Weekly Outlook

Monday 11th March 2019 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 Commentary

The Article 50 deadline of 29th March is still a couple of weeks away, this week is crucial for Brexit. There are likely to be three crucial votes in Parliament, starting on Tuesday 12th March where MPs get another chance to vote on Prime Minister May's Withdrawal Agreement. Despite all the delay tactics and promises of concessions/changes, it looks as though MPs will vote on exactly the same deal as that which Parliament rejected by record majority of 230 votes on 15th January. Although Mrs. May is trying to pressure MPs again, she is likely to see another humiliating defeat. MPs have been positioning to take control of the Brexit process off the Government in recent weeks and this means there will be two further votes. On Wednesday a vote to reject a no deal Brexit and on Thursday a vote to potentially extend Article 50. Even if the Government imposes a three line whip (to force its MPs to vote their way) on all three votes, it will do little to prevent another defeat and is likely to lead to further resignations. Parliament has already indicated it will vote to prevent "no deal" will be averted and if a vote to extend Article 50 is also seen, this could even kick Brexit into the long grass. It seems to be a choice of Mrs. May's deal or no Brexit at all but she does not look likely to win. The EU-27 needs to unanimously agree to an A50 extension and suggestions are that it would push for a one or possibly even two year extension. A long extension kicks Brexit into the long grass and opens likely softer routes, such as a second referendum. Sterling will certainly be volatile this week on these votes.

Must Watch for: US CPI Inflation

WHEN: Tuesday 12th March, 1230GMT

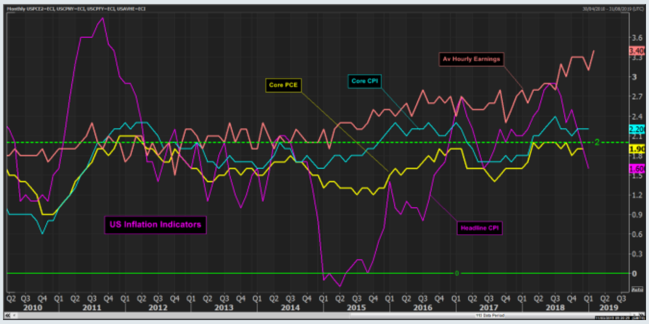
LAST: +1.6% headline, +2.2% core

FORECAST: +1.6% headline, +2.2% core

Impact: Faltering inflation trends in the major economies is a red warning light for a global slowdown. A sharp downward revision for 2019 inflation projections by the ECB means there will again be added focus on US relative data strength. Headline US CPI has dropped sharply (-1.3% in the past 7 months) but this is expected to have moderated in February, whilst core CPI is forecast to remain stuck a shade above 2%. This will though maintain the real wage growth and is a positive for the US consumer. US Treasury yields will be reactive and the dollar will also be watched.

US Inflation

US Infaltion continues to fall whilst wage growth is strengthening. The trend in CPI is falling (especially headline), which is keeping bond yields subdued.



Key Economic Events

Date	Time	Country	Indicator	Consensus	Last
Mon 11th Mar	1230GMT	US	**Retail Sales** (ex-autos MoM)	+0.2%	-1.8%
Tue 12th Mar	1230GMT	US	**CPI**	+1.6% / +2.2%	+1.6% / +2.2%
Tue 12th Mar	1900GMT	UK	**Parliamentary vote on Withdrawal Agreement**	Government loses	Government loses
Wed 13th Mar	1230GMT	UK	**Budget** (Chancellor's Spring Statement)		
Wed 13th Mar	1230GMT	US	**Durable Goods Orders** (core ex-trans MoM)	+0.2%	+0.1%
Thu 14th Mar	0200GMT	China	**FX Investment / Industrial Prod / Retail Sales**	+6.0% / +5.5% / +8.1%	+5.9% / +5.7% / +8.2%
Fri 15th Mar	0430GMT	Japan	**Bank Of Japan monetary policy**	+0.1% (no change)	-0.1% (no change)
Fri 15th Mar	1000GMT	Eurozone	**Inflation** (final headline / core)	+1.5% / +1.0%	+1.4% / +1.1%
Fri 15th Mar	1315GMT	US	**Industrial Production** (MoM)	+0.4%	-0.6%
Fri 15th Mar	1400GMT	US	**University of Michigan Sentiment** (prelim)	95.5	93.8

