Traders Corner

Market Commentary, Live Trades, Education

Nicky Ong

Dollar Fundamental Outlook

TRADERS CORNER WEEKLY OUTLOOK ISSUE 45

The dollar Index drifted lower last week on the back of some disappointing data. Reports show the U.S economy surprisingly contracted in the final quarter of 2012, although the headline number is slightly misleading. Consumer related growth actually picked up, however, government defence spending plunged to the lowest level in 40 years. So all in all, not as bad as -0.1% would suggest.

The First FOMC Rate Decision of the year was just an opportunity to confirm their commitment to the current policy of purchasing assets at a rate of $85bn per month. There was no hint of the Federal Reserve looking to slow the rate of easing. There was a subtle upwards assessment of the U.S economy.

On the labour front Unemployment Claims came in above expectations again, whilst Non-Farm Payrolls added less jobs than forecast, but was supported by a positive revision from last month. The Unemployment rate ticked up to 7.9%.

The dollar got a welcomed boost on Friday as ISM Manufacturing PMI came in at 53.1, the highest level since June 2012.

On the chart the Dollar Index has completed a bearish head-and-shoulders pattern when price broke below the 79.00 handle. A break of Friday's low is expected to have bearish implications.

This week Factory Orders, ISM Non- Manufacturing PMI, Unemployment Claims and Trade Balance make up the headlines. Factory Order are expected to rebound after last month's flat number. ISM Non-Manufacturing PMI has been comfortable above the critical 50.0 level for the past 3 years, and this expected to continue but with a slight decrease to 55.2 from last month's 56.1. As always Unemployment claims will draw market focus – 361k expected. Finally, U.S Trade Balance is expected to narrow to -45.8bn from -48.7bn last month.

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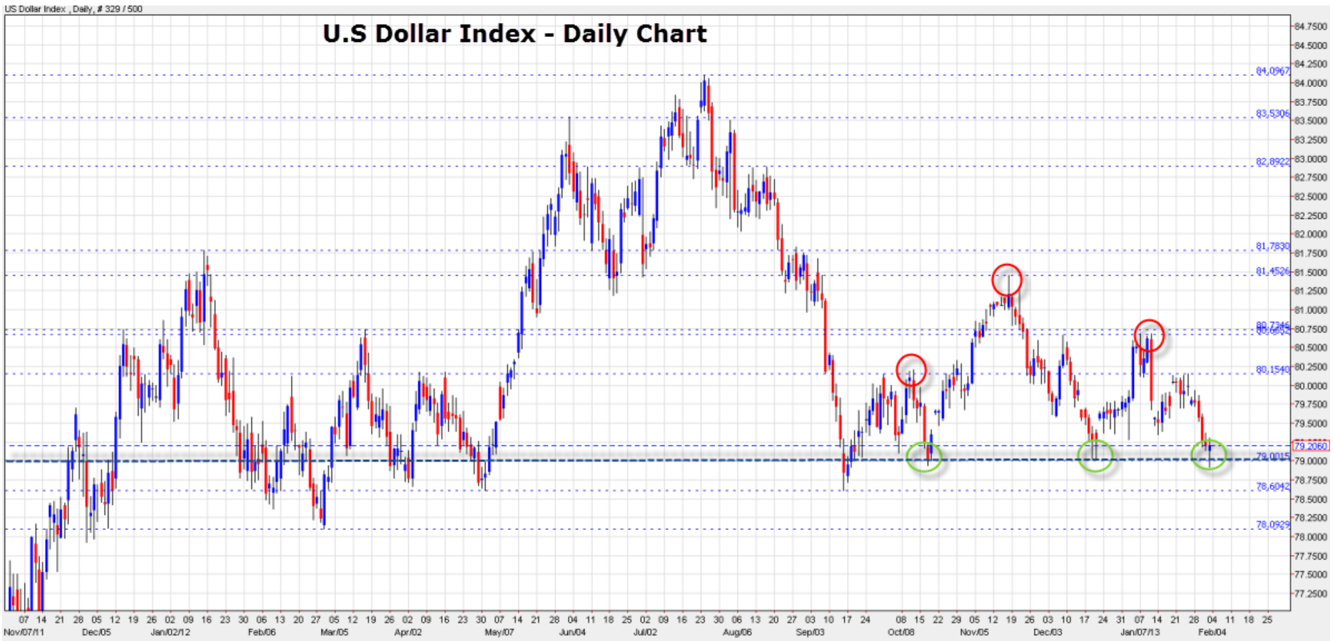
Dollar Technical Outlook



- Price broke key support on the 79.00 handle.
- Break below 79.00 handle is expected to have bearish implications.
- Bearish dollar price action will be reflected in EUR/USD (positive)
- Neutral bias – bearish below 79.00 handle.

