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BRIEFING NOTE

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MID-WEEK BRIEFING NOTE ON GLOBAL FINANCIAL MARKETS

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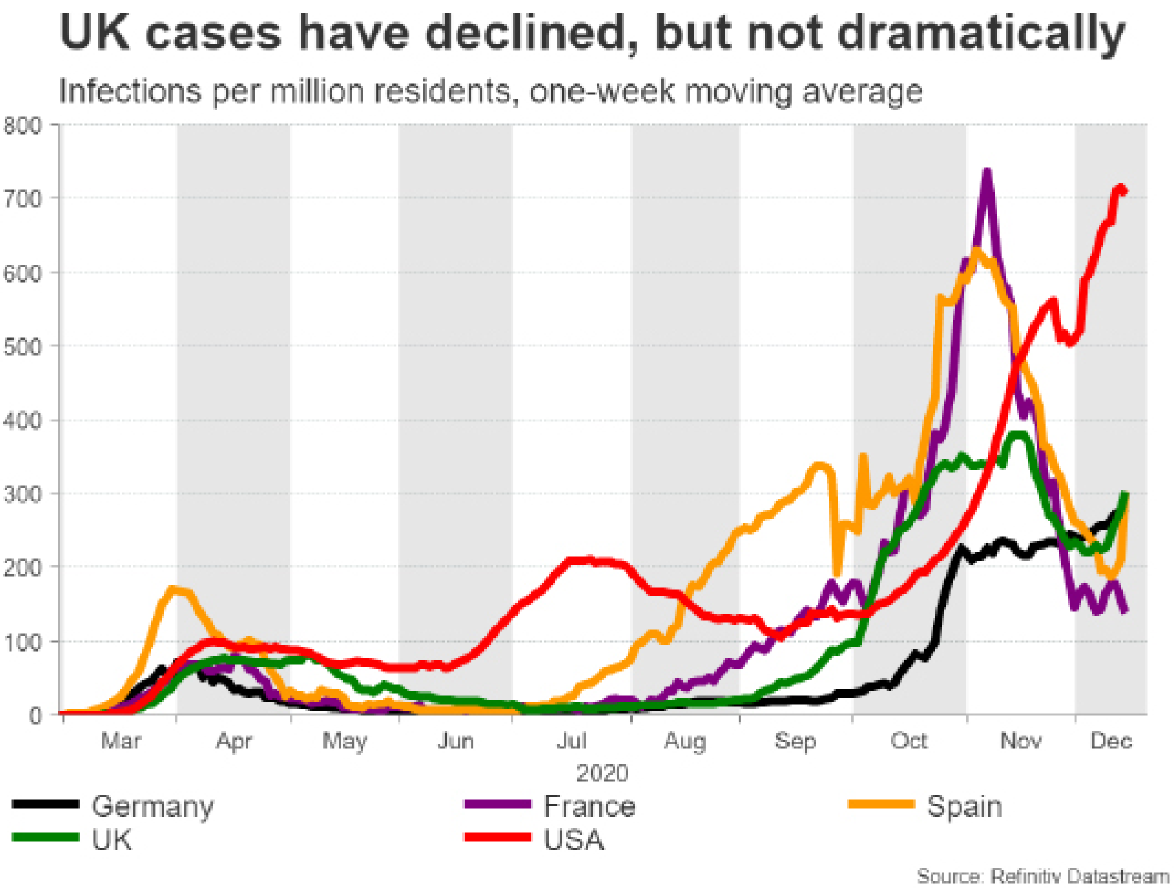
It is a huge week for sterling. Besides the BoE decision at 12:00 GMT Thursday, there is also a ton of data to keep markets entertained while Brexit negotiators make a final attempt reach a trade deal. The Bank is unlikely to act, though it may signal that more easing is on the cards next year if the negotiations fail. A dovish message could briefly hurt sterling, but the currency's ultimate destination depends on the trade talks, where a last-minute deal still seems more likely than not.

