Weekly Outlook

Monday 18th March 2019

by Richard Perry, Market Analyst

Macro Commentary

Strap yourselves in as the Brexit ride has not over yet. It could be even more wild week than the last. For a third time Prime Minister May will try to get her much maligned Withdrawal Agreement through Parliament (which needs to be done by 20th March). Whilst previous meaningful votes have failed somewhat spectacularly, this third attempt is likely to be a lot closer as the "dream" of Brexit could slip from the grasp of some MPs. Around 80 hard Brexiteer Conservative and 10 DUP MPs need to be persuaded. If they are worried that extending Article 50 would kick Brexit into the long grass, they could reluctantly be persuaded to back Mrs May. If she wins, it would drive Cable towards $1.34/$1.35. However, if MV3 fails then uncertainty grows and the power lays squarely in the lap of the EU-27, with Mrs May required to beg for an extension. An Article 50 extension needs unanimity to be granted, this is by no means guaranteed. Donald Tusk has been encouraging, but this has been thrown into doubt by sources within the French government which say they would oppose an extension. It only takes one. A crucial sticking point would be to extend for what purpose. Unless Mrs May can prove herself to be an adept negotiator (as yet something she has failed to do) then the EU-27 could reject an extension and this would massively increase the risk of the two nuclear options (exit with no deal, or forces the UK to unilaterally revoke Article 50). Sterling would plummet. Expect a nervous week with one week Cable options at their highest volatility than any time since the referendum.

Must Watch for: FOMC monetary policy

WHEN: Wednesday 20th March, 1800GMT

LAST: no change +2.25%/+2.50%

FORECAST: no change +2.25%/+2.50%

Impact: The Fed last hiked in December but Treasury yields have been falling ever since. Markets just do not believe that the Fed is going to be able to hike again, with the next move expected to be a cut. The FOMC pivoted away from their previously consistent hawkish position in January (patient and data dependent) and how positive Powell comes across in the press conference will be key. Also what sort of an impact the economic projections take from the global cyclical slowdown. Treasury yields will be crucially impacted whilst the dollar will also be reactive (along with gold).

US 10 eyar Treasury yield

US yields have been subdued underneath a 2.80% pivot throughout 2019 as the Fed has become less hawkish. Will the economic projections reflect their caution?

Key Economic Events

Date	Time	Country	Indicator	Consensus	Last
Tue 19th Mar	0930GMT	UK	**Unemployment / Average Hourly Earnings**	4.0% / +3.2%	4.0% / +3.4%
Tue 19th Mar	1000GMT	Eurozone	**German ZEW Economic Sentiment**	-11.0	-13.4
Tue 19th Mar	? (or Weds)	UK	**Parliamentary vote on Withdrawal Agreem't**	Defeat	Defeat by 149 votes
Wed 20th Mar	0930GMT	UK	**CPI** (headline / core)	+1.8% / +1.9%	+1.8% / +1.9%
Wed 20th Mar	1800GMT	US	**FOMC monetary policy**	No change +2.25%/+2.50%	No change +2.25%/+2.50%
Thu 21st Mar	0830GMT	Switzerland	**Swiss National Bank monetary policy**	No change -0.75%	No change -0.75%
Thu 21st Mar	0930GMT	UK	**Retail Sales** (ex-fuel YoY)	+3.4%	+4.1%
Thu 21st Mar	1200GMT	UK	**Bank of England monetary policy**	+0.75% (0-0-9)	+0.75% (0-0-9)
Thu 21st Mar	ALL	EU	**EU Council Summit (Article 50 extension)**	Extension (but by how long?)	n/a
Fri 22nd Mar	0900GMT	Eurozone	**Flash PMIs** (Manufacturing / Services / Comp)	49.5 / 52.7 / 52.0	49.3 / 52.8 / 51.9

