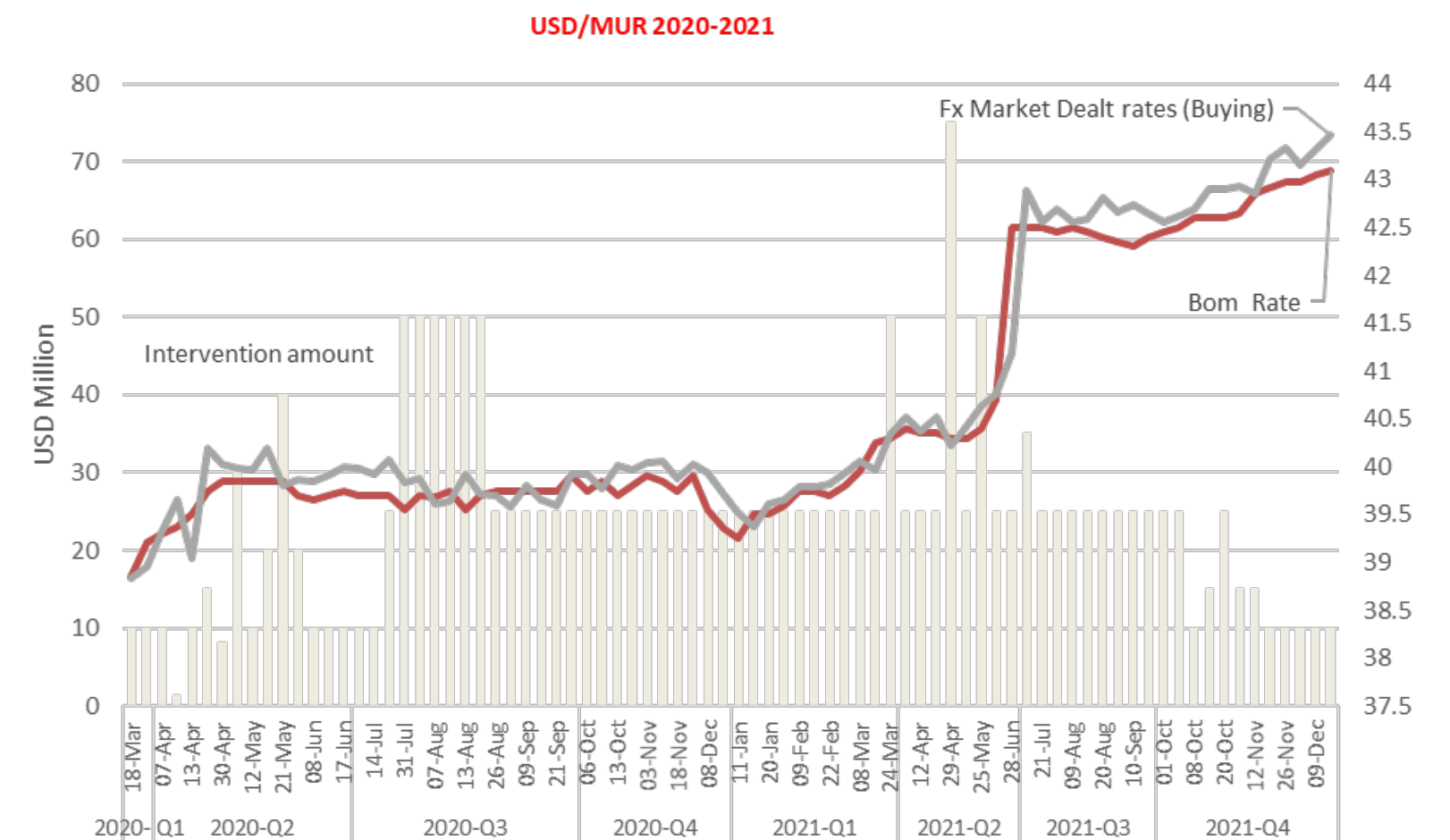


BOM interventions in the domestic market.

