Consultancy
Intelligence
Publishing

WEEK AHEAD BRIEFING NOTE

May 3rd /// 2021

Will Bank of England be First Central Bank to Start to Taper?

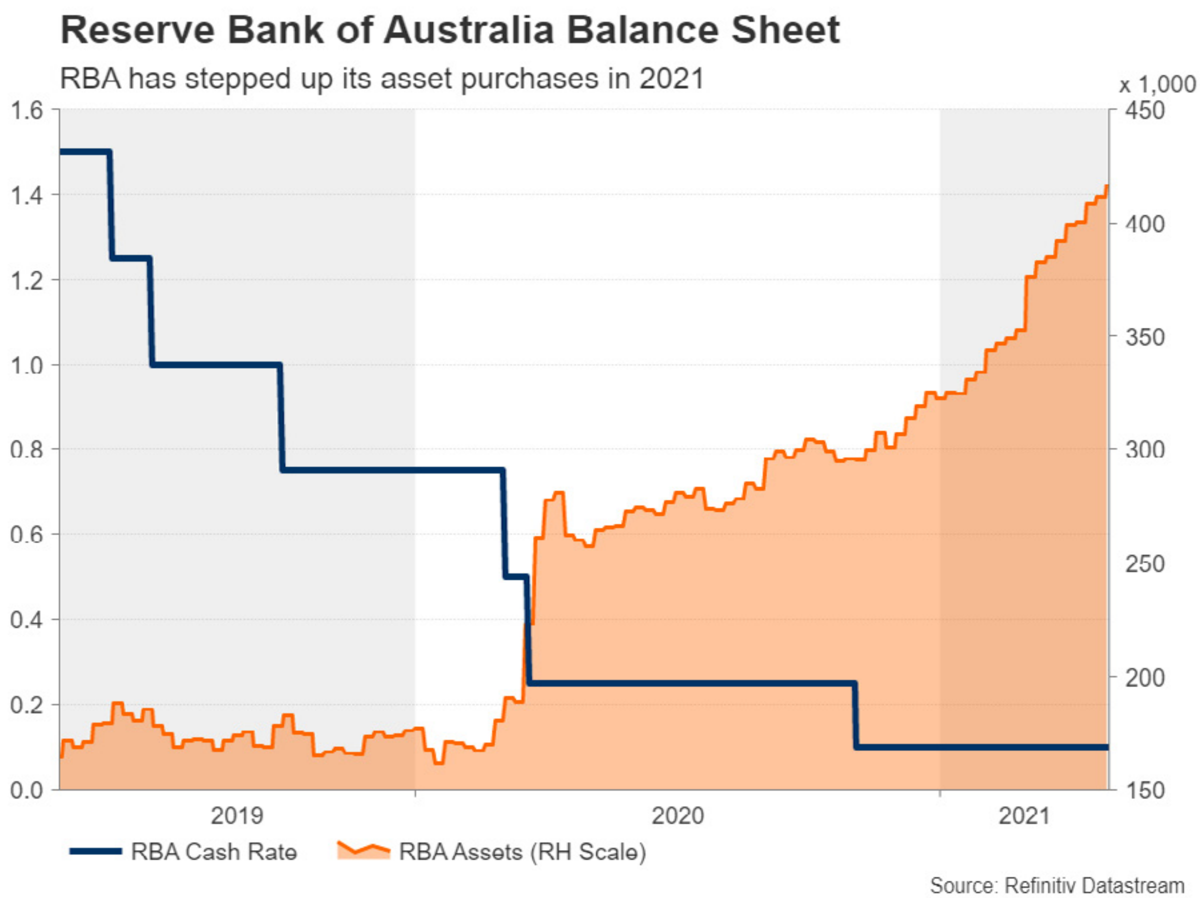
Will Bank of England be First Central Bank to Start to Taper?

The central bank theme will continue over the next seven days with policy meetings by the Reserve Bank of Australia and Bank of England. The RBA will probably maintain some caution after weak inflation figures but there is some speculation the BoE could start to taper its asset purchases as early as the May meeting. On the data front, the nonfarm payrolls report is due out of the United States. However, after the Fed once again dismissed talk of an early withdrawal of stimulus at its FOMC meeting, employment numbers out of Canada and New Zealand might stir more reaction in FX markets.

