Serving Traders Responsibly

Weekly Market Bulletin

Week 40 | 2018

DISCLAIMER

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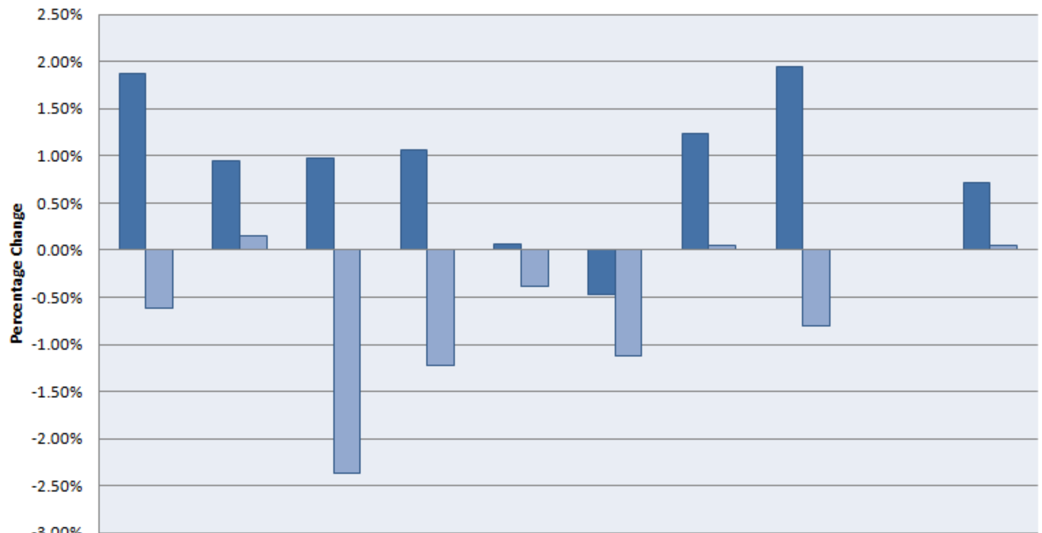
WEEKLY CURRENCY MARKET PERFORMANCE – W39



	AUD	CAD	CHF	EUR	GBP	JPY	NOK	NZD	USD	SEK
W38	1.87%	0.95%	0.97%	1.06%	0.07%	-0.47%	1.23%	1.95%	0.00%	0.72%
W39	-0.62%	0.15%	-2.37%	-1.22%	-0.39%	-1.12%	0.05%	-0.80%	0.00%	0.05%

Key points

- The AUSD was seen giving up part of the gains last week. The AUD fell 0.62% on the week after logging two weeks of solid gains. It is likely that the currency posted a pullback and we could expect further gains in the near term.
- The CAD was able to rise only 0.15% on the week ending September 28. The slower pace of gains comes for the second week in a row after the currency had previously gained 1.02% in week 37.
- The CHF reversed the gains from the previous two weeks. The currency fell 2.37% last week marking a strong decline.
- The EUR was down 1.22%. This came after the currency increased 1.06% in week 38. The reversal also erased the gains from week 37.
- After rising just 0.07% in week 37, the British pound extended declines last week. The currency fell 0.39% on the week.
- The yen extended declines for the third consecutive week. The declines also increased in momentum as the JPY fell 1.12%
- After rising strongly in weeks 37 and 38, the NOK was seen stalling last week. The currency rose just 0.05% last week
- The NZD fell 0.80% on the week. This partly reversed some of the gains logged from the week before.

MARKET HIGHLIGHTS – WEEK 39

- The markets opened on Monday as the **new trade tariffs against China** came into effect. The U.S. administration imposed tariffs of 10% on over $200 billion worth of products imported from China. It included furniture and appliances. The tariffs are also set to increase to 25% by end of this year. In response, China imposed taxes on over 5000 U.S. products valued at $60 billion. While there were rumors about the U.S. and China holding trade talks it was called off after the tariffs went into effect.

- The ECB President Mario Draghi gave a speech last week. He acknowledged that inflation had picked up strongly. Latest flash inflation estimates for the Eurozone show that headline consumer prices were back to 2.1% while core inflation rate was seen at 1.1%. The bond markets reacted strongly with yields on the German bunds rising to the highest level. The reaction came as the ECB is expected to wind down its QE program by end of this year.

- **The FOMC hiked interest rates by 25bps at its meeting**. The monetary policy meeting was held on Wednesday. The rate hikes were widely expected. The central bank said that it would follow through with one more rate hike by the end of this year. The U.S. fed funds rate stands at 2.0% - 2.25% currently and will end 2018 at 2.25% - 2.50%. The central bank also removed its forward guidance from its monetary policy statement. GDP growth outlook was revised higher for 2018 and 2019. However, the central bank expects unemployment to rise by one percentage point by next year. The fed also signaled three rate hikes for 2019.