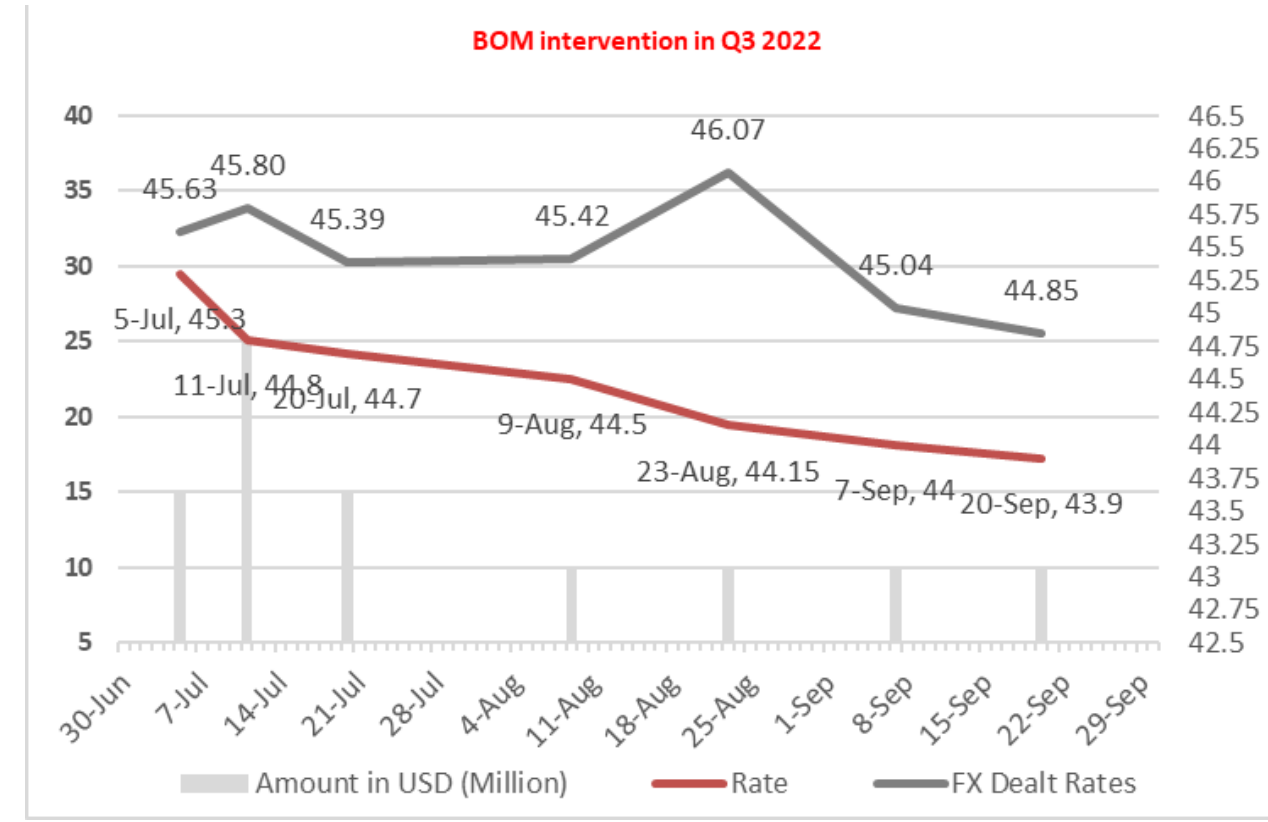
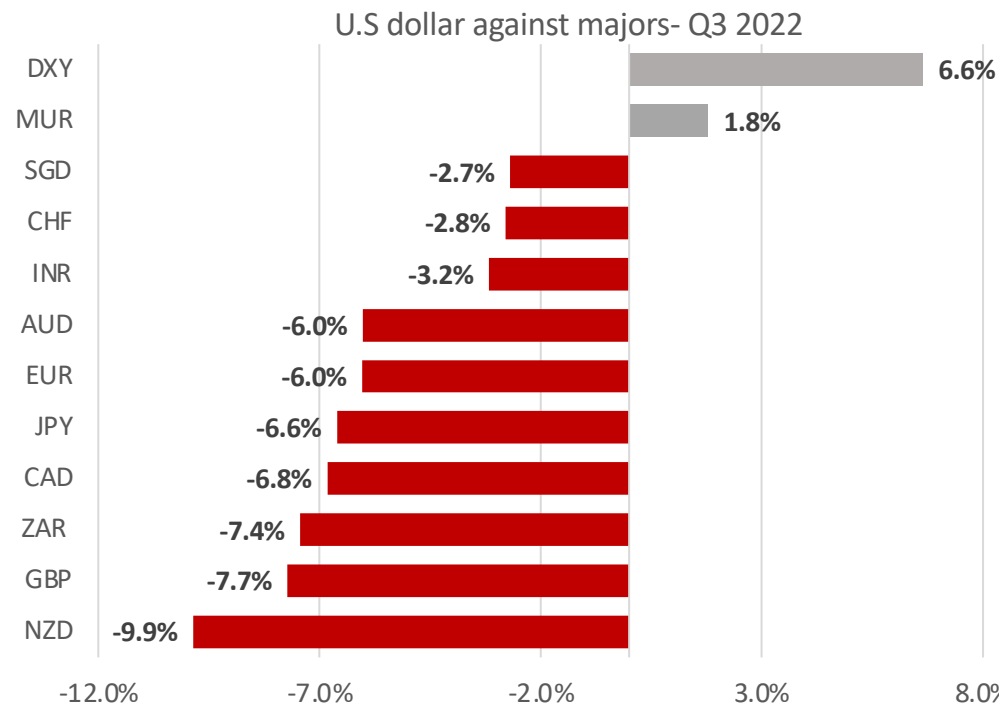
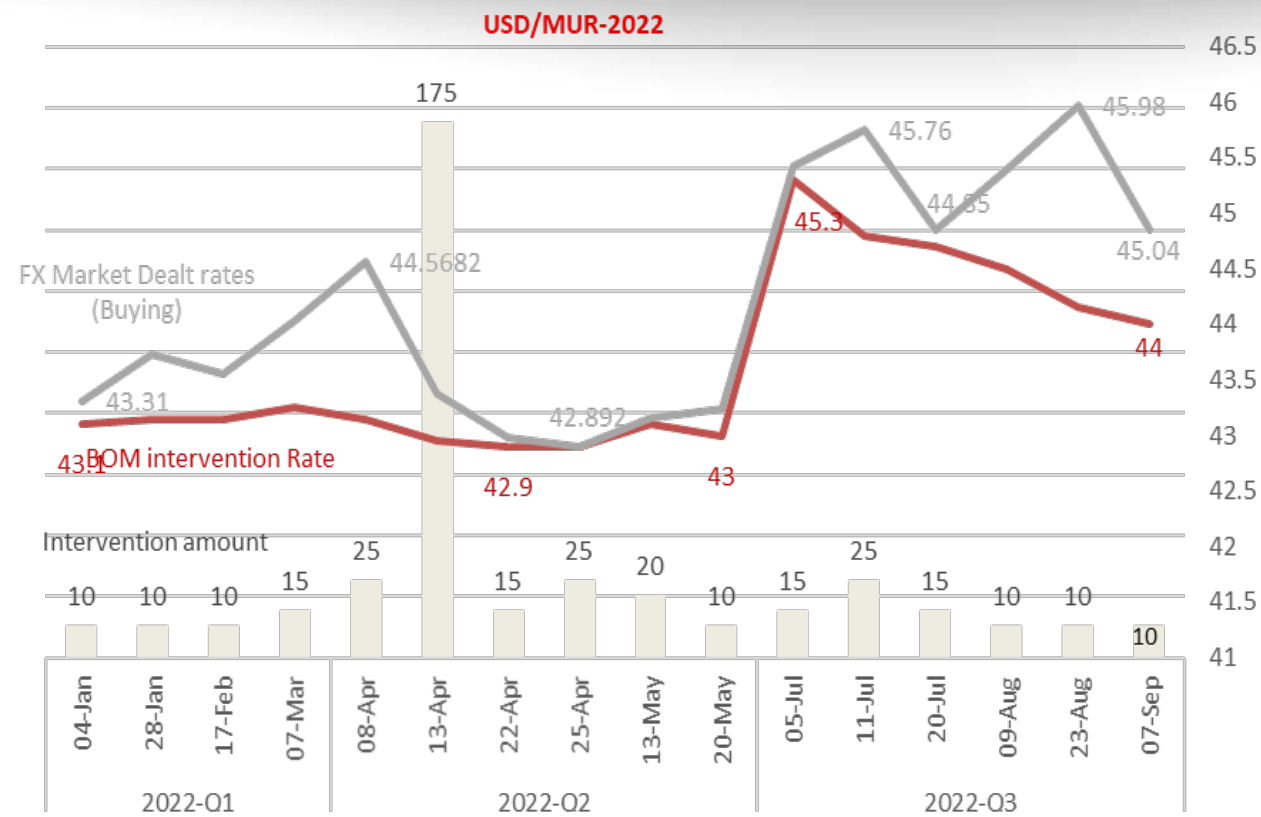
- Since Mar 2021, post-second lockdown in Mauritius, BOM has been tracking the bids received from the exchange rates quotes provided by banks without adequately supplying the domestic market with FX liquidity.
- The bids exchange rates from Banks reflected imbalances in Demand and Supply and the Net accumulated shortage of FCY among Banks.
- The Net accumulated shortage of FCY on the market may have been the main driver of high price volatility and accelerated rupee depreciation.

