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

Prepared By:

Trading and Research Team

Analyst:

Jamie Goh

Hey Rui En

Tiffany Lo

Russell Wong

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GBP:

What happened last week (13 – 17 Nov 2017)

For the first time in more than 10 years, BOE announced the increase in interest rate from 0.25% to 0.5%. The interest rate hike is seen as a one-off rate hike as the market is expecting a slow increase in interest rate in the coming years. Despite the expected increase in interest rates, the supposed bullish trend was not observed, as the market is still concerned about the effects of Brexit to the UK economy. The expected bearish trend was observed mainly due to Brexit uncertainties as well as the fact that the increase in interest rate is merely used to reverse the record low interest rate of 0.25%.

This shows that the market expects UK's exit from the EU to hinder UK's economic growth. However, the economic data released seem to prove otherwise. UK has experience strongest business activity growth in six months in October. The improvement is evident in Figure 1, which shows the increase in service PMI.

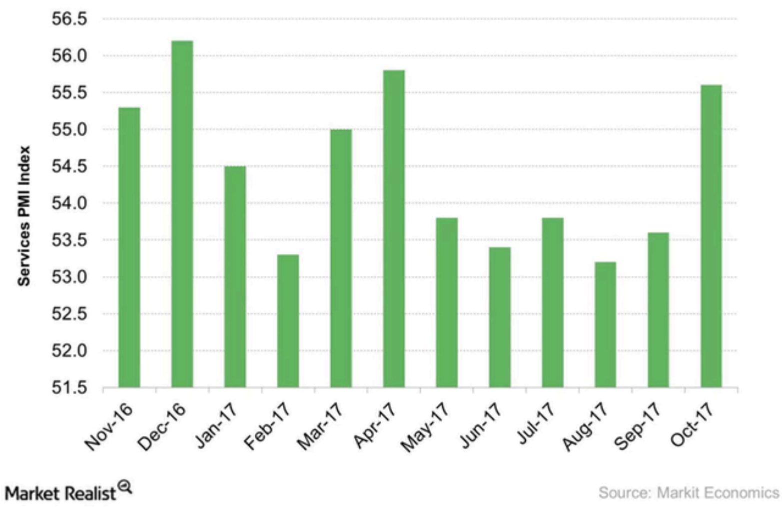


Figure 1: UK Services PMI

An improvement in the manufacturing production m/m is also observed. Manufacturing rose by 1.1%, which was mainly contributed by manufacturing of transport equipment and other manufacturing and repair. This caused GBP/USD to trade steadily at the $1.3145 region, an improvement from the previous week.

Despite the increase in growth, many analysts state that the data is not reflective of the economy as other aspects, such as job creation and employment, seems to be still struggling, which is seen in Figure 2. This leads to market uncertainty causing the currency pair to remain weak after 2 November.

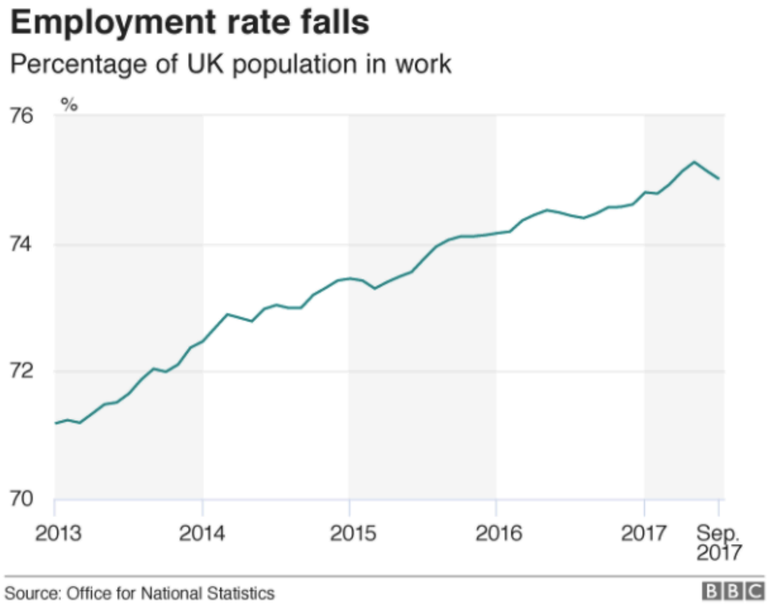


Figure 2: Decrease in Employment Rate

USD:

The main event affecting the US economy is Trump's tax reform. After his failure in implementing a new healthcare act, Trump's next plan is to implement a tax reform, which plays a major part in his domestic stance. Trump's plan is to have Congress pass the legislation of the new tax code before the end of the year. However, there is a high probability that the tax reform will be scaled back or delayed to as late as 2019. Investors have been reluctant to buy USD as they await more news on the reform, causing USD to be held back. Therefore investor's doubts lead to an increase in GBP/USD.

