SIM INVESTMENT&
NETWORKING CLUB

Currency Research Report Outlook
4th Dec 2017 to 15th Dec 2017
Commodity Bloc

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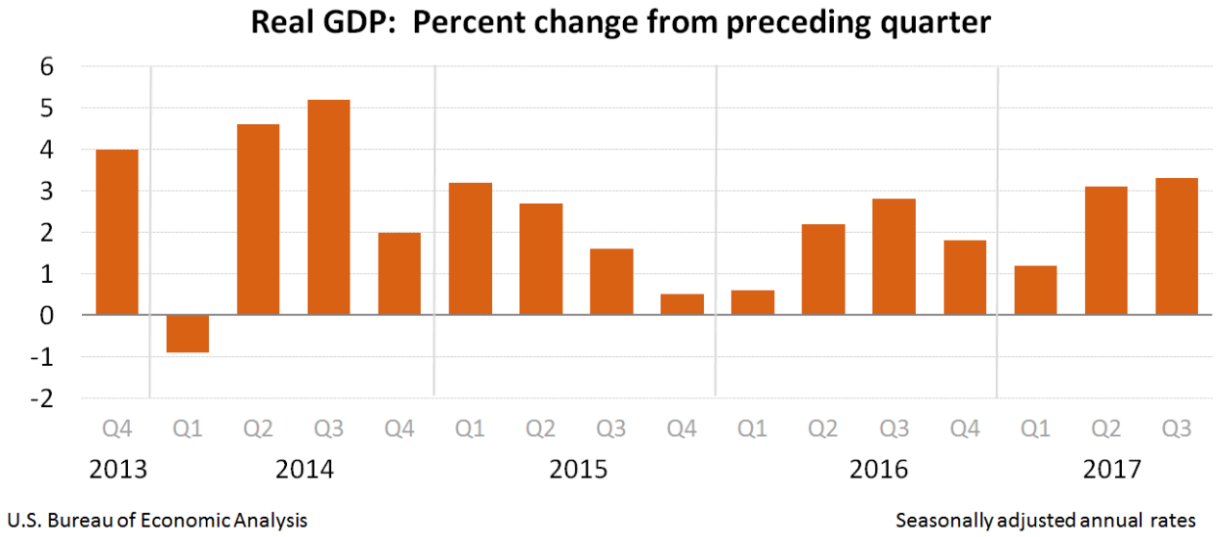
Market news

USD

The USD seems to be bullish towards CAD for the past week as the release of consumer confidence by US consumer board shows a positive result to 129.5 and higher than its expected. On Wednesday, US released their preliminary GDP growth and shows a good boost in the economy with 3.3% growth higher than the last quarter. This shows that US economy is growing and businesses are developing well.



On Thursday, US department of labour released the unemployment claim (238K) which is lower than the previous quarter(240K) and expected(241K) despite the hurricane attack severely in some part of US. This is an important signal of overall economic health because consumer spending is highly correlated with labor-market condition. Unemployment concerns is also a major consideration for BOC's guide in steering the country's monetary policy.

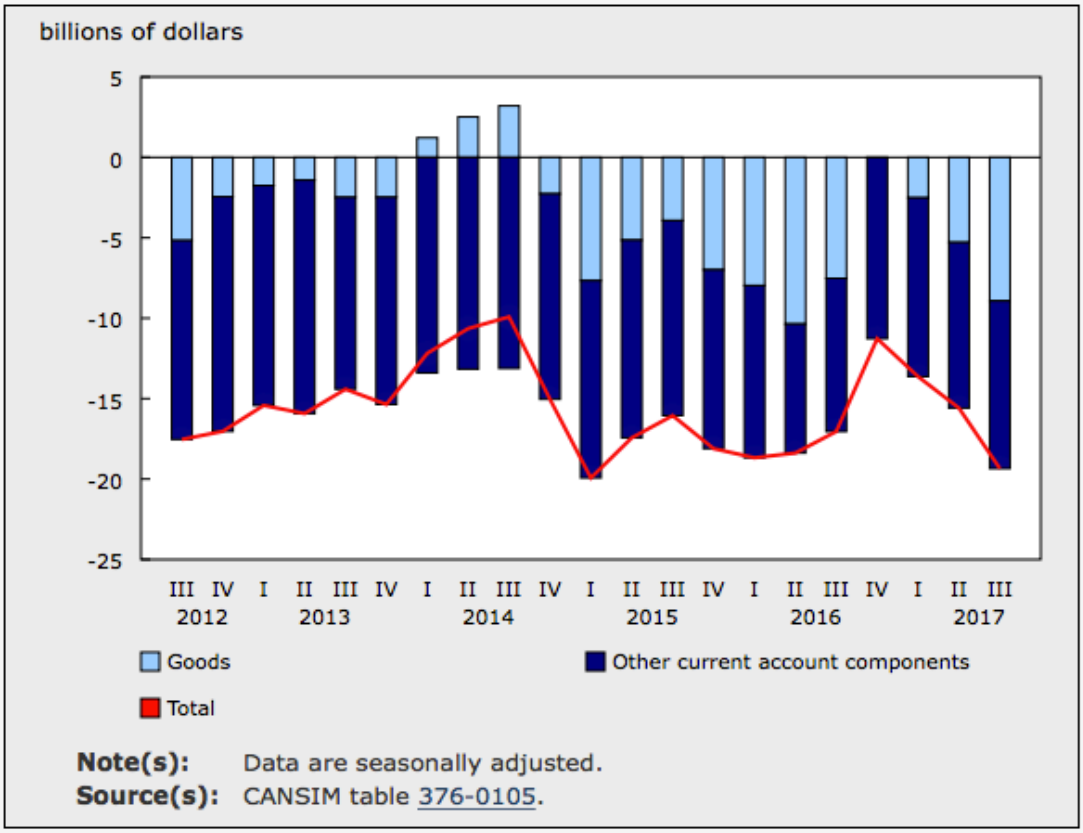
CAD (CADUSD)