Comments from the Governor Harvesh Kumar Seegolam in the MPC meeting held on the 4th of August 2021

"I have to reiterate that the Bank conducts its FX interventions at exchange rates based on bids received from banks at its FX auctions. Banks bid at the auctions taking into consideration local and international FX developments. All intervention rates are determined within the exchange rates quotes provided by banks."



Q3 2022- The domestic market caught between a rock and a hard place



- Q3 2022 happens to be a dollar strength story as the almighty U.S dollar has kept rallying sharply against currencies worldwide (EUR, GBP, JPY and ZAR).
- Surprisingly, over the same period, the U.S. Dollar has lost 1.8% against the rupee, falling from 45.76 on 1 July to 44.96 (selling) on 30 September 2022.
- Underpinned by an energetic commitment from Bank of Mauritius to curb the accelerated rupee depreciation.
- BOM intervened at a lower rate in each of its interventions since July 2022, though reducing the frequency and amount of its intervention.
- On 20 September 2022, the Bank intervened and sold USD 10 million at the rate of Rs43.90/USD
- In the last MPC meeting on September 28, Governor Harvesh Seegolam reiterated that ***'the evolution of the exchange rate continues to reflect domestic economic fundamentals as well as international exchange rates'***.

Trading Strategies in Q4-2022



We can't direct the wind, but we can adjust our
sails.

Technical Outlook

U.S. dollar on the brink of a downturn against majors in Q4 of 2022

▸ In Europe, the euro soared close to parity versus the greenback this week, recovering from its 20-year low of \$0.9528 on Sept.26

Despite the renewed upside on the Single currency, EUR bulls remain cautious amid escalating geopolitical tensions between the West and Russia over the Ukraine crisis. The European Union (EU) backed new sanctions against Russia, including the oil price cap on Wednesday.

▸ Sterling rode the risk-on rally out of September's \$1.0327 record low to \$1.1495 on Wednesday Oct. 5

After tumbling to a record low against the U.S dollar last week in the aftermath of the government's 'mini-budget' announcement, the pound had recovered some ground after the government reversed a planned cut to the highest rate of income tax

▸ In Mauritius, the U.S dollar a tad lower versus the Rupee as market heed hawkish reminder from Bank of Mauritius' latest intervention at 43.90 on Sept. 20

Technical Outlook USD/MUR- Bearish turn ahead !



USD/MUR Weekly chart

Elliott wave pattern

Double zig-zag upward correction in wave W-X-Y, since 2000.

Bearish turn ahead!

- Clear 5-wave structure in wave 5 of wave C of wave (Y)
- Over the last 4 years, the USD/MUR surged by 40% from a low of 32.90 in wave 4 to reach an all-time high of 46.07 on 22th of August 2022, before closing the month of September at 44.96.
- In Q3 of 2022, the USD/MUR lost some steam and failed to reach the targeted level of 47.48(161.8% projection level) though RSI signalled a bearish divergence on the weekly chart.

Forecast- USD/MUR on the brink of a downturn in Q4 of 2022

- On the weekly USD/MUR chart, It seems that the pair may have completed a five-wave upward rally in sub wave (v) of Wave 5 of wave C of Wave Y with a peak of 46.07 on 22th of August 2022
- However, we won't be surprised to see a reversal downward in the medium term
- Our target** by year-end is for a downward movement towards **42.50 followed by 39.50 in 2023**

Our Technical Post in July 2022

EUR/USD Outlook- Looking bleak throughout Q3-Q4 2022 !



Past

EUR like a Deer in the headlights.

- ✓ Euro has been trending lower over the last couple of months in the range of \$1.06 and \$1.0350. , unable to process and respond to the wicked combination of higher inflation and recession fears

Current

- ✓ Euro has pierced through key support yesterday and sank to \$1.0234, its weakest since December 2002

Forecast

A dip to parity or below is in the cards.

