# Weekly Outlook

Monday 20th August 2018 by Richard Perry, Market Analyst

HANTEC MARKETS

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## Macro Commentary

After a hectic week of contagion fears and wild market swings, you can be forgiven for wanting some stability to markets this week. And that is not just if you are Turkish! Recent moves on the Turkish lira have been incredible, however, it has had a stay of execution after a cut in the reserve requirement ratio improved liquidity and banking regulators made trading currency swaps involving the lira much harder for foreign banks. However, this will not solve the longer term economic issues. According to the IMF, foreign currency debt is now over 50% of GDP, with c. $180bn being short term debt. This means that as the dollar strengthens further, refinancing becomes ever more expensive. With sharply rising implied inflation (due to lira weakness), huge further moves are needed, such as hiking interest rates by as much as 10%, cutting fiscal spending and possibly even IMF involvement. Turkey is not isolated and there is a mild contagion to European banks, with peripheral Eurozone yields rising. However, Turkey also highlights broader emerging markets (EM) issues as countries with twin deficits are pressured (including South Africa, India, Indonesia and Argentina). Copper is often referred (somewhat crudely) to as “Dr. Copper”, taken as a proxy of economic activity (copper is basically used in everything for economic development). The copper price has moved into bear market territory (-20% in the past two months) as fears over the US trade disputes have grown. The more the rhetoric ramps up, the more EM will be pressured, risk negative and dollar strengthening continues.

## Must Watch for: FOMC monetary policy minutes

**WHEN: Wednesday 22nd August, 1900BST**

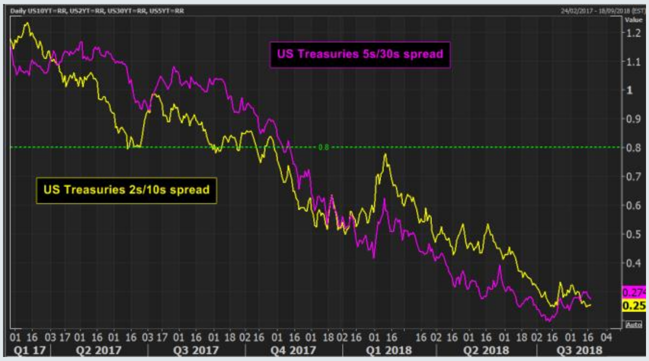
LAST: N/A

**FORECAST: N/A**

**Impact:** If the FOMC announcement a couple of weeks ago was something of a non-event, traders may be able to extract more of a steer from Wednesday’s minutes. The FOMC statement contained a mild strengthening of the language of “economic activity” to “strong” from “solid” and it will be interesting to see the comments surrounding this shift, whilst it will also be interesting to see how the committee discusses the issue of trade tariffs and the potential impact of a slowing Emerging Asia region. Treasury yields and the dollar are likely to be reactive.

**US Treasury yield spread – 2s/10s and 5s/30s**

Treasury yield spreads have been continuing to narrow reflecting the ongoing curve flattening.




### Key Economic Events

| Date | Time | Country | Indicator | Consensus | Last |
|---|---|---|---|---|---|
| Wed 22nd Aug | 1500BST | US | **Existing Home Sales** | 5.40m | 5.38m |
| Wed 22nd Aug | 1900BST | US | **FOMC meeting minutes** | | |
| Thu 23rd Aug | 0900BST | Eurozone | **Flash PMIs** (Manufacturing / Services / Comp) | 55.2 / 54.4 / 54.5 | 55.1 / 54.4 / 54.3 |
| Thu 23rd Aug | 1230BST | Eurozone | **ECB meeting accounts** | | |
| Thu 23rd Aug | 1445BST | US | **Flash PMIs** (Manufacturing / Services) | 55.2 / 56.0 | 55.5 / 56.2 |
| Thu 23rd Aug | 1500BST | Eurozone | **Consumer Confidence** | -0.7 | -0.6 |
| Thu 23rd Aug | 1500BST | US | **New Home Sales** | 650,000 | 631,000 |
| Thu 23rd Aug | ALL | ALL | **Jackson Hole Economic Symposium** (Day1) | | |
| Fri 24th Aug | 0030BST | Japan | **CPI** (core YoY) | +0.9% | +0.8% |
| Fri 24th Aug | 1330BST | US | **Durable Goods Orders** (core MoM) | +0.3% | +0.4% |