This week, Bank of Canada's Governor Stephen Poloz release their financial systems review and stated that "The most important vulnerabilities for the financial system remain the high level of household indebtedness and imbalances in housing markets. These vulnerabilities continue to be elevated and it will take a long time for them to return to more sustainable levels". Poloz also mentioned that "A stronger economy and sound policies are working in the same direction to help bring about a gradual easing of these vulnerabilities, and this trend should continue. " This signals that the BOC is putting rate hike on the table and getting ready to use it when the economy inflation heat(mainly caused by housing prices) gets out of hand.

This explains the volatile bearish candle observed on 1st Dec. On Wednesday, there was a OPEC meeting that agreed to extend their oil supply cut for another 9 months until mid of 2018. This doesn't really affect CAD much as there is high supply of energy in north America and Russia's commitment. Moreover, market's perception on OPEC's supply cut has been muted for some time since OPEC has not been able to cut their oil production as scheduled since the production cut agreement between OPEC countries.

In the long term, the macroeconomy effects on CAD may be bearish as stated by the Balance of payment release by Statistic Canada as it shows further deficit -19.3 billion compared to the previous quarter -15.6 billion. This indicates the supply for Canadian dollar is increasing, or demand for canadian dollar is decreasing, either way, it may exert downward pressure on CAD value.

