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BRIEFING NOTE

WEEK AHEAD: Plenty of data but Covid, Trump and Brexit might steal the spotlight…

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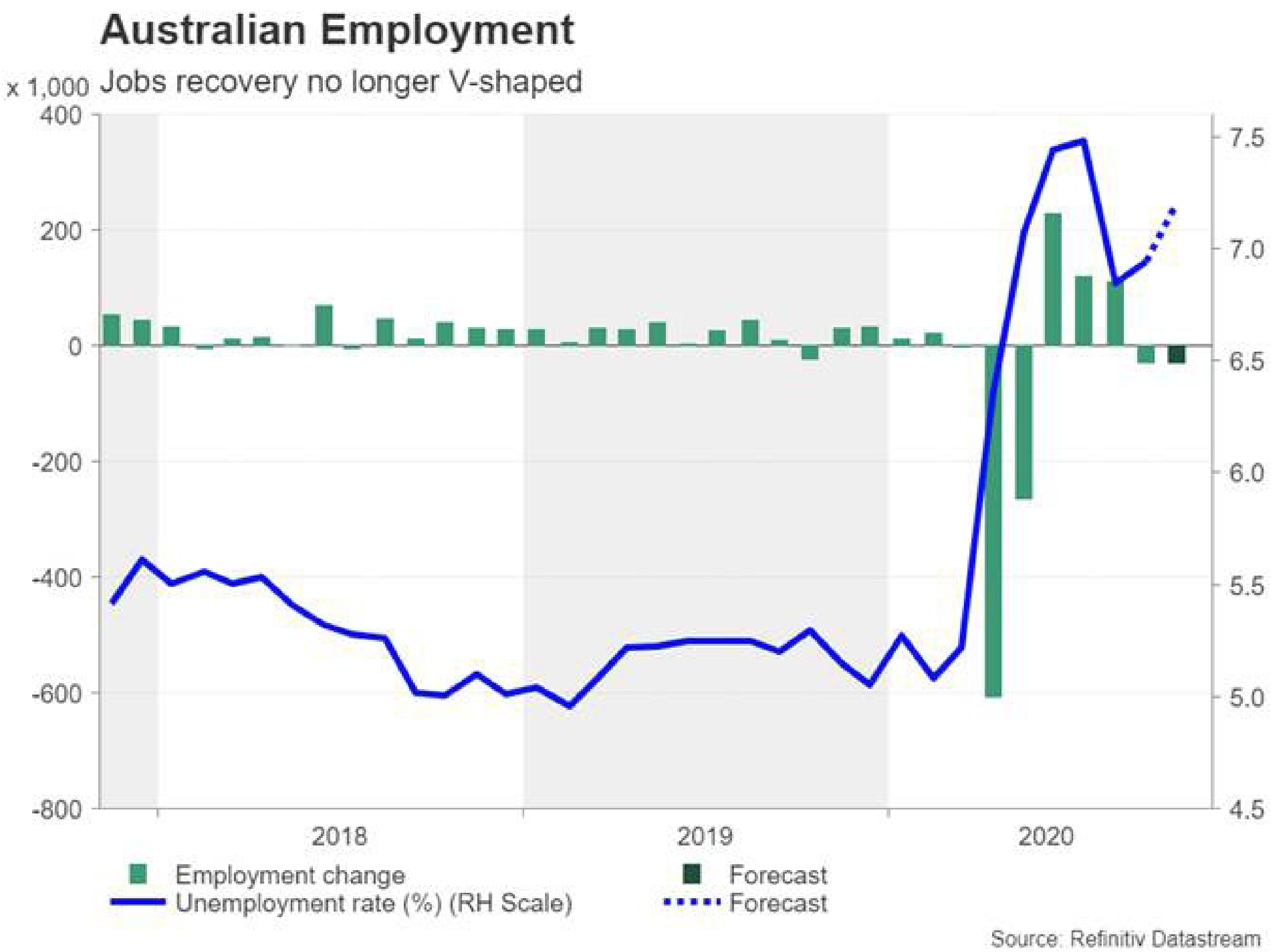
After the US election and vaccine frenzy, economic data will move to the forefront in the coming week, with inflation and retail sales comprising the bulk of the releases. However, investors might be wrong to assume that the election and virus storms are over as Trump steps up his legal fight to overturn Joe Biden's projected win and as several states in America head towards new lockdowns. If all that fails to produce enough drama, there is always Brexit waiting in the queue to generate some excitement as the deadline for reaching a trade deal has been pushed back yet again until the end of next week.

Aussie data may not spur much reaction

The Reserve Bank of Australia sparked a new round of policy easing by global central banks when it expanded its quantitative easing programme and slashed rates to near zero at its November meeting. The minutes of that meeting are due on Tuesday, and while they may reveal whether policymakers are inclined to follow up those actions with further measures, the consensus view is that the RBA is likely done for now.