BoE has hands tied by Brexit endgame

The Bank of England responded very swiftly to the latest lockdown. At its latest meeting, it ramped up its QE program to ensure that yields on UK bonds remain at depressed levels, enabling the government to continue its spending spree as it battles the pandemic. Policymakers warned that growth would likely turn negative again this quarter because of the shutdown and that the unemployment rate could rise next year, so monetary policy should act with force.

Since then, developments have been mixed. On the bright side, vaccines were rolled out. This news eliminates several longer-term risks and was surely music to the ears of policymakers. On the negative side, infections remain stubbornly high and the lockdown has not been entirely lifted yet, with some areas like the capital of London going into even tougher restrictions lately.



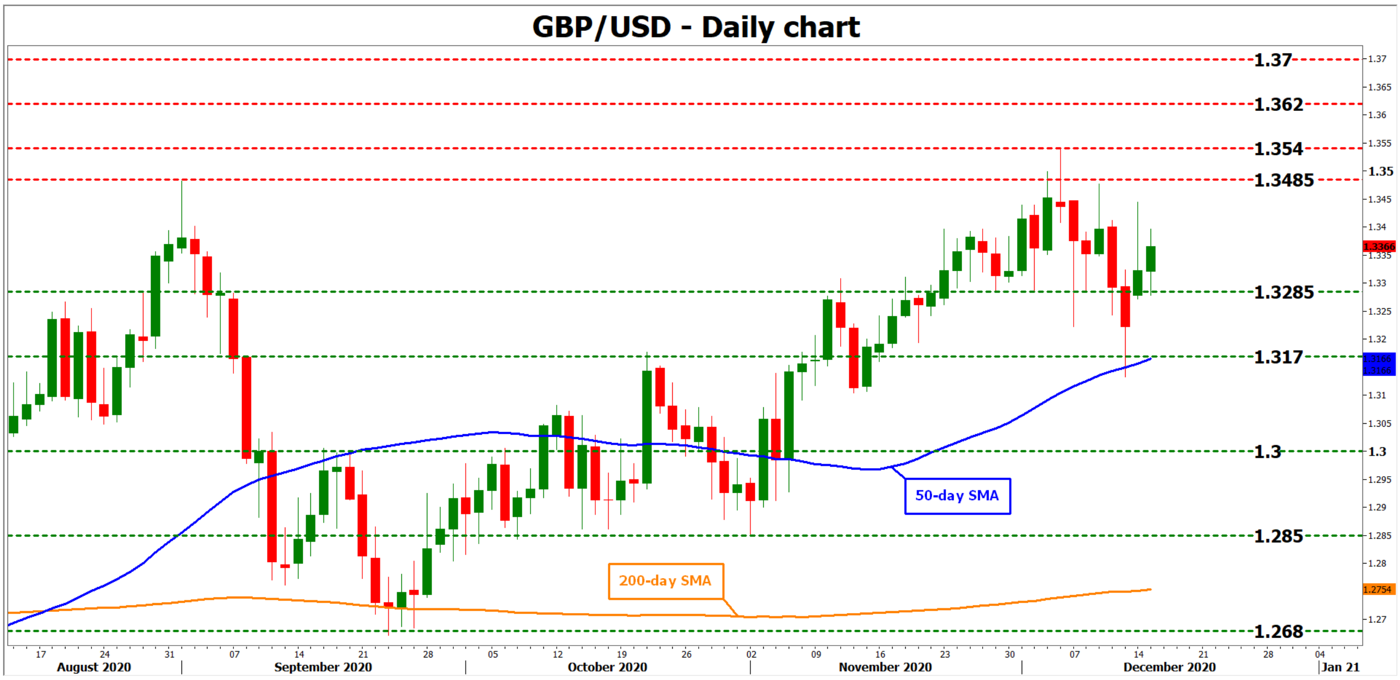
To top everything off, there are only two weeks left until the Brexit transition period ends and there is still no trade agreement. Whether a deal is reached soon or whether the talks collapse will be the single most important variable for whether the economy requires more stimulus, so the Bank has its hands tied for now.