- **The Reserve Bank of New Zealand keeps OCR unchanged.** The central bank meeting came on the back of the FOMC meeting. As widely expected, the RBNZ left the official cash rate unchanged at 1.75%. It signaled that interest rates would remain steady until 2020 and also said that the bias could shift if the economy deteriorated. The RBNZ had basically pushed back interest rate expectations. The Kiwi dollar was muted to the monetary policy decision. The central bank also expressed surprise at the recent 1.0% quarterly GDP growth. The data beat the RBNZ's forecast of a 0.5% quarterly growth rate.

- The U.S. second quarter GDP data was released on Thursday. This was the final revised GDP for the period. As widely expected was unchanged. The data showed a 4.2% increase as per the second revised estimates. Economic data showed that durable goods orders increased sharply on the month, reversing the declines from the month before. The U.S. dollar was seen settling the week on a strong footing.

ECONOMIC EVENTS – THE WEEK AHEAD

- **The Reserve Bank of Australia** will be holding its monetary policy meeting this week. Investors expect to see no changes to the interest rates. The RBA's interest rates stand at 1.5%. The central bank was seen holding rates steady for the past few years as it struggles to stoke inflation. The central bank remains pinning its hopes on wage growth which is expected to boost consumer prices eventually.

- **A busy week for the USD.** Economic data over the week will cover some important tier one data. The Institute of Supply Management will be releasing its manufacturing and non-manufacturing PMI reports this week. Expectations are for the index to ease after it surged strongly in August. The data however is expected to show that activity in both manufacturing and services are rising robustly during September.

- The **U.S. non-farm payrolls report** will be coming out this Friday. The data comes after the ADP reports the private payrolls figures. Economists polled expect the private payrolls to rise 184.5k for September. This comes after private payrolls rose 163k in August. The official payrolls data is expected to show that the U.S. economy added 188k jobs for September. This marks a slower pace of jobs added following a 201k increase the month before. The U.S. unemployment rate is forecast to fall to 3.8% from 3.9% previously. The Fed is forecasting the unemployment rate to settle at 3.6% by year's end. Wage growth, which is another important factor, is expected to rise 0.3% on the month following a 0.4% increase previously.

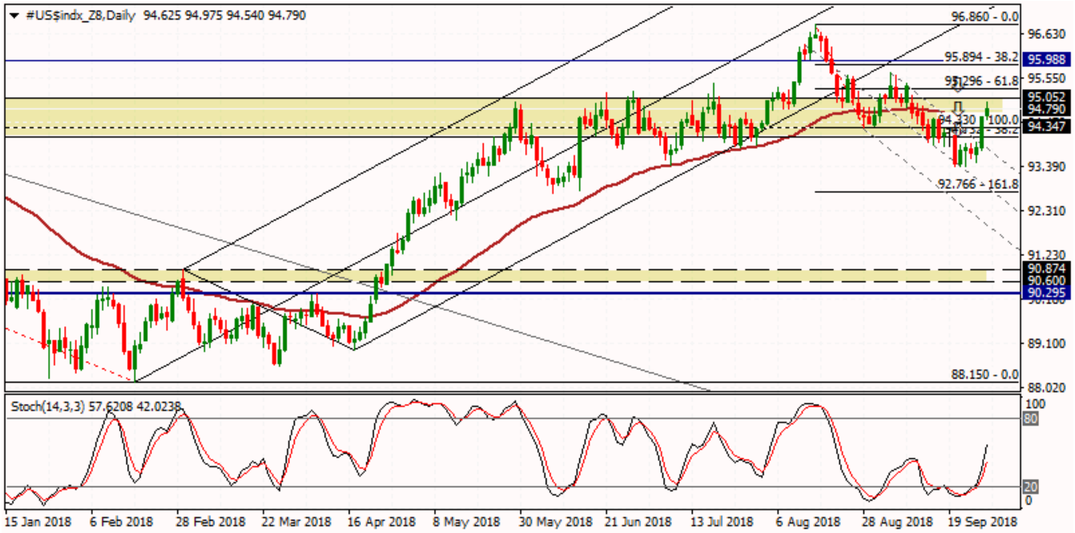
- **Data from the Eurozone** will see the release of the monthly PMI figures covering the manufacturing and services sector from Markit. Economic activity in the region is expected to remain fairly stable. This will also give first insights into how the Eurozone's economy advanced during the third quarter of the year.

