

orbex WEEKLY MARKETS REPORT



OVERWEEK
BULLET POINTS



THE WEEK
AHEAD



MARKETS
PREVIEW



THE CHART OF
THE WEEK



ORBEX Research Department

16th of January 2017, to 20th of January 2017

OVERWEEK BULLET POINTS



Last Week: 9th of January 2017 to 13th of January 2017

- Germany industrial production m/m 0.4% vs. 0.7%
- Germany trade balance 21.7bn vs. 20.8bn
- Switzerland retail sales y/y 0.9% vs. 0.4%
- UK Halifax HPI m/m 1.7% vs. 0.3%
- Eurozone Sentix investor confidence 18.2 vs. 12.6
- Eurozone unemployment rate 9.8% vs. 9.8%
- U.S. consumer credit m/m 24.5bn vs. 18.3bn
- UK BRC retail sales monitor y/y 1.0% vs. 0.6% previously
- Australia retail sales m/m 0.2% vs. 0.4%
- China CPI y/y 2.1% vs. 2.2%
- China PPI y/y 5.5% vs. 4.6%
- Japan consumer confidence 43.1 vs. 41.3
- Switzerland unemployment rate 3.3% vs. 3.3%
- France industrial production m/m 2.2% vs. 0.5%
- U.S. NFIB small business index 105.8 vs. 99.6
- Canada housing starts 207k vs. 187k
- Canada building permits m/m -0.1% vs. 2.4%
- U.S. Final wholesale inventories m/m 1.0% vs. 0.9%
- Japan leading indicators 1027% vs. 102.6%
- UK Manufacturing production m/m 1.3% vs. 0.6%
- UK Goods trade balance -12.2bn vs. -11.2bn
- UK Construction output m/m -0.2% vs. 0.3%
- UK industrial production m/m 2.1% vs. 0.8%
- U.S. IBD/TIPP Economic optimism 55.6 vs. 54.8 previously
- U.S. crude oil inventories 4.1mn vs. 0.9mn
- U.S. President-Elect Trump Speech
- Japan Bank lending y/y 2.6% vs. 2.4%
- Japan current account 1.80tn vs. 1.48tn
- New Zealand ANZ commodity prices m/m 0.7% vs. 3.2% previously
- Japan economy watchers sentiment 51.4 vs. 49.3
- France final CPI m/m 0.3% vs. 0.3%
- China new loans 1040bn vs. 676bn
- China M2 Money supply y/y 11.3% vs. 11.4%
- Italy industrial production m/m 0.7% vs. 0.2%
- Eurozone industrial production m/m 1.5% vs. 0.5%
- ECB releases monetary policy meeting minutes
- U.S. unemployment claims 247k vs. 266k
- Canada NHPI m/m 0.2% vs. 0.3%
- FOMC Member Evans speech
- FOMC Member Harker speech

- U.S. import prices m/m 0.4% vs. 0.8%
- Fed Chair Yellen speech
- China USD-denominated trade balance 40.8bn vs. 47.6bn
- China trade balance 275bn vs. 345bn
- Germany WPI m/m 1.2% vs. 0.3%
- BoE releases credit conditions survey
- BoE MPC member Saunders speech
- U.S. core retail sales m/m 0.2% vs. 0.5%
- U.S. retail sales m/m 0.6% vs. 0.5%
- U.S. PPI m/m 0.3% vs. 0.1%
- U.S. core PPI m/m 0.2% vs. 0.3%
- FOMC Member Harker speech
- U.S. preliminary UoM consumer sentiment 98.1 vs. 98.6
- U.S. preliminary UoM inflation expectations 2.6% vs. 2.2%
- U.S. business inventories m/m 0.7% vs. 0.3%

