Forex Weekly Report: ValueWalk Insights



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Welcome to our latest issue of ValueWalk's forex update; in this week we will analyse the resulting effects and likely future consequences of the rather 'hawkish' FOMC meeting that took place, particularly in a EUR/USD context.

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EUR/USD Price Overview & Analysis

Following Wednesday's Federal Open Market Committee (FOMC) meeting, the U.S. dollar is looking as strong as ever, with members of the committee indicating that a minimum of two interest rate markups should be expected by the year 2023.

Moreover, the Fed increased its specified inflation forecast to 3% in 2021- a perhaps potential refurbish in relation to the country's fiscal growth and employment, however it should be noted that this approach contrasts sharply with the European Central Bank's latest remarks, which highlighted the importance of not prematurely ending the bond-buying scheme.

Jerome Powel- who serves as the 16th chair of the Federal Reserve, commented on the sporadic "dot plot" released by the federal bank reserve, mentioning that it is likely to mean that inflation will, in fact, transpire to be even ''higher and more persistent'' than expected; with the relevant fiscal consequences becoming exacerbated.

The euro, on the other hand, has had all of its past support blown away this week, undergoing record lows that haven't been seen since mid-april of 2021. This is in line with a variety of other USD pairs and multi-month trading ranges which have been severed as a result of the unpredictable movement of FX volatility's return. The abrupt sell-off by traders has meant that the situation has gotten increasingly bleak, with the 20 day simple moving average continuing to fall.

The holistic aftermath from Wednesday's meeting has directly affected the U.S. dollar, which took a break in Asia and is currently surging, with EUR/USD hitting a value of 1.1937. Consequently, EUR/USD is now approaching the 23.6 % Fibonacci retracement of the March 2020 and January 2021 rally, which may be indicative of potential further subsequent losses in the future.

The prolific nature of the most recent sell-off has meant that EUR/USD has been significantly oversold- raising worries in relation to the seller’s future moves. Data does show that over 55% of traders are currently net-long (over 50% higher in comparison to week before), and if this is indicative of a trend it may result in EUR/USD prices continuing to fall drastically in the future.

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