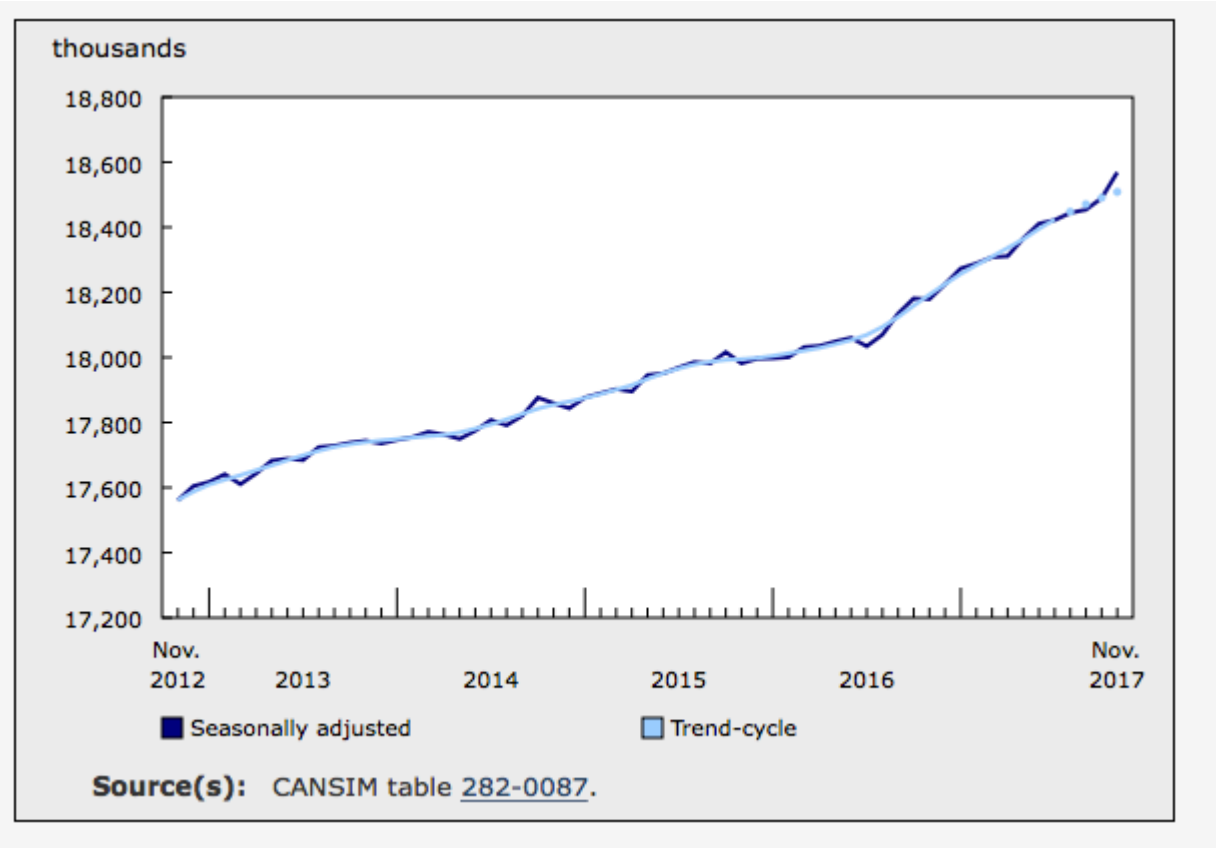
Balance of payment



source: statcan.gc.ca

On Friday, there was a sign of strength in the canadian economy which is due to the release of employment change statistic and quarterly GDP growth. Employment change rise drastically from 35.3K on the previous month to 79.5K current month. It raises more than double and far beyond the expectation of 10.2K. Suggesting strong productivity growth for Canada's economy.

Employment from the labour force survey

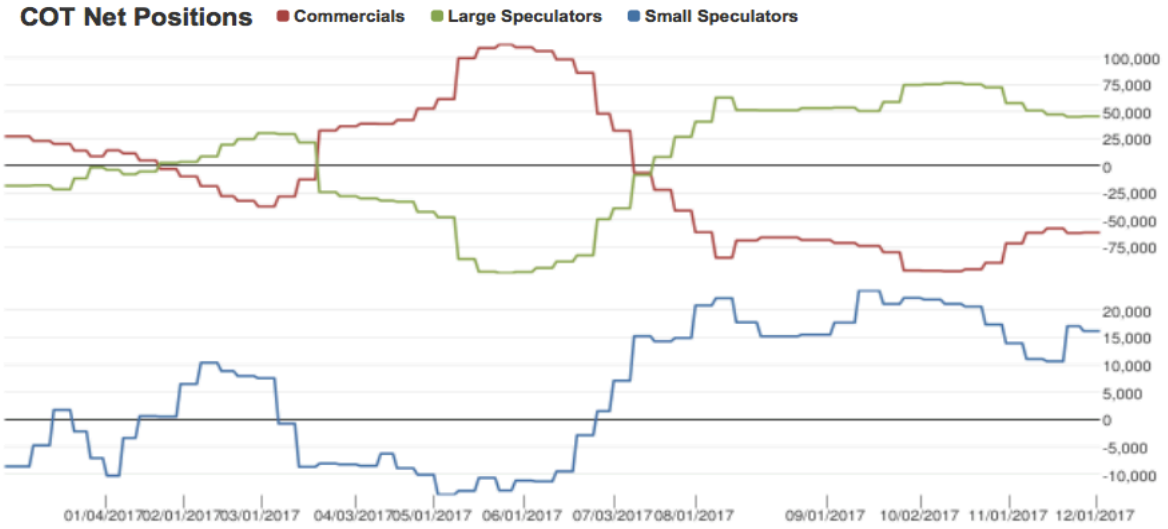


Source: statcan.gc.ca

On Dec 1st, Positive result also came out through Canada GDP growth on current month. It increases 0.2% on a monthly basis compared to last year and 0.3% increase compared to the previous data. This indicates that Canada's economy is doing well.

Market Perception

Commitment of Traders



The COT measures the investor's sentiments towards the currency pair CADUSD. However, we should emphasize more on the large speculator that shows a stable position above the zero line, indicating that overall momentum is still bullish but the current COT positioning level has been at an extreme, the positioning may be caused by the extreme bullish sentiment in Canada's housing market. We are starting to see weakness in the housing market which may cause a change in the current bullish sentiment of the country's currency, canadian dollar.

Significant events for the following week

5th Dec (Tuesday)

Release of Canada trade balance report which measures difference between export and import goods during the reported month. A positive numbers shows a good result whereby Canada exports more goods than import. About 75% of canada export are bought by US. This indicates the demand for both currencies, higher export means higher demand for Canada dollar and vice versa.

6th Dec (Wednesday)

US ADP non-employment farm change release, it estimate change in the number of employed people during the previous month, excluding farming industry and government. This indicates the consumer spending which accounts for majority of overall economic activity. When the actual is greater than the forecast, is good for the currency. Forecasted at 191,000.

Bank of Canada (BOC) rate statement release which is greater is better. It's the way for BOC to communicate with the investor through their monetary policy. It contains the interest rate and commentary about the economic conditions for future decisions

BOC overnight rate release which shows interest rates at which major financial institutions borrow and lend money overnight funds between themselves. Indicates better when actual is greater than the forecasted. Short term interest rate is benchmark in currency valuation. Forecasted to be 1%.

7th Dec (Thursday)

Unemployment claim data shows the number of individuals who filed for unemployment insurance for the first time during the past week. Its good when actual is lesser than the forecasted. Although it is a lagging indicator, it measures the number of unemployed people as a signal of overall economic health as consumer spending is high correlated with the labor-market conditions.