THE WEEK AHEAD



16th of January 2017, to 20th of January 2017

IMPORTANT ECONOMIC RELEASES FOR THE WEEK AHEAD

Date	Time	Currency	Event	Forecast	Previous
16-Jan	03:30	JPY	Tertiary Industry Activity m/m	0.20%	0.20%
	05:00	JPY	Prelim Machine Tool Orders y/y		-5.60%
	09:00	EUR	Trade Balance	23.2B	19.7B
	17:30	GBP	BOE Gov Carney Speaks		
	23:30	AUD	Home Loans m/m	0.10%	-0.80%
		AUD	New Motor Vehicle Sales m/m		-0.60%
17-Jan	17th-19th	CNY	Foreign Direct Investment ytd/y		3.90%
	03:30	JPY	Revised Industrial Production m/m	1.50%	1.50%
	06:45	EUR	French Gov Budget Balance		-85.5B
	08:00	EUR	Italian Trade Balance	3.84B	4.30B
	08:30	GBP	CPI y/y	1.40%	1.20%
		GBP	PPI Input m/m	2.20%	-1.10%
		GBP	RPI y/y	2.30%	2.20%
		GBP	Core CPI y/y	1.40%	1.40%
		GBP	HPI y/y	6.30%	6.90%
		GBP	PPI Output m/m	0.30%	0.00%
	09:00	EUR	German ZEW Economic Sentiment	18.9	13.8
		EUR	ZEW Economic Sentiment	24.2	18.1
	12:30	USD	Empire State Manufacturing Index	8.1	9
	12:45	USD	FOMC Member Dudley Speaks		
	13:30	GBP	CB Leading Index m/m		0.10%
	22:30	AUD	Westpac Consumer Sentiment		-3.90%
18-Jan	06:00	EUR	German Final CPI m/m	0.70%	0.70%
	08:30	GBP	Average Earnings Index 3m/y	2.60%	2.50%
		GBP	Claimant Count Change	4.6K	2.4K
		GBP	Unemployment Rate	4.80%	4.80%
	09:00	EUR	Final CPI y/y	1.10%	1.10%
		EUR	Final Core CPI y/y	0.90%	0.90%
	12:30	USD	CPI m/m	0.30%	0.20%
		USD	Core CPI m/m	0.20%	0.20%
	13:15	USD	Capacity Utilization Rate	75.60%	75.00%
		USD	Industrial Production m/m	0.80%	-0.40%
	14:00	CAD	BOC Monetary Policy Report		
		CAD	BOC Rate Statement		
		CAD	Overnight Rate	0.50%	0.50%
		USD	NAHB Housing Market Index	69	70
	15:00	USD	FOMC Member Kashkari Speaks		
	15:15	CAD	BOC Press Conference		
	18:00	USD	Beige Book		
	19:00	USD	Fed Chair Yellen Speaks		
	20:30	NZD	Business NZ Manufacturing Index		54.4
20:45	NZD	Building Consents m/m		2.60%	

	23:00	AUD	MI Inflation Expectations		3.40%
	23:01	GBP	RICS House Price Balance	32%	30%
	23:30	AUD	Employment Change	10.2K	39.1K
		AUD	Unemployment Rate	5.70%	5.70%
19-Jan	07:15	CHF	PPI m/m	0.20%	0.10%
	08:00	EUR	Current Account	29.3B	28.4B
	11:45	EUR	Minimum Bid Rate	0.00%	0.00%
	12:30	CAD	Manufacturing Sales m/m	0.20%	-0.80%
		CAD	Foreign Securities Purchases	10.23B	15.75B
		EUR	ECB Press Conference		
		USD	Building Permits	1.22M	1.20M
		USD	Philly Fed Manufacturing Index	16.3	21.5
		USD	Unemployment Claims	252K	247K
		USD	Housing Starts	1.19M	1.09M
	23:00	AUD	HIA New Home Sales m/m		-8.50%
20-Jan	00:00	USD	Fed Chair Yellen Speaks		
	01:00	CNY	GDP q/y	6.70%	6.70%
		CNY	Industrial Production y/y	6.10%	6.20%
		CNY	Fixed Asset Investment ytd/y	8.30%	8.30%
		CNY	NBS Press Conference		
		CNY	Retail Sales y/y	10.70%	10.80%
	06:00	EUR	German PPI m/m	0.40%	0.30%
	08:30	GBP	Retail Sales m/m	-0.10%	0.20%
	12:30	CAD	CPI m/m		-0.40%
		CAD	Core Retail Sales m/m		1.40%
		CAD	Retail Sales m/m		1.10%
		CAD	Core CPI m/m		-0.50%
	13:00	USD	FOMC Member Harker Speaks		