Hence, the slew of Australian releases in the coming days may struggle to see much reaction in the markets, with the local dollar taking its cues primarily from the risk-on, risk-off vibes. That's not to say the data will be totally ignored as Thursday's employment report and Friday's preliminary retail sales numbers should shed some light on where Australia's recovery stood at the start of the fourth quarter.

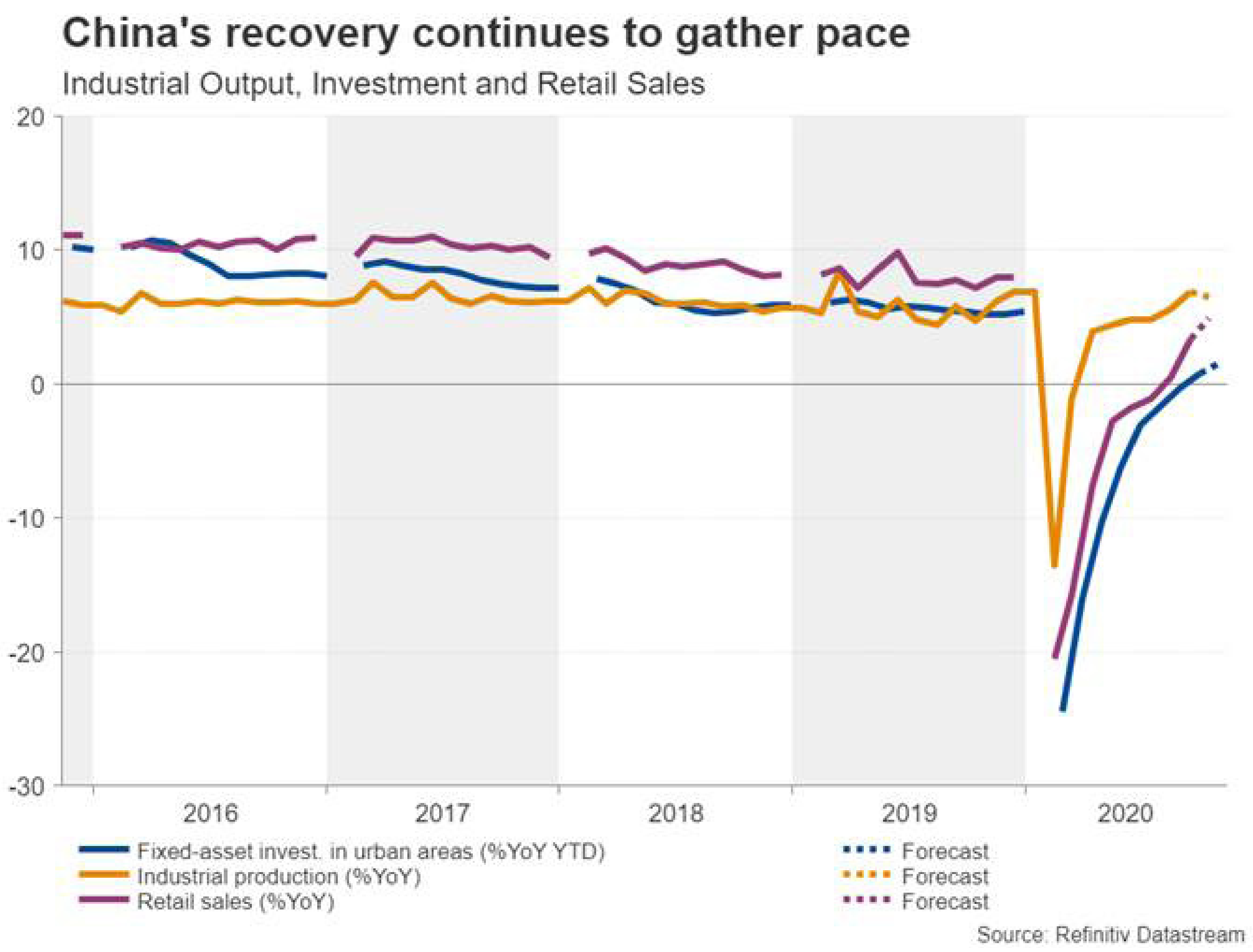


China's recovery ticking along nicely

Progress in the economic recovery will also be under scrutiny in China where the monthly prints on retail sales, industrial output and fixed-asset investment are due on Monday. To the envy of its peers, China's recovery is going from strength to strength, and while it wouldn't set the world on fire, the pace of growth is nevertheless impressive given the extremely fragile global economic backdrop.

Retail sales growth accelerated sharply in September and that trend likely continued in October, with sales forecast to have risen by 4.9% year-on-year. However, industrial output is expected to have moderated slightly to 6.5%.

