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Currency Research Report Outlook
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Euro Bloc

Prepared By:

Trading and Research Team

Analyst:

Jamie Goh

Hey Rui En

Tiffany Lo

Russell Wong

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What happened last week (27 Nov - 1 Dec 2017)

GBP

Bank Stress Test Result and BOE Financial Stability Report

The week started with UK releasing the results of UK bank stress tests. The test is modelled after several global recession which impacts are equivalent to a worst-case Brexit scenario. Although, the decrease in capital as a result of the test is more than 2016, all the banks were able to successfully clear the test without requiring any remedial actions. This is because the banks have increased their average capital levels from 13.4 to 14.4 %. During the text majority of the banks were able to keep their capital levels above the minimum requirement. Those who are unable to accomplish that have already taken actions to generate more capital. Therefore overall the test results have been positive and it shows that UK's banking system is able to withstand disruptions posed by Brexit. This strengthens investor's confidence in UK's economy.

The stress test was followed up by a speech by Mark Carney, the governor of the BoE. Carney confirmed that the results are generally positive and he is confident that any disorderliness caused by Brexit will not have an adverse impact on UK's economy. Thus his speech help strengthen the bullish trend.

UK's manufacturing PMI release

Last week PMI release, took the market by surprise as it was beyond expectations. The manufacturing PMI is the highest over the last four years, at 58.2. This is due to the inflow of orders from domestic demand; there has also been a rise in exports as well. The increase in manufacturing PMI has encouraged an increase in employment as well, causing employment to be highest since 2014, showing the improvement in the UK's economy. This helped strengthen the bullish trend.

USD

On Tuesday, Jerome Powell, President Donald Trump's pick to run for Federal Reserve, gave a speech on how he will continue with Janet Yellen's plan on rising interest rate. He also mentioned that there would be changes made to the monetary policy to increase inflation, however he has not given a detailed economic outlook yet. Thus if Powell appointed as the next Fed chairman, investors confidence in US economy will be less likely to waver as his plans are similar to Yellen's.

The following day, US GDP for third quarter of 2017 has been revised. The revised version showed that the US economy grew the fastest in three years as seen in **Figure 1**.

Figure 1: GDP of US Economy

This is due to stronger investment from businesses and government agencies than previously estimated. The strong GDP showed that the US economy was able to bounce back from the effects of the hurricanes. The increase in growth is in line with President Donald Trump's aim to increase GDP by 3 % annually.

Another factor affecting the US economy is Trump's tax cuts. Economists feel that GDP will continue improving as it will encourage US company to invest boosting economic growth . This view is supported by Yellen as she stated that lower corporate tax will raise wages and improve the economy overall despite adding to debt initially. Despite Yellen's statement, there is still much uncertainty in the market as the law has been passed recently, and the actual effects of it has not been felt, therefore causing the bullish trend of GBP/USD to continue.

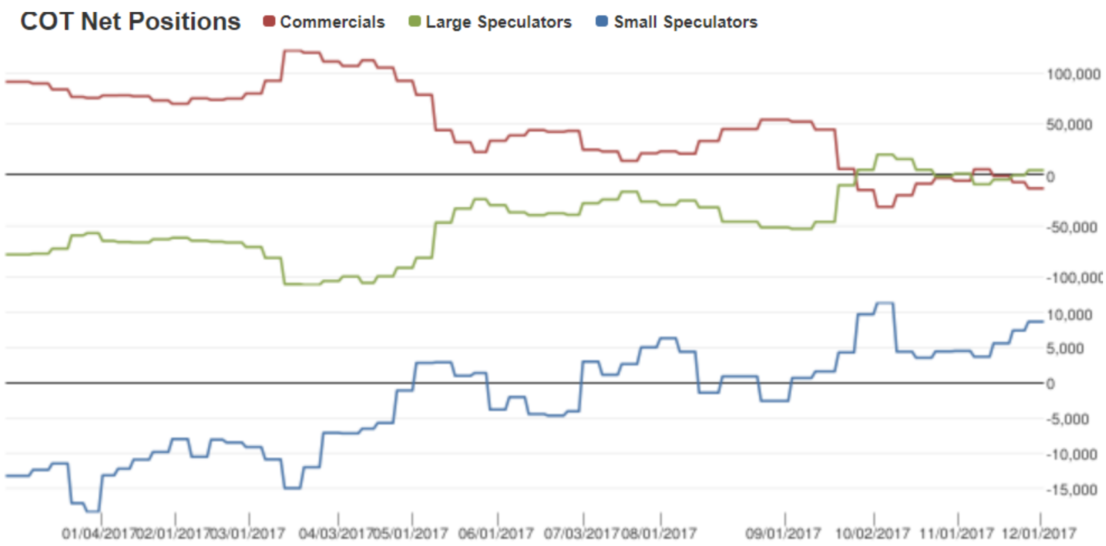
Market Perception:

Commitment of Traders

GBP - Non-Commercial Positioning

Date	Long	Short	Net	Net w/w	Open Interest
28-Nov	66,549	61,976	4,573	9,016	178,230
14-Nov	53,147	57,608	-4,533	4,655	176,727
7-Nov	50,403	59,601	-9,198	-10,443	177,968
31-Oct	65,482	64,237	1,245	2,730	185,123

Figure 2: COTbase.com

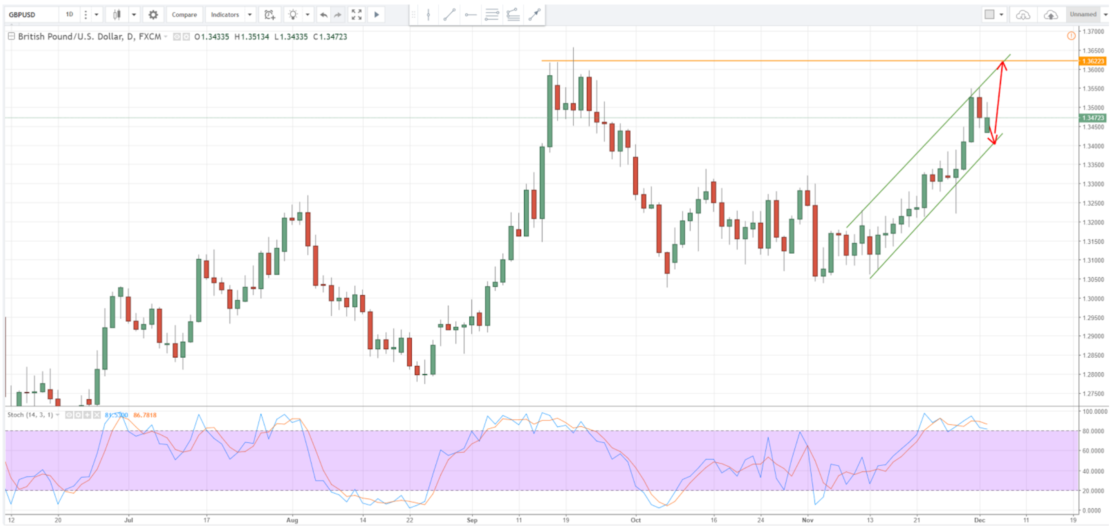


As seen from the COT report above, there has been an improvement in non-commercial player's positioning. In fact, the improvement started the week before, after the large deterioration from the week of 7 November. This shows that speculative traders have been increasing their net long position from the week before. On top of that, the number of long positions hit its highest this week when compared to the past few weeks. However, the change is not significant enough to result in a change in trend as positioning are still pretty much neutral given how miniscule large speculators positioning is. As for open interest, there is no meaningful changes observed as not many large speculators is currently in a position.

Technical Analysis:

Figure 3: Trading view, GBP/USD , 4Hours chart

Figure 4: Trading view, GBP/USD , 1 Day chart



The overall long term trend is bullish, confirmed by Yellen's speech and positive results in USD crude oil inventories. The ATR indicator shows high volatility as indicated in Figure 3, implementing that the market has more anticipation for the next movement. Thus, a change in direction will happen soon. The Stochastic indicator also shows that it is bending towards a sell position for a short-term. From the lower channel that is drawn across the chart, price will test for support at 1.3400 before rebounding back to create a new high at 1.36223 where there is a resistance from the long term bullish trend.