N.B. Please note all times are Greenwich Mean Time (GMT), also US has made Daylight Saving Time Shift

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Foreign Exchange

After a significant dovish shift in ECB monetary policy the euro is under pressure. The ECB has pushed out a potential hike of the deposit rate to beyond the end of the year (from the end of the summer), whilst slashing growth and inflation forecasts across the forecast horizon and adding another TLRTO liquidity program for two years. With risks to forecasts weighed to the downside, this paints a picture of a very cautious ECB now. If the global cyclical downturn does not pick up dramatically, there is now a realistic prospect that the ECB may struggle to raise rates at all now. #QEinfinity? With the German Bund yield retreating back towards zero again (at 28 month lows) the near to medium term outlook for the euro is bleak, with $1.10/$1.11 possible. The caveat is that the ECB has possibly panicked, if positive data surprises (PMIs and confidence) continue, then there could be an unwinding of stretched positioning. In the UK, Brexit is a big focus this week and volatility on sterling options is at its highest since July 2016. The votes in Parliament could set up for a softer form of Brexit, or perhaps even kick it into the long grass and sterling should be underpinned in these scenarios. The Bank of Japan sharply revised lower expectations for inflation at the January meeting and despite revising higher growth forecasts, the subsequent data has been disappointing and this could mean a need to be less optimistic this meeting. The impact of Lunar New Year in February will need monitoring before the BoJ makes any dovish move on stimulus. The BoJ could therefore be in wait and see mode this week.

WATCH FOR: US Retail Sales & CPI for USD, Brexit votes for GBP, Bank of Japan monetary policy

FX Outlook

EUR/USD

Watch for: *The old key floor around $1.1300 is now key overhead supply.*

Outlook: The outlook for the euro is under pressure and this could be a key week for the medium term positioning. Breaking through the floor of the support band $1.1215/$1.1300 seemed to be a game changer, but the market has quickly rebounded back into the old band again. If this band is now seen as overhead supply and becomes a basis of resistance, it would open the prospect of $1.1000/$1.1100 in the coming weeks. Decisive closing above $1.1300 would be a rejection of the break. Momentum is negative and suggests that the bulls are under increasing pressure.

GBP/USD

Watch for: *Negative near term momentum but technicals may not be in charge this week.*

Outlook: Cable has turned decisively corrective again within the medium term range. Successive pivot supports are being breached with corrective momentum and trading below $1.3000 leaves Cable back in the $1.2800/$1.3000 neutral zone again. However, beware that technicals may not be in charge of the outlook this week as a series of key votes on Brexit in Parliament are likely to be seen which could again change the landscape on the Brexit process. A move through resistance at $1.3050/$1.3100 re-opens the $1.3300 resistance again.

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Equity Markets

There are two factors impacting on bond markets right now. The negative impact on risk appetite from the global cyclical slowdown and newsflow on the US/China trade negotiations. The trouble is that whereas previously there had been a consistent boost to equity markets on the increasingly positive rhetoric surrounding the trade talks, it seems as though now there needs to be concrete progress. The upside potential from a resolution may be limited. However, this was added last week to the perception that the ECB in trying to stay ahead of the curve, is actually panicking at what it sees as renewed economic slowdown. Normally a dovish shift from a major central bank would be risk positive/equities positive; but not this time. The rallies that have characterized much of 2019 are losing ground now. Whilst the uptrend channels of the German DAX and French CAC are still intact, if the momentum of bad news continues this week, there could be a significant downside break. For the DAX, there is a key support of a breakout above 11,370, but the uptrend channel rises between 11,260/11,360 and is a key level to watch. For the French CAC, the key support is around 5200. The FTSE 100 in the UK has had the added dimension of a negative correlation with sterling, but there is the prospect of a top pattern that would complete below 7040. The downside pressure could therefore be ramped up on FTSE, should there be a move in Parliament towards a softer Brexit that would see sterling jumping back higher again, and by association put pressure on FTSE 100 lower.