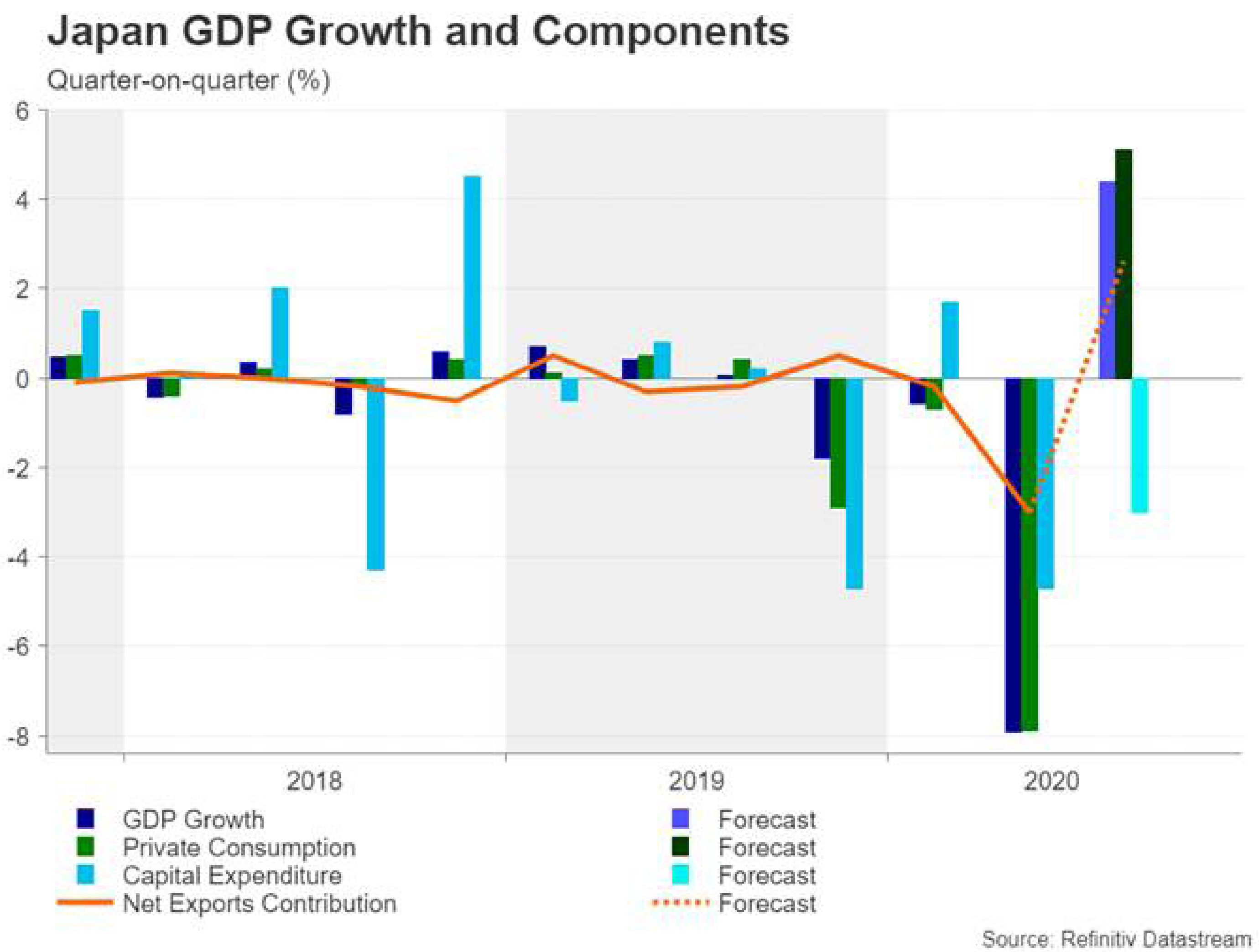
Meeting or beating those projections would underscore the steadily improving picture in China, giving global equities and the aussie a nudge higher.



Japanese GDP data to highlight virus challenge

Third quarter GDP numbers will kick things off in Japan on Monday, to be followed by October trade figures on Wednesday and the latest CPI readings on Friday. The flash November manufacturing PMI is also out on Friday.

The Covid-induced slump in Japan was somewhat milder than in other advanced countries but it should be pointed out that the economy was already in technical recession when the pandemic struck. The US-China trade war had a bruising impact on Japan's exporters and that drag worsened in Q2. However, the reopening of economies around the world boosted exports in Q3 and Japan's GDP is predicted to have rebounded by 4.4% quarter-on-quarter on the back of that.