Conclusion:

The British sterling continues to strengthen its economy despite Brexit interference through rate hike on 2nd November indicating economy growth and UK banks increasing their capital level. The US portraits uncertainty in transition of Janet Yellen to Jerome Powell, and the corporate tax rate cut in progress as well as the recovering hurricane. Therefore the conclusion is a sell in the short term but long in the overall long term trend.

What happened last week (27 Nov - 1 Dec 2017)

EURO

ECB President Draghi Speaks on Nov 20

President Draghi addressed recalibration to recent monetary policies decisions as well as implementation in the The ECON meeting held in Brussels on Nov 20. The purpose of the meeting is to secure a sustained inflation rate close to 2%. Draghi mentioned changes to the pace of the Asset Purchasing Programme (APP) due to growing confidence and improved outlook in the convergence of inflation rate. Price movements are not expected to be significantly volatile unless Draghi decides to take on an unexpected decision.

CPI Flash Estimate y/y on Nov 30

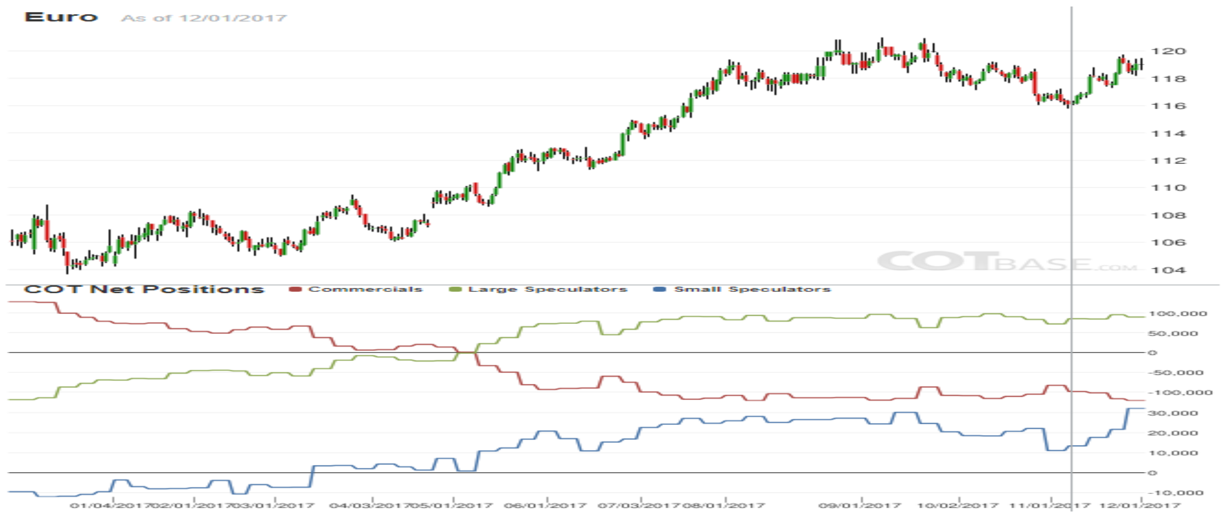
Euro area annual inflation is expected to be 1.5% in November, increasing 0.1% in October. The outlook for inflation rate is looking good as it is showing signs of convergence. Nearing the targeted rate of 2%. There wasn't a significant move in the market in relation to the release of this data.

German Retail Sales m/m on Nov 30

The data released showed declined by 1.2% in October. It was expected as there was a 0.5% increase in September. It missed market consensus of 0.3% rise. Which explains a small drop in the price of EURUSD at the release of this data, however, it is not a significant decrease and the price trend is expected to continue as our previous report's expectations.

Market Perception

Commitment of Trader



The COT position has been at extremes for a few months, meaning that positionings are still overvalued and trend reversal may come soon. It is not encouraged to take on any position based on COT data at this point in time.