Time: GMT



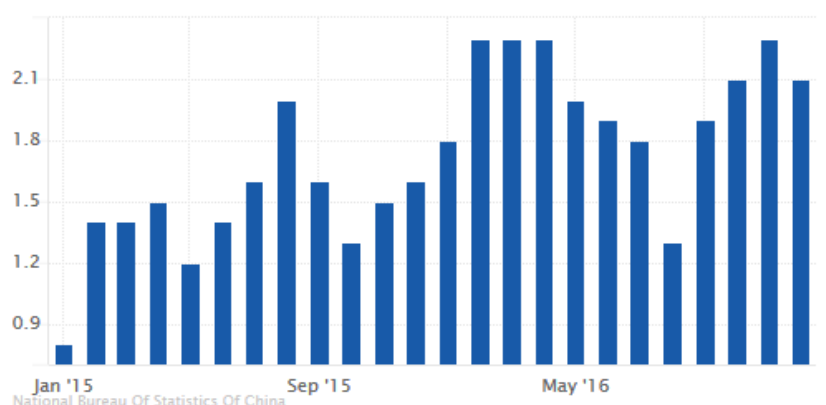
MARKETS PREVIEW

Last Week: 9th of January 2017 to 13th of January 2017

It was a rather slow week for the markets, but that didn't help the U.S. dollar from showing signs of weakness as the trade weighted currency index was seen trading lower. The much anticipated speech by the President-Elect Donald Trump on Wednesday failed to impress investors as Mr. Trump did not make any references to the proposed economic reforms and fiscal spending plans. While the dollar fell following the press conference, the Mexican peso and the Turkish lira continued to suffer. In the UK, the British pound started off on a weak note after PM Theresa May's comments on hard Brexit sent the currency falling sharply once again.

China's inflation slows but factory gate prices rise

Consumer prices in China rose at a pace of 2.1% in December, pushing the annual inflation rate of 2% in 2016. This was slightly below forecasts with the December inflation data slowing compared to a month ago. Higher prices are expected to delay China's efforts to curb the excess industrial capacity.



On a month-over-month basis, the CPI rose 0.2% in December from a month earlier. In November, it edged up 0.1% from the month before. The economy is expected to have grown around 6.7% on average in 2016 according to officials, putting the growth rate within the target band of 6.5% and 7%. Analysts expect that when property price inflation is accounted for, the overall picture shows that the PBoC is likely to

start looking at tightening policy instead of expanding the stimulus program.

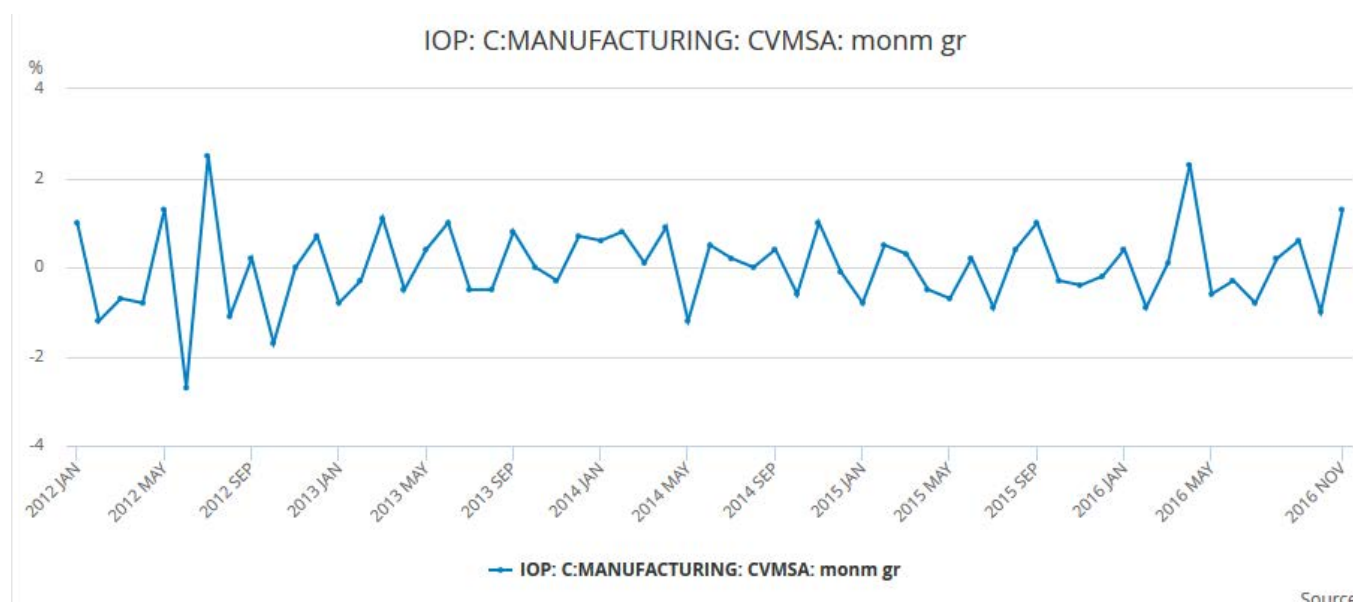
“With inflation on an upward trend, this constrains the central bank’s room to loosen monetary policy,” said Standard Chartered Bank Ltd. economist Ding Shuang.