RBA to update forecasts, keep policy unchanged

The Reserve Bank of Australia has been one of the unexpected doves of the central bank world during the pandemic, launching aggressive quantitative easing and yield curve control programmes. Having said that, the RBA does have a tendency to mislead markets with overly optimistic growth forecasts and there might be a repetition of that next week when the Bank publishes its quarterly economic projections on Friday. Ahead of that though, the May policy decision is due on Tuesday.

No change in either rates or QE is anticipated in May as the RBA's second round of A$100 billion in bond purchases only began a few weeks ago. It is highly likely that a third round will be announced over the summer and the updated forecasts might provide some clues on this. In the meantime, investors will be watching to see if there will be any shift in tone in the policy statement. Inflation data released in the past week revealed price pressures remain subdued in Australia. There's also the added threat of a regional hit to growth from the virus escalation in India and Japan.

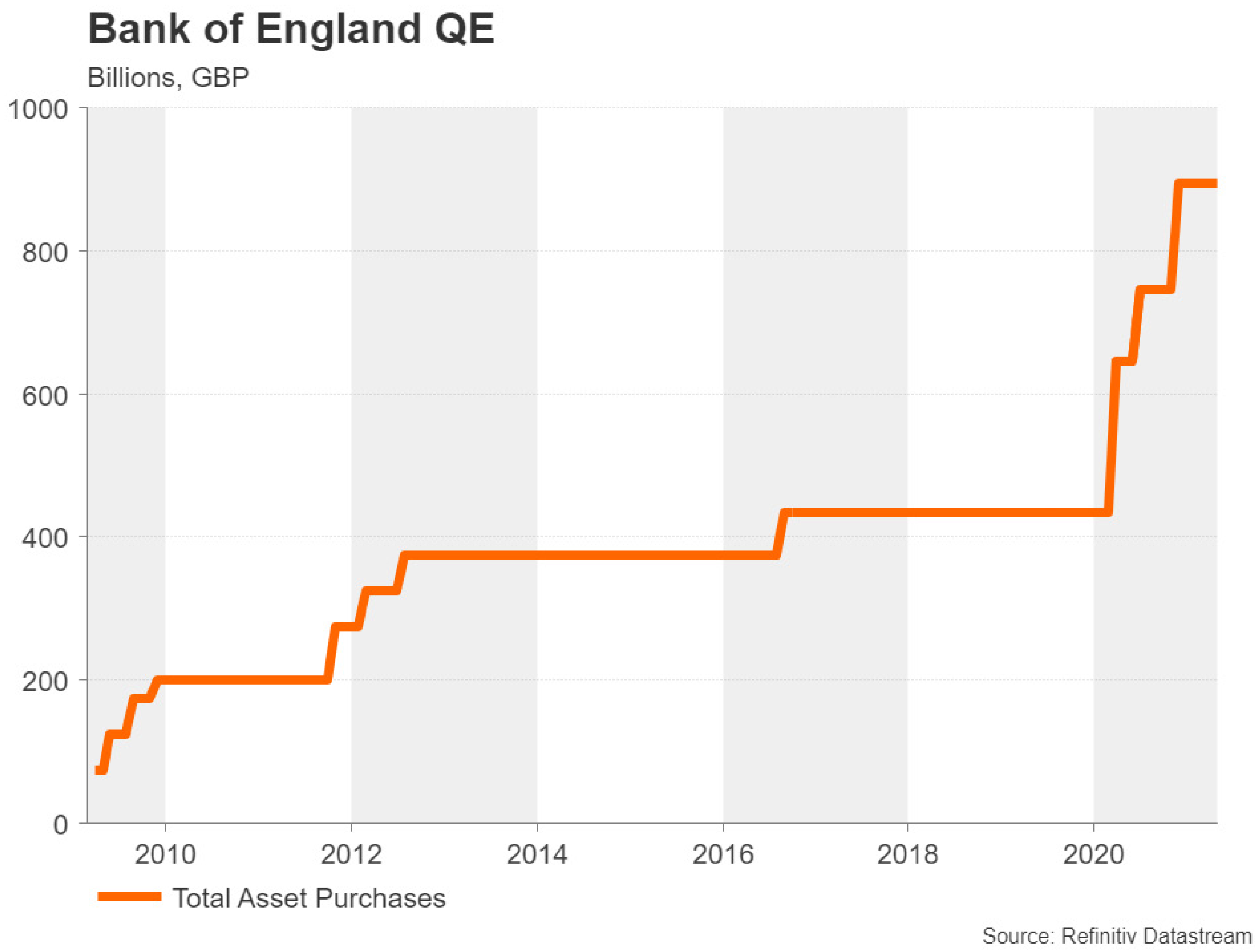