- ✓ 1st target @ **0.9906** 78.6% fibo retracement
- ✓ 2nd target @ **0.9127** 88.6% Fibonacci retracement
- ✓ **Invalidation level @ 0.8221**

Technical Outlook (Updated)

EUR/USD- A bullish reversal might be on the cards in Q4 2022



Daily chart

Elliott wave pattern

EUR/USD may have ended a 21-month 5-wave impulsive decline in Sep 2022.

- ✔ A Clear downward 5-wave structure with extension in wave (v) of wave 5
- ✔ After reaching a high of \$1.2336 in January 2021, the Single currency nose-dived to as low as \$0.9534 on 26th of September 2022, losing 29% against the U.S. dollar.

Forecast

EUR/USD - Looking for a break of parity to confirm a bullish rally in Q4 of 2022

- ✔ We would prefer to wait for a break of \$1.0000, to seal the long term bullish structure
- ✔ Target in Q4 of 2022 and 2023
- ✔ **1st target 1.0000**- ED resistance line
- ✔ **2nd Target 1.0370**- Wave iv of a lesser degree
- ✔ **3rd target 1.1180**- When the 5th wave of a decline is an extension, expect support to be found at the level of the high of wave 2 of the extension
- ✔ **4th Target 1.1500**- near the price territory of 4th wave of one large degree

EUR/MUR Outlook- Looking bleak throughout Q3-Q4 2022 !

Our Technical Post back on 6th July 2022

EUR/MUR- Bears in control in Q3-Q4 2022



Past

After reaching a high of 51.05 (buying TT) in July 2021, the EUR/MUR failed to keep the bullish trend seen in 2020 and 2021 undermined by a falling EUR/USD since 2021.

The pair plummeted to a low of 44.61 on 13th of May 2021 before staging a recovery to 47.78 on 30th June 2022.

Future

However, the rebound on the EUR/MUR appeared short-lived as it turned south again this week

The pair could dive in the range of 43.50 and 44.50 in the coming weeks.

Invalidation level @51.05!

EUR/MUR Outlook- Bullish reversal on break of trendline



Daily chart

Elliott wave pattern

EUR/MUR completing a bearish double Zig-Zag correction

- ✔ A Clear downward 7-wave structure within a double Zig-Zag combination (w)- (x)- (Y)
- ✔ After reaching an all time high of 51.05 in July 2021, the Single currency pared back some of its gains to reach a 14-month low of 43.00 on 26 of September 2022, losing almost 19% vis-a vis the rupee

Forecast

EUR/MUR- A swift and sharp reversal ahead!

- ✔ On the daily EUR/MUR chart it was observed that wave c of wave (y) contain five overlapping waves that contract and form a wedge shape.
- ✔ That is the signature of an ending diagonal, which signals a swift and sharp reversal ahead.
- ✔ According to Elliott wave guidelines, the reversal could travel at least to where the diagonal begin and possibly further.
- ✔ Target in Q4 of 2022 and 2023
- ✔ **1st target 44.33-** ED 2-4 resistance line
- ✔ **2nd Target 45.45-** Wave iv of a lesser degree
- ✔ **3rd target 46.85-** Back to where the diagonal began.

GBP/USD Technical Outlook

Posted on 22nd September , well before the crash!!



Current price 1.1335

The Pound fell to a new 37-year low near \$1.1200 post FED hike on 21st Sept 2022 and ahead of BOE meeting this Thursday.

Technical outlook

Further weakness on the cards

Impulsive decline in waves 5 of an Ending Diagonal pattern with downward targets as follows;

1st target @ 1.1054

2nd target @ 1.0654

Worse Case scenario

The maximum length of Wave 5 @ 0.8452

GBP/USD Technical Outlook

Bullish Pound ahead!



Technical outlook Bullish Pound ahead!

As expected, the Pound was in free fall in late September to as low as \$1.0386 on 21st September 2022, before bouncing off swiftly to as high as \$1.1420 in October.

From an Elliott perspective, the GBP/USD is unfolding into an impulsive rally to the upside, with wave 3 might be nearing completion (161.8% fibo projection near \$1.1424).

This week, we expect a possible sideways price action in the range of **1.1073-1.1400** ahead of U.S Nonfarm payroll data on Friday.

A dip to \$1.1073 in Wave 4 could be a good support level for the GBP/USD, before a resumption of the uptrend

However, a drop below \$1.0950 could invalidate the Pound Sterling's bullish structure.

Synopsis of Elliott Wave Principle

What is it

Detailed description of crowd behaviour in the financial market, creating specific predictable pattern.

