

# orbex WEEKLY MARKETS REPORT



OVERWEEK  
BULLET POINTS



THE WEEK  
AHEAD



MARKETS  
PREVIEW



THE CHART OF  
THE WEEK



ORBEX Research Department

9<sup>th</sup> of January 2017, to 13<sup>th</sup> of January 2017

# OVERWEEK BULLET POINTS



Last Week: 2<sup>nd</sup> of January 2017 to 6<sup>th</sup> of January 2017

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- Spain manufacturing PMI 55.3 vs. 54.6
- Italy manufacturing PMI 53.2 vs. 52.3
- France manufacturing PMI 53.5 vs. 53.5
- Germany final manufacturing PMI 55.6 vs. 55.5
- Eurozone final manufacturing PMI 54.9 vs. 54.9
- Australia AIG manufacturing index 55.4 vs. 54.2 previously
- China Caixin manufacturing PMI 51.9 vs. 50.9
- Australia commodity prices y/y 45.5% vs. 28.7% previously
- Germany preliminary CPI m/m 0.7% vs. 0.1%
- France preliminary CPI m/m 0.3% vs. 0.5%
- Switzerland manufacturing PMI 56.0 vs. 56.1
- Germany unemployment change -17k vs. -5k
- UK manufacturing PMI 56.1 vs. 53.3
- Canada RBC manufacturing PMI 51.8 vs. 51.5 previously
- U.S. final manufacturing PMI 54.3 vs. 54.2
- U.S. ISM manufacturing PMI 54.7 vs. 53.7
- U.S. construction spending m/m 0.9% vs. 0.5%
- U.S. ISM manufacturing prices paid 65.5 vs. 55.6
- UK BRC Shop price index y/y -1.4% vs. -1.7%
- Japan final manufacturing PMI 52.4 vs. 51.9
- Spain unemployment change -86.8k vs. -44.2k
- Spain services PMI 55.0 vs. 54.8
- Italy services PMI 52.3 vs. 52.7
- France services PMI 52.9 vs. 52.6
- Germany services PMI 54.3 vs. 53.8
- Eurozone final services PMI 53.7 vs. 53.1
- UK construction PMI 54.2 vs. 52.6
- UK Net lending to individuals m/m 5.1bn vs. 4.9bn
- UK M4 money supply m/m 0.4% vs. 1.4%
- Eurozone CPI flash estimate y/y 1.1% vs. 1.0%; Core CPI y/y 0.9% vs. 0.8%
- Italy preliminary CPI m/m 0.4% vs. 0.3%
- FOMC meeting minutes released
- Australia AIG services index 57.7 vs. 51.1
- Japan monetary base y/y 23.1% vs. 22.3%
- China Caixin services PMI 53.4 vs. 53.3
- Switzerland CPI m/m -0.1% vs. -0.1%
- Eurozone retail PMI 50.4 vs. 48.6 previously
- UK Services PMI 56.2 vs. 54.8
- Eurozone PPI m/m 0.3% vs. 0.2%
- U.S. ADP nonfarm employment change 153k vs. 171k

- Canada RMPI m/m -2.0% vs. -1.5%; IPPI m/m 0.3% vs. 0.2%
- U.S. weekly unemployment claims 235k vs. 262k
- U.S. final services PMI 53.9 vs. 53.4
- U.S. ISM non-manufacturing PMI 57.2 s. 56.6
- Japan average cash earnings y/y 0.2% vs. 0.2%
- German factory orders m/m -2.5% vs. -2.5%
- German retail sales m/m -1.8% vs. -0.8%
- French trade balance -4.4bn vs. -4.8bn
- Swiss foreign currency reserves 645bn vs. 648bn previously
- Eurozone retail sales -0.4% vs. -0.3%
- Canada employment change 53.7k vs. -5.1k
- Canada trade balance 0.5bn vs. -1.6bn
- Canada unemployment rate 6.9% vs. 6.9%
- U.S. average hourly earnings m/m 0.4% vs. 0.3%
- U.S. unemployment rate 4.7% vs. 4.7%
- U.S. nonfarm employment change 156k vs. 175k
- U.S. trade balance -45.2bn vs. -42.2bn
- Canada Ivey PMI 60.8 vs. 56.0
- U.S. factory orders m/m -2.4% vs. -2.1%