Setting the stage for more action

Having acted at the previous meeting and with no clarity on Brexit yet, policymakers are likely in a wait-and-see mode. This implies that more stimulus at this meeting is rather unlikely. Instead, the market reaction will depend on what signals the Bank sends about a no deal Brexit scenario.

For instance, if the BoE indicates that another round of QE and perhaps a rate cut might be needed if a trade deal is not found, then the pound could fall. Yet, the downside may be rather limited as markets are already pricing in a small rate cut for next year, so this wouldn't be a huge surprise.

Taking a technical look at Cable, immediate support to any declines may be found near 1.3285, before a tougher barrier appears around 1.3170.

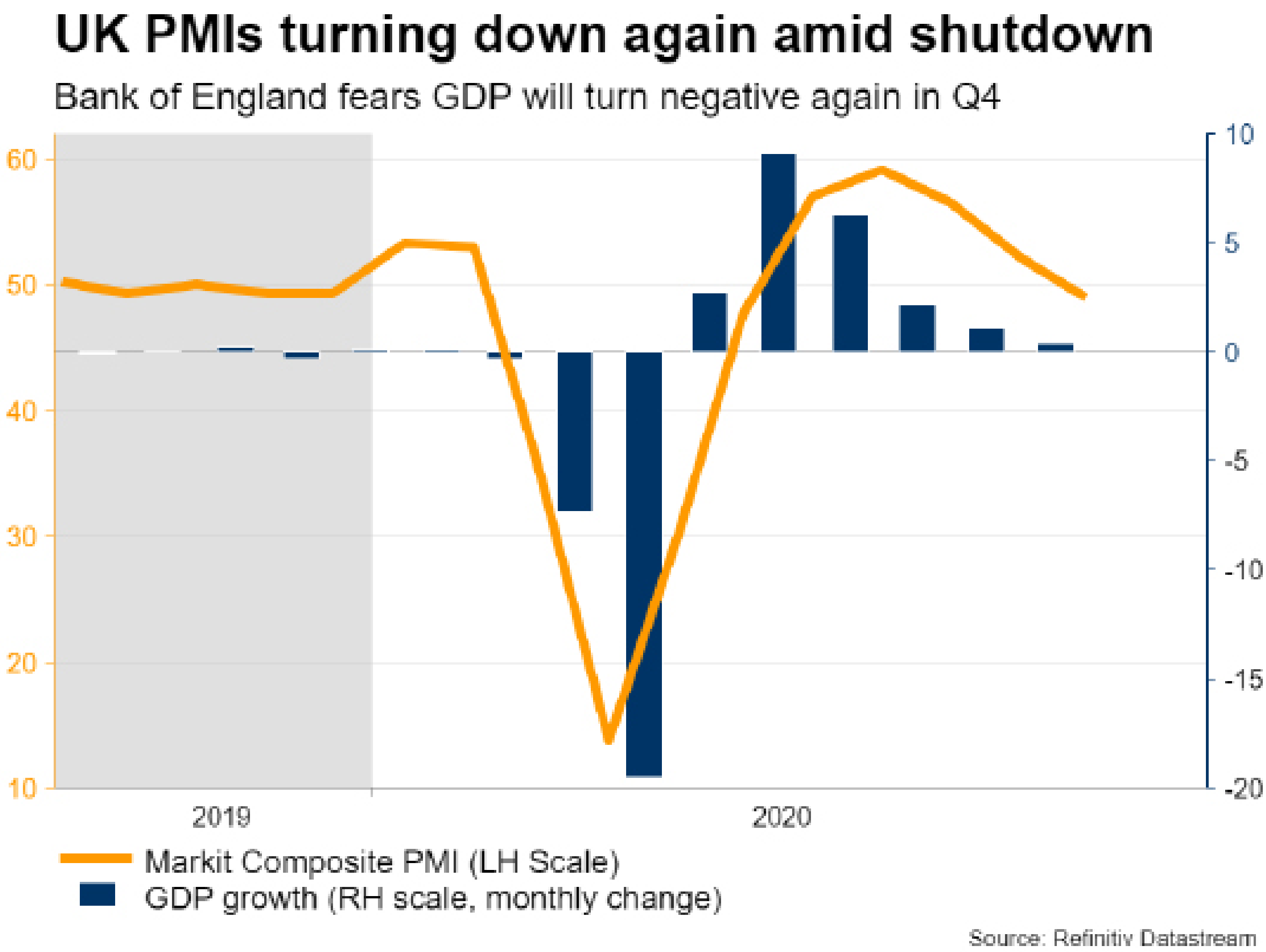


On the other hand, the upside risk is that the Bank hesitates to outline what actions it would take in case of no deal. In this case, the lack of dovish signals may send Cable higher, with the 1.3485 zone potentially coming into play to halt the bulls.

That said, this seems like a lower-probability scenario. Outside of the vaccines, it is difficult to find anything the Bank will be particularly happy about, and that is a longer-term story. Either way, a massive market reaction seems unlikely.

What Brexit deadline?

In the big picture, it's all about Brexit. Fisheries and competition rules are the final two issues, and it seems there has been some progress on competition lately. The EU wanted the right to impose tariffs if the UK did not keep up with its environmental and labor standards, but apparently that demand has been dropped, with both sides agreeing to an 'independent' arbitration system to resolve disputes. This suggests that progress is being made.



However, the clock has almost run out. There are now two weeks left before the transition period ends and tariffs automatically kick in. That is the real deadline.

As things stand, a deal still seems more likely than not. Both sides have too much to lose economically, and Boris Johnson is notorious for taking negotiations to their absolute breaking point before conceding. Hence, the ultimate destination for sterling may be higher, even though it is likely to be a stormy ride.

The bad news is that a lot of optimism has been baked in already. This suggests that the potential upside reaction in the pound in case of a deal may be smaller than the downside move should the talks collapse.

