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

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Market News:

USD

For the past week,the Fed has released the FOMC statement after a 2 day policy meeting. It was cited that US continues its "solid" growth of economic activity and continued "strength" in the labor market. This seems to set the stage for the fed's hinting of a rate hike in December.

However, with the relatively weak October employment data 261,000 which missed the expectation of 312,000 as well as the weaker hourly earnings, it shows that the economy is still facing a relatively weak inflation. But it is also believed that the weak data could be due to the impact of Hurricanes Harvey and Irma on the southeastern United States and unemployment data should be continuing its upward trend after the impact from the hurricanes subside.

Therefore, expectation for the month is high as labour is expected to come out stronger in the coming months on the southeastern United States. Average hourly earnings was also observed with a drop to 0% mom and 2.4% yoy. This still shows a strong jobs growth and weak wages which signifies upbeat growth and weak inflation, even though unemployment rate is at 4.1%, still within the required 4.2%. With the current market outlook being weak, USDJPY was found to be unable to break the year long resistance point at the 114 region.

Coupled with the uncertainty of US tax reform plans between Senate Republicans and the House. Both plans call for a tax on $2.6 trillion in foreign profits held offshore by U.S. multinationals. However, the Senate promote tax to be 12% for cash and liquid assets, and 5% for non-liquid assets. But the House wants it to be at 14% and 7% respectively. Although both House and Senate propose to cut the corporate tax rate to 20% from 35%, but the Senate plan to delay implementation until 2019. This uncertainty of the US tax reforms resulted in a further sell down of the USD.

Japan

For the past week, Japanese yen has been showing strength across the US dollar. BoJ announced that there will be no change in their short-term interest rate which will be kept at -0.1%. The central bank maintained its forecast for inflation to hit 2.0% in the fiscal year 2019/2020. However, it trimmed its projections for core consumer prices for the fiscal year 2017/2018. The CPI is now expected to rise 0.8% in the current fiscal year, down from the previous projection of 1.1%.

BoJ at its latest monetary policy meeting also announced that they will continue to aggressively buy assets of all types in an effort to stimulate the economy. Japan's machinery orders also fell more-than-expected by 8.1% on a monthly basis in September, dropping at its fastest pace in more than two years. This means a fall in overall production in manufacturing sector. Coupled with the weaker GDP data of 0.3% which was below 0.6% in Q2, Japan's economy outlook remains weak which contradicts with JPY recent strength. The recent strength in JPY is most likely a short term bullish sentiment reinforced by Shinzo Abe's being re-elected and should be expected to fade for the coming weeks.

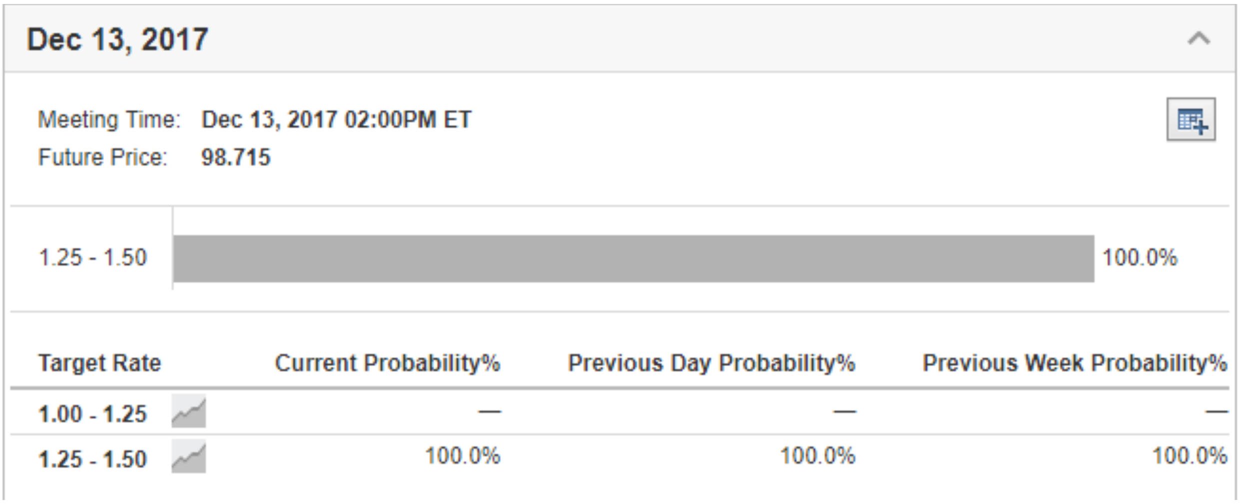
Market Perception

Commitment of Traders

Credit: www.cotbase.com

Based on COT report, large speculators net short positioning has deteriorated further. This reinforces the bearish view on the currency, JPY. Hence this hints USD/JPY is currently still experiencing bullish sentiments with the large speculators, but COT data is lagging in nature and conclusion based on COT should be taken with a pinch of salt.