The release of other economic data is showing growth in US economy. There is decrease in unemployment from 4.2% in September to 4.1% in October, which cause unemployment to be at its 17-year low. This is also accompanied by the increase in nonfarm pay roll by 261,000. Therefore showing US the growth of US workforce and the tightening of labour market. The average hour earnings m/m of US was also released showing that there is a lack of wage growth. Despite the tightening workforce, wages remain constant, causing rising concerns regarding consumer spending for investors. These doubts and also with the expected interest rate hike in December, offsets each other and should be the main reason why strength of USD remain unchanged.

Market Perception:

Commitment of Traders

From the past few weeks, large speculators have begun accumulating their positions in GBP, this supports the recent bullish trend seen on the chart from March 2017, however, with the net positioning at the zero line currently, market sentiments remain uncertain, signifying prices lack a fundamental catalyst direct enough for the large speculators to take a position in the long or short side.

Technical Analysis:

LONG TERM TREND: BEARISH

GBP USD daily chart as at 20 November 2017

As seen from the pictures above, a downward trend can be observed. There were in total 3 peaks forming the downwards trend, with the last peak at 1.3328, showing that there is resistance present in the channel. This forms a descending triangle shown in the green line. The descending triangle formation is completed and an upwards breakout occurred when the price is at 1.3212. The trend is still in the parallel channel, almost touching the resistance, signalling the change in direction. Traders should look out for a sell signal at the 1.3310 region at the last price resistance.

GBP USD RSI

As seen from the GBP USD RSI, after being almost oversold on 2 November (as indicated by the blue dotted line), prices seems to be ranging since then as observed by the RSI not reaching extreme levels for a while. We advised traders to look out for potential breakout towards the downside. Potential sell zone could be at 1.3279 and take profit at 1.3074.

Conclusion for GBPUSD:

Analyzing GBPUSD from both fundamental and technical perspective. Brexit concerns are still ingrained in the market coupled with the mixed signals from different economic datas and contradicting central bank actions. We advise traders to look out for short signals from a technical perspective which is reinforced by the bearish trend that have lasted a few months.

EURO:

What happened last week

Over the past week, the Euro strengthened well against the Greenback, signaling a revival of bullish momentum. It opened at 1.1656 and closed at 1.1787 for an overall net gain of 131.4 pips or +1.13%.The near-term outlook for the Euro and US Dollar remains generally neutral. But the current bullish momentum seems overvalued as there were no significant news events affecting EURO for the past week. The momentum in Euro is most likely caused by the fall of USD.

ECB President Draghi Speech on 14 Nov

The conference on 14 November in Frankfurt was held to guide investors about future money policy. While they did discuss on monetary policy, i.e. December rate hike. They avoided saying things that will cause huge movement in the market. There wasn't a repeat in June, where Draghi hinted in a change in monetary policy which caused the huge fall in EUR.

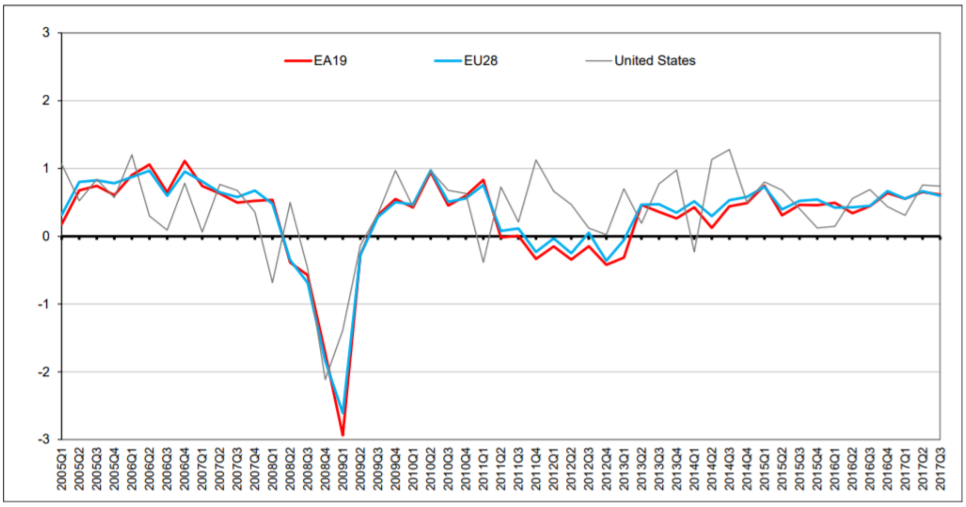
ECB President Draghi Speech on 17 Nov

Draghi mentioned that the Eurozone economy seems to be growing on sustained growth with inflation and GDP all showing good trend of increment and there are no signs of systemic risks as of yet. Moreover, with the reduction of asset purchase program from 60 billion to 30 billion. It's another strong bullish signal ECB is trying to send to the market that the economy is getting stronger and less stimulus is required. However, Price movements in the pair is not expected to be significantly volatile, unless the President decides to take an unexpected decision by suddenly extending the asset purchases duration or increase the rate of QE scale down.

