SIM INVESTMENT&
NETWORKING CLUB

Currency Research Report Outlook
20 Nov 2017 to 1st Dec 2017
Commodity Bloc

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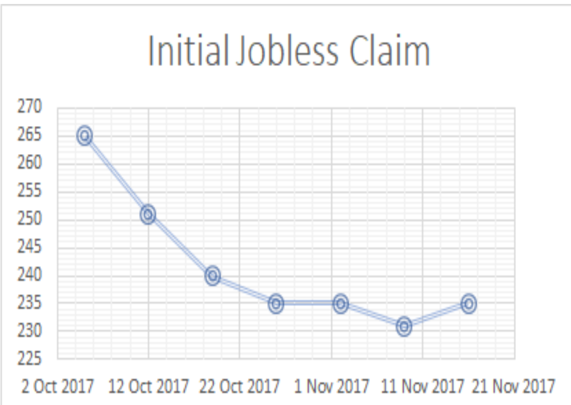
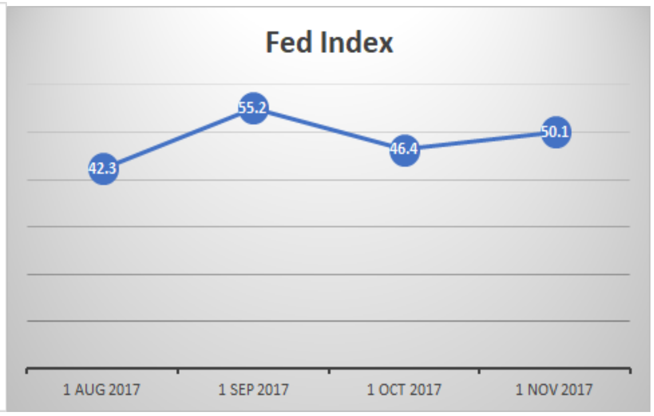
Market News

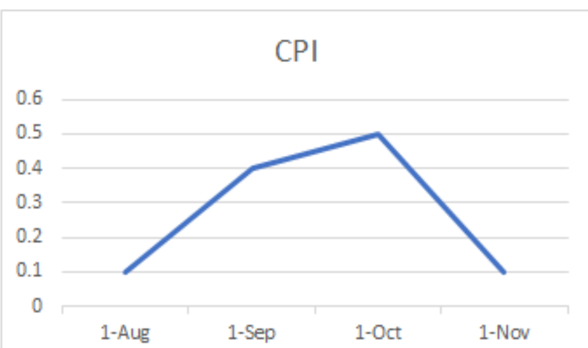
USD

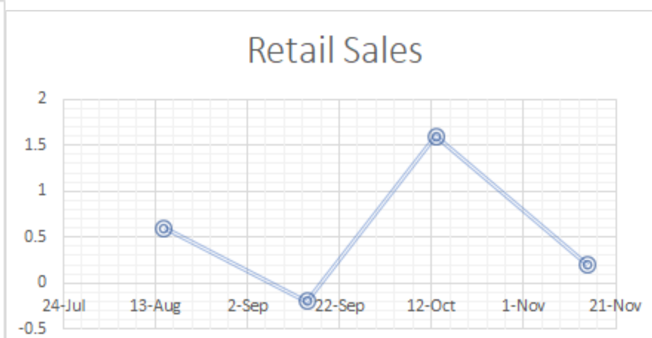
The US dollar retreated lower in relation to its Canadian counterpart last week mainly on the back of poorer than expected results of US economic reports on Thursday. The US Department of Labour reported an increase of initial jobless claim to 249 thousand , beating analyst forecast of 239 thousand. The bearish data can be interpreted as the by-product of the hurricane recently and also as a leading indicator of decreased confidence by firms on the outlook of the US economy as they seek to reduce production. The fall in manufacturing index from the Federal Reserve of bank of Philadelphia further substantiates the claim of waning confidence of general business conditions as the index fell to 22.7 in November from 27.9 the previous month, surprising expectations for a decline to only 25.0.