Likelihood of rate hike



Credit: www.investing.com

The diagram above shows the fed fund monitor adapted from investing.com. It is shown that the market is 100% priced in a rate hike on 13 December 2017. A rate hike is usually positive on USD as investors are attracted to the higher interest rate offered in US and hence will start transferring funds from their home country into US. However, if Fed decided not to go ahead with the rate hike, it would be a strong downward pressure on USD/JPY. But currently,expectations remains high and we expect further strengths in USD/JPY.

Key Indicators (November 12 to November 17)

Date	Currency		Actual	Forecast	Previous	Effect
Mon 13 Nov	JPY	PPI y/y	3.4%	3.1%	3.1%	**Good**
	JPY	Prelim Machine Tool Orders y/y	49.9%		45.0%	**Neutral**
Tues 14 Nov	USD	Federal Budget Balance	-63.2B	-58.2B	8B	**Bad**
	USD	NFIB Small business index	103.8	104.2	103	**Neutral**
	USD	PPI m/m	0.4%	0.1%	0.4%	**Good**
	USD	Core PPI m/m	0.4%	0.2%	0.4%	**Good**
Wed 15 Nov	JPY	Prelim GDP q/q	0.3%	0.4%	0.6%	**Bad**

	JPY	Prelim GDP price index y/y	**0.1%**	**0.1%**	-0.4%	**Neutral**
	JPY	Revised industrial production m/m	-1.0%	-1.1%	-1.1%	**Good**
	USD	CPI m/m	**0.1%**	**0.1%**	**0.5%**	**Neutral**
	USD	Core CPI m/m	**0.2%**	**0.2%**	**0.1%**	**Neutral**
	USD	Core retail sales m/m	**0.1%**	**0.2%**	**1.2%**	**Bad**
	USD	Retail sales m/m	**0.2%**	**0.0%**	1.9%	**Good**
	USD	Empire State Manufacturing Index	19.4	25.5	30.2	**Bad**
	USD	Business inventories m/m	**0.0%**	**0.0%**	**0.6%**	**Neutral**
	USD	Crude oil inventories	1.9M	-2.1M	2.2M	**Neutral**
Thurs 16 Nov	USD	TLC long term purchases	80.9B	34.6B	73.2B	**Good**
	USD	Unemployment claims	249K	235K	239K	**Bad**
	USD	Import prices m/m	0.2%	0.4%	0.8%	**Bad**
	USD	Philly Fed Manufacturing Index	22.7	24.5	27.9	**Bad**
	USD	Capacity Utilization Rate	77.0%	76.3%	76.4%	**Good**
	USD	Industrial production m/m	0.9%	0.5%	0.4%	**Good**
	USD	NAHB housing market index	70	67	68	**Good**
	USD	Natural gas storage	-18B	-15B	15B	**Neutral**

Friday 17 Nov	USD	Building Permits	**1.30M**	**1.25M**	**1.23M**	**Good**
	USD	Housing starts	**1.29M**	**1.19M**	**1.13M**	**Good**
	USD	Mortgage Delinquencies			**4.24%**	

Last week, most of Japan key indicators underperformed it's forecast to a small extent. On the other hand, US indicators show mixed performances which points towards more uncertainty in the USD. But inflation indicators from the US are mostly neutral-good which further gives a reason for the fed to hike rates in december.

Technical Analysis:

LONG TERM TREND: BEARISH

GBPUSD daily chart as at 17November 2017

The market has been hovering and unable to break the resistance at 114.189. As highlighted by the black box, a set of exhausted candles formed at the resistance.

The first pair of candlestick of the exhausted candles are the bearish harami candles. This pattern generally signals the uptrend is losing the breath, it means the bulls are losing the momentum and they are unable to close the market above the resistance point.

The fourth candle in the exhausted candle set is a shooting star which is also a reversal candle. It can be seen that the shadow crosses the resistance line but the candle ends up closing lower, so it is an additional hint that the upward pressure is already exhausted and a downward trend is expected.

Since the market is unable to close above the resistance line at 114.189, it is expected to trend lower. Thus, technical analysis shows that USD/JPY is bearish.

Currently the only possible sell zone is at the level of 114.1 where previous resistance of prices are located and take profit levels should be placed at the support level of 111.5-112 region. Logically, stop loss level should be placed slightly above 114.1 , possibly with a 10-20 pips range according to how past prices have reacted to this resistance level to accommodate volatility and prevent any whipsaws.