How it works

Price actions alternate between motive and corrective waves on all time frame. (Monthly, Weekly, Daily, Hourly, 10 mins and 1 min chart)

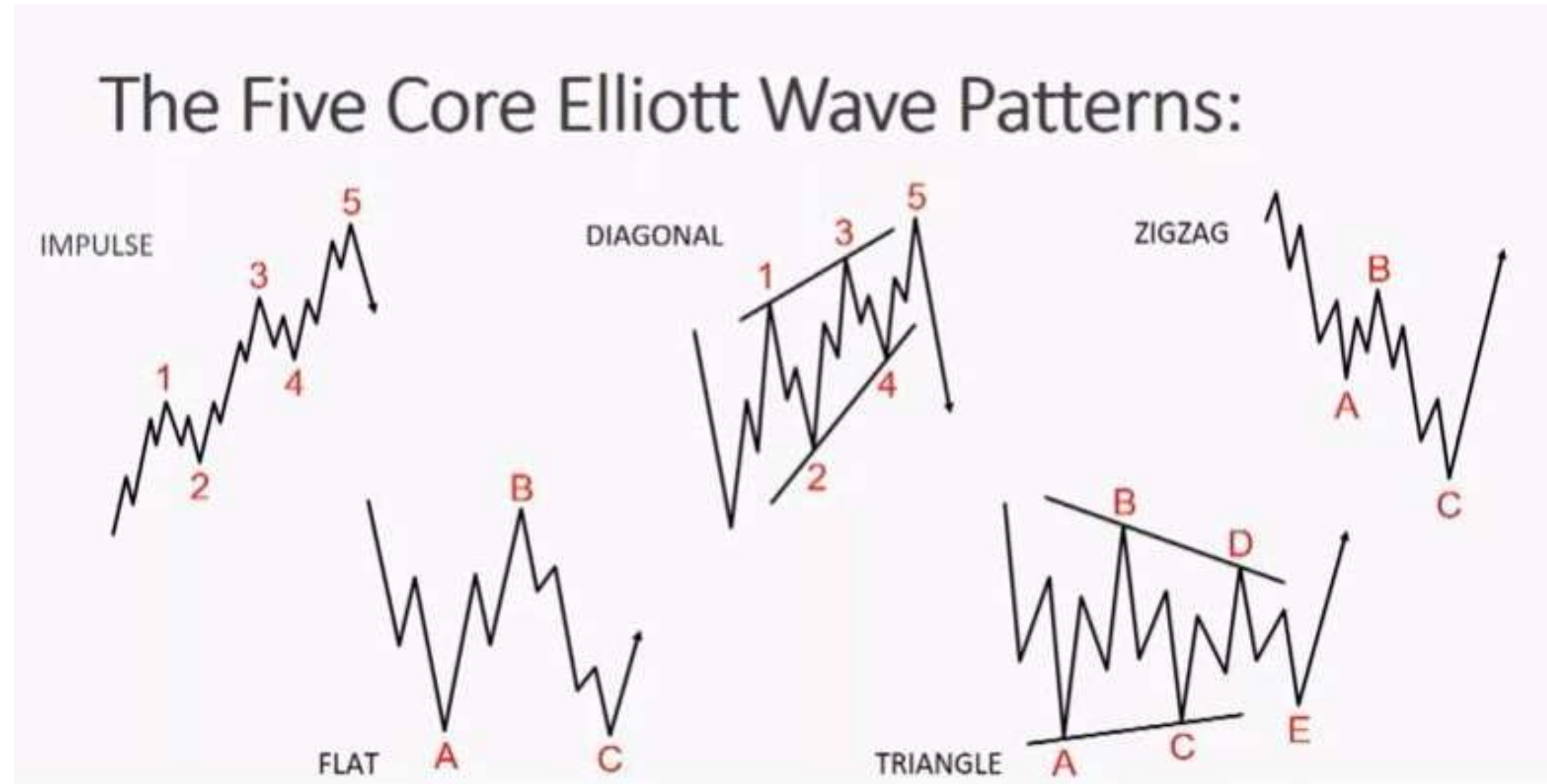
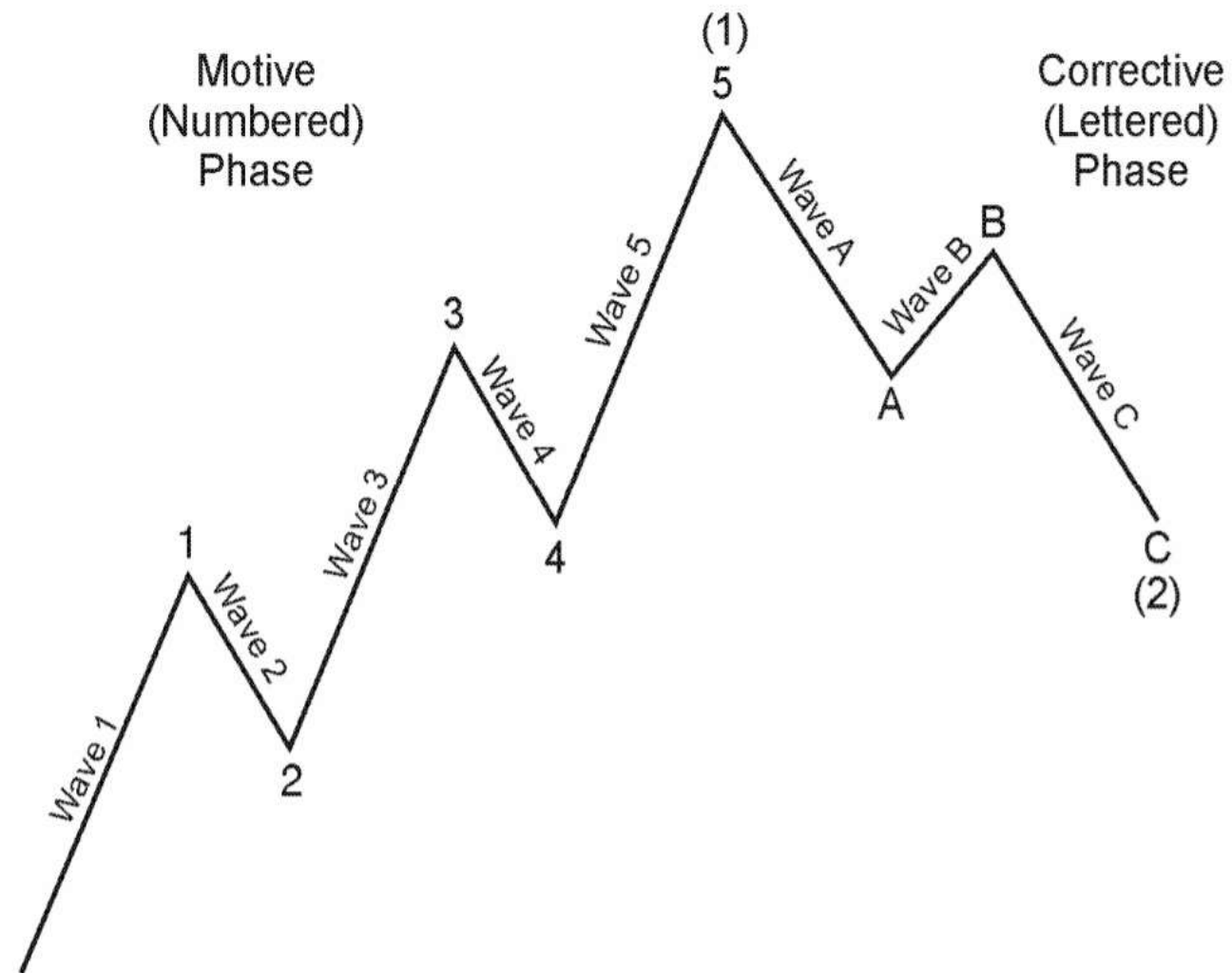
When was it discovered