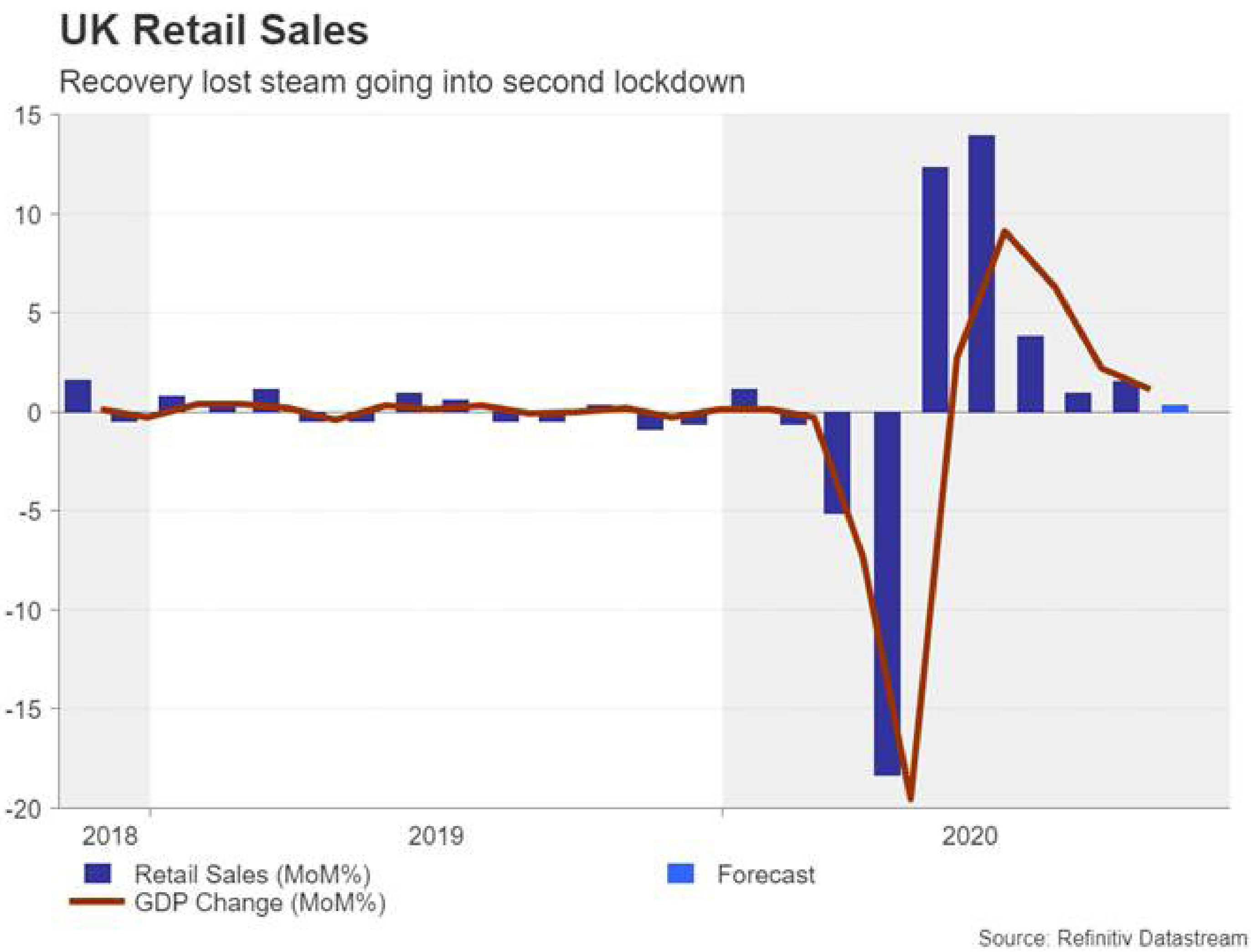


Even so, that would still leave economic output well below pre-pandemic levels, keeping the Bank of Japan on edge as it ponders whether to pull anything out of its depleted toolbox. Policymakers might get a helping hand, though, if the yen extends its slide of the past few days, especially against the US dollar, which the approach to the 100-yen level had caught the attention of Prime Minister Suga.

But that slide, which was initiated by the positive vaccine headlines, may have already run its course, as the safe-haven yen is back in demand following a sudden deterioration in the virus data globally.

More Brexit turbulence for the pound

The inflation and retail sales theme will continue in the United Kingdom, with October CPI out on Wednesday and retail sales coming up on Friday. The latter is bound to be a bigger mover for sterling as Britain's recovery lost significant steam in September and a poor showing in retail spending in October would suggest growth slowed further just prior to England going into lockdown.