Intermarket Analysis

Nikkei 225

From the chart above which compares the stock indices, Nikkei (in orange) with USD/JPY daily chart, it can be seen that there is a recent downward momentum in the nikkei which hints and reinforces the bearish pressure on USD/JPY.

US 10 Year Treasury Yield

US treasury yield is an indicator of overall US economy health. When US treasury yields are high, it will mean market is moving towards risky assets like US stocks which signals strength in USD hence bullish for USD.

The diagram above compares the positive correlation between US 10 year treasury yield (in orange) with USD/JPY. US 10 year treasury yield is still on an upward momentum thus hinting the strong upward pressure on USD/JPY.

Significant events for the following week:

Wednesday

Fed chair Janet Yellen will be speaking, it is a significant event to take note of as investors will be using her speaking engagement to look for clues on the possibility of the rate hike in December 2017.

Thursday

FOMC meeting minutes will be released, this report provides insights on the economic and financial conditions which influenced their vote on where to set the interest rate.

Conclusion:

With the recent election in Japan, Mr Shinzo Abe had been reelected, this means that Japan is unlikely to make any changes to its economical structure which includes any adjustment to their loose monetary policy. Hence, until the political sentiment on shinzo abe's election fades, the viewpoint of USDJPY will be weigh heavily on the outlook of US.

The market is already 100% priced in on a possible rate hike, and so traders will be looking heavily on Fed Chair speech to gain clue of the possibility of the rate hike for 2018 especially when there will be a change in the fed chair nominee, Jerome Powell and the new vice chairperson, Mohamed El-Erian. Traders will be looking to get an idea of the working style of this 2 members to get an insight of the USA outlook.

Moreover, with the contradicting signals observed from technicals and fundamentals even though the fed is widely expected to hike rates in december. Traders is better off waiting at the sideline for next week's events to set the market outlook for a clearer signal. As past rate hike seems to have no consistent effect in increasing USD's attractiveness in terms of JPY. Aggressive traders could look into our technical recommendations for possible sell trade as we believe that the december rate hike would not signal a change in the year long bearish trend of USD.

Market News

US Dollar Index

Past week economic datas

Last week, the most significant event/data coming out from the US would be Yellen's speech whereby Yellen mentioned that decisions on monetary policies is 'confusing with so many voices on the FOMC'. With disappointing job market data (unemployment claims higher than forecasted) and inflation data (CPI, Core CPI following expectations and retail sales falling below expectations), this brings further uncertainties into the monetary policy outlook of the DXY. But even with the mixed data and no clear outlook, traders seems to remain confident in a december rate hike as fed funds futures increase from its probability of rate hike from 92.1% to 93% last week.

Tax Reform Uncertainties

The progress of the tax reform will be a key if not the main indicator of the strength of the U.S. Dollar Index. With the bill only clearing the House so far, it is still unclear how the Senate will react to it and resistance from the Senate seems to be a big worry for investors. Thus, monitoring how the bill fares with the Senate will be key in watching how the U.S. Dollar Index performs under pressure. Do stay tuned for the Senate decision which would be expected after 23rd November which is Thanksgiving.

FOMC Vacancies

With dovish members like Neel Kashkari & Charles Evans being replaced by hawkish members like Loretta Mester & John Williams in addition to the vacancies of FOMC voting members, the overall constitution of FOMC is rather hawkish, hence upcoming rate hikes might be accelerated as a result which will translate to an appreciation in the U.S. Dollar

Geopolitical Risk

Recent reports that North Korea is developing a submarine-launched Ballistic Missile shook the dollar this week as it intensified the uncertainty faced by investors. Given President's Trump firm stand and personality, the market might have already grown indifferent to North Korea's incessant threats however an increase in volatility seems certain. But do take note that president trump recently showed a gesture of negotiation with Kim Jong Un and more updates of the negotiation should come soon.

New Fed Chairman and potential Fed Vice-Chair Pick

With Jerome Powell set to have his confirmation hearing from the Senate Banking Committee on Nov 28. A dovish Jerome Powell will signals continuity in the current Fed policies. Future aggressive rate hikes might not happen as a result. However, Powell who is well-equipped with Wall Street Knowledge might loosen regulations so as to not stifle the rally and growth of the U.S. economy. Rumours are spreading that President Trump is looking to elect Mohamad El-Erian to be the next Fed Vice-chair, who also has a deep Wall-Street background that might potentially further push for deregulations which can encourage growth of the U.S. Economy.

Fundamental Summary for DXY:

Currently there are a few significant events that have yet to be announced or happen but could potentially decide the long term outlook on the DXY, we advise traders to stay on the sidelines for now and wait for our next report to gather more opinions.

