HANTEC MARKETS

Weekly Outlook

16th February 2015 by Richard Perry, Market Analyst

Forex and CFDs are high risk leveraged products that can result in losses greater than your initial deposit and you should therefore only speculate with money you can afford to lose. FX and CFD trading are not suitable for everyone. Please ensure you fully understand the risks involved, seeking independent advice if necessary prior to entering into such transactions. You should first carefully consider your investment objectives, level of experience, and risk appetite and only invest funds you are prepared to lose entirely. **For our full risk warning, please go to the end of this report**

Macro Outlook

Market sentiment was lifted last week as two fundamental risks looked to be turning more benign. Firstly an apparent breakthrough in the deadlock of the conflict in eastern Ukraine, which boosted equity markets amid the promise of a ceasefire which came into place on Sunday. This appears to be a remarkable U-turn in stance from Vladimir Putin, if it is to be believed at all. Perhaps he knows that the rebels are unlikely to cede control or go quietly, we have been here before and the last time there was a ceasefire, the words were not worth the paper they were not written on. We wait to see how sustainable the agreement is, and whilst I hope for the sake of the Ukrainians that it does hold, for now I remain sceptical. The other key event to improve sentiment was the game of poker that has become the negotiations between Greece and the EU over the repayment of its debt that is due on 28th February. The Eurozone is far better positioned to withstand a "Grexit" (as the stress test of the banks have suggested), furthermore financial markets do not appear to be overly worried as yet (looking at Eurozone sovereign yields). However despite holding such a weak hand, Greece appears to be playing a remarkable game of poker at the moment. We may find out today if the Eurogroup calls its bluff.

Must watch for: Federal Open Market Committee meeting minutes

US 10 Year Treasury Yield

WHEN: **Wed, 18th Feb, 1900GMT**

LAST: N/A

FORECAST: **N/A**

Impact: The statement of the first FOMC meeting of 2015 showed a slightly hawkish change in tone of the wording, . Removing "considerable time" from the outlook for rate hikes, whilst noting the labor market being "strong" and economic activity "solid" were all language upgrades. The voting was unanimous but there were four new members voting so it will be interesting to get further insight into the thoughts on the economy and the impact of the decline in the oil price. The Fed minutes have an impact on the dollar and also equity markets over the proceeding day.

Key Economic Releases

Date	Time	Country	Indicator	Consensus	Last
Tue 17th Feb	09:30	UK	**CPI (YoY)**	+0.3%	+0.6%
Tue 17th Feb	10:00	Eurozone	**German ZEW Economic Sentiment**	56.0	48.4
Wed 18th Feb	n/a	Japan	**BoJ monetary policy**		
Wed 18th Feb	09:30	UK	**Bank of England meeting minutes**	9-0-0	9-0-0
Wed 18th Feb	09:30	UK	**Average weekly earnings**	+1.8%	+1.8%
Wed 18th Feb	13:30	US	**Building Permits (Housing Starts)**	1.07m (1.07m)	1.03m (1.09m)
Wed 18th Feb	16:00	US	**IEA Crude Oil Inventories**	3.73m	4.87m
Wed 18th Feb	19:00	US	**FOMC meeting minutes**		
Fri 20th Feb	09:00	Eurozone	**Flash Manufacturing PMI**	51.5	51.0
Fri 20th Feb	14:45	US	**Flash Manufacturing PMI**	53.8	53.7

N.B. Please note all times are GMT, data source Reuters

Foreign Exchange

After a bout of consolidation in the forex markets, we finally started to get some key direction last week. Despite the markets seemingly waiting for the Eurogroup to drive sentiment, the key moves were driven by central banks once again, as sterling and the yen posting significant gains. This came after hawkish hints from the Bank of England (potential for an earlier rate hike than currently priced in by the market) and the Bank of Japan (additional stimulus could be counterproductive). This has left the Dollar Index once more teetering on the brink of a correction. Other interesting moves have come in the New Zealand and Canadian dollars, both of which are correlated to the price of oil and both of which have rallied as the oil price has found some support. Noticing also that the price of copper has also started to form some support during February and if this continues then the Australian dollar would be a prime candidate for a rally. The Federal Reserve meeting minutes are released this week and will add meat to the bones of the post meeting statement. The degree to which the committee sees the US economy recovering could help to prevent a near term dollar correction.