On the positive side, factory price index hit a 5-year high in December as PPI rose 5.5% compared to a year ago. The uptick in PPI came on a rebound in commodity prices. Chang Liu, a China economist at Capital Economics, said both consumer and producer price inflation will jump in January, with CPI inflation likely reaching the highest since 2013.

The recovery in factory price index was the biggest surprise this year as producer price index posted a big turnaround. China's producer prices rose for the fourth consecutive month in December from a year earlier.

UK industrial production rises, construction falls

Industrial production in the UK posted a faster than expected recovery on the back of higher oil and gas extraction in November. However, construction output posted a decline from the previous month. Official data showed that Industrial output increased 2.1% from a month ago in November following a 1.1% decline. November's rate of growth put the UK's industrial production rising at the fastest pace since April and beat forecasts of a 1.0% increase.



Source:

UK Manufacturing Production: 1.3% y/y, Nov 2016

Manufacturing output was also positive, rising 1.3% compared to the 1% decline posted during the previous month. November's increase in manufacturing output was the biggest since April 2016 and beat forecasts of 0.5% by a strong margin.

Contributing to the uptick in both industrial and manufacturing production was the end of the maintenance period in the oil and gas extraction sectors which jumped 10.3% in November. On a year over year basis, industrial output in the UK rebounded 2% after falling 0.9% during the previous month. It was the fastest pace of increase since July and exceeded forecasts of 0.7% increase.

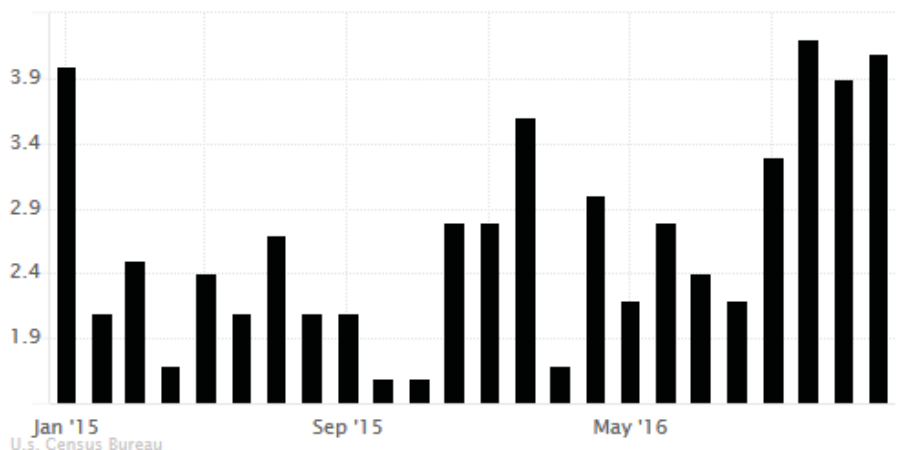
On the flipside, construction output was seen falling 0.2% in November from the month before. The declines came on the back of contraction in non-housing repair and maintenance services and comes on the back of a 0.6% decrease in October. Combined, industrial and construction sectors are likely to post a drag on the fourth quarter GDP.