In 1930, Elliott Ralph Nelson developed the theory

Where can it be applied

These patterns can be found on charts of all asset classes, such as Forex, Equity, Bond, Commodity, Crypto among others.

Motive vs Corrective Waves



2 types of **Motive Waves** having a 5 waves structure, labelled numbered 1 through 5:

1. Impulse Wave
2. Diagonal Wave

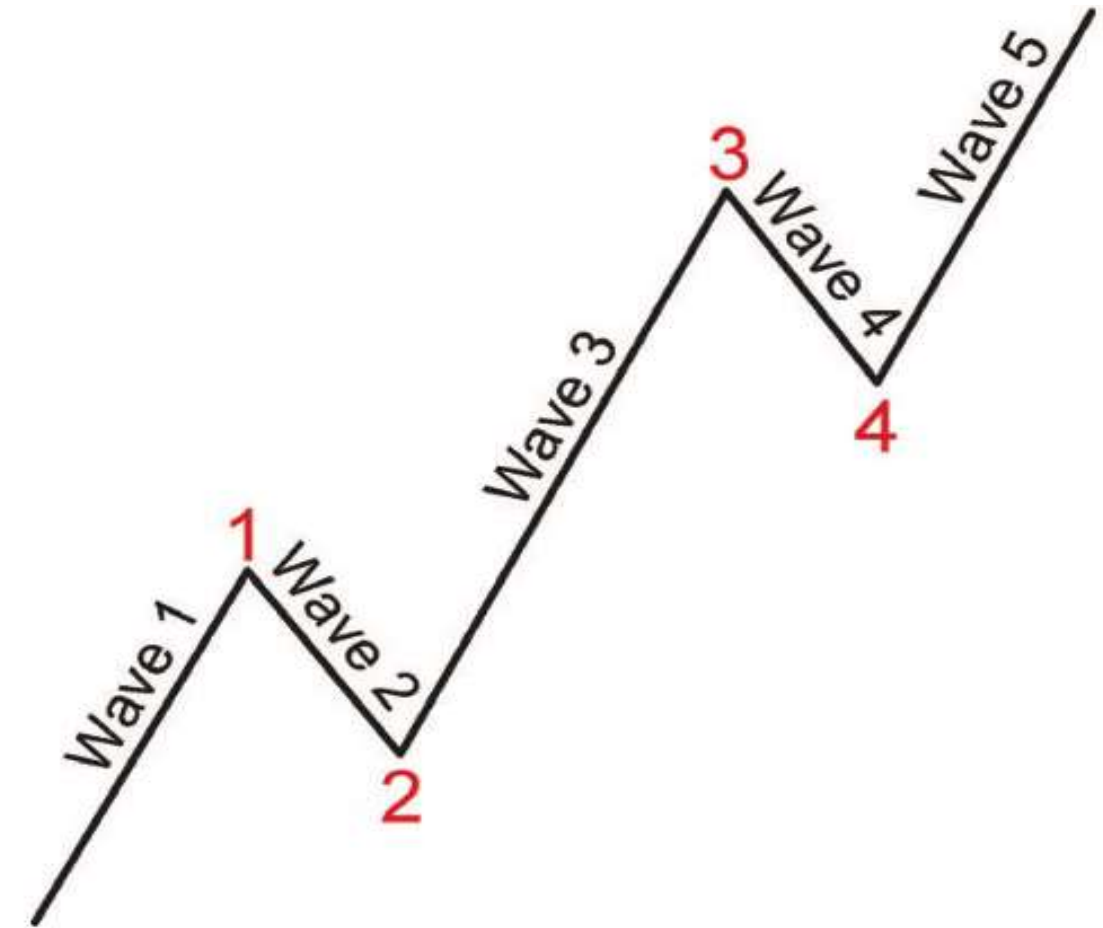
3 types of **Corrective Waves** (counter-trend) - 3 waves structure:

1. Zig-zag, sharp, labelled A-B-C
2. Flat, sideways, labelled A-B-C
3. Triangle, sideways five-wave corrective shape, labelled A-B-C-D-E

5 ways The Wave Principle can improve your Trading and Risk Management

The Wave Principle

- › Identifies the primary trend.
- › Locates countertrend price actions within larger trend.
- › Determined the maturity of the trend.
- › Provides a high confidence price target through Fibonacci sequence.
- › Discerns specific points of invalidation.



Our Limelight in the Media



Radio One

Monday at 8:40 am

Every week, we present our technical view on a particular currency pair on air.



Market Update

Trading Strategies

We provide reports on trading strategies based on Elliott Wave framework on G10 currencies posted on AfrAsia's website



Precise

Weekly

Trading Forecast & Strategy
Elliott Wave Tutorial
Illustration of EW motive and corrective wave
Momentum Indicators

OUR CAPABILITIES

We **support** your business and investment strategic plans with market-leading research, predictive analytics and client-centric treasury solutions.



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OUR SOLUTIONS

Going the extra mile, your dedicated Relationship Manager coordinates with our different specialists to shape the right financing solution adapted to your needs and risk appetite.

TREASURY PRODUCTS

Our products include forward contracts, non-deliverable forwards and structured FX options to help you manage your business finances.

RESEARCH & ANALYTICS

We not only spot market trends and opportunities for you but we also act on them in a timely manner so as to optimize your investments and manage your risks.



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