# THE WEEK AHEAD



9<sup>th</sup> of January 2017, to 13<sup>th</sup> of January 2017

## IMPORTANT ECONOMIC RELEASES FOR THE WEEK AHEAD

Date	Time	Currency	Event	Forecast	Previous
09-Jan	06:00	EUR	German Industrial Production m/m	0.70%	0.30%
		EUR	German Trade Balance	20.8B	20.5B
	07:15	CHF	Retail Sales y/y	0.40%	-0.50%
	07:30	GBP	Halifax HPI m/m		0.20%
	08:00	EUR	Italian Monthly Unemployment Rate	11.60%	11.60%
	08:30	EUR	Sentix Investor Confidence	12.6	10
	09:00	EUR	Unemployment Rate	9.80%	9.80%
	19:00	USD	Consumer Credit m/m	18.3B	16.0B
	23:30	AUD	Retail Sales m/m	0.40%	0.50%
10-Jan	00:30	CNY	CPI y/y	2.20%	2.30%
		CNY	PPI y/y	4.60%	3.30%
	04:00	JPY	Consumer Confidence	41.3	40.9
	05:45	CHF	Unemployment Rate	3.30%	3.30%
	06:45	EUR	French Industrial Production m/m	0.50%	-0.20%
	Tentative	CNY	M2 Money Supply y/y		11.40%
	Tentative	CNY	New Loans		795B
	10:00	USD	NFIB Small Business Index	99.6	98.4
	12:15	CAD	Housing Starts	187K	184K
	12:30	CAD	Building Permits m/m	2.40%	8.70%
	14:00	USD	JOLTS Job Openings	5.59M	5.53M
		USD	Final Wholesale Inventories m/m	0.90%	0.90%
	11-Jan	04:00	JPY	Leading Indicators	102.60%
08:30		GBP	Manufacturing Production m/m	0.60%	-0.90%
		GBP	Goods Trade Balance	-11.2B	-9.7B
		GBP	Construction Output m/m	0.30%	-0.60%
		GBP	Industrial Production m/m	0.80%	-1.30%
14:00		GBP	NIESR GDP Estimate		0.40%
14:30		USD	Crude Oil Inventories		-7.1M
22:50		JPY	Bank Lending y/y	2.40%	2.40%
		JPY	Current Account	1.48T	1.93T
12-Jan	04:00	JPY	Economy Watchers Sentiment	49.3	48.6
	06:45	EUR	French Final CPI m/m	0.30%	0.30%
	08:00	EUR	Italian Industrial Production m/m	0.20%	0.00%
	09:00	EUR	Industrial Production m/m	0.50%	-0.10%
	11:30	EUR	ECB Monetary Policy Meeting Accounts		
	12:30	CAD	NHPI m/m	0.30%	0.40%
		USD	Unemployment Claims	266K	235K
		USD	FOMC Member Evans Speaks		
		USD	FOMC Member Harker Speaks		
		USD	Import Prices m/m	0.80%	-0.30%
	14:30	USD	Natural Gas Storage		-49B
	17:01	USD	30-y Bond Auction		3.15 2.4

	18:00	USD	Federal Budget Balance		-136.7B
	22:50	JPY	M2 Money Stock y/y	4.10%	4.00%
	23:00	USD	Fed Chair Yellen Speaks		
13-Jan	Tentative	CNY	Trade Balance	345B	298B
	Tentative	CNY	USD-Denominated Trade Balance	47.6B	44.6B
	08:30	GBP	BOE Credit Conditions Survey		
		GBP	MPC Member Saunders Speaks		
	12:30	USD	Core Retail Sales m/m	0.50%	0.20%
		USD	PPI m/m	0.10%	0.40%
		USD	Retail Sales m/m	0.50%	0.10%
		USD	Core PPI m/m	0.30%	0.40%
	13:30	USD	FOMC Member Harker Speaks		
	14:00	USD	Prelim UoM Consumer Sentiment		98.2
		USD	Business Inventories m/m		-0.20%
		USD	Prelim UoM Inflation Expectations		2.20%