Significant events for next week

Date	Time (GMT+8)	Currency	Event
5-Dec	2300hrs	**USD**	ISM Non-Manufacturing PMI
6-Dec	2115hrs	**USD**	ADP Non-Farm Employment Change
7-Dec	2130hrs	**USD**	Unemployment Claims
8-Dec	0000hrs	**EUR**	ECB President Draghi Speaks
	2130hrs	**USD**	Average Hourly Earnings m/m
			Non-Farm Employment Change
			Unemployment Rate
12-Dec	2130hrs	**USD**	PPI m/m
13-Dec	2130hrs	**USD**	Core CPI m/m
			PPI m/m
14-Dec	0300hrs	**USD**	FOMC Economic Projections
			FOMC Statement
			Federal Funds Rate
	0330hrs	**USD**	FOMC Press Conference
	2045hrs	**EUR**	Minimum Bid Rate
	2130hrs	**EUR**	ECB Press Conference
		USD	Core Retail Sales m/m
			Retail Sales m/m
			Unemployment Claims

Source: Forex Factory

Technical Analysis

EUR/USD Weekly

Source: TradingView

On the Weekly, the EUR/USD is on track to continue its bullish move. It bounced off the resistance-turned-support zone nicely over the last two weeks and is looking set to break above 1.20000 again, since its last attempt in September 2017. The upcoming final weeks of 2017 will be highly crucial in determining the fate of the pair. For it to move into higher price territory in 2018, it will have to overcome two major resistance levels, R1 and R2. R1 is the major psychological level set at 1.20000, followed by R2 which is the previous Weekly high at 1.20924

However, given that we have not reached the lowest Average True Range (ATR) value recorded at 168 pips since July, the EUR/USD stands a reasonably good chance of soaring past the levels as mentioned previously in the next two weeks and setting new yearly highs.

EUR/USD (Daily)

Source: TradingView

On the Daily, we can see a successful invalidation of the Head and Shoulders chart pattern mentioned in the previous week's report, as well as consecutive sustained candle closes above the 50-period Moving Average. This indicates that the pair's bullishness remains in play. This is further supplemented by the 14-period ATR value starting to tick upwards, indicating rising interest in a bullish move. However, moving forward, traders should watch closely for any signs of topping when price approaches these two marked levels(R1 and R2). Any swift rejection and subsequent bearish pressures that follow could put the EUR/USD's bullish momentum into question as it could be the start of a Double Top, which in itself is a bearish reversal chart pattern.

EUR/USD 4-Hourly

Source: TradingView

On the 4-hour chart, we can see that it has been creating obvious higher highs and higher lows, which is the definition of an uptrend. However, there seems to be some congestion around the 1.19 region. As such, short-term traders should refrain from trading the pair until it has at least broken and closed above the previous high at 1.19612. Despite this, the EUR/USD remains moderately bullish given that price has repeatedly rejected the 50-period Moving Average, which acts as a dynamic support region. This unwillingness to break and close below it suggests that there is still sustained interest in a move to the upside.

Overview of EUR/USD

Source: TradingView

Over the last two weeks, the EUR/USD has gained by 0.93% or 109.7pips, from the opening of the first week at 1.17850 to close at 1.18947 at the end of the second week. In our previous analysis, we anticipated the pair to continue its upward move. Since then, it has been following through on our expectations as told. However, closing above 1.19 seems to be a struggle in the second week. Therefore, in the next two weeks, it will be crucial to see how the pair moves from here on – whether it will be able to gain sufficient momentum to push forth above 1.20000 or reverse back below 1.19000 and possibly deeper into 1.18000.

Conclusion for EURUSD:

Technicals shows that the current bullish trend is here to stay, however, traders should be cautious of changes in the price movement or any violation in the current trend of prices depicted in the technical analysis sections. Fundamentals shows that outlook of EUR is looking good, which signals a bullish trend but the COT data suggests that traders should always be aware for any potential bearish catalyst that may trigger a change in its bullish positioning. We do not suggest any long term trades in the EURUSD as we foresee many uncertainty still coming from both countries which may easily ruin any assumptions we have about the long term.

However, in the short term(at least for the next two weeks), we see the bullish trend to continue and short term traders can take advantage of that by looking for significant support areas listed in the technical analysis section of this report to base their entries on. Profit taking levels would be the R1 and R2 region or even more if prices managed to break through both resistance level cleanly suggesting the start of a new uptrend above both resistance line.

Highlights of the upcoming weeks that will affect the EUR/USD's direction greatly include the Nonfarm Payrolls, the highly anticipated Federal Funds Rate and the ECB's interest rate decision. The fate of the pair lies within these high impact events and remain relatively unchanged till the end of the year, given that volatility usually dies down due to the holiday season and traders closing their trading books for 2017.