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Euro Fundamental Outlook

The dollar's weakness was seen most prominently against the Euro last week as money flows into 'risk on' assets continued. Hopes that the worst of the Eurozone debt crisis is now behind us fuelled gains in EUR/USD, propelling the pair to another weekly gain. Not even soft headline numbers in U.S GDP or payrolls data put much of a break on rally in EUR/USD.

The combination of "euro-zone crisis is over" rhetoric from officials within the ECB (Europe's new form of mild verbal intervention), coupled with the boost that European banks were paying back LTRO funds ahead of schedule has resulted in ideal conditions for risk based rally in the single currency. Reports showed that Spanish banks repaid almost a third of their three-year LTRO borrowings, signalling a healthier than expected banking sector in the region.

Data last week was largely mixed as Unemployment in the Eurozone declined to 11.7%, whilst the number of unemployed people in Germany also fell. However, Spain's GDP contracted by -0.7% instead of -0.6%.

The major event this week is the ECB's interest rate announcement. It is generally expected that the ECB will wait for additional data to assess the state of region before committing to changes in monetary policy. Yes, Mario Draghi has talked up the Eurozone's 'positive contagion', but I expect the ECB to maintain a 'wait and see' approach to monetary policy.

Aside from the ECB rate decision we'll see Spanish Unemployment, Regional Retail Sales, and German Factory Orders and Manufacturing PMI.

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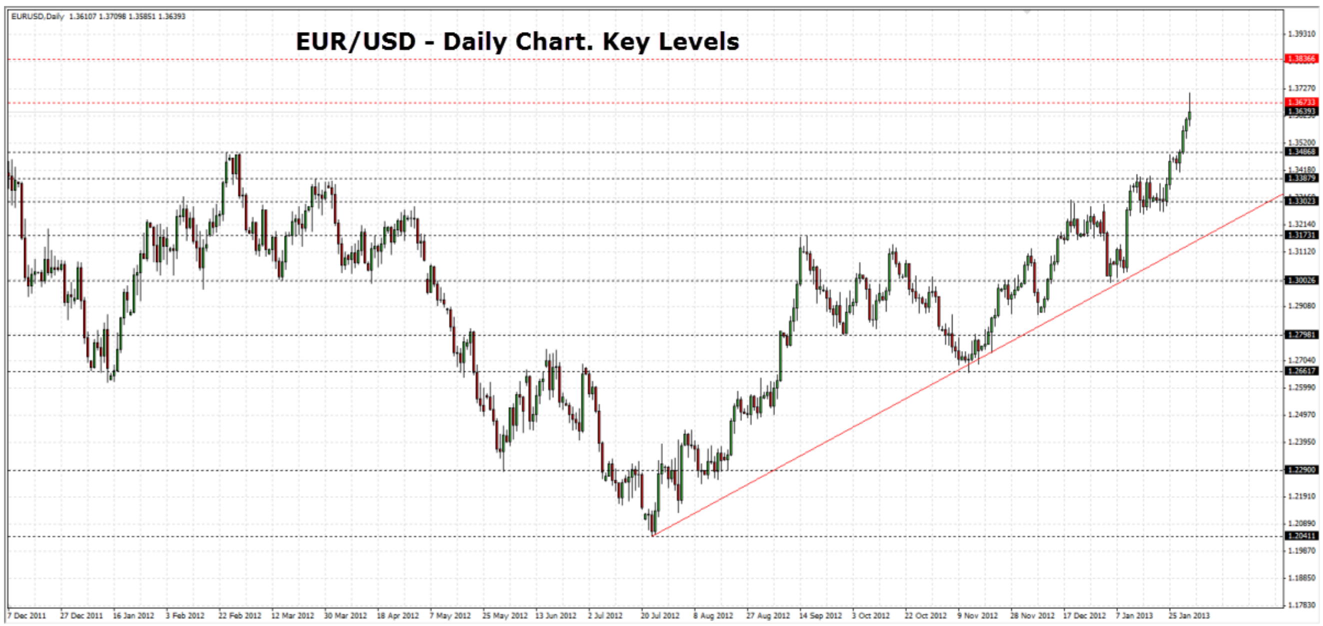
Euro Technical Outlook



- As mentioned last week the EUR/USD rally found resistance on 1.3673 key level.
- Consecutive higher highs and higher lows confirms uptrend.
- A break above Friday’s highs at 1.3708 signal a continuation of uptrend. Paves the way for move up to 1.3836 key level
- Pullbacks to find support around 1.3486, 1.3387, 1.3300.
- Bullish bias.