Time: GMT



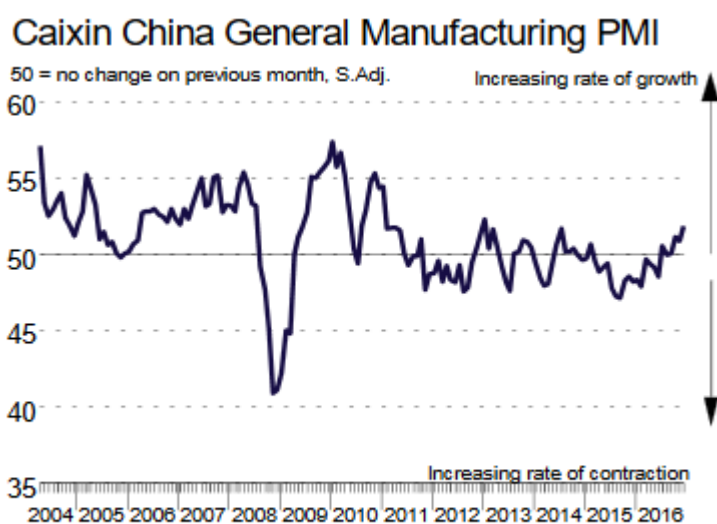
# MARKETS PREVIEW

Last Week: 2<sup>nd</sup> of January 2017 to 6<sup>th</sup> of January 2017

The currency markets opened to a short but busy trading week marked by key economic releases for December. Overall, manufacturing was seen ticking higher across the various advanced economies. In the U.S. both the final manufacturing PMI and the ISM manufacturing PMI posted strong gains indicating further expansion in the sectors. Inflation from the Eurozone was seen strengthening according to the initial estimates released during the week.

## China's manufacturing sector expands in December

Manufacturing sector in China showed the fastest pace of acceleration in four years in December, according to data from IHS Markit on Tuesday. The sharp pace of increase in the sector was driven by a strong upturn in production and new orders.



Sources: IHS Markit, Caixin.

IHS Markit's Purchasing Managers' Index or PMI for the manufacturing sector was seen rising to 51.9 in December, posting significant gains from 50.9 in November. A reading above 50+ suggests expansion in the sector. With December's activity rising by nearly one full point, it was the fastest pace of increase since January 2013.

A further rise in production at Chinese manufacturers supported the higher PMI reading in December. Notably, the rate of output growth accelerated to a 71-month

high, with a number of panelists commenting on stronger underlying demand and new client wins. This was highlighted by a sustained increase in new business during December. As was the case for output, the rate of new order book expansion accelerated since November, and was the strongest since July 2014. Data indicated that improved domestic demand was the key driver of new business growth; however, as new export sales were unchanged in December.