Should the RBA talk up these risks, the Australian dollar might struggle to make much headway just as the US dollar's yearly uptrend has gone into reverse.

Will the BoE follow the BoC's lead?

Britain's lockdown has only just ended and economic output is already soaring, at least according to the flash PMIs for April. The latest remarks from policymakers indicate the Bank of England is confident the economy will rebound strongly in the current and next quarters. Hence, growth forecasts will probably be revised higher in the Bank's quarterly Monetary Policy Report on Thursday. Investors will also be keeping an eye on the revised inflation forecasts as there is some evidence of higher input costs in the UK.

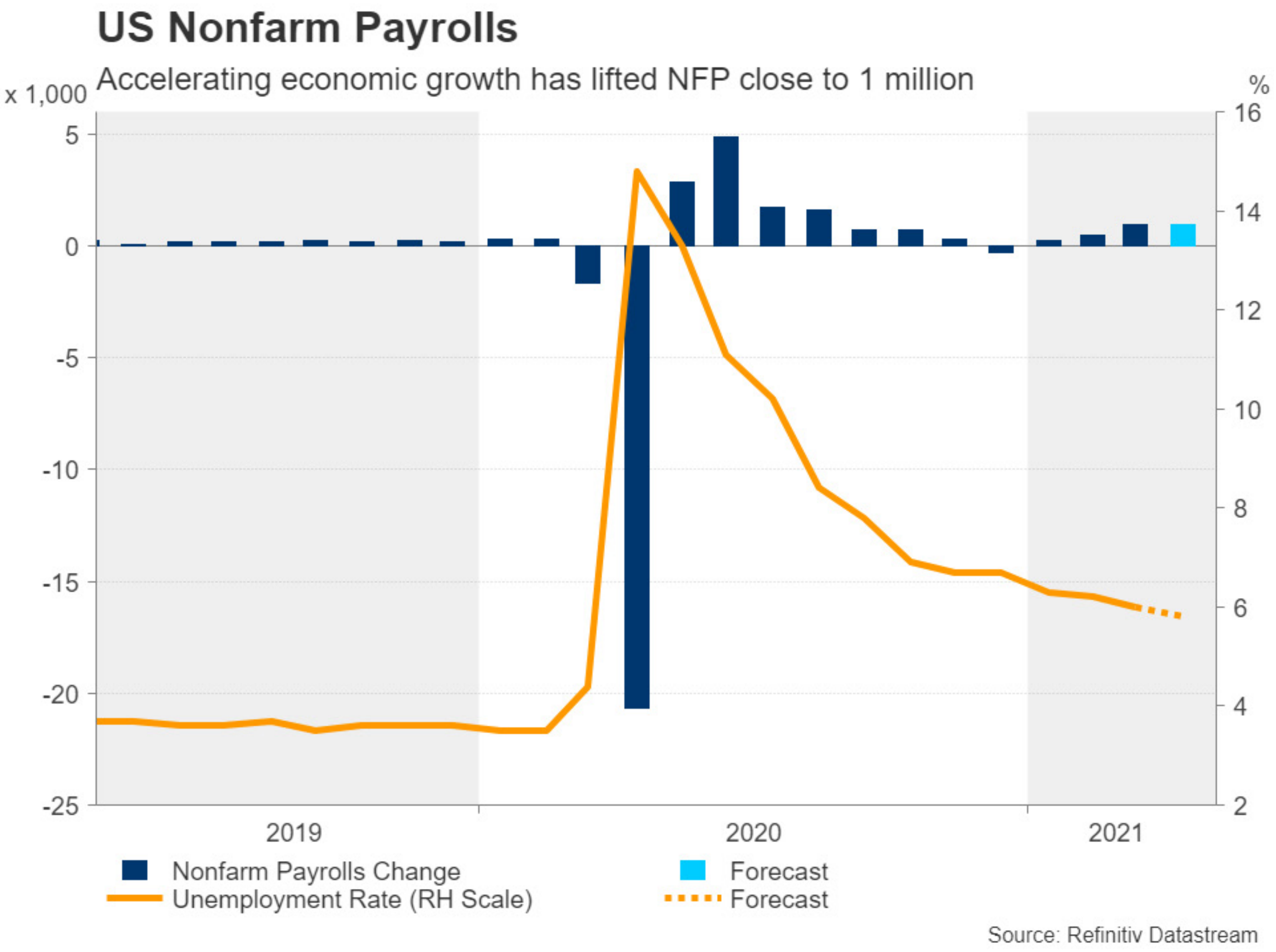
The rapid turnaround in the virus picture on the back of the prolonged lockdown and successful vaccine rollout has spurred talk of QE tapering by some analysts. However, there have been very few clues of such a move so it doesn't seem very probable that policymakers would reach a decision as early as next week's meeting. But the Bank might communicate such an intention on Thursday. If it does, the likely scenario is that the BoE will want to slow down the pace of asset purchases but spread them over a longer period of time.