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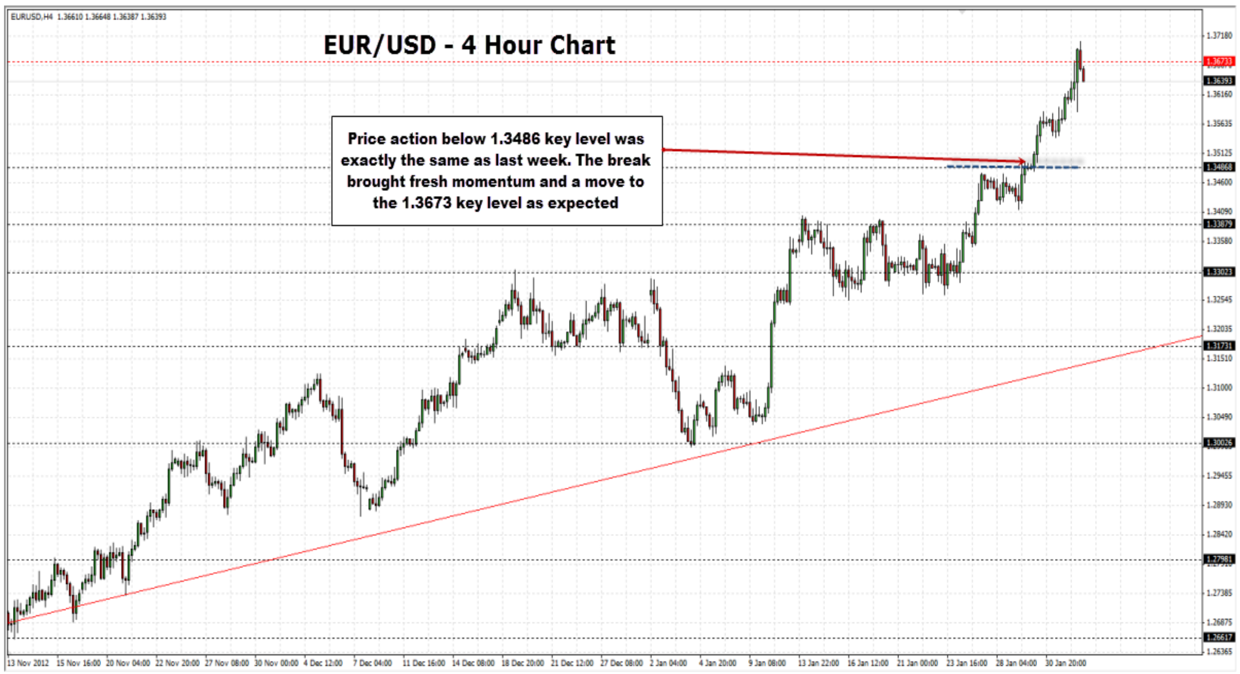
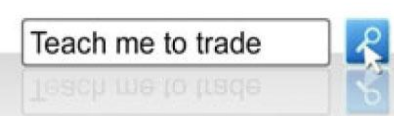
Euro Technical Outlook





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Cable Fundamental Outlook

GBP/USD ended the week lower after a much needed pullback in early week trade was soon reversed in favour of the longer term trend as Manufacturing data reflected an economy slipping back into another recession.

The slide in cable was an exception to the European trend as the pair hit a five-month low of 1.5716, and remains under heavy pressure as investors worry over the potential triple-dip recession risk. Recent GDP data coupled with dovish rhetoric from incoming BOE Governor Carney gave sterling little chance of forming anything more than relief pullback in the longer term downtrend.

Price action suggests a break through Friday's lows will bring a swift move to the 1.5648 key level, and ultimately the 1.5600 handle.

The BOE Rate Decision on Thursday is the major release this week, although much like the ECB the BOE are not expected to alter interest rates or asset purchases. The slowdown in the U.K economy is widely publicises, but this is I can't see the central bank moving on monetary policy until they have a clearer assessment of the economy.

Services PMI is expected to come in below 50.0 for a 2nd straight month confirming the downtrend in this sector, whilst Manufacturing Production (on Thursday) should pop up after last month's contraction.