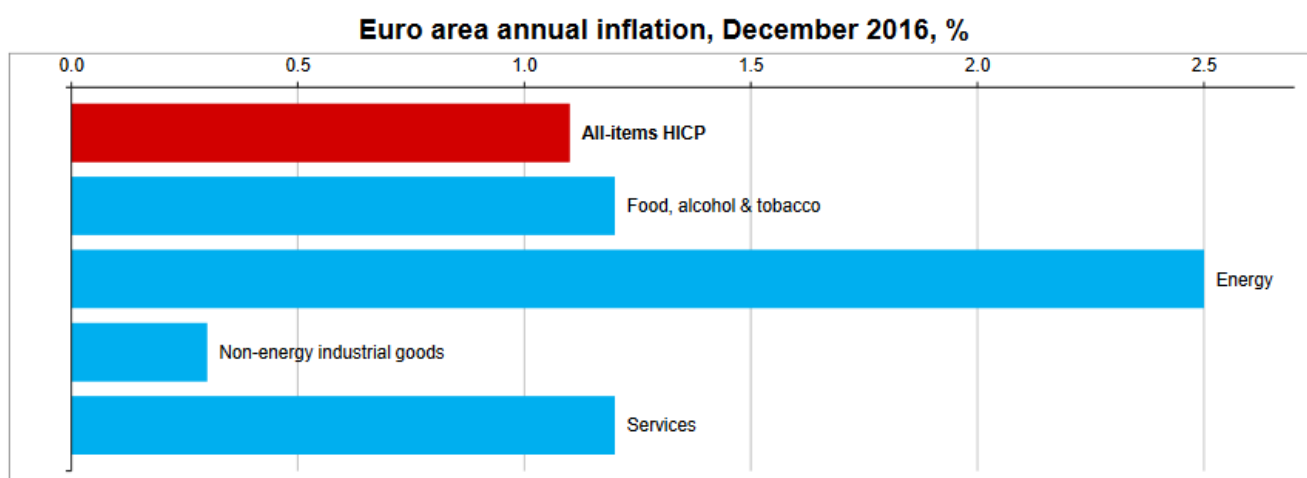
However, other measures of the manufacturing sector showed that there was some slowdown. Official figures suggested that the manufacturing PMI fell to 51.4 in December lower than November's print of 51.7. Zhengsheng Zhong, director of macroeconomic analysis at CEBM Group, said, **"The Chinese manufacturing economy continued to improve in December, with the majority of sub-indices looking optimistic."** Zhong added that **"It is still to be seen if the stabilization of the economy is consolidated due to uncertainties in whether restocking and consumer price rises can be sustainable."**

The December data showed that production expanded at the fastest pace in 6-years during December highlighting the strong underlying demand and new orders underpinning production. The new order book expansion also showed significant acceleration in a month marking the strongest print since July 2014.

## Eurozone inflation estimates rise in December

In what could be encouraging signs for the European Central Bank, preliminary inflation report from Eurostat released earlier this week showed that inflation in the euro area might have increased 1.10% at an annual rate in December 2016.

This was a significant increase from November's 0.6% final headline inflation reading and slightly higher than the 1.0% increase that was forecast. Excluding food and energy, core inflation was seen rising 0.9%, beating estimates of 0.8% and higher than November's 0.8% increase.



**Eurozone Inflation, December 2016**

Official data showed that energy prices had the biggest impact in pushing the headline inflation higher. Energy prices contributed 2.5% while services added 1.2% followed by food, alcohol and tobacco contributing 1.2% during the period. The non-energy industrial goods prices rose 0.3% and was seen to be relatively stable compared to November.

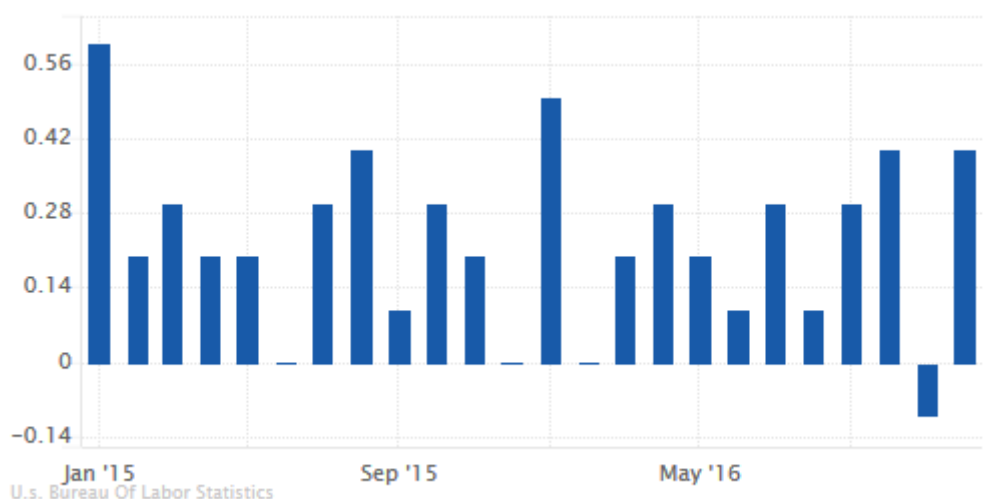
Inflation in the eurozone was showing all round strength with a pickup in consumer prices seen across the board. During the week, other inflation data from Eurozone regions showed a modest pickup in headline inflation from Italy which showed a 0.4% increase, while Germany's headline inflation rose 0.7%, up from 0.1% in November. Inflation in Germany was seen rising to the highest levels since mid-2013 according to data from Destatis earlier in the week. On a year over year basis, consumer prices rose 1.7% in December, up from 0.8% increase in the previous months. Germany's inflation was also higher than what the forecasts pointed to.