Any tapering signal would come as a shock to the markets so the pound could jump higher on the news, though political storms could limit any gains. Voters in Scotland go to the polls on May 6 for Scottish parliamentary elections. Pro-independence parties are expected to secure a majority, which could force Westminster to permit another Scottish independence referendum. Local council elections in England will also be watched as Boris Johnson's Conservative party has been hit by sleaze allegations. A poor performance for the pro-business Tories could weigh on sterling.

Dollar could shrug off another outstanding US jobs report

It’s going to be a packed data week across the Atlantic starting with the ISM manufacturing PMI on Monday. Factory orders will follow on Tuesday and the ISM’s non-manufacturing composite is due Wednesday. Forecasts for all three are for an improvement over the previous period and Friday’s nonfarm payrolls report is not expected to buck the trend. After the impressive +916k gain in March, the US economy is on course to have added another 925k jobs in April. This would push the unemployment rate down to a new post-pandemic low of 5.8%.

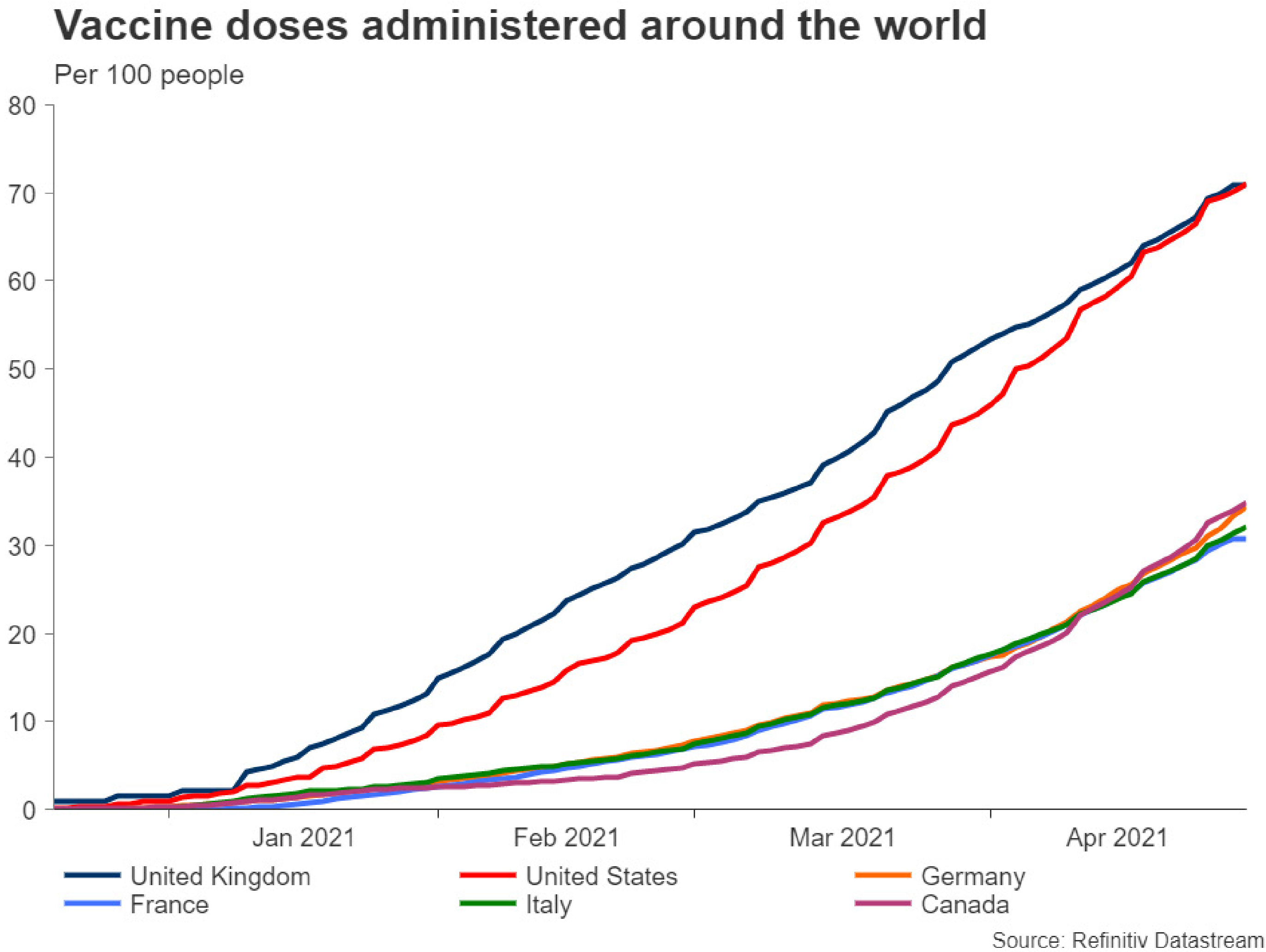


However, the Fed has become dubious of the official jobs data lately, indicating that it believes the true jobless rate is much higher. The Fed not only wants the labour market to recover fully from the virus crisis but to also get unemployment to below pre-pandemic levels. Some are worried that the excessive focus on achieving full employment will stoke inflation just as there’s price pressures brewing from other sources.

But Fed chief Jerome Powell made it clear in his post-meeting press briefing on Wednesday he wants to see several months of strong data before opening a debate about whether or not to pull back some of the stimulus. Markets aren’t so convinced as Treasury yields have started to firm again, though the dollar’s bearish bias hasn’t altered materially. A bumper NFP report isn’t likely to either.