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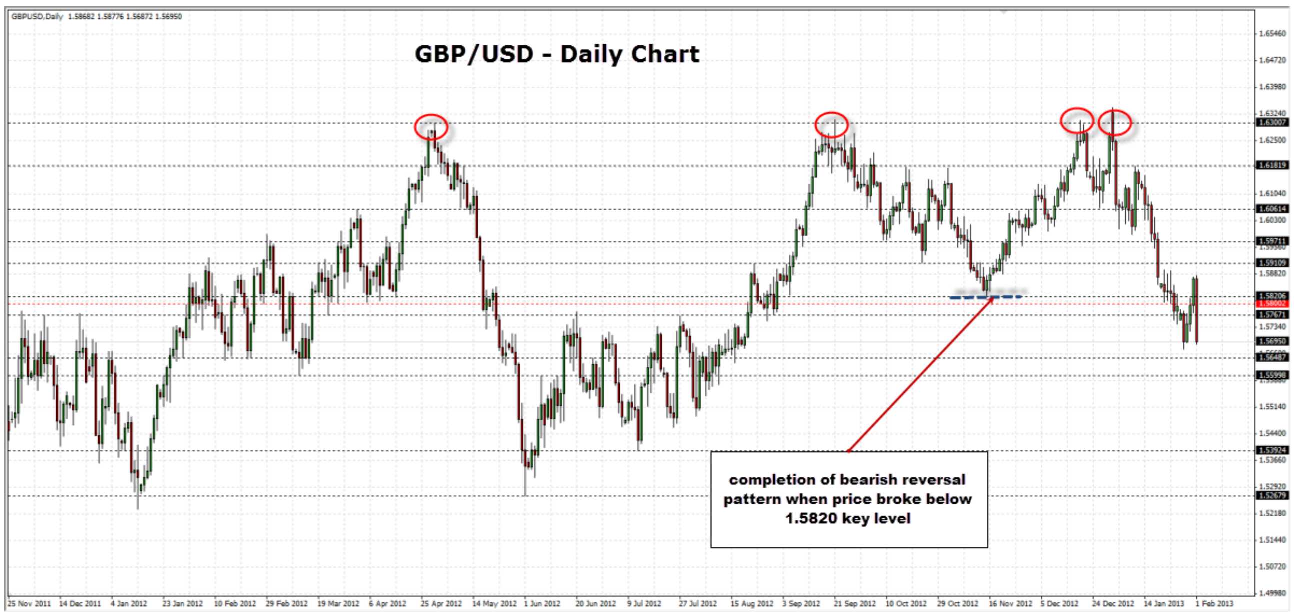
Cable Technical Outlook



- GBP/USD has been unable to break above the key 1.6300 level since August 2011. Remains a major resistance level.
- Decline through support at 1.5820 triggered the bearish price action mentioned in last week’s report.
- A break through Friday’s lows brings the 1.5648 key level and 1.5600 handle into play.
- Previous support now becomes resistance for pullbacks (1.5910, 1.5971, 1.5820, 1.5767)
- Bearish bias with rallies sold at key levels

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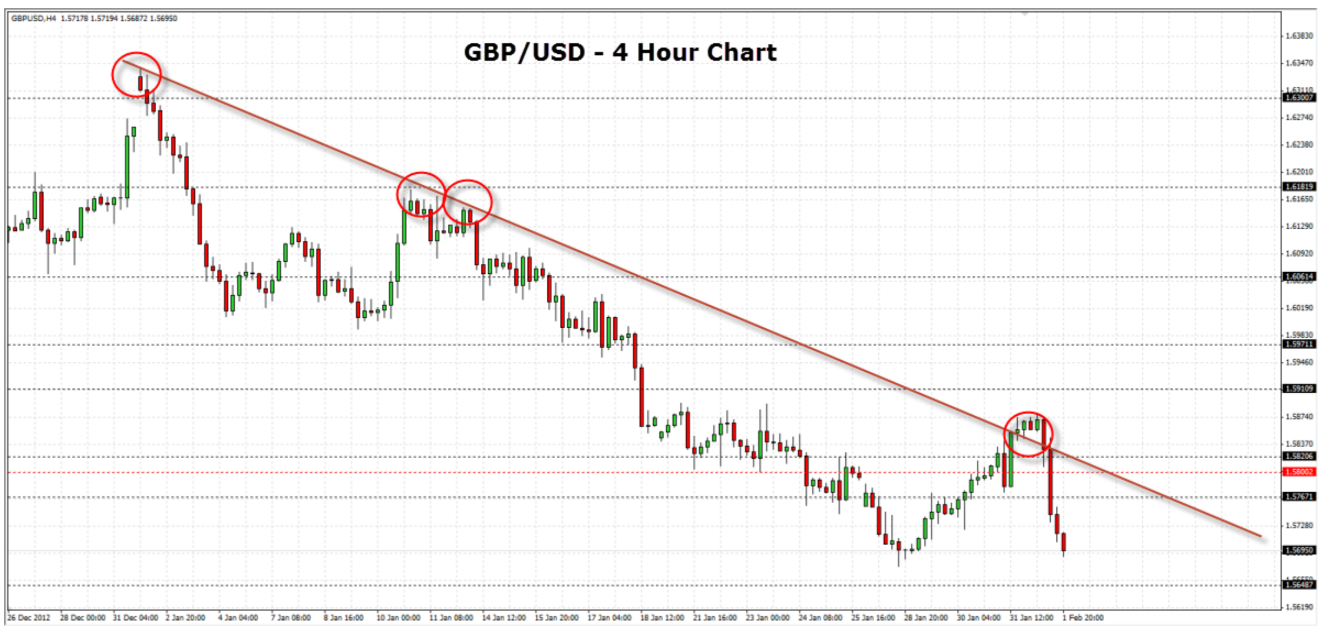

