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Weekly Market Bulletin

Week 43 | 2018

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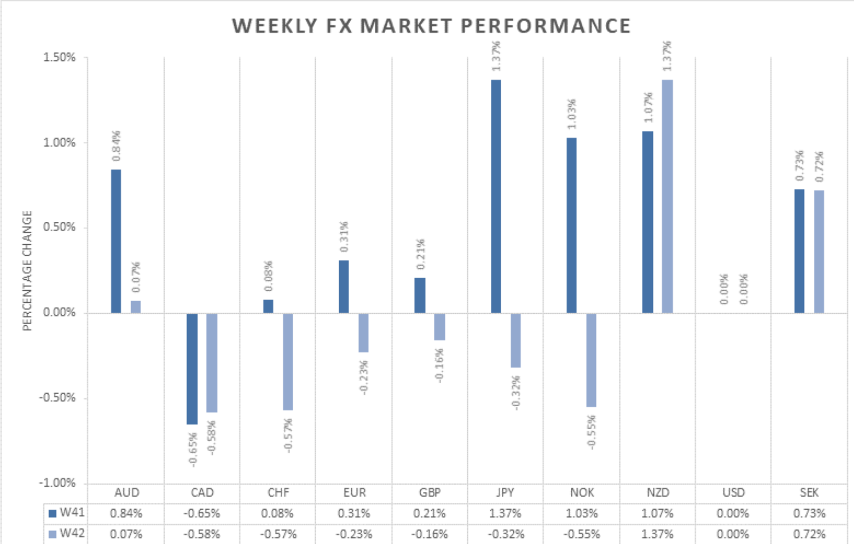
WEEKLY CURRENCY MARKET PERFORMANCE – W42



Key points

- The USD was trading mixed last week as the oil dependent currencies eased back on lower oil prices while the antipodean currencies gains strongly over the week.
- The NZD was the top performing currency as it gained 1.07% last week. This came on top of the 1.37% gain posted the week before.
- The CAD was the weakest performing currency. The declines in the CAD came amid weaker fundamentals and lower oil prices. The CAD fell 0.58% last week and marked a second consecutive week of declines. In the week before, the CAD was down 0.65%.
- The EUR failed to capitalize as price action was rather flat. The common currency closed last week with modest gains of just 0.31%. Price action however managed to reverse the losses of 0.23% posted om Week 41.
- The GBP managed to erase the 0.16% losses logged in week 41. Last week, the pound sterling managed to rise 0.21% on the week, although price action remains rather weak for the moment.
- The NOK was another oil dependent currency that posted losses last week. The NOK fell 0.32% partly retracing the strong gains of 1.32% logged in the week before.
- The SEK manage to rise for the second week. The currency gained 0.73% on the week and extended gains from 0.72% increase from the week before.
- The CHF and the JPY eased back last week. The JPY was down 0.32% while the CHF lost 0.57% indicating that the market's risk appetite last week was rather moderate.

MARKET HIGHLIGHTS – WEEK 42

- The latest **consumer and producer prices data from China** was released last week. According to official data, China's headline inflation rate rose 2.5% on an annualized basis for the year ending September 2018. This was broadly in line with the estimates and consumer prices posted a modest increase from 2.3% in August. Producer prices index on the other hand increased at a slower pace for the third consecutive month. Producer price index rose 3.6% on an annualized basis for the year ending September 2018. While this was slightly above the median estimates, it was a slower pace of increase for the third month in a row. Analysts expect that this could be due to the trade wars with the United States. China's central bank had recently lowered its reserve requirements ratio for a fourth time this year injecting liquidity into the markets. The central bank expects the liquidity is needed in order to offset the effects from higher tariffs on imports and exports.

- **Statistics New Zealand released the quarterly inflation** report last week on Tuesday. According to the official sources, headline inflation rate rose 0.9% on the quarter beating estimates by a strong margin. Economists polled forecast that New Zealand's inflation rate would rise just 0.7%. In the second quarter, CPI advanced 0.4%. On an annualized basis, New Zealand's inflation rate rose 1.9% which also beat estimates of a 1.7% increase. The jump in consumer prices came due to higher fuel prices. Petrol prices rose 5.5% during the quarter ending September.

- **There was some good news from the UK last week.** Recent economic reports showed that wages in the UK advanced while inflationary pressures eased. This gives the Bank of England offices room to maneuver through the uncertainty due to the Brexit negotiations. Official data released by the UK's Office for National Statistics (ONS) showed that the unemployment held steady at 4.0% for the third consecutive month. Meanwhile, wages rose strongly amid shortage of skills. The UK's inflation rate eased to an annual pace of 2.4% in September compared to 2.7% in August. Core CPI also fell to 1.9% from 2.1% in August.

- **The Federal Reserve released its meeting minutes last week.** As widely expected, the central bank's minutes did not reveal any new information. Officials were overall happy with the state of the U.S. economy and expect further rate hikes would be needed to sustain the economy. The minutes cemented expectations that the Fed is on track to hike interest rates one more time this year in December 2018. There is also growing certainty that the Fed will hike four more times next year.

- **Australia released its monthly employment figures**. Data showed that the Australian unemployment rate fell to fresh lows at 5.0%. This beat expectations of an unchanged print to the unemployment rate. In August, Australia's unemployment rate was at 5.3%. While the unemployment rate decreased, the number of jobs added were far fewer than anticipated.