*N.B. Please note all times are British Summer Time (BST) i.e. GMT +1. Data: Reuters*



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## Foreign Exchange

As fears of contagion have ramped up recently the Japanese yen (safe haven) and US dollar (a winner amidst EM suffering) have stood out. During this run on the Turkish lira, the dollar has benefitted, and aside from a degree of respite for the embattled lira late last week, even on Friday the politics seemed to be biting once more. Comments from Trump's Treasury Secretary Steve Mnuchin suggested the US was still on the offensive over tariffs. Although the arrest of an American pastor in Turkey triggered the doubling of metals tariffs, Mnuchin seemed willing to keep a foot on the throat and there was little sign of the US backing down. Also keep an eye on the Dollar/Yuan rate as an indication of continued pressure on EM and ongoing dollar strength, two chapters of the same story. The Fed minutes and Jackson Hole may be a slight distraction from trade this week, but for now, politics is still driving dollar strength. The irony is that th stronger dollar is completely against what Trump is looking for, so the risk is that Trump tweets about currency manipulation and/or preferring dollar weakness. It would drive a brief dollar retracement, but it is difficult to see that the dollar will not continue to strengthen whilst the trade dispute rolls on. Looking further out, it is the US mid-terms in November and Trump will be wanting to go into the elections with a win on trade and that could be an agreement with China fresh on the table. However for now expect there to be further legs in the dollar bull run.

***WATCH FOR: Politics of trade remain key, also watch FOMC minutes & FOMC's Powell at Jackson Hole***

# FX Outlook

### EUR/USD

***Watch for:*** *Rallies remain a chance to sell for $1.1150 implied target*

**Outlook:** The breakdown below $1.1500 was a game changer on EUR/USD. The move coming with the MACD lines having rolled over with a sell signal under neutral is a really negative medium to longer term signal. The move also implied a range breakdown of around 250 pips to $1.1150 in the coming weeks. It is interesting to see the euro rebounding from $1.1300 last week but this move is likely to throw up another chance to buy in the coming days. An ideal selling opportunity comes in with the old support at $1.1500 to retest $1.1300 with the next key support down at $1.1110.


### GBP/USD

***Watch for:*** *The negative outlook continues to suggest that rallies remain a chance to sell*

**Outlook:** The long term bearish outlook that has taken hold over the last few months, continues to be a drag on the market. Lower highs and lower lows where near term rallies remain a chance to sell. The latest key breakdown around $1.2950 is overhead supply now however the bulls are struggling to make any serious indent into the outlook. A four month downtrend is $1.2930 down to $1.2850 on Friday. The next real support is at $1.2600. At some stage the market will deem the sell-off on sterling will have gone far enough, but the way the market has responded to last week's low of $1.2660 suggests that this has not yet been reached.




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## Equity Markets

As the fluctuations in fears of contagion and emerging markets (EM) outflows continue to drive sentiment, we see varied impacts across equity markets. To sum up though, the general rule of thumb remains: Wall Street outperforms, whilst EM and Eurozone underperforms. There is little that we have seen in the past week that changes this view. Whilst the US markets seem to retain a solid base of bulls, willing to support into weakness; EM remains pressured (China's Shanghai B a key indicator of this) whilst the bears increasingly control markets such as the DAX and CAC. Whilst a record US earnings season has been a force of support for Wall Street, the European earnings have played less of an influence on markets on this side of the pond. Focus has instead been largely on the negative impact on global trade from the various disputes the US is picking with major trading partners China and the EU. This has shown clearly in the performance of major global markets. Since 22nd May, as European markets topped out, differing performance (as of Friday) has been remarkable. The S&P 500 has been hugely impressive, rallying over 4%. This compares with the German DAX which has fallen more than -7.5% and the French CAC which is down almost -6%. The German index is packed with export focused companies impacted by US foreign policy and the trade dispute (such as BMW, Volkswagen and Thyssenkrupp), whilst the CAC is dragged by car producers (Renault especially) and banks (on Tukey contagion risk). The FTSE 100 is relative better insulated and helped by dollar dividend payers (down -4.5%). However, it is interesting the see the impact on EM is far greater, with China's Shanghai B having fallen c. 12% (and down -17% year to date).