Commitment Of Traders

From the latest COT report, we can observe that the net positions of Commercials and Large Speculators are starting to converge around zero. With this information we can gather that there's a sentiment of uncertainty from large speculators and there is no definite outlook they share on the future of the U.S. Dollar.

Unemployment Claims

History	Actual	Forecast	Previous
Nov 9, 2017	239K	232K	229K
Nov 2, 2017	229K	235K	234K
Oct 26, 2017	233K	235K	223K
Oct 19, 2017	222K	240K	244K
Oct 12, 2017	243K	251K	258K

Despite Unemployment Claims going up from 239,000 to 249,000 on 16th November 2017, applications for unemployment benefits are still at four-decade low levels thus the actual impact of the increment in unemployment claims is actually minimal to the U.S. Dollar.

US Inflation Rate

US inflation rate dropped to 2% in October from 2.2% in September, in line with forecasted values. It shows that the growth rate is stabilizing. Interest Rate hike expectations may change in the future. Since there's no clear signals regarding fed's rate hike next month, traders should look into other economic indicators to discern more clues regarding central bank's action.

Technical Analysis

U.S. Dollar Index (DXY) Daily Chart

The DXY has been in a downtrend since late December 2016. From September 2017 to October 2017 it retraced to the 94 - 95.14 region and experienced a consolidation before making continued downward movement last week. For the next 2 weeks, the price movement is uncertain as prices have been on a bullish momentum since sept 2017. Further assessment is required and traders should stay at the sideline for now. Possible areas to look at would be if prices retraces back to the 94 - 95.14 region where prices usually consolidates and the recent support level at 92.8 region.

S&P500 (SPX) Daily Chart

The SPX has been following a year long bullish trend. Last week however, there was uncertainty in prices which caused volatility in the market.

From this we expect the year long trend of SPX to be tested here, and we may see a slight retracement or even a retest of the bullish trend line for the coming weeks. Traders should be keeping a close watch on the SPX for clues to determine the direction of the DXY.

U.S. 10 Year Bond Yields (US10Y) Daily Chart

The US10Y is in an ascending broadening wedge which is a bullish pattern. Last week we can see there was uncertainty in the market which caused some volatility. We expect the US10Y to test the lower limit of the wedge before bullish sentiment kicks in again to push price up to test the upper limit of the wedge over the next few weeks. Since US10Y appears to be on a bullish momentum at least until the supportive trend line is broken. This reinforces the current short term bullish trend observed since september 2017 on DXY.

CRB Index (TRJEFFCRB) Daily Chart

The CRB Index is a commodities index and it has been in a strong uptrend since July 2017. Last week we saw the price fall and rebound off the trendline. Based on the current trend, we expect the CRB to continue up in the bullish trend. Since commodities and the USD are generally inversely correlated. We see a weakness in the current bullish momentum of DXY. However, DXY and CRB index have been experiencing a positive correlation for the past 2 months. Which signals that one of them is travelling in the wrong direction. Again, more assessment is required to get a clearer idea in discerning a clear direction in the DXY.

Key Upcoming events for next week (27th Nov to 1st December):

22nd november: Fed chair Yellen's speech

Yellen is always relevant in the outlook of DXY, therefore traders should look out during the speeches and try to decipher yellen's view of the economy for a better insight into inflation expectations or future monetary policy implementations.

22nd november: Core durable goods order and unemployment claims:

Core durable goods order reveals the change in total value of new purchase orders placed with manufacturers for durable goods. While unemployment claims reveals number of individuals who filed for unemployment insurance. Together, the 2 datas will give traders an insight into the current job market and industrial activity. With the volatility observed during past similar data releases, these 2 should be on trader's radar of economic datas to look out for.

22nd November: Crude oil inventories

Crude oil inventories does not have a consistent effect in affecting the sentiment of DXY, traders should look to other economic datas but do beware of the volatility observed during crude oil inventories releases.

23th November: FOMC meeting minutes

FOMC meetings provide in depth insights into the economic and financial conditions of the US economy, again, it's another data traders will be looking forward to for clues.

Conclusion:

From a Fundamental standpoint, our short term recommendation is to either short U.S. Dollar due to uncertainties revolving around the tax reforms and also the recent bearish sentiment fueled by the disappointing job market data. From a technical standpoint, seems like DXY has just broken out of a range but no direct clues are given from the stock and commodities market. Even with the support of positive momentum in bond yields, we do not see a strong support in the DXY as higher bond yields are mostly driven by the positive expectation of a rate hike in december. And past interest rate hikes have proved futile in supporting the DXY.

For the next two weeks, traders are better left to wait at the side line and only act when there's more coherent clues on the future direction of DXY, one thing traders should be looking out for would be next week's key events such as FOMC meeting minutes and janet yellen's speech which is almost guaranteed to increase volatility in the US markets.