Finally, there is also a barrage of data coming up, including inflation and PMI numbers on Wednesday and retail sales on Friday, though the pound hardly reacts to economic data anymore.
Eurozone preliminary PMI readings for December will be the only highlight in the bloc's calendar this week on Wednesday at 09:00 GMT, with forecasts pointing to a moderate improvement in business activities. While markets are thirsty for some good news, the euro may keep ignoring data releases and tighter Covid restrictions as a negative GDP print in the fourth quarter is inevitable.

Although virus infections have slowed pace in many euro areas the past week, new daily cases remain at high levels and hospitals are struggling to accommodate more patients, forcing member states such as Germany to impose tougher measures through Christmas holidays and till the first week of January. But Covid-19 does not have a deadline and the global economy could still be months ahead before a large part of population gets immunized and the spread is finally contained. Hence, it is still uncertain how long will the last chapter of the Covid book be even though some millions of health workers are set to receive one of the two injections required in the next couple of weeks. And that might translate to more painful days for businesses, especially in the eurozone, where the vaccine distribution has yet to be settled and the resolved EU's pandemic fund of 750 billion euros is not expected to reach stricken member states before the second of 2021.

As regards the Europe Central Bank, the Bank committed to buy additional 500 billion euros of government bonds last week, but this is a less direct method to finance the ones in need than fiscal stimulus and could have a minimal impact as long as outdoor activities and business capacities remain constrained.

Hence, the risk in business indicators may remain tilted to the downside in the next months and a slight increase in the flash composite PMI on Wednesday, which is expected to slightly recover in the contraction area in December, ticking up to 43.8 in December from 43.5, could be taken with a grain of salt. Separately, the services PMI is projected to inch up by 0.2 points to 41.9, whilst the manufacturing PMI is said to ease by 0.8 points, but hold above the 50 threshold that separates growth from contraction.