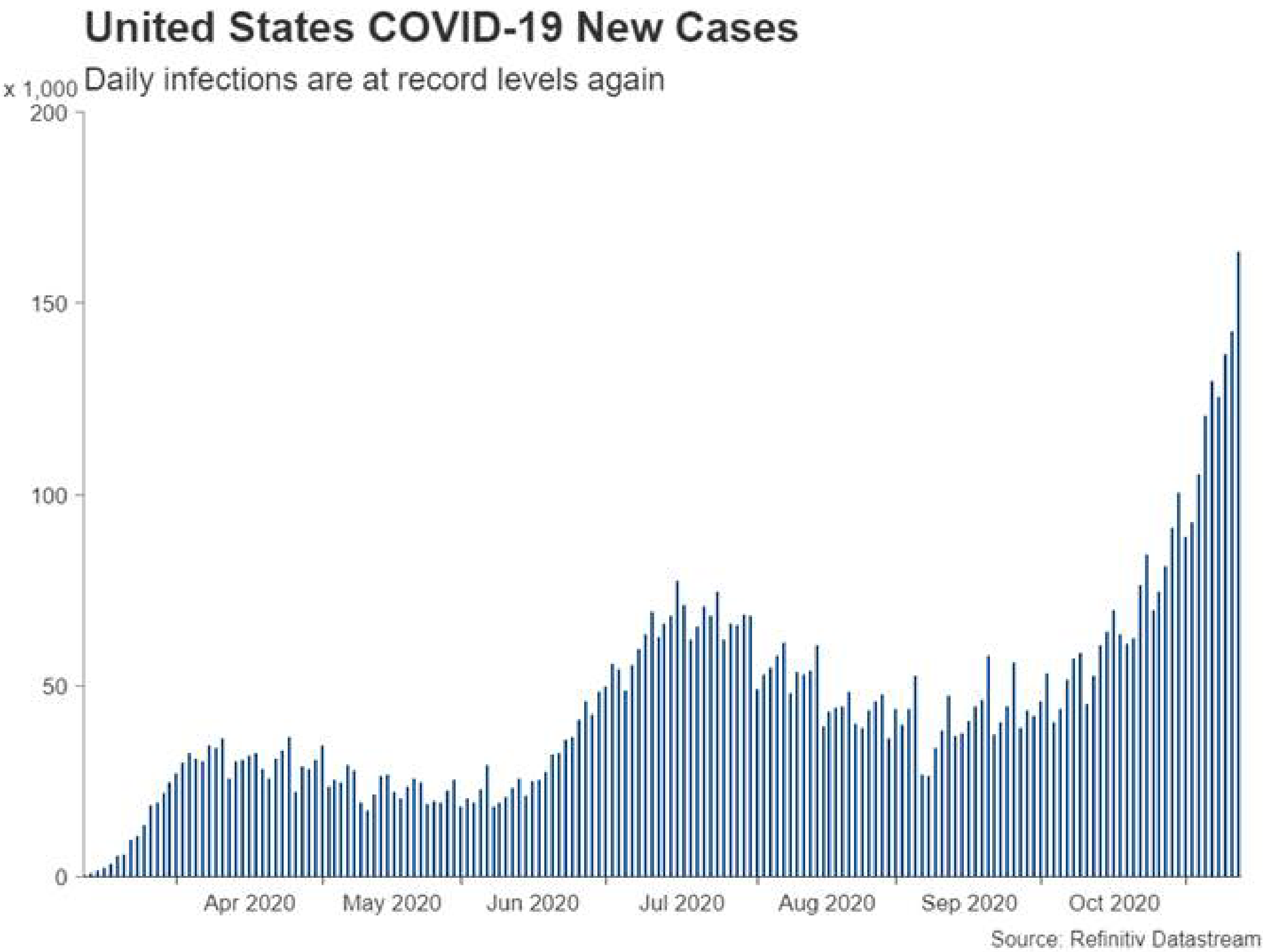
With GDP on a sure course to contract again in Q4, the pound is feeling the strain, pulling away from two-month highs versus the dollar. However, the grim short-term outlook might not matter much if UK and EU negotiators are able to strike a long-sought deal on a post-Brexit trade agreement. Despite intensified talks since mid-October, the two sides remain far apart on key issues such as fisheries and a level playing field, though some progress has been made.

But time is short as any deal would need to be ratified not just by the UK Parliament but by the parliaments of every EU member state before the transition period ends on December 31. The EU therefore sees the Council meeting on November 19 as the last reasonable date for a framework of an agreement to be thrashed out.

Realistically, though, it's more than possible that this deadline will also pass with negotiators next eyeing a December date, keeping the pound stranded in the meantime.