Past week economic data:

Flash GDP q/q on November 14

EU28, euro area and United States GDP growth rates
% change over the previous quarter

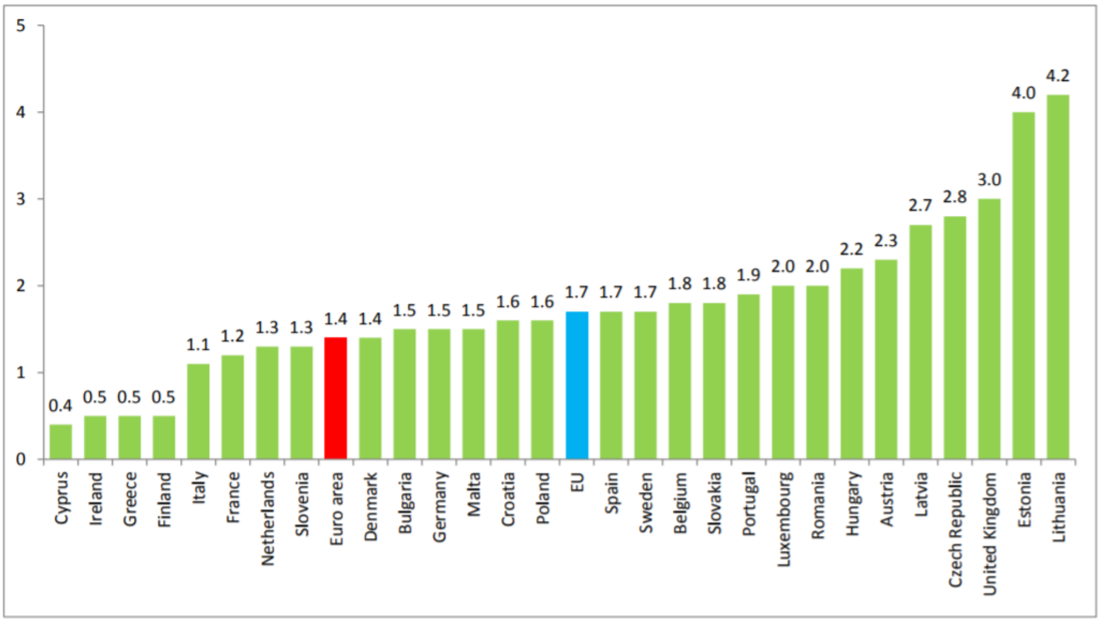


Source: Eurostat

For last quarter, GDP increased by 0.6% in both area, EA19 and EU28 during Q3 of 2017, compared to Q2 of 2017. There wasn't a significant move in the market in relation to the release of this data.