Non-manufacturing PMI (Purchasing manager's index) report shows level of diffusion index based on surveyed purchasing managers excluding the manufacturing industry. It gives a good result when the actual is greater than the forecasted. Above 50 indicates industry expansion and vice versa.

8th Dec (Friday)

US average hourly earnings report shows the change in average wages excluding the farming industries. When actual is greater than the forecasted, its good for the currency. It's a leading indicators for consumer inflation, when higher cost paid to the labour, higher cost will be bear by the customer. It forecasted to be 3%.

US Non-farm employment change data release, it measures change in the number of employed people during the previous month, excluding the farming industry. Job creation is important as it indicates the customer spending which accounts majority of overall economic activity. Forecasted to be 200,000.

US Unemployment rate data release, measures the total workforce that is unemployed and actively seeking employment during the previous month. It is a lagging indicator but it measures the economic as a whole. Forecasted to be 4.1%

Technical Analysis

USD/CAD Daily

The currency pair mainly exhibited sideways movement over the past two weeks, with it ranging at 1.267 and 1.290. While a general uptrend can be seen from the 40 day EMA, indicating a somewhat bullish run for the currency pair, the 10 day EMA proofed to be elusive when trying to spot a trend. This sideways movement of the market could perhaps be attributed to increased caution amongst its participants as investors try to make sense of the slew of economic data that was release this past weeks and how said data would affect the countries economic trajectory.

However, politics have been, and would be dominating the centre stage for the currency pair in the coming weeks. In fact, the Greenback depreciated significantly against the Canadian dollar during Friday's trading session, breaking down towards the 1.27 handle. This was probably political news coming out of Washington as General Flynn testified to Congress involving the Russian Scandal. Looking at the Relative Strength Index as a general momentum guideline, it can be noted that the index is reverting back to the mean after experiencing a high in the beginning of November.

Furthermore, Friday trading proved to have affected investors hard, as the RSI dropped sharply from 65 % points to 45 % points. Therefore while the index have not triggered the oversold condition, fresh sentiments released may further cause the index to fall further. With Monday's trading on underway, the support level of 1.267 is being tested. A breakdown below that level would probably send the market to 1.25 level.

WTI Crude Oil Daily

The oil market continued its bull rally as geopolitical issues across the Middle East kept throughout November kept oil prices buoyant. As oil prices seemed to closed at near highs, it would thus seem that OPEC are meeting their targeted production cuts. With prices breaking past $55 dollars per barrel and with said price becoming the new support, it would thus be a matter of time that the price would reach $60 dollars per barrel for the bulls.

Looking ahead, speculators would be watching the developments in Saudi Arabia intently. Though the situation seems to be fairly settled, increasing risks in that region with Saudi Arabia, Iran and Qatar continuing to be at loggerheads with could lead to instability in the market. However, despite the tension, these countries always tend to agree on the need to push the oil prices higher as their economies depend it. Therefore, it can be asserted that oil prices would remain buoyant, as the countdown to $60 dollars per barrel begins.

Conclusion

With oil prices continuing it's rally and expectation of rate hike due to inflationary housing prices. It is clear that CAD is still experiencing bullish sentiment in most of its fundamental factor. We see a short term bullish and long term bearish projection for the currency pair CADUSD, long term investors who intend to hold the currency pair for an extended period of time (6-8 weeks or more) would do better to reduce their exposure on this currency pair gradually. Short term traders can take advantage of the current momentum and seek to gain momentum profits while keeping an eye out for any potential catalysts that may kick start the long term bearish path for the Canadian dollar.