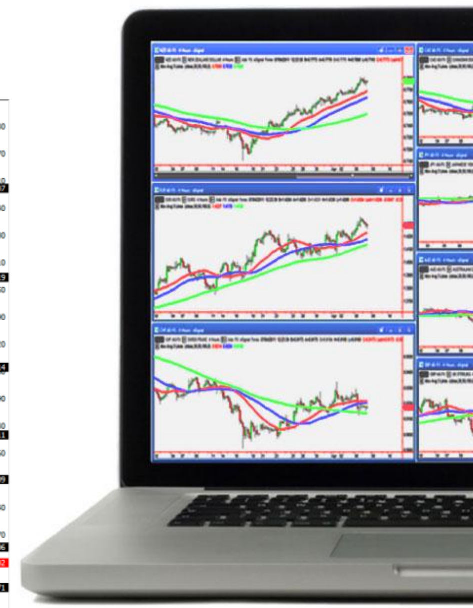

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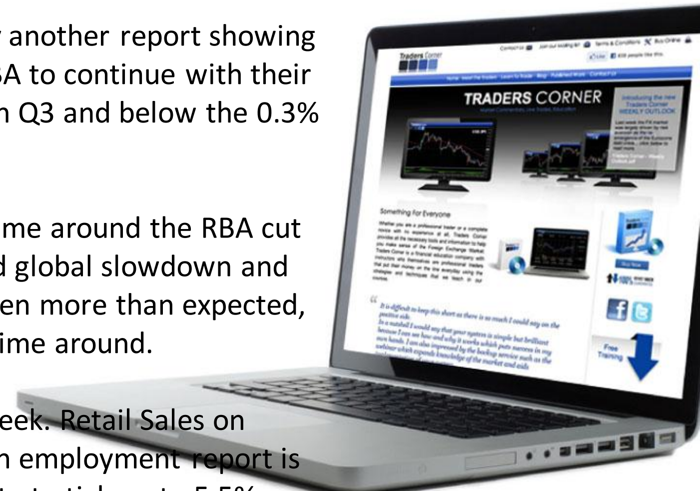
Aussie Fundamental Outlook



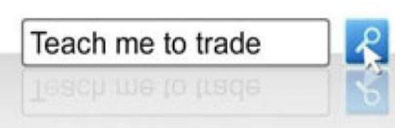
AUD/USD did very little last week as the ‘risk on theme’ in the markets were off-set by another report showing inflationary pressures in the Australian economy eased again, making a case for the RBA to continue with their rate cut cycle. PPI increased by 0.2% in the final quarter of last year, down from 0.6% in Q3 and below the 0.3% forecast by experts.

This week the RBA Rate Decision is due for announcement on Tuesday morning. Last time around the RBA cut their key interest rates by 25 basis points to 3%, the lowest level since April 2009, amid global slowdown and sluggish pace of consumer spending. Since the last rate cut CPI and PPPI have both fallen more than expected, however, inflation is in line with the medium-term target. No change is expected this time around.

Besides the rate decision there is a host of top tier data for the Australian dollar this week. Retail Sales on Wednesday morning should show an improvement from last month’s decline, whilst an employment report is expected to show an additional 6.1k jobs added last month, but the unemployment rate to tick up to 5.5%.