Final CPI y/y on November 15

Annual inflation rates (%) in October 2017, in ascending order

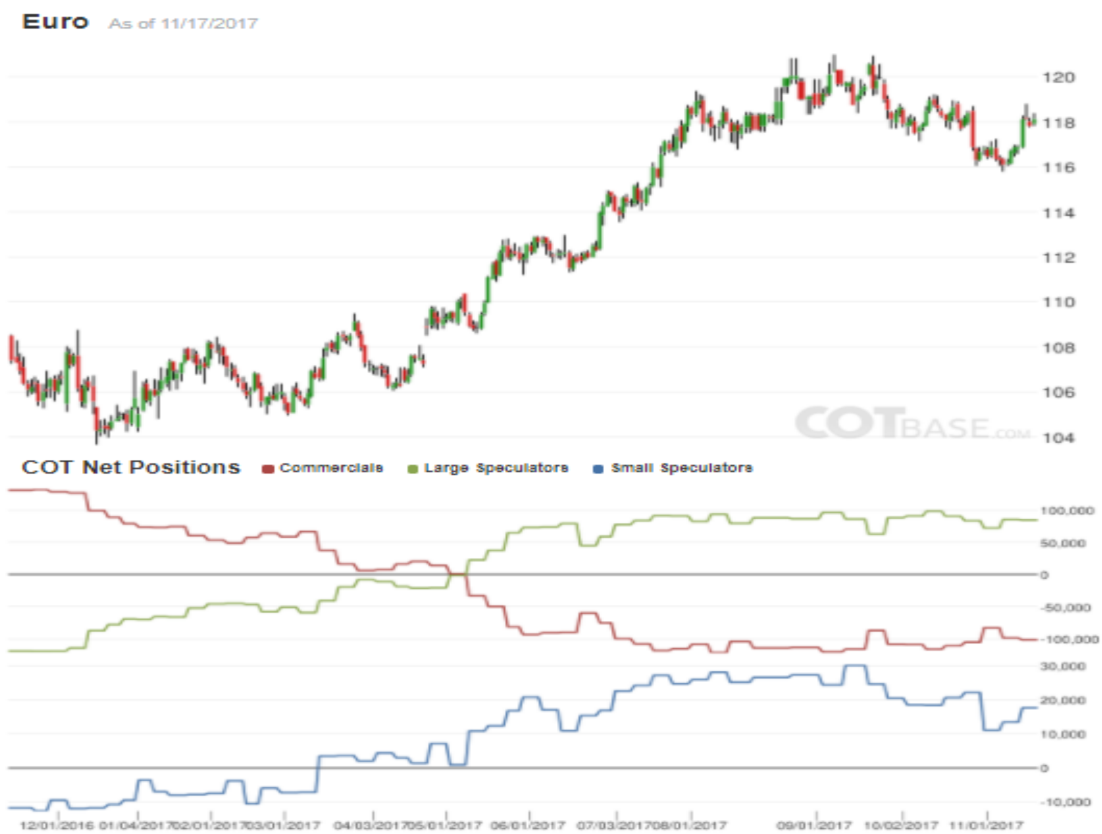


Source: Eurostat

Euro area annual inflation was 1.4% in October, down 0.1% in September. European Union annual inflation was 1.7% in October, dropped from 1.8% in September. There wasn't a significant move in the market in relation to the release of this data

Market Perception:

Commitment of Traders



For the past few months, COT positioning has been at an extreme level meaning that sentiments are currently at the extreme and a trend change to further downside may come soon. However, there was a slight bullish momentum last week and this may cause sentiments to continue remaining at its extreme level for some time.

Technical Analysis:

EUR/USD (Weekly)

Source: TradingView

Long-term perspective for the EUR/USD remains to the upside, as price has already cleanly broken out of the resistance zone between 1.1373 and 1.1725. It has also maintained a clear distance above the 50-period Moving Average, which indicates that the bullish momentum is valid.

Moreover, it has retraced to retest the resistance-turned-support area in the last three weeks and rejected it with a close above it this week, which further confirms an upward directional bias. The projected upward swing is likely to take the pair to test its previous near-term resistance area around 1.2096.

EUR/USD (Daily)

Source: TradingView

On the Daily, we can see a Head and Shoulders bearish pattern formed, with its components clearly defined. It managed to breach the neckline zone with a single large bearish candle. A retest of the neckline is typically observed after a breakout before continuing to the downside. However, earlier this week, a single large bullish candle invalidated the Head and Shoulders' pattern by closing back above the neckline area. As such, any bearish directional momentum is temporarily nullified. A negated pattern usually transitions into a sideways range-bound movement; traders should wait till a new trend is clearly defined before deciding to take a long or short position in the coming weeks.

EUR/USD (4-Hourly)

Source: TradingView

For a closer look at the EUR/USD on the 4-hourly chart, we can observe that a falling wedge has been formed over the past few weeks, with the pair respecting the upper and lower boundaries of the wedge. As it approached the apex of the pattern, not only did price decide to push above the 50-period Moving Average, indicating renewed bullish momentum, but it also gathered the strength to break above the wedge's upper boundary and close convincingly above it. However, for short-term traders, a retracement and retest of the broken upper boundary should be expected before any long position is considered.

Significant events for the following week

Date	Time (GMT+8)	Currency	Event
20-Nov	2200hrs	EUR	ECB President Draghi Speaks
21-Nov	0000hrs	EUR	ECB President Draghi Speaks
22-Nov	0700hrs	USD	Fed Chair Yellen Speaks
23-Nov	0300hrs	USD	FOMC Meeting Minutes

Source: Forex Factory

Conclusion for EURUSD:

With the uncertainty observed in technicals but fundamentals seems to signal more bullish momentum in the future, we recommend traders look for a bullish set up in their technical analysis. Potential areas to look out for are outlined in the technical analysis section of the report.

Next week's events includes significant events such as fed chair Yellen's speech and ECB chairman Draghi's speech. Since significant events like euro economy's outlook in relation to their asset purchase programme and US December rate hike on the table. These 2 current affairs should be closely watched by traders and potential to trade on those events would have to be further determined in the coming weeks.

However the Euro is perceived as moderately stronger when viewed from a technical perspective. Both currencies will face significant volatility through the week as the chiefs from the ECB and Federal Reserve are expected to speak at their respective events. The focus for the upcoming week will revolve around the ECB's plan regarding their asset purchase program as well as the Fed's outlook on a possible rate hike come December. But the current bullish momentum seems overvalued as there were no significant news events affecting EURO for the past week.