Canadian lockdowns: a 'temporary' blow to jobs market

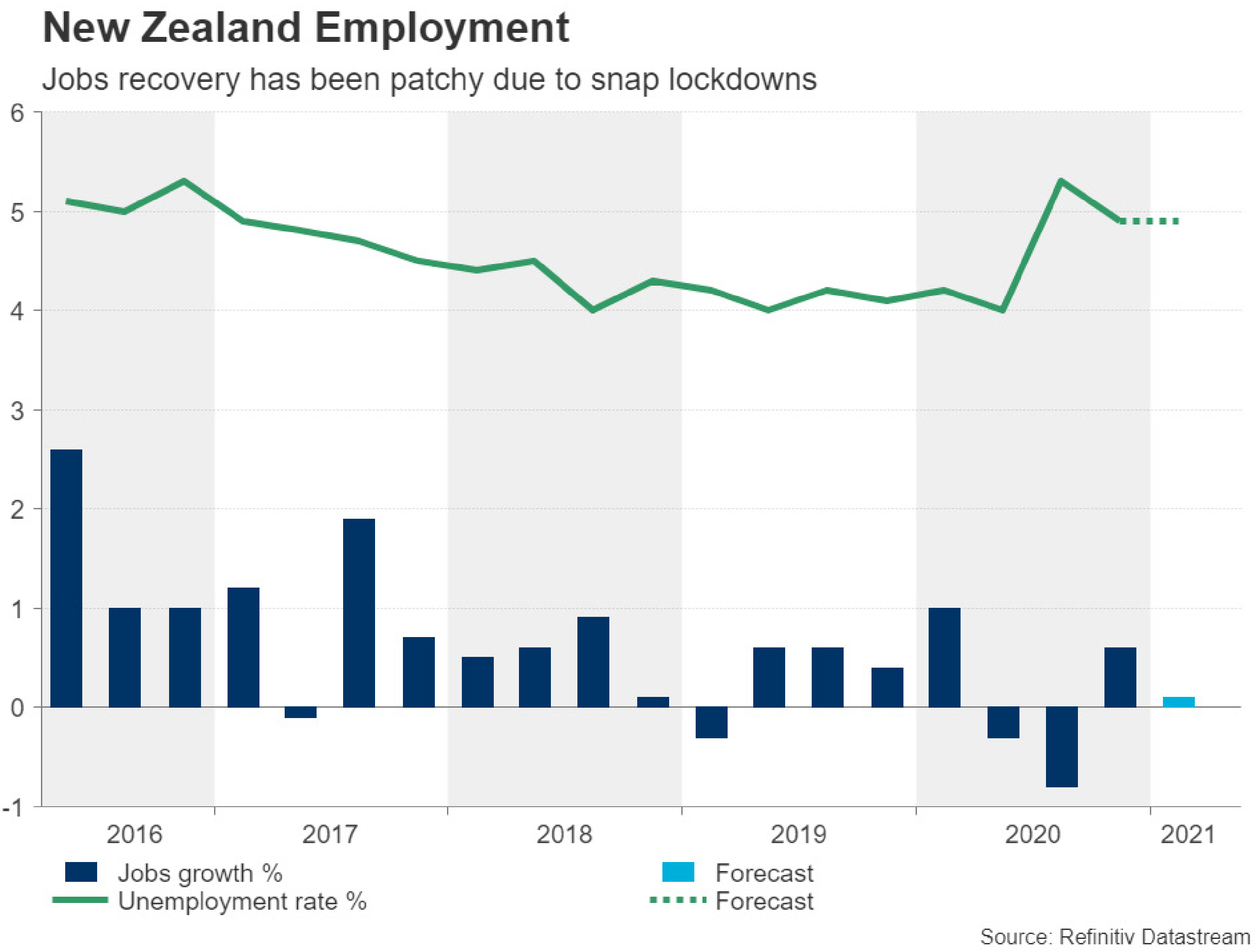
The Canadian dollar has skyrocketed to more than 3-year highs, extending its gains after the Bank of Canada reduced its weekly bond purchases by a further C$1 billion at its April policy meeting, having cut them by a similar amount back in October. The BoC is now officially the first major central bank to have begun the process of withdrawing the pandemic era emergency stimulus. A surprisingly powerful rebound in the labour market in February and March likely contributed to this decision.



However, fresh lockdowns in some provinces in April are expected to have set back the recovery so Friday's employment numbers are anticipated to be much weaker than the previous months' prints. Nevertheless, with Canada now having accelerated its vaccination pace, investors are hopeful the latest lockdowns will be the last. Still, the loonie looks vulnerable to some profit taking following its recent winning streak and poor data could be the trigger.

New Zealand's jobless rate might have ticked up in Q1

New Zealand will also be publishing jobs figures next week. Despite having maintained a low infection rate, New Zealand's recovery has not been any less bumpy than other countries. The country's largest city – Auckland – has been in an out of lockdown and fresh restrictions in February were bruising for consumers and businesses. Hiring is therefore also expected to have suffered a slowdown and the unemployment rate might have ticked up in the first quarter. But should the quarterly data out on Wednesday not point to a notable deterioration in the labour market, it would suggest there was a quick rebound in March.



This could boost the New Zealand dollar, which is currently approaching two-month highs versus the greenback, as it would bolster expectations that the Reserve Bank of New Zealand could soon start to wind down its large-scale asset purchase programme.

Weekly Comment – After dovish Fed, NFP unlikely to boost sagging dollar

The US dollar recouped some losses at the end of the week but couldn't hide the bruises endured in April as the Fed dashed any remaining expectation that it will respond to any spike in inflation. The focus next week will be on the NFP numbers. But don't expect the dollar to get excited.