Market News

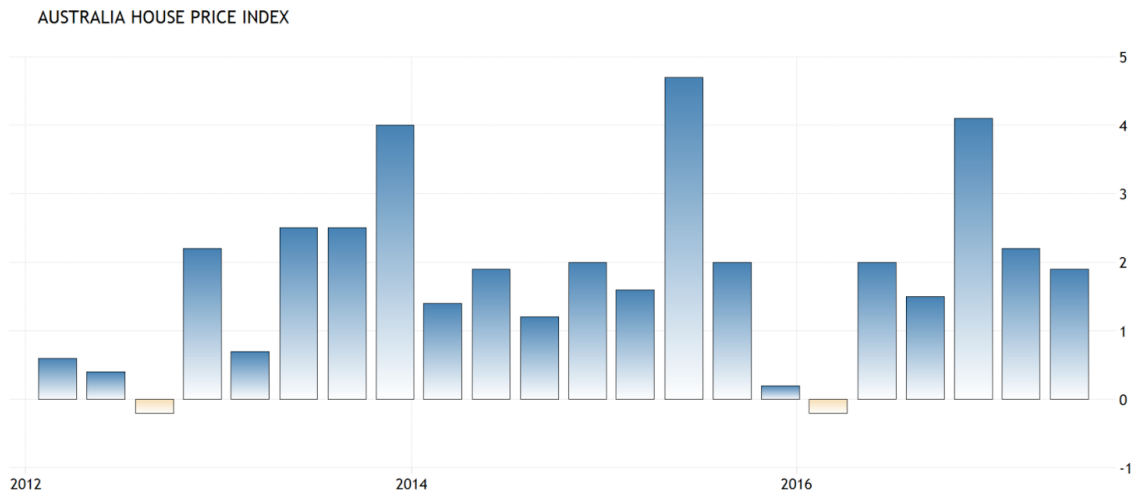
AUD

AUD/USD remains bearish in the short to medium term view as its economy growth is dampened by extraordinary low wage growth despite its tough job market. This has led to Reserve Bank governor Philip Lowe stating on 22 November 17 that the RBA is unlikely to raise its interest rates in the short term. Other than Australia's low wage growth, other factors such as its employment rate and inflation also contributed to the decision to delay its interest rate hike. The lack of a rate hike have also affected Australia's bond yield inversely which also negatively affect AUD/USD. We expect the Australia Government bonds 10 year yield to continue dropping as the market priced in the effect of the delay in the interest rate hike.

Australia 10 YR Yield

Australia is also experiencing instability in its housing market where the housing price-to-income ratio is extremely imbalance. The prices of homes have surged to a total market value of A$7.5 trillion which is more than 4 times its GDP. Hence, the extremely overvalued houses may have reached its peak. Prices may experience a decline after its bullish housing market for 5 years. The drop in house prices will in turn strongly adversely affect Australia's Economy.

Australia's Private Capital Expenditure



Australia's Private Capital Expenditure Report was released on 29th November 2017 and the report has shown that its capital expenditure has rose 1% in Q3 2017. The results are in line with the 1.1% increase expected 3 months ago. However, the increase in Australia's consumer's spending is not reflective in the decline of its currency. This may be because traders expected a higher expenditure increase. Hence, an increase of 1% is not impactful enough to allow the AUD to appreciate

Chinese Stock Market Outlook (CSI 300 index)

There is also uncertainty in the Chinese stock market where there is a tightening of financial regulations such as Beijing controlling its debt growth and intensified its crackdown on risky financing which threatens to reduce company's' profit. On 27th November 2017, the Chinese Stock Index 300 fell 1.3% and also registered its largest one-day drop in 17 months the previous week. Thus, the AUD/USD is also negatively affected due to the potential wobble in the Chinese markets. We expect the AUD/USD to remain bearish due to the negative sentiments in the Chinese Stock Market.

Gold's Weekly Fundamental Outlook

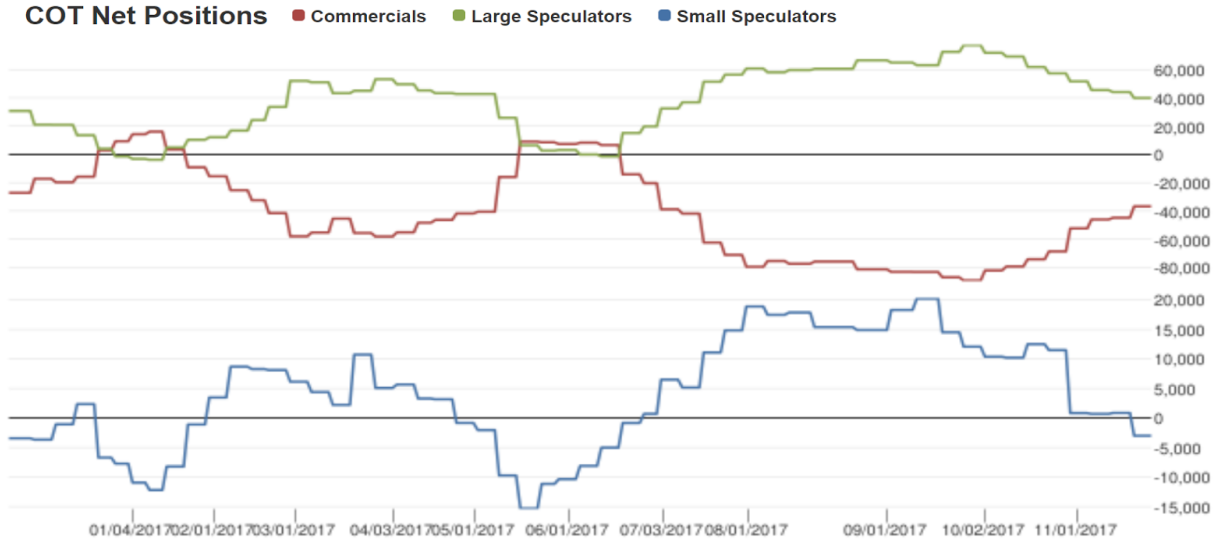
Gold's Long term outlook has also been affected by several events throughout the week such as North Korea's ballistic missile launch and Jeremy Powell's hawkish policy.
On 29th November 2017, Kim Jong Un ordered a launch of the Hwasong-15 missile, which reached the highest altitude ever recorded by a North Korean missile. Its national News Agency, the KCNA, has referred it as the most powerful ICBM which meets goal of the completion of the rocket weaponry system development set by North Korea. The missile launch has shown that it was capable to hit "everywhere in the world". This recent diplomatic spat between North Korea and US increases nervousness and uncertainty among investors. However, the price of gold had shown a tepid and almost muted response to these international conflicts. As gold have been traditionally viewed as a safe haven, it was unusual that gold did not experience a spike in prices.