Despite somewhat negative economic results, US inflation data and retail sales managed to produce positive results as consumers remain sanguine. Headline inflation (not seasonally adjusted) stood out at 2% year on year which was in line with analyst estimates. The results would thus raise the probability of a rate hike in december, by 25 basis points, to almost a certainty. This is also further substantiated by the fact that retail sales was up 0.2% ,beating analyst estimates of 0.1%.



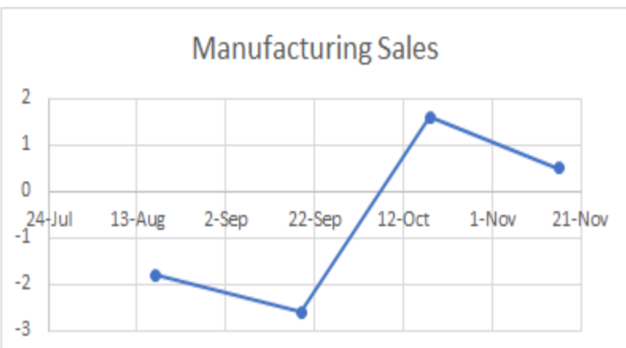


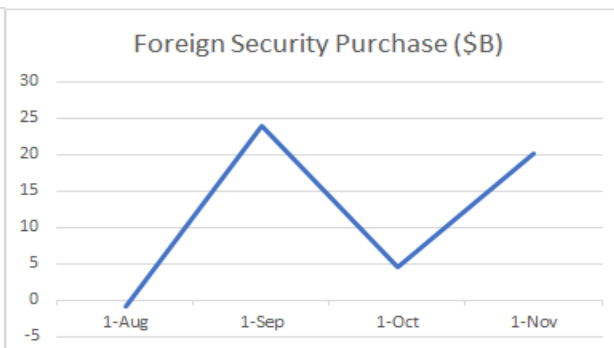
The central theme of the US market for this week however would be a politically dominated one. Republican-controlled US congress would be poised to pass a sweeping reform to the federal tax code on thursday, advancing the Republicans agenda to enact legislation to cut tax for corporations. The tax overhaul is expected to have significant challenges as Republicans need to align the legislation with a bill that is working its way through the Senate Finance Committee this week. Main features of The House tax bill, passed last week, would include reduction in corporate tax rate from 35% to 25% and reducing the tax brackets from seven to four. The net aggregate tax cut would amount to more than $1.4 trillion over 10 years. While negotiations is expected to carry into the near feature , a positive vote would lead to an optimistic outlook on the economy as businesses stand to gain significantly if this legislation goes through.

Therefore due to mixed signals in economic report, we believe that the direction of the Greenback would be heavily influenced by the tax reform this week. Investors should adopt a cautious approach stance in this economic conditions.

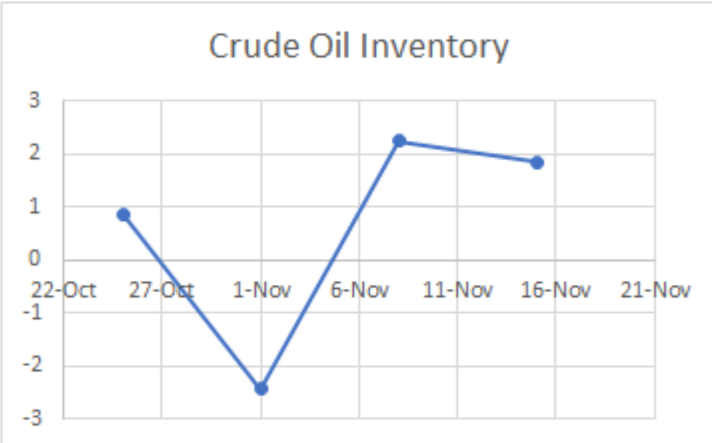
CAD

The Canadian dollar posted positive economic results gaining some ground against the Dollar towards the end of the trading week. Manufacturing sales rose 0.5% in september, topping analyst expectation of a 0.3% decline, while volume increased by 0.7%. The result points to increased confidence in business outlook as firms look to increase capital stock for increased production capacity. Furthermore, in separate report published on Wednesday, foreign investment, mainly caused by strong acquisition of Canadian Bonds totalled $16.8 billion in September, up from $9.8 billion in August. With a net inflow of funds of $14.4 billion in the Canadian economy in September, it seems that investors would remain bullish in the short term.