Despite the blurry short-term outlook for the region, the euro continues to haunt fresh highs. Even the ECB's verbal intervention to talk down its strength and highlight its troubling deflationary effect was not enough to press it lower and that suggests that the euro rally may be more dependent on external factors than internal issues. The diminishing demand for safe havens such as the US dollar stemmed from hopes that the Covid story will eventually have a happy ending is one of them. Brexit negotiations and the ongoing US fiscal stimulus talks could be the next catalysts for the euro. However, markets remain optimistic that a trade deal between the UK and the EU could finally take a shape by the end of this year, while they are also positive that the US lawmakers will soon agree to send another dose of financial relief. Therefore, for the euro to drift lower the above should disappoint but from a technical perspective this scenario also seems less likely.

Looking at EUR/USD, the pair has yet to show any signs of a trend reversal, hinting that the recent sideways move could be just a pause in the broader uptrend. The red Tenkan-sen currently around 1.2100 has been nicely supporting the market for more than a month, hence any close below it could be the trigger for a negative correction. Still, such a decline may not raise concerns unless the price dives below the ascending trendline and the 1.2000 level.

Otherwise, the decisive step above 1.2150 may boost buying appetite towards the 1.2240 number and then up to the resistance line seen around 1.2300.

Technical Analysis – EURCHF looks neutral-to-bullish; indicators are flat

EURCHF seems to be range bound, something also reflected in the flattening technical indicators. The RSI is standing near the neutral threshold of 50, while the MACD is trying to jump above the zero line with weak momentum. The directionless Ichimoku lines and the steadied cloud further reflect this view, however, the 20- and 40-period simple moving averages (SMAs) are ready to create a bullish crossover in the short-term.

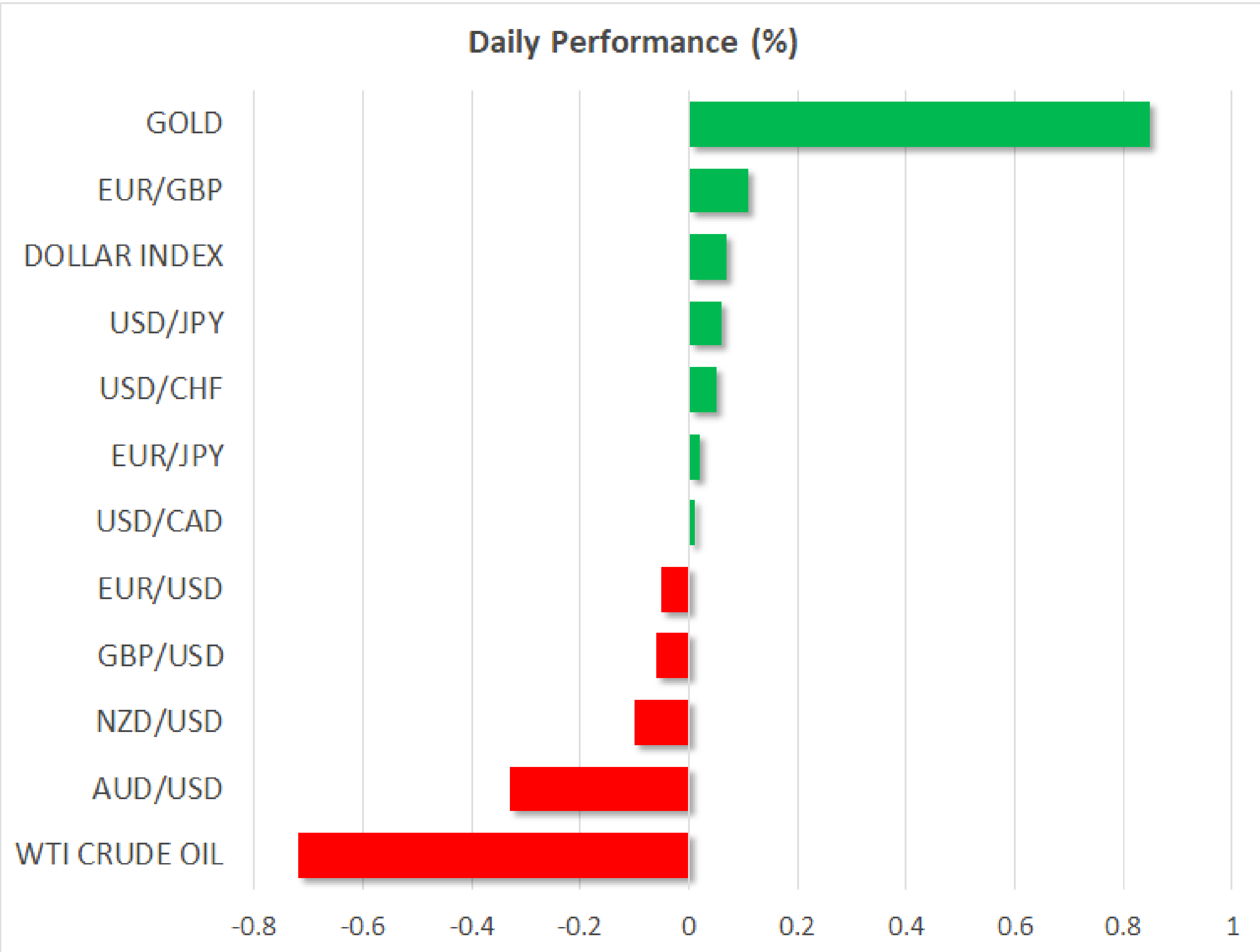
In case of positive pressures, initial tough resistance could develop from the zone of the cloud and the 1.0790 barrier. Pushing above the cloud, the 1.0847 resistance may also attempt to halt further bullish actions ahead of the 1.0870 obstacle.