Gold/USD Outlook

President Donald Trump appointed Fed Governor Jerome Powell to replace Janet Yellen as the new Chairman of the central bank. Interest rates have also been signalled to hike in December Fed's FOMC meeting. On 28th November 2017, Jerome Powell told the Senate Banking Committee that "the case for raising interest rates at our next meeting is coming together". His hawkish stance could hurt gold prices in the short-run when interest rates increases in December. But in the short term, an increase in the benchmark interest rates should lead to upward pressure on the USD, at least until it's effect on gold is seen.
Therefore, AUD/USD projections in the weeks ahead is bearish as the price of gold is currently experiencing muted investor's sentiments from global diplomatic spates and could fall even more with high expectations of an interest rate hike in December

Market Perception

Commitment of Traders report



In the Commitment of Traders report, its shows that the Large Speculators are still decreasing their Net Long positions in the currency. This shows that bullish sentiment is decreasing and it would be better to think twice about going long AUD.

Significant events for the following week

4 December (Monday): RBA Interest Rate Decision

RBA Interest Rate Decision will be announced by the Reserve Bank of Australia. If the RBA is hawkish about the Australia's economy and inflation rate and increases the interest rates, it will be bullish for the AUD. Likewise, if the RBA adopts a dovish stance on the Australian economy and keeps the ongoing interest rate, or cuts the interest rate it will be bearish for the AUD/USD.

7 December (Thursday): Australia's Trade Balance

The trade balance is an important measure of Australia's growth and shows Australia's export strength. If a steady demand in exchange for Australian exports is seen, that would turn into a positive growth in the trade balance, and that should be positive for the AUD.

7 December (Thursday): Australia's Q3 GDP

Australia will release its Q3 GDP Year-on-Year on Thursday. THe GDP measures a country's economic activity and health. A high GDP would be bullish for the AUD/USD while a low GDP would be bearish for the AUD/USD.

8 December (Friday): Australia's Home Loans

Australia would release the number of Home Loans on Friday. The home loans showcases the citizen's consumer confidence. If a high amount of home loans are taken up, it shows that there is an increase of consumer confidence which would be bullish for the AUD/USD. Vice Versa, a low reading would be bearish for the AUD/USD as it shows that there is low consumer confidence

Technical Analysis

AUD/USD Daily

From the above AUDUSD chart. The downtrend line since mid-September is still intact and the 5 period moving average line is currently flat. As long as prices obey the downtrend line, we see no reason to be bullish in AUDUSD. However, if prices continue to fall and break through the support line at the level of 0.75, we expect there to be enhanced bearish momentum and we will be looking for a signal to short the currency pair. With decreased volatility observed at the moment. We suggest the current support region of AUD to hold up for the coming 2 weeks and if given an upside breakout, it would be more advantageous for traders to enter the market since an upside breakout would most likely reveal a good risk to reward ratio trade set up with stop loss at the support region and take profit level depends on the preference of conservative/aggressive traders.

Gold/USD Daily

Gold and the Australian dollar are positively correlated. As we can see from the flag pattern here, gold has recently broke through the flag pattern which suggests a refuel of its bearish momentum observed from Early September to Early November before the flag pattern was formed. However, should prices continue to fall, the next area to look at would be the 1265 region which is currently acting as the support line for GOLD for the past 4 months since August. The flat 5 period moving average from the chart does not suggest any indications that buyers or sellers are winning. Which does not contradicts nor reinforce AUD current outlook.

Trade recommendations

From a technical point of view and considering AUD's pattern in the above chart, we are assuming that the nature of the currency would currently be neutral. It is better to observe the changing patterns over the weeks before deciding its bullish or bearish outlook.

Conclusion

Based on our technical analysis, we are still neutral on the AUD/USD in the 2 weeks ahead as the currency is showing signs of bottoming out with the moving averages. Australia has also been producing weak economic data and low chances of an interest rate hike which is not helpful in its currency rate appreciation. We recommend investors to wait for further clues about Australia currency strength in the Australian Economic Data or be aware of any signs of an interest rate hike during the weeks ahead before taking any action with the AUD/USD. But currently, we are still bearish on AUDUSD but uncertain technical signals from chart analysis is not confirming our bearish view well.

Market News

NZD

ANZ Business Confidence

The release of ANZ Bank survey showed a declining New Zealand sentiment to an eight-year low in November with 39.3% of the respondents expecting the economy to deteriorate over the year ahead. It was the most pessimistic result since 2009 and triggered NZD to fall sharply from $0.6877 to $0.6855. The reason for this deterioration is mainly due to the reaction of the new Labour government taking office in October as well as a slowing housing market in New Zealand.