Despite positive news from economic reports, troubling trend regarding export still serves as an area of concern for the loonie. United States Crude Oil Inventories fell by 1.85M which was less than what analyst forecast of 2.20M. The rising stockpile in oil points to weaker demand for oil. Uncertainty of Russia's support in the extension of the OPEC output cut deal further spooked investors as bearish price pattern were seen in the early part of this week.Canadian heavy crude benchmark Western Canadian Select (WCS) at Hardisty further plunged sharply on Friday after TransCanada shut its 600,000 b/d Keystone pipeline due to a leak of about 5,000 barrels of oil due to a fall in the pipeline pressure. The WCS traded on Friday at the January NYMEX light sweet crude futures contract calendar month average (WTI CMA) minus $15.90 per barrel and at minus $16 per barrel. Those levels signify a drop of as much as 50 cents per barrel from where the grade traded against the January WTI CMA on Thursday. The cumulative effect of the above events would have a serious impact on the export of Canada in the short run due to oil accounting highly for the country's export.



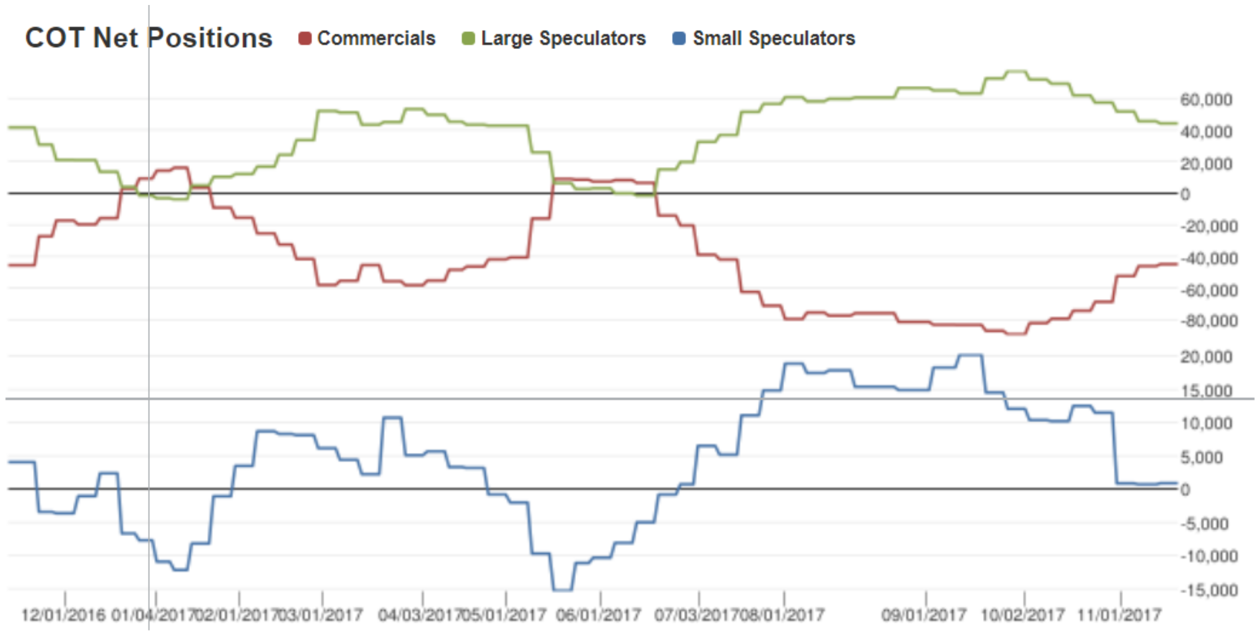
Despite the gloomy outlook of the export situation in the short run, the long run export situation may prove to provide investors with a more optimistic outlook. Buoyed by Saudi Arabia's energy minister pledge to extend output cut when OPEC meets again on Nov 30 the price of crude oil rebounded, with the Brent Crude oil rising to $1.36, or 2.2%, to settle at $62.72 a barrel. Moreover in the long run, with the cut in supply for oil from the Keystone pipeline, Canada would be able to price its oil at a level that is congruent to that of the other suppliers, thus improving exports.