If selling interest intensifies, support may originate from a trench of troughs from 1.0747 to 1.0730. Slipping below this boundary, the price may drop for the 1.0660-1.0674 region.

In brief, the very short-term bias is neutral-to-bullish after the bounce off the 1.0730 support. A break above 1.0870 could shift the outlook to strongly positive.

Dollar steadies amid fresh virus restrictions; stimulus and Brexit talks linger

- **Tighter virus restrictions dampen vaccine optimism; dollar halts slide, stocks struggle**
- **US stimulus talks gain momentum but still no agreement**
- **London lockdown knocks pound off its Brexit perch as 'narrow path' to deal eyed**



New virus curbs weigh on sentiment

Optimism that an end to the global pandemic is within sight was unable to override the darkening clouds on the immediate horizon as Covid restrictions are on the up again. After Germany's news that it is to enter a hard lockdown, the Netherlands and Czech Republic followed suit with similar announcements.

Even in the United Kingdom, where a tough three-tier system has been in force for some time, the government yesterday placed Greater London and several other regions in the southeast under the strictest tier, dealing a major blow to the economy.

But it's not just Europe that is being forced to get tough again as the virus is also out of control in the United States. So much so that New York's mayor warned on Monday that the city should be ready for a full lockdown.

The worsening outbreak globally reminded investors that there's a long way to go still before things can get back to normal even as Canada and the United States became the next countries to begin rolling out vaccines for Covid-19.

Cautious mood drags equities lower, lifts dollar

The dent in the optimism pushed Wall Street into the red, with both the Dow Jones and S&P 500 closing lower. However, the Nasdaq bucked the trend to end the day higher and futures for all three indices were positive today. Shares in Europe were mixed as traders were cautious ahead of possible breakthroughs in the negotiations for a stimulus deal in the US Congress and a post-Brexit trade agreement between the UK and EU.

Uncertainty about the Federal Reserve's policy decision tomorrow also kept some traders on the sidelines but supported the US dollar. The slight rise in risk aversion lifted the greenback off yesterday's fresh 2½-year low against a basket of currencies and its index was trading marginally higher today.

Its next move will likely depend on whether markets are greeted by positive or negative headlines regarding the Brexit and US stimulus negotiations.

All the right noises but can Congress find consensus?

The vibes coming from Capitol Hill over the past 24 hours have been quite encouraging and there is hope that the bipartisan proposal published yesterday, which consists of two separate packages, will provide a way forward for negotiators.

However, while there appears to be genuine momentum among both Republicans and Democrats to get a deal done quickly, with even Senate Majority Leader Mitch McConnell sounding upbeat, the somewhat muted response in the markets to the signs of progress underlines the fact that we've been here one too many times before.