In a separate report, data from the ONS showed that the country's visible trade deficit had widened more than expected to 12.2 billion in November from 9.9 billion previously with the shortfall coming from both EU and non-EU countries. Economists were expecting to see the trade deficit rise to 11.5 billion instead. Surplus in the services sector contracted to 0.8 billion compared to 8.3 billion previously putting the total trade deficit including goods and services to 4.2 billion in November, from 1.5 billion previously.

The ONS said **"The sectors other than services have been erratic and far more subdued. Taken together, the short-term indicators show overall UK economic activity has continued to grow in recent months."**

U.S. retail sales mixed in December

Higher spending on cars and gasoline in December sent the overall retail sales in the U.S. to rise quickly despite customers cutting back on purchases in other areas. Data from the U.S. commerce department showed that retail sales rose 0.6% on a seasonally adjusted basis in December compared to a year ago, driven by a surge in auto sales. Excluding autos, retail sales rose 0.2% during the month with sales excluding car dealerships and gasoline turning flat during the month.



The data was mixed as economists were expecting to see a 0.7% increase on the headline retail sales and a 0.5% increase on the core, excluding autos.

U.S. consumer spending which accounts for nearly two-thirds of the U.S. economic output can fuel growth by boosting profits at the big and small businesses,

creating demand in factories and increase in hiring, making it one of the key economic reports that traders look forward to. Friday's retail sales report was mixed. In the final fourth months of the year 2016, retail sales grew at a modestly healthy pace although growth was far from being spectacular. Sales rose 4.1% last year faster than 2.3% growth registered the year before but slower than 2014's increase of 4.2%.

The benefits of higher spending weren't evenly spread throughout the retail sector. Car sales fueled last month's retail-sales increase, with purchases at car and parts dealers rising 2.4% in December from a month earlier and 3.8% in all of 2016 compared to 2015.

Consumers also shelled out more last month for furniture, building and garden materials, and sporting goods. Spending at nonstore retailers--a category dominated by online retailers like Amazon--rose 1.3% in December from a month earlier and 11.4% in 2016.

Sales at other retailers weakened in December, particularly department stores, prolonging a years-long shift to online retailers and away from brick-and-mortar outlets. Some big retailers have announced layoffs and store closings in recent months as a result of the shift. Spending also fell last month at restaurants, and sales at grocery stores were flat from November.

Consumer price index will be the main theme this week as the UK, US, Canada, Eurozone will be reporting the monthly inflation figures. The Bank of Canada and the ECB will be meeting this week although no changes to interest rates are expected. The BoC is expected to hold the line but could strike a dovish tone following weak GDP figures previously. Jobs reports from the UK and Australia will also be coming up this week and China will be releasing the GDP figures on Friday. Overall, after a rather soft start to the second week of January, the markets will be looking to a full and busy economic calendar this week.

U.S. Inflation and Fed Chair Janet Yellen speech

Economic data from the U.S. this coming week will see the release of the December CPI report due on Wednesday. Expectations call for an increase in both the headline and core inflation readings which could potentially push above the 2% target rate from the Federal Reserve. Contributing to the increase in inflation, are likely to be higher energy prices with the base effects pushing headline inflation higher from November's 1.7% above the 2.0% threshold. An above 2% print on inflation would mark an increase for the first time since June 2014.

Headline inflation is also expected to push closer to the 2% target rate. Combining the data with a pickup in wages alongside weak productivity gains could see inflation pressures remain to the upside which in turn could push the Fed to respond with faster pace of tightening this year.

The Federal Reserve Chair, Janet Yellen will be speaking twice this coming week on Wednesday and Thursday. In her speech last week, the Fed Chair did not speak much on the economy but noted that the central bank was optimistic in the short term prospects on the U.S. economy. Her hawkish views were also echoed by other FOMC officials last week. Most of the Fed members are keeping the view that the central bank will hike rates three times this year.