ECONOMIC EVENTS – THE WEEK AHEAD

- **The European central bank will be meeting this week** for its monetary policy meeting. The meeting comes on the back of the September meeting where no changes were made. The ECB is widely expected to maintain the status quo and giving a balanced statement this week. Inflation continues to whipsaw and officials are likely to maintain a cautious tone as a result. As with the previous monetary policy meeting, the ECB will be cautioning against the risks of the global trade wars and its effect on growth. The central bank will also mark the final phase of its bond purchases this month. Starting from October, the ECB will be purchasing bonds to the tune of only 15 billion euro before ending its bond purchases in December.

- **The Bank of Canada will be holding its monetary policy meeting this week.** Speculation is high that the Bank of Canada will be hiking interest rates at this week's meeting. Therefore, Canada's interest rates are expected to rise to 1.75%. The hawkish expectations come as the Canadian economy continues to rise strongly indicating its capacity to sustain higher interest rates. The Canadian dollar is also well supported by the higher crude oil prices. Earlier last week, the Bank of Canada's business outlook survey pointed to a robust economic outlook.

- Economic data from the U.S. this week will see the release of the **advanced GDP report**. There will also be host of other economic reports coming out. The third quarter GDP is forecast to rise 3.2% on the quarter. This marks a slower pace of GDP gains compared to 4.2% increase seen in the previous quarter. Besides the GDP report, other economic reports over the week will cover the durable goods orders and pending home sales report.

- The **Norges bank** will be holding its monetary policy meeting this week. Following the interest rate hike in September, the central bank is expected to hold monetary policy steady this week as it waits for more information from the economy. Meanwhile, the central bank will be watching the ECB for further clues.

ECONOMIC CALENDAR – WEEK 43

Date	Time	Currency	Event	Forecast	Previous
Oct-23	1:00am	JPY	BOJ Core CPI y/y		0.50%
	2:00am	EUR	German PPI m/m	0.30%	0.30%
	10:00am	EUR	Consumer Confidence	-3	-3
		USD	Richmond Manufacturing Index	25	29
	8:30pm	JPY	Flash Manufacturing PMI	52.6	52.5
Oct-24	3:15am	EUR	French Flash Manufacturing PMI	52.4	52.5
		EUR	French Flash Services PMI	54.7	54.8
	3:30am	EUR	German Flash Manufacturing PMI	53.5	53.7
		EUR	German Flash Services PMI	55.5	55.9
	4:00am	EUR	Flash Manufacturing PMI	53.1	53.2
		EUR	Flash Services PMI	54.5	54.7
	9:45am	USD	Flash Manufacturing PMI	55.5	55.6
		USD	Flash Services PMI	54.1	53.5
	10:00am	CAD	BOC Monetary Policy Report		
		CAD	BOC Rate Statement		
		CAD	Overnight Rate	1.75%	1.50%
		USD	New Home Sales	630K	629K
	11:15am	CAD	BOC Press Conference		
	2:00pm	USD	Beige Book		
Oct-25	4:00am	EUR	German Ifo Business Climate	103.2	103.7
	4:00am	EUR	German Ifo Business Climate	103.2	103.7
	7:45am	EUR	Main Refinancing Rate	0.00%	0.00%
	8:30am	EUR	ECB Press Conference		
		USD	Core Durable Goods Orders m/m	0.30%	0.00%
		USD	Durable Goods Orders m/m	-1.10%	4.40%

		USD	Goods Trade Balance	-74.9B	-75.5B
		USD	Prelim Wholesale Inventories m/m		1.00%
		USD	Unemployment Claims	208K	210K
	9:00am	CNY	CB Leading Index m/m		0.70%
	10:00am	USD	Pending Home Sales m/m	-0.20%	-1.80%
	10:30am	USD	Natural Gas Storage		81B
	7:30pm	JPY	Tokyo Core CPI y/y	1.00%	1.00%
Oct-26	8:30am	USD	Advance GDP q/q	3.30%	4.20%
		USD	Advance GDP Price Index q/q	2.30%	3.00%
	10:00am	USD	Revised UoM Consumer Sentiment	99.2	99
		USD	Revised UoM Inflation Expectations		2.80%

TECHNICAL TRADING IDEA OF THE WEEK

The USDJPY currency pair has been in a strong decline since last week. Price action fell sharply after a strong reversal near the highs of 114.52. The decline in the USDJPY came alongside the market sentiment.

Last week, the U.S. equity markets tried to recover following the sharp sell off the week before.

However, the markets continue to remain frothy. Amid this backdrop, the USDJPY will be the currency pair to watch in case the market sentiment turns sour. Given the strong gains notched so far, we anticipate a near term correction in USDJPY that is well overdue.

From a technical stand point, the USDJPY has been attempting to rebound off 111.70 level. This rebound could see price action rising to retest the level at 113.35 region. A retest of this level to establish resistance could potentially mark the end of the decline. Watch the daily Stochastics for further clues of the oversold level when USDJPY hits this area.

In the coming weeks, we expect the USDJPY to potentially weaken if it does not break past the previous highs. To the downside, watch for the support at 111.71. A break down below this level could indicate further decline. In the longer term, USDJPY might be ripe for a correction down to 107.37.