Pound pares gains amid Brexit limbo, aussie also slips

It was a similar story on the Brexit front as talks continue to agree on what terms the UK and EU will trade with each other as of January 1, 2021. However, while the EU's chief negotiator, Michel Barnier, sounded hopeful, saying that a deal "is still possible", the British side attempted to downplay the progress, warning that the talks "remain difficult".

Fisheries and a level playing field are the only two sticking points that have yet to be resolved, but with time extremely short, there is growing talk that a deal may only be possible in the new year, meaning that Britain and the EU may temporarily have to trade on WTO terms.

The pound fell back from its highs and was once again testing the $1.33 handle as the combination of the tighter virus curbs in London and lack of clear direction in the Brexit negotiations weighed on the currency. The euro and the Canadian dollar managed to hold flat against the firmer greenback, but the Australian and New Zealand dollars came under pressure.

Dovish meeting minutes and remarks from the RBA and RBNZ, respectively, as well as the easing in risk appetite, took the steam out of the two currencies' latest impressive run higher. The aussie was additionally pressured by China formalizing its import restrictions on Australian coal as tensions between the two countries remain elevated.

GMT	COUNTRY	INDICATOR	PERIOD	UNIT	ACTUAL	REUTERS POLL	PRIOR
2:00	China (Mainland)	Urban Investment (YTD)YY	Nov 2020	Percent	2.6	2.6	1.8
2:00	China (Mainland)	Industrial Output YY	Nov 2020	Percent	7	7	6.9
2:00	China (Mainland)	Retail Sales YY	Nov 2020	Percent	5	5.2	4.3
2:00	China (Mainland)	Total Social Financing	Nov 2020	CNY	2130	2075	1420
7:00	United Kingdom	Claimant Count Unem Chng	Nov 2020	Person	64.3		-29.8
7:00	United Kingdom	ILO Unemployment Rate	Oct 2020	Percent	4.9	5.1	4.8
7:00	United Kingdom	Employment Change	Oct 2020	Person	-144	-250	-164
7:00	United Kingdom	Avg Wk Earnings 3M YY	Oct 2020	Percent	2.7	2.2	1.3
7:00	United Kingdom	Avg Earnings (Ex-Bonus)	Oct 2020	Percent	2.8	2.6	1.9
12:00	New Zealand	Milk Auctions	W 17 Nov	USD			3261
13:30	United States	NY Fed Manufacturing	Dec 2020	Index		6.9	6.3
13:30	Canada	Manufacturing Sales MM	Oct 2020	Percent		0.6	1.5
14:15	United States	Industrial Production MM	Nov 2020	Percent		0.3	1.1
21:45	New Zealand	Current Account - Qtrly	Q3 2020	NZD		-3.652	1.828
21:45	New Zealand	Current Account- Annual	Q3 2020	NZD		-2.57	-5.765
21:45	New Zealand	Current Account/GDP	Q3 2020	Percent		-0.9	-1.9