ECB meeting likely to see no change to policy

The European Central Bank will be meeting this week on Thursday although the meeting might not garner as much as importance as the one from December. Following the modest tapering on the bond purchases and the extension to the bond purchases, the ECB is expected to hold back from making any further changes this coming week.

However, there is scope for ECB officials to turn hawkish on monetary policy. Last week, the meeting minutes for the December ECB meeting showed that some of the members of governing council were opposed to extending QE while welcoming the modest tapering of 20 billion euro. Some members were also optimistic that the uptick in inflation was sufficient enough for the ECB to start tapering QE.

A week ago, Eurozone inflation estimates showed a 1.1% increase in consumer prices for the first time in nearly three years. Most of the gains came from higher energy prices however. Some ECB members were however cautious noting that further evidence was required on both inflation and growth to justify tapering the QE. In this aspect, this week's meeting could see the ECB president,

Mario Draghi shed light on the ECB's view and potential indicators that the central bank will be watching in the coming weeks.

Busy week for the UK

It will be a busy week for the UK where economic data includes inflation for December alongside the monthly jobs data. Besides the economic releases, British Prime Minister, Theresa May will be giving a speech on Tuesday talking about the UK's Brexit plans and her vision.

Needless to say, the British pound will no doubt come under pressure as a result. Starting off the week, inflation data is due on Tuesday with the data showing a potential increase in the headline inflation. In November, UK's consumer prices rose 1.2% while core CPI rose 1.4% on a year over year basis. The recent uptick in energy prices and higher oil prices in December are likely to weigh on consumer prices during the reported month.

On Tuesday, Prime Minister Theresa May will be holding a press conference where she will be giving her vision on Brexit. It will most likely see a lot of volatility in the British pound as the current administration hopes to trigger the article 50 by March.

Wednesday will see the monthly jobs report with expectations that the UK's unemployment rate was steady at 4.8%. An uptick in wages will be essential in order for wages to keep up with the increase in inflation. Later in the week on Friday, the retail sales numbers will be coming out.

BoC meeting and Canada inflation

The Bank of Canada's monetary policy meeting is due on Wednesday. No changes to interest rates are expected especially after the Federal Reserve as switched to a potentially faster pace of monetary policy tightening. The Bank of Canada is therefore likely to maintain a dovish outlook. Later in the week on Friday, the consumer price index data is expected to be released followed by retail sales figures later in the day.

Inflation was mixed in Canada with the headline inflation falling 0.4% on a month over month basis last month while core inflation was also seen falling 0.5%. Following the disappointing data, inflation is expected to show a modest turn around in this week's reading. Meanwhile, retail sales figures are expected to come out positive after rising 1.4% on the core and 1.1% on the headline the month before.

TECHNICAL CORNER



EURGBP – Right shoulder completion of the head and shoulders pattern

EURGBP has posted a strong reversal after hitting 0.8386 support few weeks ago. The bullish rally saw EURGBP post steady gains for nearly four weeks towards 0.8728 price level. We could potentially expect to see a reversal take place near the current level which could be validated by a bearish candlestick pattern on the daily chart. EURGBP is in the process of forming a large head and shoulders pattern which could be validated if we see a reversal near 0.8728 – 0.8894 region.



EURGBP (0.8731) – Weekly Chart

While the head and shoulders pattern is not validated yet, a reversal near 0.8894 - 0.8728 is required for a move back to the neckline support at 0.8368. Only a breakout below this neckline support will see the validation with further declines expected in the medium term. Initial support at 0.8118 - 0.8062 will be most likely tested followed by a larger correction lower towards 0.7760.

The timing of the reversal and the subsequent bullish strength in the British pound against the euro comes at a time when the UK prepares for Brexit while in the Eurozone, Germany, France and Netherlands prepare for general elections during the first quarter. For the moment, keep an eye on EURGBP with a daily bearish candlestick pattern likely to signal the start of the decline to the first target at 0.8386

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