Investors would also do well to take into account the increasing uncertain future with regards to the outcome of North American Free Trade Agreement (NAFTA) renegotiations. As the fifth round of talks gets underway ,renegotiation talks will be without the Trade Ministers and less contentious topics such as textiles, services, labor and intellectual property would be on the agenda. The last round ended with little breakthrough as the Canadians were unhappy at the America first proposals from the Trump Administration. While pulling out of NAFTA has been a key issue of the Trump Administration since its campaign for the White House, the agreement has the backing from some republican congress members who urged the President to leave US requirements for autos as the original agreement. The move was considered a poison pill as it would unfairly favour US production in the detriment to the other two nations.

Therefore, on the back of positive economic reports, we believe that the outlook of the Canadian economy is healthy. Howevers investors should be mindful of how the issue of NAFTA and how it would affect the Canadian economy, particularly on the frontier of trading.

Market Perception

Commitment of Traders (COT)



Source: http://cotbase.com/

COT can be analysed to obtain a clearer picture of investors sentiments on USDCAD currency pair. Emphasizing heavily on large speculators, it can be noted that there is a downtrend in net positions since early october. There is thus a bearish bias in the market, as large speculators seek to increase their short position.

Significant events for the following week

(November 20 2017 to November 24 2017)

Tuesday

The report of existing home sales for november would be released by the National Association of realtors. This report would serve to indicate the strength of the US housing market and is a key indicator of overall economic health.Analyst has forecasted sales to be at 5.42 MM. A higher than forecasted would thus be seen as a bullish signal on the US housing Market.

Wednesday

Fed Chair Janet Yellen would is to speak. Investors would watch her speech closely for sign regarding future monetary policies. Her comments would usually cause a short term impact on the dollar.

The United States Core Durable Good Orders data would be released by the Census Bureau. This data measures the change in the total value of new orders for manufactured good with a long shelf life. A high reading would thus be indicative of of a increasing manufacturing activity and thus be seen as bullish for the US economy.

US Crude Oil Inventories data would be published for the month of November. It measures the change in the number of barrels of commercial crude oil held by US firms. The level of inventories influences the price of petroleum products, which can have an impact on inflation. As shown above in the report, negative data would lead to adverse effects to the Canadian economy.

Thursday

Canada core retail sales report for the month of september would be released. Core Retail Sales measures the change in the total value of sales at the retail level in Canada. It serves as an indicator of consumers confidence in the economy. A higher than expected retail sales data should be seen as bullish for the Canadian economy.

Technical Analysis on CADUSD

Source: www.tradingview.com

The USD tends to behave choppily against CAD due to both currencies relationship to oil. Moving average indicator shows that the current trend of CADUSD is bearish with the lowest level at 0.7743 recently, if the downtrend continues prices are most likely moving further down and will eventually breakthrough the 0.7743 level. Moreover. reinforced with the stochastic indicator turning down recently from the previous swing, aggressive traders might have already entered the market and the current downswing may be the swing that will soon break below the support line mentioned above.

But currently with the triangle pattern forming in USDCAD observed on the chart above, the market seems to be losing volatility. This could be a good signal for a sell trade as we suggest traders to trigger a sell entry into USDCAD as price breaks through the recent support level (0.7743) continuing the current downtrend at the aid of increased volatility. But traders should take note that should prices breaks up towards the upside. Then all sell signals should stay at the sidelines and fundamentals should be evaluated again before establishing a new direction in the currency pair.

Source: www.tradingview.com

Currently oil is in a bullish uptrend since early October 2017. We see further upside for oil as there is no sign of trend change yet. Infact, oil prices have just rebounded from their weekly trend lines. However, last week we observed some volatility in oil as oil prices seems to be fluctuating in the range between 57.74 to 54.81. With the volatility observed, there seems to be some resistance in the current bull swing but momentum is still bullish as prices are still above recent trendline drawn from early October.