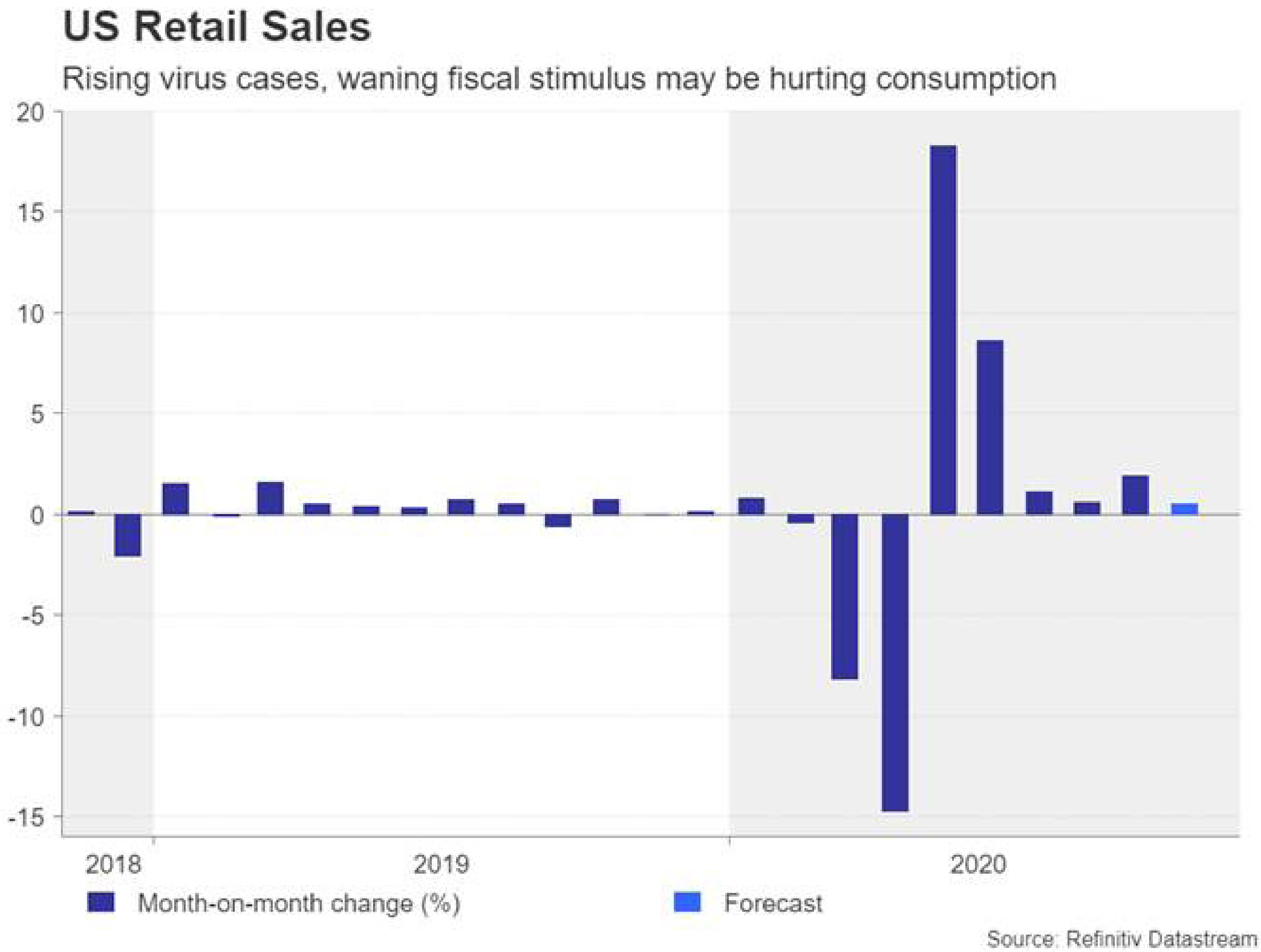
Soft data might relieve dollar's upside from virus flare-up

The post-election sell-off for the dollar as it became clear that Biden will claim victory didn't last long as virus jitters have resurfaced. The US has been setting fresh daily records of new coronavirus cases in recent days, prompting several states to tighten restrictions. If the virus escalation shows no sign of easing off in the coming days, the dollar is likely to continue its ascent as investors seek safety in the world's reserve currency.



Another upside risk for the greenback is the threat of Donald Trump having some success with his legal challenges to contest the election outcome. In particular, lawsuits in six battleground states where the Trump campaign is seeking a recount or a delay in the results being certified will be monitored by investors. Any win for Trump might question the legitimacy of Biden's win. However, the odds of Trump being able to overturn the results are very low and the main worry is that there won't be a smooth transition to the White House for the new administration at a time when the country is facing a severe crisis.

If the dollar goes off the rails, next week's data releases should provide some gravity as there's a good chance they will underwhelm. October retail sales figures due on Tuesday will probably attract the most attention. They are forecast to have risen by 0.5% month-on-month, moderating from a 1.9% increase in the prior month.



Industrial production is also out on Tuesday, while the housing sector will be in focus on Wednesday with building permits and housing starts for October, as well as existing home sales on Thursday. Finally, manufacturing surveys by the New York and Philadelphia Feds will be watched on Monday and Thursday, respectively.

Loonie dancing to the global risk tune

Vaccine euphoria had lifted the Canadian dollar to two-year highs before the virus gloom set in again, underlining how the loonie is driven more by market sentiment and the economic outlook of its southern neighbour and biggest trading partner these days than by domestic factors.

Add to that the fact that the Bank of Canada is not expected to cut rates further and even wound back its quantitative easing program slightly at its October meeting, backward looking indicators such as the consumer price index and retail sales are not anticipated to be game changers for the currency.

Inflation numbers for October are due on Wednesday, to be followed by September retail sales on Friday.