RBA to stand steady as aussie tries to head north – Forex News Preview

The Reserve Bank of Australia (RBA) meets on Tuesday for its policy meeting, with a decision expected at 04:30 GMT. No change in policy is anticipated at the May meeting. The vaccination progress in the country has some delay and a dovish statement could land a blow to the Australian dollar, which has been in a slightly upside tendency over the last couple of weeks.

RBA interest rates may remain steady again

During the coronavirus pandemic, the RBA has been one of the most doves of the central banks across the world with strong quantitative easing and yield curve control programs. In the previous policy meeting on April 6, the RBA kept the cash rate steady at the all-time low of 0.1% as well as the target for 3-year government bond yields at around 0.1% and confirmed once again the size and the extension of its bond-buying plans.

No changes are predicted at the interest rates and QE on May 4 as the RBA started the second round of A$100 billion in bond purchases a few weeks ago. Policymakers expect no change to the cash rate until mid-2023. However, investors will turn their attention to see if there is a change in the policy statement. In the previous week, the annual inflation rate in Australia jumped to 1.1% in the first quarter of 2021 versus 0.9% before, which was the highest figure since Q1 2020.

The success of combat pandemic and the massive monetary stimulus with generous fiscal support boosted the jobs market and the consumer spending.

Coronavirus vaccine rollout delays

With over 29,700 infections and 910 deaths, Covid-19 vaccine rollout started in late February, but the schedule has paused several times because of unexpected factors. The campaign is using the AstraZeneca and Pfizer vaccines with authorities having a goal to cover 26 million people by the end of 2021.However, the link between AstraZeneca and blood clots paused that target. More than 2 million vaccine doses had been injected until Tuesday despite the 4 million that was the goal by the end of March.

Aussie fails to increase strong momentum

In FX market, aussie/dollar is neutral-to-bullish, holding above the bullish crossover within the 20- and 40-day simple moving averages (SMAs). If the price successfully surpasses, the 0.7840 could open the way for the more-than-three-year high of 0.8006, while steeper upside movements may hit the January 2018 high of 0.8130.

On the other hand, the price could be at risk of further bearish movement if it falls below the SMAs. Price action is likely to slip towards the 0.7570 barrier before tumbling to the 200-day SMA, which overlaps with the 0.7464 support. A leg lower could open the door for the 23.6% Fibonacci retracement level of the upward wave from 0.5505 to 0.8006 at 0.7415.

In conclusion, combined with the global vaccine rollouts and the growing expectation of a swift, full recovery, Australia's domestic strength is encouraging the consumer to maintain an optimistic outlook.

Next week's highlights:

- The RBA meets on Tuesday and will update its view on the economy. Australia's recovery remains strong but subdued inflation and regional virus surges could keep policymakers cautious, making it difficult for the aussie to gain much traction versus the flagging greenback.

- The Bank of England could turn out to be the surprise of the week. No policy change is expected on Thursday but some are speculating the Bank will begin tapering its QE programme. It's probably too soon for that and a bigger worry for the pound is the Scottish Parliament election on the same day.

- The US jobs report for April is expected to be another stellar one but don't hold your breath for any fireworks as the Fed thinks the recovery has a long way to go. However, the loonie and kiwi might be more sensitive to domestic employment numbers.

- The S&P 500 hit fresh all-time highs on the back of outstanding earnings results from the big tech companies. But overall, the mood in equity markets has been muted as much of the good news seems priced in already.