Conclusion:

Currently, we do not see a clear direction of CAD against the greenback as good economic data in CAD is not backed by its technicals while uncertainty in the US managed to show a bullish trend against CAD technically. With fundamental and technicals working against each other both in USD and CAD, we see high level of uncertainty and we would wait at the sideline before entering the market. But traders who are bearish on CAD should take note of the pattern observed on technical charts described in the technical analysis section of this report.

Market News

AUD

Over last week, there wasn't any influencing news events which explains why Australian dollar has been moving from 0.7720 to 0.7640 except for the inflation and unemployment rate announcements. Reserve Bank of Australia's(RBA) has dropped its inflation rate expectations over the future considering the decreasing rate of wage growth. This has created a dovish outlook which mentioned that the central bank would not focus much on raising the interest rate. As a result, the Australian dollar value has dropped to 0.7600 region.

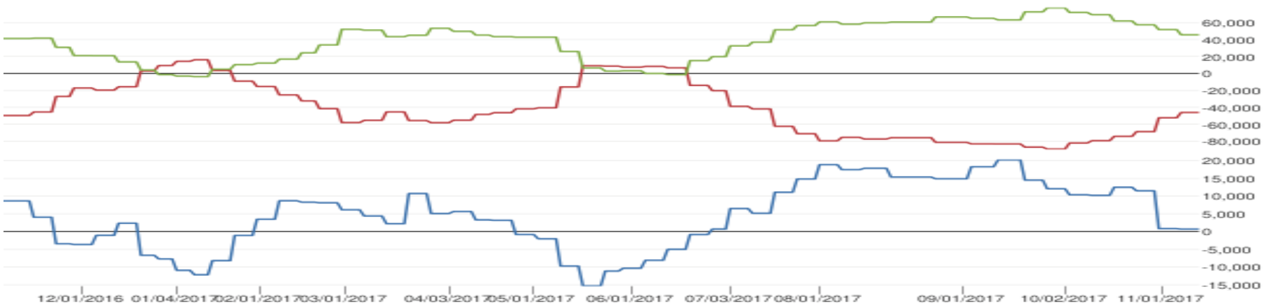
The latest news in Australia is the decrease in unemployment rate on 15 november (UTC). After the release of unemployment rate, AUD fell even though there were increasing employment in the economy. This is due to wage price index falling below expectation causing investors to dump the AUD for fear of a dovish outlook in the economy.

As of 10 november, recent change in RBA's inflation forecasts which is closely tied to interest rates decisions is estimated to move to the bottom part of the 2-3% target range. The past forecasts shows the inflation at 2% by the end of 2018 preceding back to 2.5% amind 2019. This is a signal that RBA foresees a slower buildup of inflationary pressures which would delay its interest rate hike expectations, reinforcing the bearish outlook even more.

Next week, traders should lookout for the monetary policy meeting minutes and RBA government Lowe speech. Both events will take place on 20th and 21st respectively, so we should expect some volatility on the coming Monday/Tuesday. With AUD's currently strong bearish outlook, the two events mentioned may serve as a catalyst for further downside or signal a change into bullish sentiment but we see the possibility of a change to bullish sentiment unlikely.

Market Perception

Commitment of Traders (COT)



The COT Net positions by large speculator as seen in the chart has been decreasing over the past few weeks. As a result, we can expect the Australian dollar to remain bearish.

Intermarket Analysis

Australia 10 year bond yield/ United States 10 year bond yield

The chart above depicts the bond spreads of Australia 10 year bond yields over US 10 year bond yields, it has been constantly falling from late September until now. The bond spread is at 1.103. Due to this decrease, we expect a downward pressure in AUD currency and AUD remains bearish.

Stock index(Australia 200)

For the stock market, the stock index (S&P/ASX 200) has been decreasing over the past one week from a high of 6052.4 to 5962.2. But do take note that AUD has been on a bullish run for the past 2 months before experiencing its first down week. Due to this, we are assuming a slight change of risk sentiment in the market and to remain bearish on AUD over the coming week as AUD is widely regarded as a risk on currency.

Commodity Index(Daily)

Last week, commodities prices managed to initiate some bullish pressure, offsetting bearish fundamental pressure in the AUD. As seen from the chart above of CRB index, which is widely knows as the benchmark index for world commodities prices.