Technical Analysis – USDCAD's bearish course stabilises around 32-month base

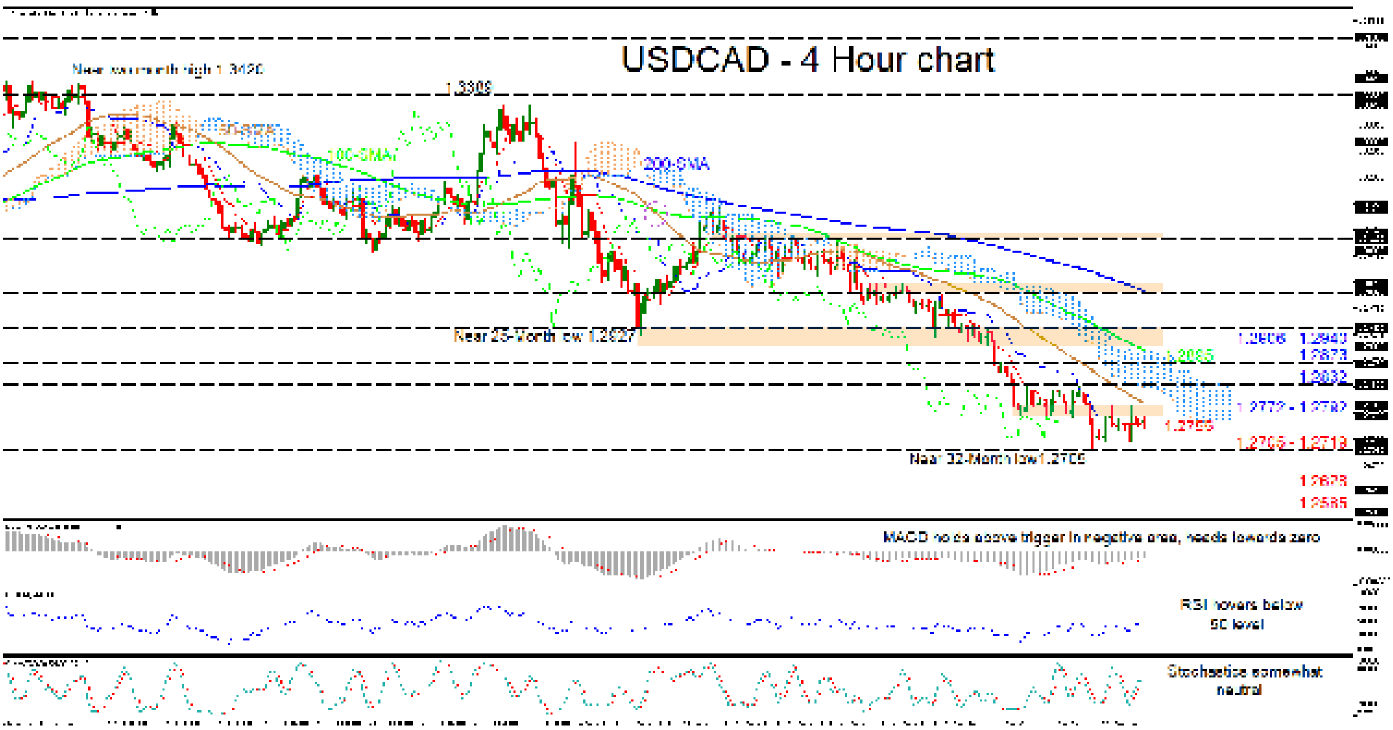
USDCAD appears to have become moderately static after logging a near 32-month low of 1.2705 and forming a base around the 1.2700 handle. The flattening Ichimoku lines are backing this minor pause in the downside scenario, reflecting a condition of paused directional momentum. However, the pair's predominant bearish tone continues to be aided by the downward sloping simple moving averages (SMAs).

The short-term oscillators also display a conflicting picture in momentum. The MACD, in the negative region, is above its red trigger line and is creeping towards the zero threshold, while the RSI, which is hovering beneath the 50 level, is starting to dip. Moreover, the stochastic oscillator looks overall neutral but its %K line leans marginally to the downside.

If sellers decisively slide under the red Tenkan-sen line at 1.2755, early obstructions to negative moves may arise from the support foundation of 1.2705-1.2719, involving multi-year lows. Diving clearly beneath this border, the price may successfully resume its negative trajectory aiming for the 1.2628 and 1.2585 troughs from back in April 2018.

If buyers re-emerge, they will face an instant resistance section from 1.2772 to 1.2792, which includes the flattening blue-Kijun-sen line, the curbing 50-period SMA and the nearby highs. Managing to overcome these obstacles, the price may challenge the cloud's lower surface ahead of the 1.2832 peaks. Propelling from here, the price could hit the 1.2873 barrier before meeting the 100-period SMA at 1.2895 and neighbouring upper band of the cloud.

Summarizing, USDCAD retains a dictating bearish bias below 1.2792 and the SMAs. Yet, a shift above the 1.2906-1.2940 section could start to build confidence in the pair.



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