ECONOMIC CALENDAR – WEEK 39

Date	Time	Currency	Event	Forecast	Previous
01-Oct	2:00am	EUR	German Retail Sales m/m	0.40%	-0.40%
	3:15am	CHF	Retail Sales y/y	0.40%	-0.30%
		EUR	Spanish Manufacturing PMI	52.7	53
	3:30am	CHF	Manufacturing PMI	62.6	64.8
	3:45am	EUR	Italian Manufacturing PMI	50.3	50.1
	3:50am	EUR	French Final Manufacturing PMI	52.5	52.5
	3:55am	EUR	German Final Manufacturing PMI	53.7	53.7
	4:00am	EUR	Final Manufacturing PMI	53.3	53.3
		EUR	Italian Monthly Unemployment Rate	10.50%	10.40%
	5:00am	EUR	Unemployment Rate	8.10%	8.20%
	9:45am	USD	Final Manufacturing PMI	55.6	55.6
	10:00am	USD	ISM Manufacturing PMI	60.1	61.3
		USD	Construction Spending m/m	0.50%	0.10%
		USD	ISM Manufacturing Prices	72	72.1
	All Day	USD	Total Vehicle Sales	16.8M	16.7M
	7:50pm	JPY	Monetary Base y/y	7.10%	6.90%
02-Oct	1:00am	JPY	Consumer Confidence	43	43.3
	3:00am	EUR	Spanish Unemployment Change	28.2K	47.0K
	5:00am	EUR	PPI m/m	0.20%	0.40%
	10:00am	USD	FOMC Member Quarles Speaks		
03-Oct	3:15am	EUR	Spanish Services PMI	52.9	52.7
	3:45am	EUR	Italian Services PMI	52.8	52.6
	3:50am	EUR	French Final Services PMI	54.3	54.3
	3:55am	EUR	German Final Services PMI	56.5	56.5
	4:00am	EUR	Final Services PMI	54.7	54.7
	5:00am	EUR	Retail Sales m/m	0.20%	-0.20%
	8:15am	USD	ADP Non-Farm Employment Change	187K	163K
	9:45am	USD	Final Services PMI	52.9	52.9
	10:00am	USD	ISM Non-Manufacturing PMI	58.1	58.5

	10:30am	USD	Crude Oil Inventories		1.9M
04-Oct	7:30am	USD	Challenger Job Cuts y/y		13.70%
	8:30am	USD	Unemployment Claims	211K	214K
	10:00am	USD	Factory Orders m/m	1.10%	-0.80%
	10:30am	USD	Natural Gas Storage		46B
	7:30pm	JPY	Household Spending y/y	0.20%	0.10%
	8:00pm	JPY	Average Cash Earnings y/y	1.30%	1.60%
05-Oct	1:00am	JPY	Leading Indicators	104.30%	103.90%
	2:00am	EUR	German Factory Orders m/m	0.70%	-0.90%
		EUR	German PPI m/m	0.10%	0.20%
	2:45am	EUR	French Gov Budget Balance		-82.8B
		EUR	French Trade Balance	-4.5B	-3.5B
	3:00am	CHF	Foreign Currency Reserves		731B
	3:15am	CHF	CPI m/m	0.20%	0.00%
	4:00am	EUR	Italian Retail Sales m/m	0.20%	-0.10%
	8:30am	USD	Average Hourly Earnings m/m	0.30%	0.40%
		USD	Non-Farm Employment Change	185K	201K
		USD	Unemployment Rate	3.80%	3.90%
		USD	Trade Balance	-52.3B	-50.1B
	3:00pm	USD	Consumer Credit m/m	15.1B	16.6B

TECHNICAL TRADING IDEA OF THE WEEK



Following up from last week's technical trading idea, we continue focus on the U.S. dollar index.

The world's reserve currency has been in a strong uptrend for a long time although price action indicates signs of weakness in the near term. The greenback bounced stronger last week as the currency managed to reclaim the 94.33 handle.

However, going forward, we expect to see the USD Index easing back the gains. There are signs of a potential correction in the index. This could lead to a possible decline or a correction in the dollar. The support at 90.87 - 90.60 remains a key level of support.

We expect the USD to eventually test this level in the near term. On the fundamental aspects, there is a lot going on that could potentially kill the rally in the USD. For one, the ongoing trade wars against China could become a potential disruptor to the rally as the U.S. administration imposes higher tariffs.

Meanwhile, focus will turn to the third quarter data over the next few weeks. This starts from this week's payrolls report and will eventually build up into the data that will add into the third quarter GDP report. Although expectations are high that the U.S. economy could average around 4.0% if not more, prospects of fourth quarter GDP could signal a slowdown. Secondly, a slowdown from China due to the higher tariffs has the potential to drag the global economy lower as well.