The week closes on Friday with the RBA Monetary Policy Statement to give us an insight in to the central bank’s economic and monetary policy outlook. Finally Trade Balance and Inflationary data out of China (Australia’s major trade partner) will cause a stir.

AUD/USD is back below the longer term sloping resistance, but we’re still looking for a break below the 1.3415 key level in order to give short sellers a reason to get involved.



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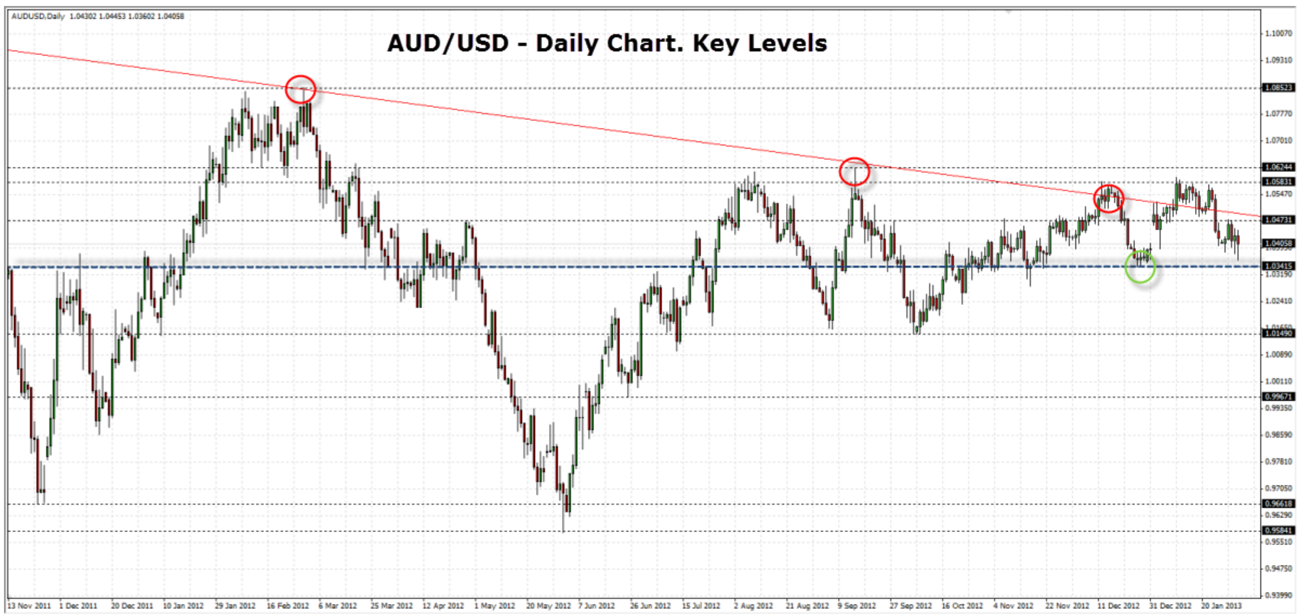
Aussie Technical Outlook



- AUD/USD was unable to break above 1.0624 key level and as a result selling has set in.
- Selling has pushed price back below longer term sloping resistance.
- Break of 1.03415 is expected to see price fall to lows of medium term range.
- Support at 1.0341, below brings in to play 1.0149 key level.
- Neutral bias. Bullish above 1.0624. Bearish below 1.0341.