***WATCH FOR: How will earnings season come to a close? Further developments on trade tariffs also key***

# Index Outlook

### DAX Xetra

***Watch for:*** *A sell signal above 12,400 could see the downside resuming.*

**Outlook:** The rebound has been a relief from the selling pressure, but it is not expected to be more than a near term move as the technicals continue to suggest that rallies seem to continue to be a chance to sell. There is a sell zone as the overhead supply kicks in above 12,400 and under the three week downtrend around 12,547 initially. Another sell signal around here this week could induce renewed selling pressure for a test of 12,104/12,120. This would be a continuation of the run of lower key highs and lower key lows since the sell-off resumed in May. It would then open the next key support at 11,726 from the March low.


### FTSE 100

***Watch for:*** *A decisive close below 7500 opens the corrective outlook.*

**Outlook:** Since the top at 7903, FTSE 100 has been relatively settled in a trading range 7508/7800. However, support has come under increasing pressure in the past week as risk appetite has been hit hard. This seems to be a tipping point, as momentum indicators are back at levels usually seen as an opportunity for the bulls. For now, the range continues, and the RSI around 40 and Stochastics around 20 have been opportunities to buy (in June mainly). However a close below 7500 and failure of the momentum points would signal a shift in outlook. A 300 tick downside target with the support band 7200/7300 in play.

## Other Assets: Commodities & Bonds

Last week we posited whether **gold** was finding a floor, noting that the support at $1204 was crucial. The answer was a resounding "no". As the market breached the support, the trap door opened and $1160 was quickly seen. The question this week is why won gold at the moment? The opportunity cost seems to be huge. The dollar strength is a constant drag on gold, but considering you could buy a risk-free US 10 year Treasury that yields just shy of 2.9%, where is the benefit of owning a zero yielding gold. Rallies remain a chance to sell.

The trade dispute and selling rout across the commodities complex last week drove **oil** to breach key supports on WTI (at $67) and Brent Crude (at $71.30). Whilst the trade dispute continues to ramp up, the dollar will continue to outperform, risk appetite will have a negative bias and this will be a drag on oil. Various supply issues will impact on near term volatility of the oil price but the outlook is increasingly corrective.

**Treasury bond yields** show little real direction at the moment, however there is still a flattening of the yield curve that is coming through on a longer term basis. With the 2s/10s spread (now around 24bps) and below the 5s/30s spread (around 28bps) this flattening continues. What is interesting though has been that the Eurozone core (German)/periphery (Italy) spread is widening. This comes as Italian yields are at their highest level since the peak of concern surrounding the Italian election. This sign of stress is a driver of euro underperformance.

***WATCH FOR: Developments in the trade tariffs dispute, Fed minutes & FOMC's Powell at Jackson Hole***

## Markets Outlook

### Gold

***Watch for:*** *A rally within the downtrend channel is another chance to sell*

**Outlook:** The downtrend channel of the past couple of months continues to be a net drag on gold lower. Rallies are a chance to sell within this channel and this continues to be reflected in the bearish configuration on momentum indicators. The tick higher on Friday will have had the gold bugs dreaming of a recovery, and there is room for further gains within the channel which falls between $1204 and down to $1194 this week. This is a confluence of resistance, also being a range of overhead supply from old key lows. Renewed selling below support at $1160 would open the next key support at $1122.


### Brent Crude oil

***Watch for:*** *Another lower high under $73.95 would play as a chance to sell*

**Outlook:** The downside break of both WTI and Brent oil in the past week is a real concern. For the outlook of Brent Crude the breakdown of the support at $71.30 is a completion of a four month top pattern and signals a key breach of support. Rallies are now a chance to sell, with the negative configuration across the MACD lines, and any unwinding move into 50/60 seen as an opportunity this week. A rally that now fails under $73.95 would form another near term lower high and again be an opportunity. The corrective outlook building on Brent Crude will continue whilst the resistance at $75.25 remains intact.




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