WATCH FOR: The outcome of the Eurogroup meeting with Greece to impact on the euro (as will the German ZEW), whilst the fluctuations in the prices of oil and copper will impact on the commodity currencies (Aussie, Kiwi and Loonie). The FOMC meeting minutes will be the main dollar driver.

FX Outlook

EUR/USD

Watch for: A break above $1.1530 is needed to improve the outlook

Outlook: Despite the broken 6 week downtrend and technical indicators that are improving, there is still much more to do for the euro to be considered to be in a sustainable recovery. Firstly the RSI needs to sustain a move into the high 50s (currently 44), the 21 day moving average (still falling at $1.1380) needs to turn higher and the price needs to break above the resistance band $1.1500/$1.1530. Before these moves are seen this current phase will just be seen as a consolidation within the bear run lower.

GBP/USD

Watch for: A higher low in the support band $1.5270/$1.5350 would strengthen the bulls

Outlook: A strong breakout to a 6 week high last week was consolidated on Friday. The bulls will now look to bolster this by posting a higher low in the support band $15270/ $1.5350 which would add weight to the recovery. The broken 7 month downtrend is a key marker as well, as is the 21 day moving average at $1.5180 which has turned into a basis of support. The resistance band $1.5485/$1.5620 is the next target range for the bulls.

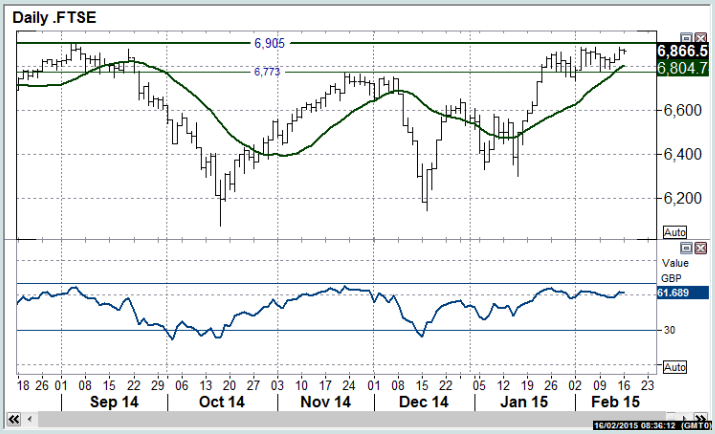
Indices

Equity markets have been buoyed in recent days by the announcement of a ceasefire between Ukraine and the (supposed) Russian-backed separatist rebels in the eastern part of the country. Wall Street has jumped to an intraday all-time high, whilst the German DAX Xetra has also rallied significantly and burst to an all-time high above 11,000. Some of these gains have also been due to a positive take from the wrangling between Greece and the EU over the debt that comes due at the end of February. Although the initial meeting with the Eurogroup has been adjourned until today (Monday), the posting of an extra €5bn emergency loan to the Greek banks has helped sentiment and markets are clearly hopeful that a satisfactory agreement can be reached. Earnings season n the US continues to be underwhelming, with over three quarters of companies now reported, average earnings growth is around 4%, but revenue growth is just around 1%. The FTSE 100 is still languishing under the key multi-year high at 6905, despite the rebound in oil (helping the 18% weighting in oil majors) and rebound in base metals (10% weighting in basic materials). For me this underperformance of the FTSE 100 remains a concern and questions whether this will be the time for a breakout.

WATCH FOR: The outcome of the Eurogroup meeting on Monday will impact on sentiment across equity markets. The price of commodities is helping to support the FTSE 100. This week's FOMC minutes will have an impact on Wall Street.