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

Foreign Exchange

It turns out that the US data around the turn of the year has not been overly encouraging and this is a drag on the dollar. With US inflation (CPI and PPI) missing to the downside there is less pressure on the Fed to about turn and move hawkish again. The US 10 year yield has fallen to its lowest level sice early January and yield differentials with the Bund are helping to support the euro higher. Donald Trump's trade dispute with China is driving the US trade balance to record levels of deficit, whilst other old economy indicators are also disappointing. Manufacturing PMI is in retreat, US industrial production is disappointing and regional Fed surveys are also falling away, suggesting pressures on the US economy are growing. The Atlanta Fed's GDPNow for Q1 is running at just +0.4% which is way below the +1.5% that consensus is forecasting. This sets up for a dollar correction continuing this week. The Fed will clearly be key but if there is a significant downward revision to growth expectations the dollar losses could exacerbate. Take this also at a time in which Eurozone economic surprise index has reached record lows and contrarian signals are beginning to hint at recovery. China is stimulating again, whilst it is interesting to see Eurozone PMIs, confidence and industrial production picking up. Could this all now set up for a euro rally? As Brexit looks set to either be resolved (May's deal passes) or kicked into the long grass (extending A50), the relative performance on EUR could be about to turn a corner. Keep an eye on gains for EUR/JPY and EUR/USD if this is the case.

WATCH FOR: GBP volatility on Brexit moves; FOMC, BoE and SNB monetary policy

FX Outlook

EUR/USD

Watch for: *The resistance $1.1420 remains a key gauge for a recovery.*

Outlook: The technical improvement in the euro depends upon the euro holding on to the recovery back above $1.1300. If this can continue this week then the bull confidence will increase. There is a momentum improvement to go along with the tick higher in the price, but this is still all playing out in the backdrop of a run of lower highs, with the latest being the February high of $1.1420. The recovery needs to break through this resistance to really suggest this recovery could be sustainable. Losing $1.1300 on a closing basis would tempt the sellers back in.

GBP/USD

Watch for: *Can the bulls hold on to the recovery this week?*

Outlook: Cable is looking to breakout above the resistance band between $1.3300/$1.3450 which has capped recoveries since May 2018. This is as Brexit is now coming to a head in the next two weeks. Momentum indicators are positive and $1.3000 will remain a gauge as a key floor of support. The market has not closed below $1.3000 for a month now and a 2019 uptrend is supportive around here this week. If the bulls get some good news on Brexit then expect there to be a jump higher through $1.3450 and this would open $1.3700/$1.3800 as the next resistance band.

T: +44 (0) 20 7036 0850 | E: info@hantecfx.com | W: hantecfx.com

Equity Markets

Global equity markets have made remarkable recoveries in 2019. They are now toying with some key resistance levels which means a series of crossroads have been reached. For example, on the S&P 500 there is a band of resistance between 2800/2816 which is key resistance to overcome. Purely on an earnings perspective, the expectations for Q1 are looking pretty poor. A significant scaling back of expectations has already taken place. According to FactSet, at the end of 2018 the market was anticipating +2.8% earnings growth, but as things stand this is now -3.4%. This certainly would not paint a strong picture for US GDP growth in Q1. So, the big question is whether these rallies have got more in the tank? It could rely on what the Fed say on Wednesday. A positive lean on the economic outlook whilst portraying patience and data dependence may help to reassure traders and help support the S&P 500 for further gains. A shift in policy from China for fiscal expansion to support the economy is also likely to help equities in the coming weeks too. If this comes at a time where the US and China can come to an agreement over trade then this would certainly be equities supportive too. As an export heavy index the DAX would be primed to outperform in this environment. A breakout through resistance of the old long term pivot band 11,725/11,865 would be a technical signal to watch. A removal of Brexit uncertainties would help the UK economy in the long term but if an extension of Article 50 is only short term (three months) then it would be a negative. Brexit optimism now questions the negative correlation for FTSE and GBP.