Technical Analysis – NZDUSD maintains bullish bias despite pullback

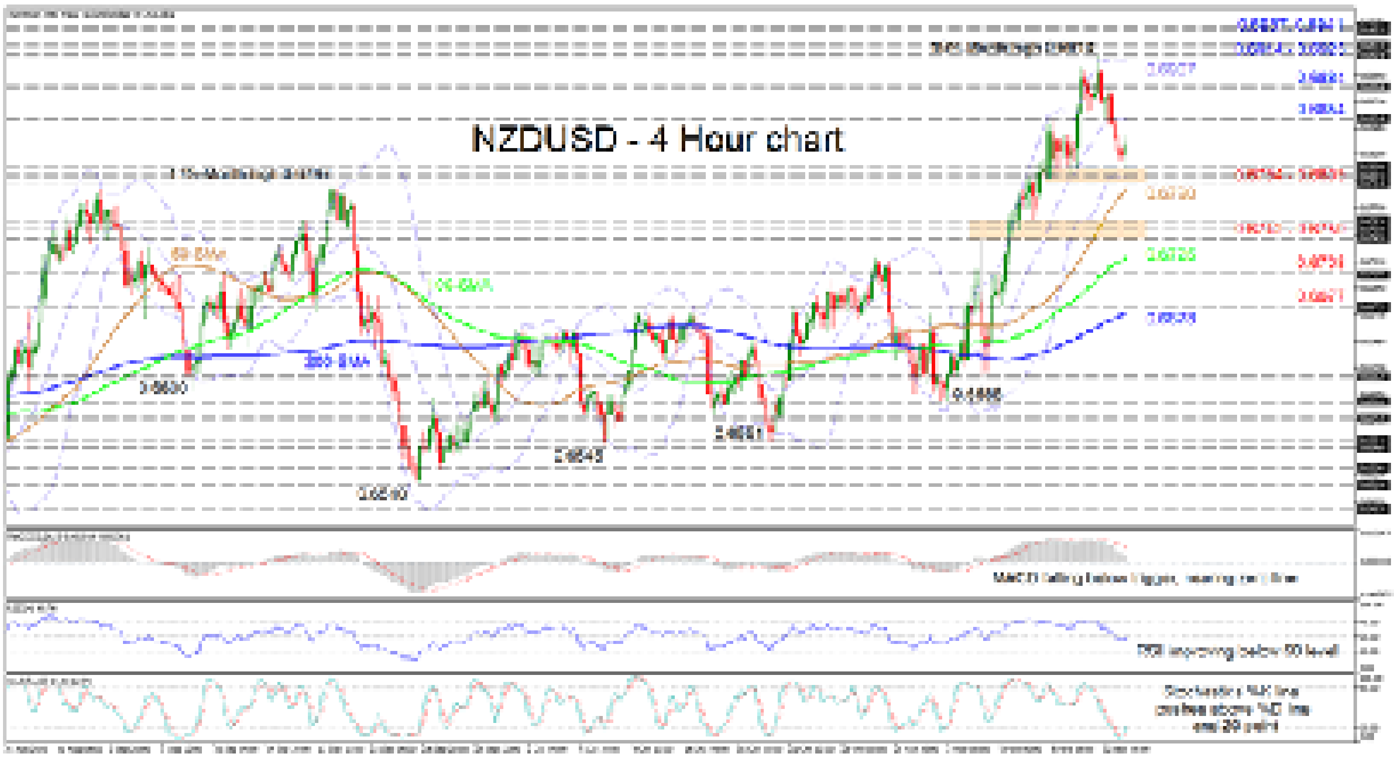
NZDUSD peaked at a 19½-month high of 0.6914 before its one-week ascent from 0.6612, pulled back below the mid-Bollinger band. The pair has found some footing at the upper part of a support base surrounding the lower Bollinger band. The upward sloping simple moving averages (SMAs) sustain a strong bullish bearing while momentum in the short-term oscillators appears to be picking up.

The MACD, in the positive region, is decreasing below its red trigger line but its downward pace seems to be easing. The RSI is strengthening below the 50 neutral mark while positive drive is reflected in the stochastic %K line, as it steers over the %D line and the 20 level.

If buyers manage to drive the pair up, initial resistance may come from the 0.6854 barrier, where the mid-Bollinger band currently resides. Persistent buying may test the 0.6884 high before encountering tough resistance from the upper Bollinger band at 0.6907 and the section overhead of 0.6914-0.6923. Surpassing this obstructing zone, the pair may jump towards the 0.6937 and 0.6941 congested tops from March and February 2019 respectively.

Otherwise, pivoting down, sellers may face a hardened support region from 0.6809 until 0.6794, which encapsulates the lower Bollinger band, and has the 50-period SMA approaching from beneath. Should sellers manage to dive past this obstacle and the 50-period SMA at 0.6790, another support area of 0.6742-0.6750 may attempt to rescue the descent towards the 100-period SMA at 0.6725 and the nearby 0.6708 level. Correcting further could steer price towards the 0.6677 barrier and the 200-period SMA at 0.6673.