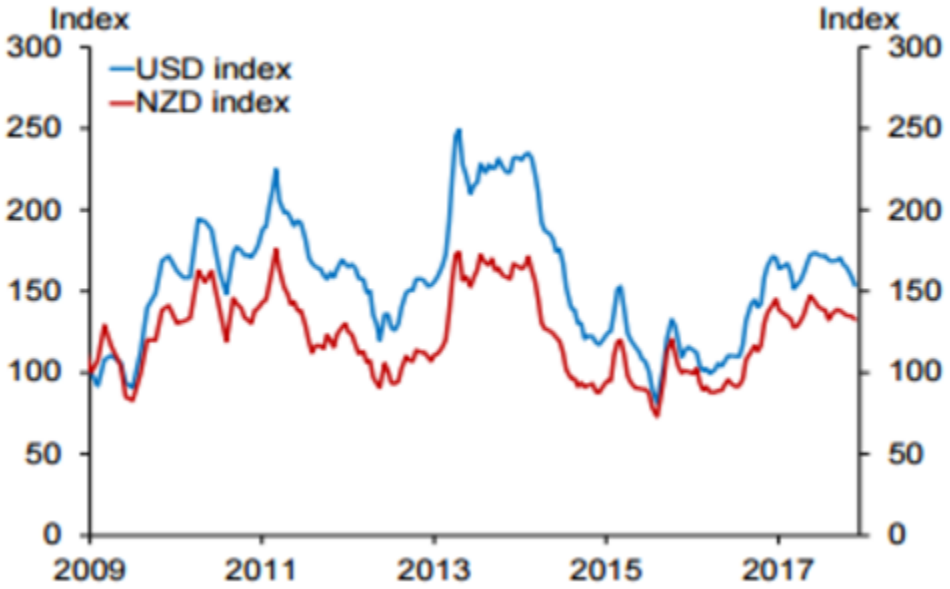
Retail Sales

New Zealand retail sales slowed sharply in the September quarter, with a rise in retail sales volumes by 0.2%, a sharp fall from the previous June quarter. Despite the slowdown, the increase in retail sales was still slightly above the expected value. There were strong increases in the food and beverages services and accommodation industries during Q2, but both industries were falling in the Q3. The total value of retail sales during September quarter stood at $NZ 21.9 billion, an increase of 5.4% compared to the previous year. The NZD/USD rose slightly after the release of the report, hitting a high of 0.6893.

Financial Stability in New Zealand

New Zealand's financial system remains sound. Despite a tightening in lending requirements, which has contributed to a slow credit growth, the banking system is operating efficiently in performing its financial intermediation role and upholds acceptable buffers over minimum capital requirements. Recent stress tests have also suggested that banks can withstand a severe economic downturn. While New Zealand's financial system is exposed to certain risks, these risks have reduced over the past six months. The key risks facing the financial system are mainly the housing market vulnerabilities, dairy sector indebtedness and the banking system's exposure to volatility in international funding markets.

The Dairy Sector



Source: GlobalDairyTrade

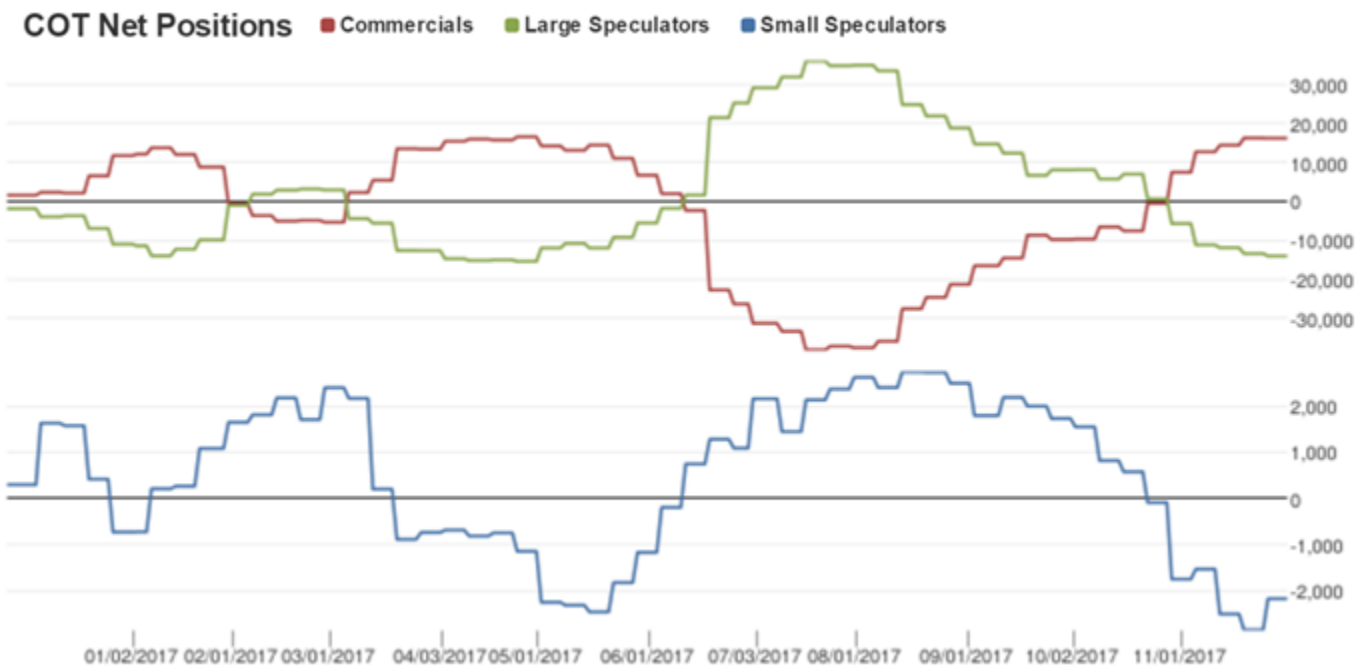
Global dairy prices have been falling in the recent months, but remain above their 2016 levels. Most dairy farms are expecting the 2017-2018 season to be profitable. On the other hand, banks' non-performing loans to the dairy sector have declined. Banks have supported farms during the recent dairy price slump to help limit loan defaults, but this has resulted in an increase in debt in the dairy sector causing some farms to be highly indebted. Banks should continue working with the dairy sector by using improved cash flow positions to reduce debt levels in the sector over time.