WATCH FOR: Falling bond yields will hit equities, Brexit votes could see the FTSE underperform

Index Outlook

DAX Xetra

***Watch for:** The support band 11,370/11,415 is key for the bulls to retain control of the channel*

Outlook: The breakout band of support between 11,370/11,415 is key for the bulls in the coming days. For now, the corrective move can be contained within what still looks to be a bull market correction. However, losing a breakout support would mean that the outlook begins to look under more pressure. Near term moves on momentum are negative, but still well within positive medium term configuration and corrections are a chance to buy. However this outlook would shift below 11,370. The channel support is at 11,265 initially.

FTSE 100

***Watch for:** Holding support at 7041 is key with resistance between 7200/7260 mounting*

Outlook: The rally on the FTSE 100 has once more fallen over around 7200 and now there is an increasing prospect of a head and shoulders top formation as FTSE 100 really struggles to replicate the recoveries of other markets. This would complete on a closing breach of 7040 which would take the market to a five week low and imply around 220 ticks of further correction in the coming weeks. The momentum indicators are not suggesting anything too negative yet, but given the deterioration on Thursday and Friday last week, how the bulls respond in the early sessions this week could be crucial. There needs to be a closing push above 7200 for the bulls to consider themselves more in control.

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Other Assets: Commodities & Bonds

A dovish shift from the ECB, terrible China trade data which paints a picture of continues global slowdown and a headline miss on payrolls have all contributed to a flood into safe haven assets. Even if the US dollar has been strong on reduced risk appetite**, gold** has found support on this safe haven inflow. Bond yields pulling to multi-month lows helps to generate momentum for the gold buyers, If Brexit uncertainty takes another step up this week, then the support for gold could also be strengthened.

The tight ranges on **oil** of recent weeks is starting to fall over. The market is responding to changes in expectations for oil demand amid the sharp deterioration in Chinese trade data. With the trade dispute biting into both imports and exports, this is also a reflection of a global cyclical slowdown that is hitting China and the Eurozone, two of the three major economic hubs. US oil production has pushed above 12 million barrels and surprise inventory builds put pressure on oil now. Oil sanctions on Venezuela and Iran are not enough to support oil right now.

A sharp decline on yields has been seen across major **bond markets**. Relative moves on 10 year yield differentials are key for moves on forex pairs. It was interesting to see with last week's spike lower, yields on USTs fell 11bps, Bunds fell 11bps, Gilts fell 11bps and JGBs fell 3bps. The yen is outperforming.

WATCH FOR: US Retail Sales and CPI will be watched for further US relative outperformance

Markets Outlook

Gold

Watch for: *The long term pivot band between $1300/$1310 is a basis of key resistance now*

Outlook: The big question for the bulls to ponder this week is whether after a consolidation formed support above the key reaction low at $1276, can the market now push back above the resistance of the long term pivot band $1300/$1310? Is the rebound back towards the mini-downtrend a retracement that will just fail in the overhead supply between $1298/$1302? There has been a mild improvement seen in momentum indicators, but this needs to now post serious buy signals on Stochastics and maybe even MACD. The importance of the support at $1276 has grown this week.

Brent Crude oil

Watch for: *The neckline support at $63.75 is still a key staging post for the bulls*

Outlook: The sharp intraday deterioration on Friday threatened key support $63.75/$64.00 but the market remains in a mini trading range between $64.00/$67.75. The neckline of the three month base pattern underpins the market at $63.75, whilst the 38.2% Fibonacci retracement of the big October/December correction is supportive at $64.00. The momentum indicators are reflecting the range and RSI and Stochastics are showing hints of support forming again. However, equally the resistance of last week's high at $67.00 adds a further barrier overhead. Still in wait and see mode.

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