Technical Analysis

GOLD/USD Daily

Looking from a technical point of view, the above daily chart of gold shows that gold is faring negatively too. This can be seen by the bearish flag pattern that gold is experiencing. Currently the flag resistance and support level are 1290 and 1275. Hence, a downside break of the flag pattern would mean the continuation of the sell-off from the high of 1330. Since gold and AUDUSD is positively correlated. This would lead to further selling pressure on the AUD/USD too.

AUD/USD Daily

The AUD/USD is still currently trading below the ichimoku cloud which implies that it may continue falling. Based on the ichimoku cloud, it has an immediate resistance of 0.7625 as outlined by the tenkan-sen and a 2nd resistance of 0.7725 as outlined by the kijun-sen. Further decline may be cancelled if AUD/USD breaks both of the resistance or when there is a crossover between the tenkan-sen and kijun-sen. In this case, the pair may continue trading towards 0.7860 which is a new resistance as supported by the base of the cloud

Conclusion

As the price of AUD/USD and Gold currently shows downward momentum, we recommend to short-sell AUD/USD at 0.7544 with a targeted profit price level at 0.7518. We also recommend to place a stop-loss order at 0.7630 as a break above the resistance level of 0.7630 indicates further appreciation and may be a start of a new uptrend. The recommended timeframe for this trade would be at least for a week.

Fundamentals wise, with the downward revision of the inflation rate and the recent severely depressed data of wage(wage price index), market seems to be pricing in a dovish outlook of central bank as seen by the bearish trend observed in AUDUSD. Without further catalysts that can potentially support any signs of bullishness in AUD, we will remain our outlook on AUD bearish.

Market News

NZD

ANZ Commodity Price Index

According to one of the economic indicators — ANZ Commodity Price Index, commodities are not doing well. Hence, prices have been seen falling due to the bearish pressure on the currency and investors pricing in complications regarding trade balance of NZD in the future.

Inflation Pressure

Looking at inflation expectation, RBNZ recently released their survey of new zealand inflation expectation on 5th Nov which observed that consumers sentiments sees an ease of inflation, coupled with the disappointing data in PPI released on 16th Nov. It is unlikely that inflation pressure will build up. Hence, to determine NZD movement in the currency market, traders will have to look at other factors such as the recent government election, economic indicators and milk prices for the outlook of next two weeks before deciding to long or short the currency.

Fall in GDT Price Index

As the dairy sector generates more than 7% of New Zealand's GDP, the Global Dairy Trade (GDT) price index auction results can affect NZD greatly. From the recent release of GDT index, Dairy product prices fell for the third straight time at the latest Global Dairy Trade auction as whole milk powder extended its decline and skim milk powder recovered. The price index fell 3.5 per cent from the previous auction two weeks ago to US$3,105, the lowest since April. Thus, With the expected downward pressure on the average milk prices sold, NZD is poised to be pressured downward even more as compared to the previous weeks.

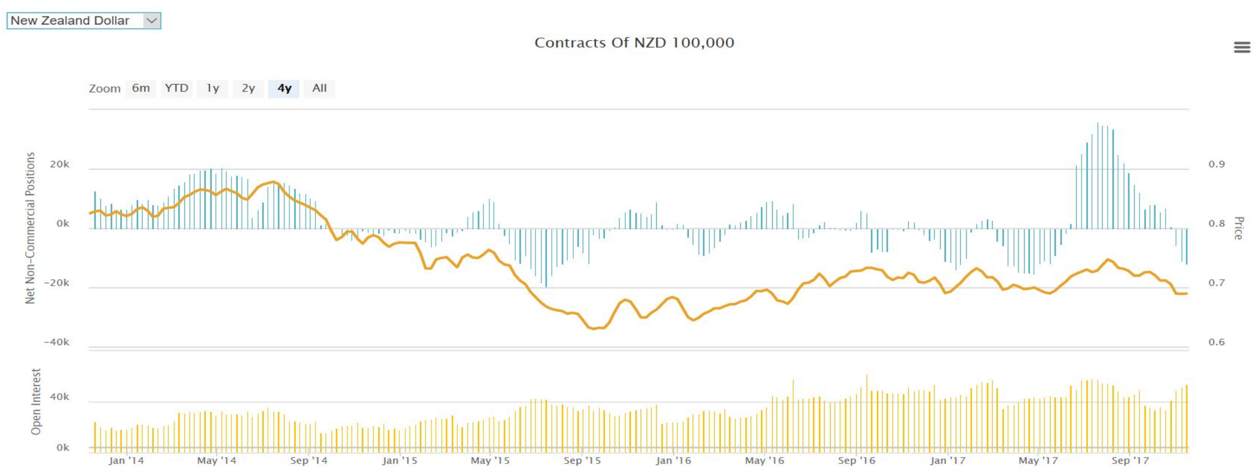
RBNZ Rate Statement:

The interest rate statement of New Zealand has remained unchanged at 1.75% with global economic growth continuously improving while inflation is kept at an estimated lower level between 1% to 3%. There are predictions that if inflation were to continue rising, it might cause NZD to dip even lower.

The new government outlook is still uncertain and further clues should be revealed as the New Zealand government will announce the specific of their policies such as the new government spendings, the KiwiBuild programme, tighter visa requirements and any increase in the minimum wage in the coming weeks.

Market Perception

Commitment of Traders (COT)



For the past few weeks, large speculators' positions had decreased. According to the current COT data, positioning has been at the 2 years bearish extreme as seen from the chart above and hence signalling a reversal for NZD. Therefore, for the coming weeks, it is recommended for traders to prevent taking any short positions in NZDUSD and keep in mind for catalysts of a trend change such as economic data to be released next week.

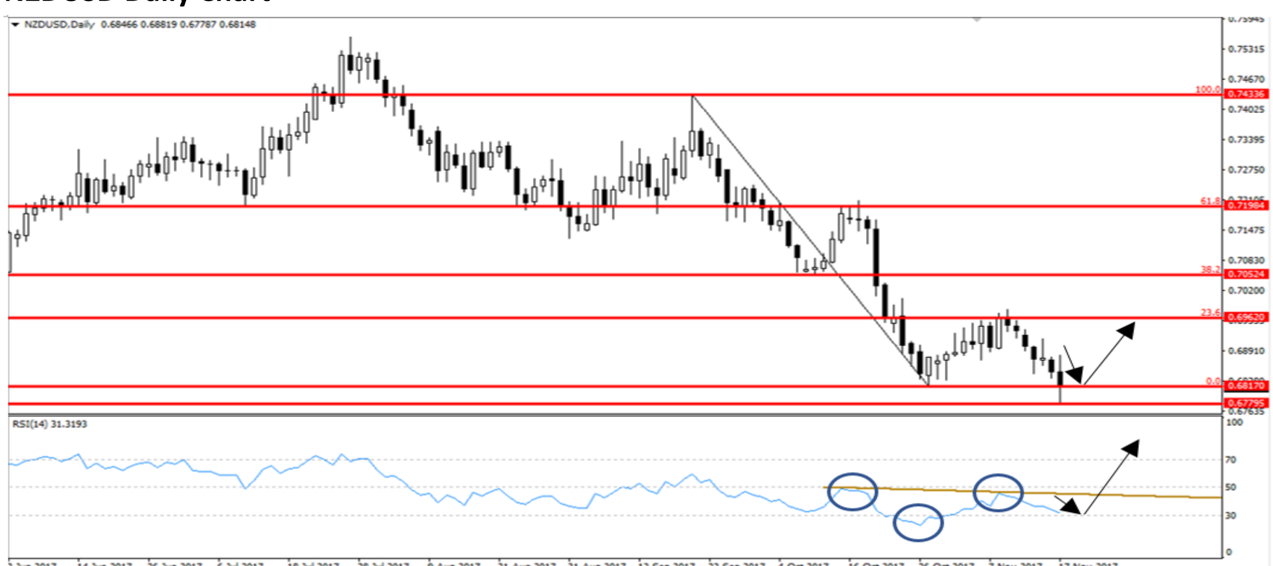
Technical Analysis

NZDUSD 4 Hour Chart

Trend indicators have been supporting a bearish trend since the second week of November. We can see a bearish crossover between the two EMAs – the 50 EMA (green line) above the 20 EMA (blue line). RSI has also been declining and is expected to continue falling further for the upcoming 2 weeks. However, a fall below 30 signals an oversold market; thus, we should also be prepared for a possibility of a reversal trend.