WATCH FOR: Latest Brexit developments, FOMC monetary policy

Index Outlook

DAX Xetra

Watch for: *The long term pivot 11,725/11,865 is key resistance.*

Outlook: The bulls are still positioning for a near term break of resistance at 11,677 but this would just be a gateway for a test of the long term pivot band 11,725/11,865. This was the old crucial floor of trading through much of 2017/2018 and is a source of long term overhead supply. How the market deals with this resistance band I the coming weeks will be crucial. The recovery uptrend of the past few months is still on course with momentum indicators positively configured, so if the bulls can overcome the resistance it would really open upside towards 12,450 in due course.

FTSE 100

Watch for: *Momentum indicators are turning positive for a test of the 7260 resistance*

Outlook: The medium term recovery on FTSE 100 has also got a basis in an uptrend channel, whilst the strong medium term configuration on momentum indicators continues to suggest weakness is a chance to buy. However, the rally throughout last week has now moved back into a kay resistance area. On a long term basis the resistance is 7200/7300 but nearer term the February high of 7260 is key to watch this week. Looking at the near to medium term buy signals on RSI (above 60) and Stochastics along with MACD lines ready to cross higher, this would suggest the bulls are ready to make their move. Support at 7040/7075 is growing.

Other Assets: Commodities & Bonds

A correction on the dollar is gathering momentum and this improves the prospects for **gold** once more. US data disappointments are increasingly prevalent and are a drag on Treasury yields and a drag on the dollar, all of which provides a boost for gold. A continuation of Brexit uncertainties are also gold supportive. On the charts, the long term pivot band $1300/$1310 is taking on an increasingly important role and needs to be watched as a technical trigger signal.

Oil prices broke out to new 2019 highs last week. Whilst the bulls are consolidating these moves, corrections are a chance to buy. The fundamentals of supply are broadly supportive as although the US production is around 12m barrels per day, reduced supplies from Venezuela and Iran whilst self-imposed restrictions from Saudi Arabia help to support the price. However, taking the improved prospects seen as China is moving to support the economy (Premier Li announced hundreds of billions of tax cuts and infrastructure spending recently) and this should help to drive demand for oil in the coming weeks.

Major **bond yields** are still a source of key moves across markets and for Treasury yields the data remains key. US data has underwhelmed in the past week and the US 10 year yield has fallen to its lowest level in two months. With relative Eurozone and UK data points holding up, this has implications for yield differentials.

WATCH FOR: Brexit vote and Article 50 extension. FOMC will be key for the US Treasury yields

Markets Outlook

Gold

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

Outlook: A choppy week of trading means that the market is now marked between two crucial levels. The support of the January floor at $1276 and the March lows above $1280 leaves $1276/$1280 as crucial. However, on the upside the market failed in a break back above the long term pivot band $1300/$1310 which is now a key ceiling this week. The momentum indicators are intriguingly poised too, with the bulls needing to pull the RSI above the mid 50s to suggest the upside is truly open once more. How the market deals with these levels in the coming weeks will be crucial for the outlook.

Brent Crude oil

Watch for: *The bulls continue to eye a decisive breakout above $67.75*

Outlook: The there is a continuation of the recovery uptrend on Brent Crude even though the market just failed to close at 2019 highs last week. Momentum indicators are positively configured on RSI, MACD and Stochastics positively configured to suggest buying into weakness. Watch for a continuation of the run up along the rising 21 day moving average which has been an excellent gauge for the rally since the middle of January. A close above $67.75 opens the medium term pivot at $70.30 which is the next key test. The importance of support at $63.75 is growing ever greater.

T: +44 (0) 20 7036 0850 | E: info@hantecfx.com | W: hantecfx.com

Trust Through Transparency

Hantec House, 12-14 Wilfred Street, London SW1E 6PL
T: +44 (0) 20 7036 0850
F: +44 (0) 20 7036 0899
E: info@hantecfx.com
W: hantecfx.com