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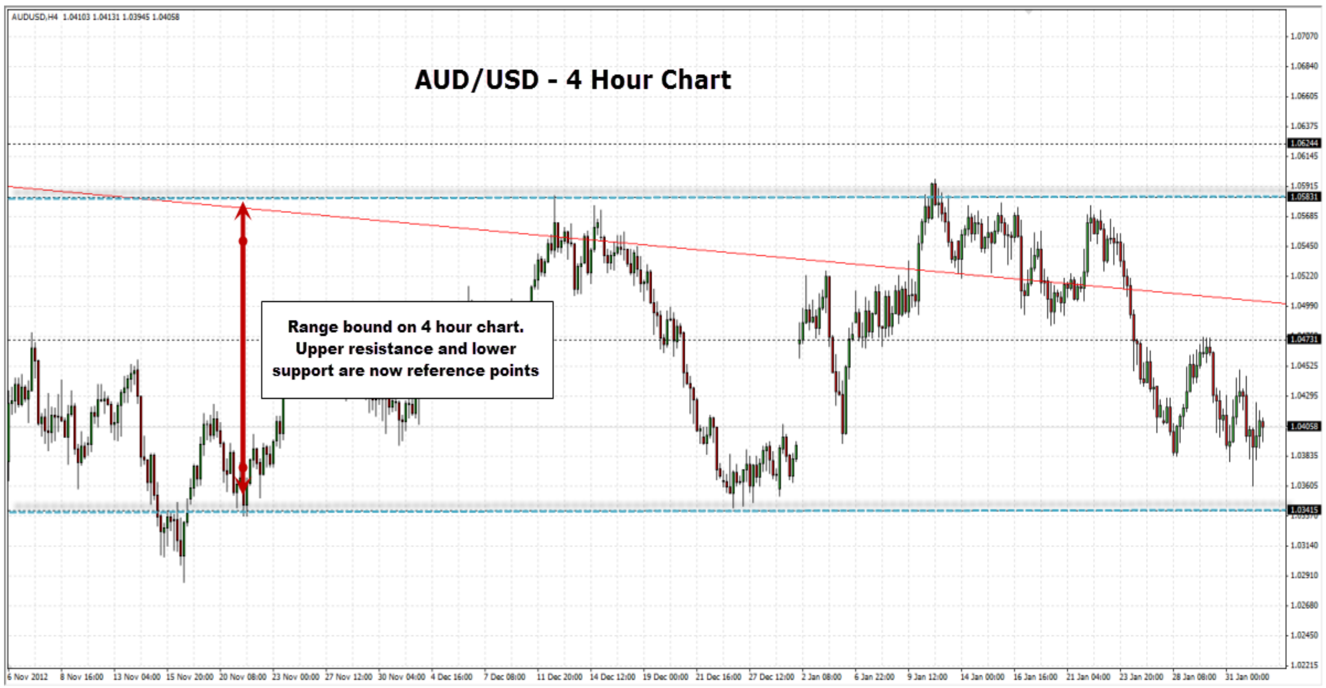

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Yen Fundamental Outlook

Another week, another rally in USD/JPY, this time taking out another key level at 92.30. Japanese officials shrugged off criticism from the Davos summit against Japan's decision to embark on a weak Yen policy allowing bullish price action to continue for the 11th week on the trot.

The climb in the U.S 10 year Treasury yield above 2% added further support for this pair. There is a clear correlation between the instruments, similar to the inverse correlation the Euro enjoys with yields on peripheral debt.

Japanese data last week offered very little to be positive about. Industrial Production missed expectations, whilst cash earnings and Household Spending also disappointed showing the new government are right to do all they can to stimulate the economy.

This week the data cupboard has on the Current Account report to really look out for. After a brief blip back in November Japan have posted surplus each month since, another 0.24trl is forecast by analysts. If we see a disappointing number it will give investors another reason to sell the Yen. As if there aren't enough reasons already!

USD/JPY has resistance at the 93.77 to target if we get a break above Friday's highs. Beyond 93.77 the 95.00 handle becomes the target.

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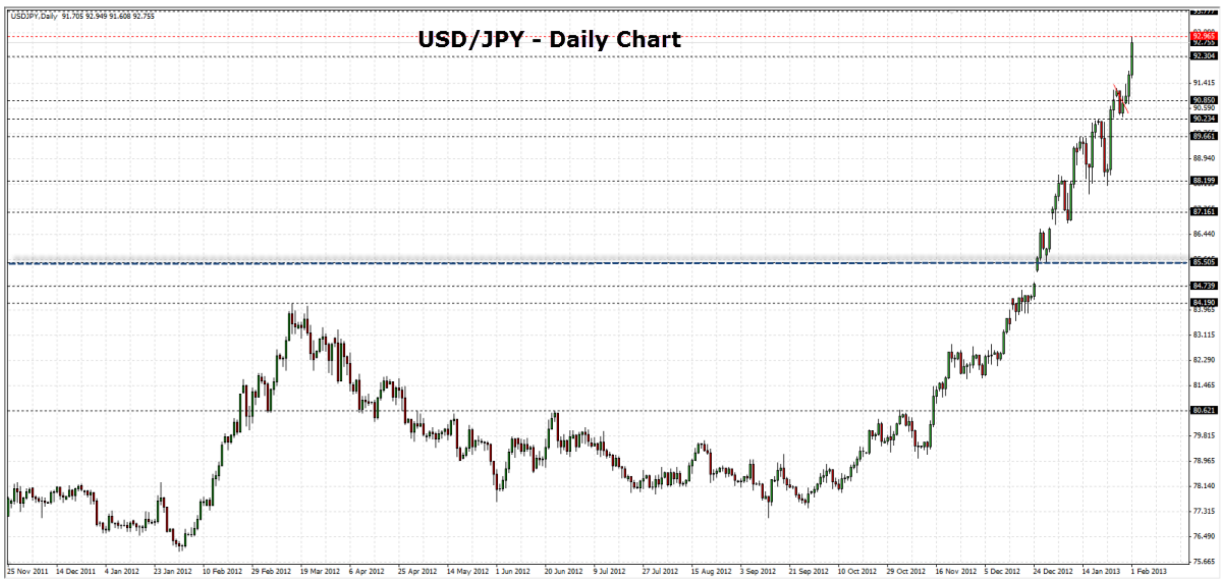
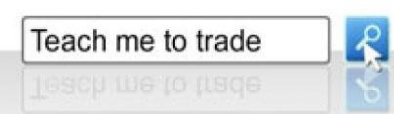
Yen Technical Outlook