From the 4-Hour chart, we can see that there are some uncertainties concerning the price movement. Hence, traders are advised to wait for more confirmation before entering a trade.

NZDUSD Daily Chart



The RSI has been falling below 50 since mid-September, indicating a weakness in market strength. We expect the RSI to decline below 30 from its current level of 31.3193 for the upcoming 2 weeks. This provides us a signal that the market is oversold and thus an uptrend reversal may occur. In addition, the formation of a reversal Head and Shoulders pattern on the RSI supports the possibility of an uptrend reversal.

With reference to Fibonacci retracement, NZDUSD declined from level 100.00 (0.74336) to 38.2 (0.70524) before rising back to 61.8 (0.71984). At this level, the golden ratio acts as a resistance and subsequently, NZDUSD slumped towards its low at 0.0 (0.68170). It rebounded back to its resistance 23.6 (0.69620) before declining back to near 0.0. Here, we are anticipating NZDUSD to rebound back to its resistance at 23.6 as we expect several tests at this Fibonacci level. However, it is also possible that the price will shoot up to level 38.2. Below,we have outlined our possible trade recommendation for the next 2 weeks.

Potential buy zone: 0.68179
Stop loss: 0.67795
Potential profit target: 0.69623
Extended profit target: 0.70524

It is tempting to enter a short position after seeing the bearish crossover in the 4-Hr chart. However, the RSI in the daily chart is a strong indicator of an oversold market; thus, it is likely that a trend reversal will occur. Whether the price will break past 0.6817 or retrace to Fibonacci level 23.6 still needs more confirmation. Hence, traders are advised to be patient and follow closely to the price movement before making an entry as there may be significant changes taking place.

Significant events for the following week

19th Nov (Sunday): Food Price Index

Food Price Index (FPI) is used to report on the price of food and non-alcoholic beverages by New Zealand's households every month. Across the months of 2017, food prices have increased an estimated 3.0% although it fell 0.2% in September. FPI signifies higher inflation expectation if data increases more than consensus forecast.

21st Nov (Tuesday): GDT Price Index

GDT Price Index measures the change in the average price of dairy products sold at auction every 2 weeks. GDT has been falling for 3 consecutive auctions and this may further increases downward pressure on NZD.

22nd Nov (Wednesday): Retail Sales

Retail Sales measures the change in the total value of inflation-adjusted sales at retail level every quarter. It helps to estimate consumer spendings accounting for the majority of overall economic activity. For the previous quarter in June 2017, the total volume of retail sales rose by 1.7%. If retail sales growth were to slow down, it would imply that consumers are not spending at previous levels; therefore, signalling a possible recession as personal consumption plays an crucial role in the health of the economy.

23rd Nov (Thursday): Trade Balance

Trade Balance measures the difference between imported and exported goods during the reported month. A positive number for the trade balance indicates that more goods are exported than imported. A trade deficit is observed in the previous September 2017 report. If the actual number is lower than the forecasted, it bodes well for the NZD currency.

Conclusion:

From the current outlook, the market is still unsure of the new government administration. Coupled with economic indicators such as PPI and GDT which showed disappointing data for the past few weeks. It is hard to discern a clear direction on the NZD. However, research from COT report shows a 2 year bearish positioning extreme in NZD by large speculators. Chart analysis shows a strong signal in the head and shoulder pattern observed in RSI.

We see a change of trend highly possible as the market starts to get used to the new government. From a historical perspective, New Zealand government elections rarely changes their stance on New Zealand's economy and we believe that this time is no exception. New zealand dollar outlook remain strong as before and NZD is poised for a rise in value, however, we do not see a change in sentiment coming in the next 2 weeks. As the market would require more catalysts from the coming week before confidence in NZD is restored.