In France, inflation was a bit subdued, rising only 0.3%, missing forecasts of a 0.5% increase but higher than November's flat print.

The pickup in inflation comes at a crucial time when the ECB is set to implement changes to its QE purchase program which it launched in an effort to revive growth and push inflation towards the central bank's 2% target rate.

## US Payrolls continues to post steady growth

December's nonfarm payrolls released on Friday showed that employment in the U.S. rose less than forecasted during the month. Official data from the U.S. Labor department showed that nonfarm payrolls rose 156k in December, lower than the forecasts of 175k. However, previous month's data was revised higher to show 204k during the month while October's payrolls were revised lower to show 135k jobs. Combined, the past two month revision showed a net addition of 19k jobs.



**U.S. Average Hourly Earnings m/m: 0.4%, Dec'16**

The data also showed that the unemployment rate in the U.S. rose to 4.7% in December, up from 4.6% in November as forecasted with no change in the participation rate. The labor force participation rate, at 62.7 percent, changed little in December and was unchanged over the year. In December, the employment-population ratio was 59.7 percent for the third consecutive month; this measure showed little change, on net, in 2016. The Labor Department's data also showed that the annual rate of wage growth in the U.S. increased from 2.5% in November to 2.9% in December which was the highest since 2009.

A broader gauge known as the U-6, which includes those who have stopped looking for work and people who want a full-time job but are stuck in a part-time position, was 9.2% last month, the lowest since April 2008. The share of Americans in the labor force--those with jobs or actively looking for work--ticked up to 62.7% in December but continues to hover near a four-decade low

Ahead of the report, Mark Richards, global strategist at J.P. Morgan Asset Management, said he expected a healthy rise in U.S. jobs in December, with the number confirming the trend in other data in recent months.



***"We are in a global economy where most indicators are improving and inflation is picking up from a low base and all this is supportive for risk assets like stocks," Mr. Richards said.***

Expectations of a higher-growth, higher-rate environment under President-elect Donald Trump have fueled a broad stock rally and helped push the dollar to its highest level in 14 years, while also sending government bond yields higher since the November election.

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**Week Ahead:** 9<sup>th</sup> of January 2017, to 13<sup>th</sup> of January 2017

*After a busy start to the New Year, the markets will be looking to a rather slow week with most of the economic releases contained to second-tier data for the most part. From the U.S. the economic calendar will be focusing on retail sales figures for December alongside producer price index. From China, the monthly inflation figures will be coming out followed by the monthly trade balance data later in the week. Data from Australia will see the retail sales numbers while in the UK, manufacturing and industrial production figures will be released.*

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## **U.S. retail sales and Fed Chair Janet Yellen speech**

Economic data in the U.S. takes a back step next week as data for the most part of the week is confined to second tier data. Besides the weekly unemployment claims the only main economic releases from the U.S this week will include the PPI figures for December and retail sales numbers. In November, retail sales rose less than forecast, advancing only 0.1% after a revised 0.6% increase the month before which was smaller than initially reported. November's retail sales data showed an interruption to the steady spending by consumers in the U.S.

Despite the temporary setback, recent economic data led by higher consumer confidence is indicative that retail sales might have picked up in December. Forecasts point to a 0.5% increase on both the headline and core retail sales.