- USD/JPY has reversed the longer term downtrend (since 2007). The break of the 85.51 key level has triggered extremely bullish price action as expected.
- Another fresh higher high has been set on the weekly chart, this is bullish.
- Major Resistance can be found at 93.77 key level.
- Expect pull backs to find support on previous key level as marked on the chart.
- Bullish bias.



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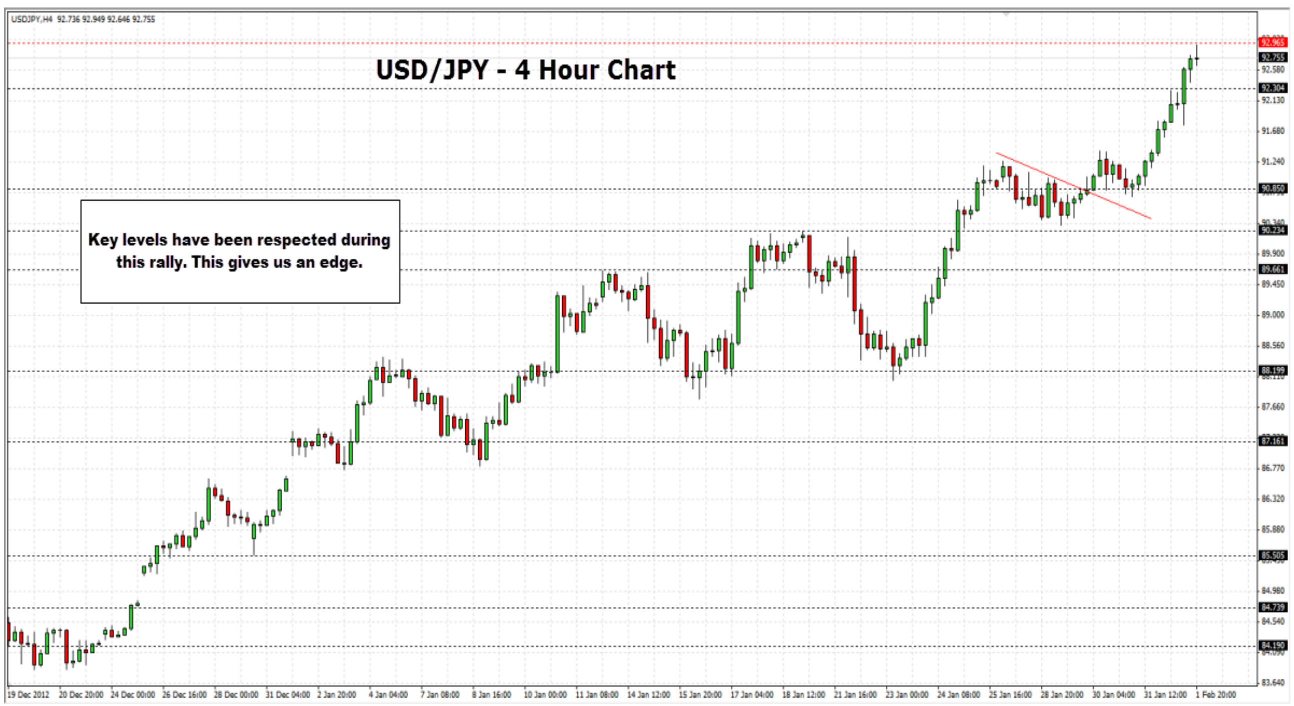

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