INDEX Outlook

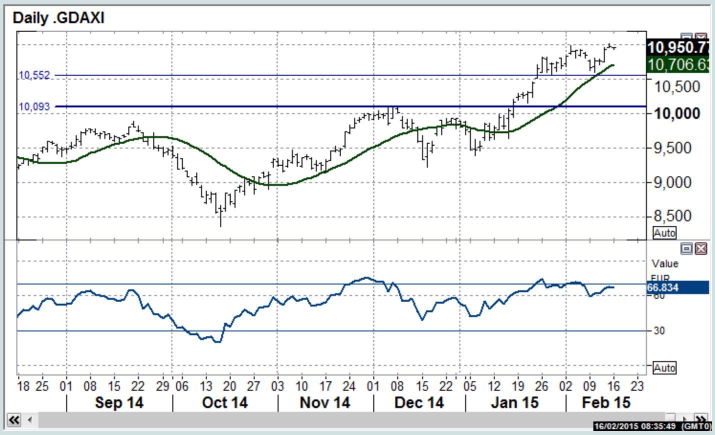
FTSE 100



Watch for: Will FTSE 100 once more fall over once more at the crucial final hurdle, again?

Outlook: A number of bearish candles was negated on Friday with a strong bullish day. But looking closer at the hourly chart, the move was a reaction at the open to a suggestion that there was hope for a deal between Greece and the EU. This would suggest that today's meeting could be all crucial for whether the FTSE 100 breaks out or not. Technically, the indicators are primed for failure once more. But it could take a fundamental event to drive the breakout. Could today be the day?

DAX Xetra



Watch for: Momentum dropping away could result in a correction

Outlook: Technical indicators on the DAX look fairly similar to the FTSE 100. Momentum indicators are rolling over and losing impetus despite the DAX pushing to an intraday all time high on Friday. Despite the technical indicators, it is likely that the DAX will be driven by fundamental events with the outcome of the Eurogroup meeting and the stability of the Ukrainian ceasefire likely to be the deciding factors behind a push into further highs or engage a correction this week.

Other Assets: Commodities & Bonds

Although the EIA oil inventories (oil stocks) continue to come in higher than estimates (which is negative for the oil price) the Baker Hughes rig count continues to fall away as oil companies continue to react to the low price of oil. JP Morgan estimates a decline in investment of between 15% to 25% by oil companies this year. This will continue to filter gradually through in the coming months and is likely to impact on supplies. This has driven Brent crude to break to its highest level in 2015, and whilst WTI is lagging slightly, it has also broken through some key technical resistance.

An interesting point to note is that whilst the yields on Greek debt have spiked higher in recent weeks, the yields on sovereign Eurozone debt have had no damaging rise. This would suggest that the market sees the Eurozone as well insulated from Greece. Greece's failure so far to agree to a renegotiation of its debt with the EU has made no material impact yet but Monday's meeting will again interest. In fact, talk going into the weekend was encouraging and resulted in yields falling.

WATCH FOR: Sovereign Eurozone yields could react to Monday's meeting of the Eurogroup and Greece, whilst Treasury yields will be impacted by the FOMC minutes. The EIA inventories will impact on oil.

COMMODITIES & BONDS Outlook

Gold

Watch for: A confirmed breach of $1222 puts the medium term bears in control

Outlook: The short term correction from the high at $1306 has continued into its 4th week and this now means that the medium term outlook is turning more negative. The support at $1222 marks the 61.8% Fibonacci retracement of the $1168/$1306 rally and a close below would confirm bearish medium term control now. The resistance band $1230/$1245 could be where we see another lower high this week.

Brent Crude oil

Watch for: A rally on Brent Crude towards $63 which is also leading WTI higher

Outlook: After over a week of fluctuating consolidation the oil price has suddenly looked to take off. The break above $59.00 resistance has also completed a flag pattern that implies gains towards $63.00 at least. The next key resistance also comes in at the top of a consolidation range from mid-December at $63.70 so it seems perfectly possible that this will now come under threat. From the medium term perspective though the important factor is the broken 5 month downtrend, which continues to add to the argument that there has been a key low now seen in Brent. The breakout level of $59 is now supportive near term.

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Trust Through Transparency

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