Technical Analysis – WTI futures resume hike with weakened bullish backing

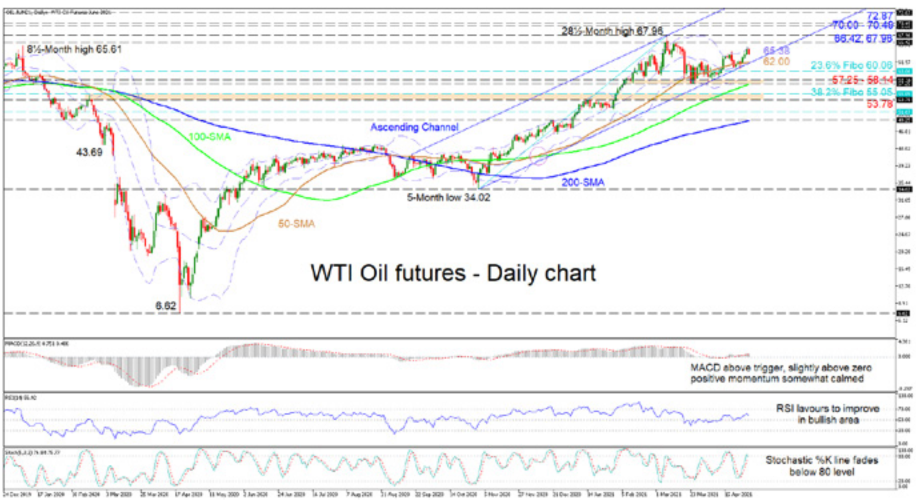
WTI oil futures' latest push higher is confronting the upper Bollinger band around 65.38, although current positive impetus appears somewhat frail. Not too far back the commodity formed a support base around 57.25-58.14 after retreating from the 28½-month peak of 67.96, and has since then been adhering to the lower boundary of an ascending channel. The climbing simple moving averages (SMAs) are defending the bullish structure, while the slight fading in the slope of the 50-day SMA is suggesting price could retest the lower band of the channel.

The short-term oscillators are reflecting some waning in positive momentum, suggesting sellers are seizing the upper hand for now. The MACD, in the positive region, is holding above its red trigger line, while the RSI is struggling to improve further in bullish territory. The stochastic oscillator's %K line has dipped back below the 80 level and is promoting growing negative price action.

If selling interest persists, support may originate from the nearby lower frontier of the channel around the 63.00 mark and the 50-day SMA, which has converged with the mid-Bollinger band currently at the 62.00 level. Breaking the bottom limit of the channel, next support could arise from the 60.06 barrier, which happens to be the 23.6% Fibonacci retracement of the up leg from 34.02 until 67.96. A dive beyond this too could encourage sellers to then challenge the reinforced support foundation of 57.25-58.14.

If buyers regain control, immediate resistance may develop from the upper Bollinger band at 65.38 before the bulls target the 66.42 high and the multi-year peak of 67.96. Conquering the top could bolster buying interest, driving the price towards the 70.00-70.49 resistance band. An extension past this could then aim for the 72.87 barrier.

Summarizing, oil's positive picture may endure as long as the price remains locked within the confines of the bullish channel.



Technical Analysis – USDCAD plunges as descending channel highlights bearish bias

USDCAD has navigated to a 37½-month low; however, the pair's negative momentum seems to be losing pace, respecting the support zone existing between the barriers of 1.2255 and 1.2195. Nonetheless, the gliding simple moving averages (SMAs) are affirming the negative trajectory, and together with the Ichimoku cloud continue to counter price improvements, confining the pair to the vicinity of the bearish channel.

The Ichimoku lines and the short-term oscillators are slightly skewed to the downside. That said, price's negative momentum is being tested and this is starting to be reflected in the technical indicators. The MACD, in the negative region, is below its red trigger line, while the RSI looks set to bounce off the 30 level. The stochastic oscillator is in overbought territory and its %K line has yet to signal any significant waning in bearish momentum.

If buyers manage to yield some traction off the support band's upper frontier at 1.2255, preliminary resistance may commence from the zone between the 1.2365 inside swing low and the 1.2418 barrier. Overstepping this obstacle, the price could then meet the blue Kijun-sen line at 1.2459. Next, mustering more intense buying interest would be needed to conquer the next resistance section residing between the 50- and the 100-day SMAs at 1.2530 and 1.2626, respectively. This area is also fortified by the cloud and the upper boundary of the falling channel.

Sustaining a negative bearing, sellers face immediate support from the area between the February 2018 trough of 1.2255 and a low of 1.2195. Diving beneath this could direct a fresh multi-year bottom towards the buffer zone of 1.2060-1.2118, shaped back in September 2017. Should the pair's deterioration persist, the 1.2000 mark and 1.1919 trough from May 2015 could become the succeeding support targets.

Concluding, USDCAD remains imprisoned within a bearish channel and lasting negative pressures aim to keep the pair's bearing and picture bearish