Producer price index data for December will also be coming out on Friday. Expectations call for a 1.5% increase in PPI on a year over year basis, which would see PPI rising from 1.3% in November. Excluding energy, core PPI is expected to rise 1.5%, slightly slower than November's annual increase of 1.6%.

On Thursday, Federal Reserve Chair, Janet Yellen will be speaking. The speaking engagement is scheduled for late in the evening which could mean that there would be no major hints from the Fed Chair on when the next rate hike could come.

Next week will also see the first official press conference by the U.S. President-election Donald Trump. He will be speaking for the first time and comes ahead of the January 20<sup>th</sup> swearing in ceremony. The markets continue to hold on to the Trump rally in expectations that promises of fiscal stimulus spending will boost inflation prospects higher.

## Slow week from the Eurozone

It will be another slow week from the Eurozone where most of the economic data is confined to second-tier which is unlikely to move the markets much. Still, of importance will be the ECB's meeting minutes which will be released this week. The minutes come from the December's ECB meeting where policy makers decided to expand the timing of the QE bond purchases while also cutting back on the monthly scale of bond purchases.

On the economic front, data will include industrial production numbers from Germany and France. German industrial production is expected to rise 0.7% in November. This is bullish considering October's increase of 0.3% and could signal a turn around after production fell 1.6% in September on a month over month basis. In France, industrial production is expected to tick higher, rising 0.5% on a month over month basis. France will also be releasing the monthly inflation figures with forecasts expected to show a 0.3% increase in headline inflation.

## China inflation expected to rise at a slower pace

China's consumer price index and producer price index data will be released this coming week. China's consumer price index rose 2.3% from a year ago in November after rising 2.1% in October. However, the pace of increase in inflation is expected to slow in December with economists polled forecasting a 2.2% increase, slightly below November's print. However, the potential for an upside surprise cannot be ruled out as higher energy prices are likely to push inflation higher in the short term.

Besides the consumer prices, producer price index or factory-gate prices are also expected to show a continued upward pressure. In November, PPI rose 3.3% in the twelve months through November, beating forecasts of 2.2% back then. China's PPI has been steadily increasing in the last three months after PPI fell for over five years. For December, PPI is expected to see another strong month of increase with economists expecting to see a 4.6% increase on a year over year basis.

## Sweden Inflation and Riksbank Meeting Minutes

Sweden will be releasing the inflation figures for the month of December on Thursday. The CPIF is expected at 1.8% on a year over year basis which would mark the highest reading since April 2011 with gains from energy prices. Excluding energy, core CPI is for December is forecast to rise 1.2% on a year over year basis pushing inflation closer to the Riksbank inflation target which could offer some support for the central bank.

The Riksbank will also be releasing the meeting minutes from the December meeting on Thursday. The monetary policy board sent hawkish signals with the executive board split against the expansion of the QE which was then eventually overruled by the Riksbank governor who voted in favor of QE. The meeting minutes could shed more light into the December's Riksbank meeting and potential outlook for further monetary policy decisions.

# TECHNICAL CORNER



GBPCHF – Weekly inverted head and shoulders pattern

The British pound has been consolidating near the 1.25 - 1.27 levels against the Swiss franc after price managed to carve a bottom near the 1.217 region. The weekly line chart for GBPCHF shows the potential inverse head and shoulders pattern that is currently forming. While the left shoulder has been established, we wait for a weekly reversal near the current levels of 1.2500 where the right shoulder could be formed.



GBPCHF (1.2498) – Weekly Chart

A potential reversal near 1.2500 region could signal a near term move to the upside as GBPCHF could attempt to retest the slightly included resistance level. A breakout above this inclined neckline resistance could see GBPCHF extend the gains initially to 1.3032 which briefly acted as resistance previously with further gains seen pushing GBPCHF towards 1.3460 resistance level.

To the downside, failure to reverse near 1.2500 to form the right shoulder could signal further downside as GBPCHF could slip back to 1.2170 region where the head of the inverse head and shoulders pattern was formed. In order to take a position, traders will have to wait for a doji close on the weekly chart or a bullish follow through to ascertain the upside bias that could be just building up.

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