<u>USD</u>

Data showed that the US economy grew faster than expected in the third quarter, achieving its quickest pace in three years mainly due to the increase in business investment in inventories and equipment. USD was also supported by the remarks from Fed Reserve chair nominee, Jerome Powell, who mentioned that the central bank is likely to raise interest rates again next month. Powell also confirmed market

expectations on stability despite the change in leadership at the central bank. USD was also on surer footing after Republicans on a Senate panel pushed through a tax-cut bill, setting up a full vote by the Senate and advancing President Donald Trump's drive for tax legislation.

Market Perception



As shown in the COT report, large speculators position has been decreasing and is currently in its 2 years bearish extreme. This signals a reversal for NZD hence, traders should prevent taking any short positions on NZD/USD and keep in mind for a trend change in the currency pair.

Significant events for the following week:

5th Dec (Tuesday):

ANZ Commodity Price
ANZ Commodity Price indicates a change in export prices which can influence GDP and exchange rates. An increase in ANZ Commodity Price implies bullish NZD, while a decrease indicates bearish NZD.

GDT Price Index
The GDT Price Index is a weighted-average of the percentage changes in prices. It is used to avoid the bias of a simple weighted average price, and to give an accurate reflection of the price movements between trading events.

6th Dec (Wednesday):

ADP Employment Change
The ADP Employment Change is a measure of the change in the number of employed people in the US. A rise in this indicator has positive implications for consumer spending, which in turn stimulates economic growth. Hence, a high reading is bullish for the USD, while a low reading implies bearish.

7th Dec (Thursday):

Initial Jobless Claims
The Initial Jobless Claims is a measure of the labour market strength. A higher expected value indicates weakness in the market while a lower than expected value indicates strength in the market.

8th Dec (Friday):

Manufacturing Sales
The Manufacturing Sales report is released by Statistics New Zealand. It measures the change in volume of the physical output of the nation's factories, mines, and utilities.

Technical Analysis

NZD/USD 4-Hr Chart

Prices fell significantly on Thursday the 30th of November, from 0.6880 to 0.6825 before rallying towards the downtrend line and seen rolling over again slightly showing strong negative pressure on the NZD market

As seen from the 4hr chart, prices have been in a downtrend for the past few months as confirmed by the trendline and the 200 period Moving Average ever since August this year. Traders who are looking to long should enter the market with at the 0.682 price level where it coincides with the previous support level which has consolidated over the months since mid-May.

However, since prices are still in a downtrend, our bias remains to the downside and that we should be on a lookout for short signals when prices travel to the 0.690 region where it could potentially rebound against the trendline turned resistance line at 0.690.

Traders are still advised to wait for more confirmation before entering a trade as we can see that there are some uncertainties concerning the price movement as seen from the sideways movement in the month of November.

NZD/USD Daily Chart

Currently prices have been sustained above a major support level (0.68202) and prices are expected to rebound as it has happened on May 2017, October 2017 and just recently on the 1st of December.But given the recent strong sell signal and the volatility observed by the multiple strong bear candles from the past week, it is recommended that traders stay at the side-lines and wait for confirmation before buying into the currency pair as the overall trend is still bearish.

Conclusion:

We see no shortcomings in New Zealand's economy for the next few weeks with strong economic data and extreme bearish COT positioning in NZD which seems ready to reverse. Moreover, a sound financial stability has been priced in and milk manufacturers are expecting a great year(2018) for milk to be profitable which would infer the increase of demand in milk in turn reinforcing NZD. We would advise traders to wait for a catalysts and if we may be bold, we see a coming change in the bearish trend at least until end of the year 2017 and advise traders to look for catalysts to go long. Potential catalysts are outlined in the significant events next week in this report.