Summarizing, NZDUSD holds its short-to-medium-term bullish demeanour above the 0.6794 level while a push lower would return a neutral tone.



Technical Analysis – US 30 index returns lower after spike to record high

The US 30 index posted an aggressive spike towards a fresh all-time high of 30,091.18 on Monday before returning near the previous high of 28,945.

Momentum indicators in the daily chart are currently supporting that positive momentum is likely to strengthen in the short-term. Specifically, the RSI is picking up speed slightly below the overbought region and the MACD continues to distance itself above its trigger line.

Should the price move higher again, the bulls could extend the uptrend towards the aforementioned record high before the price enter in uncharted paths such as 30,500 and 31,000.

On the other hand, a decline could meet immediate support at 28,945, which the market is unable to break over the last sessions. Slightly lower, the price could rest around the 40-day SMA, which overlaps with the mid-Bollinger band ahead of the 200-day SMA at 27,538. Marginally below these levels, the 23.6% Fibonacci retracement level of the up leg from 18,145 to 30,091.18 at 27,288 could come in focus. Below that, the 200-day SMA and the 26,077 support are the next targets.

Summarizing, the short-term bias is bullish though the index could be close to overbought levels, with the long-term outlook also being positive.

Technical Analysis – GBPJPY directionless, despite recent push over SMAs

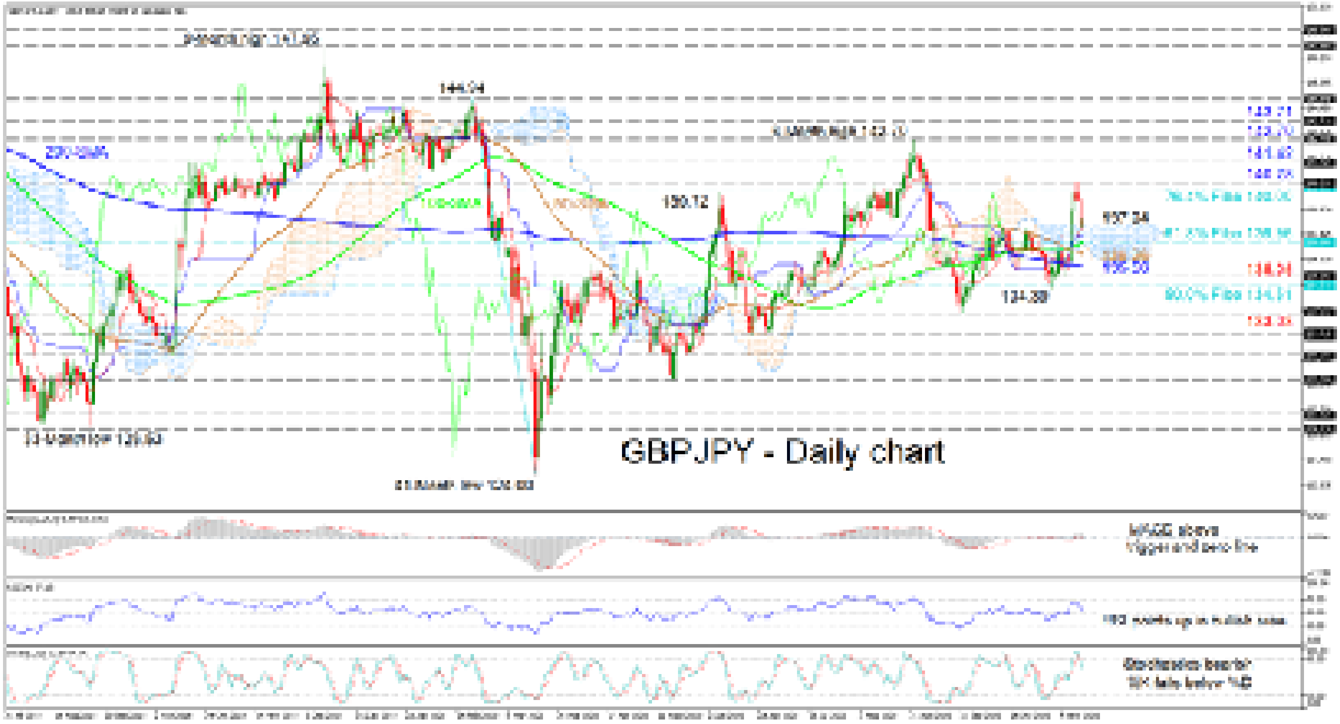
GBPJPY is resting on the upper surface of the Ichimoku cloud after progress in the pair touched a high of 140.28, before reversing below the 140.00 mark, which happens to be the 76.4% Fibonacci retracement of the down leg from 144.94 to 124.00. The horizontal cloud and the conflicting signals from the converged simple moving averages (SMAs) further reflect an aimless market.

The short-term oscillators are transmitting mixed clues in directional momentum. The MACD, in the positive region, is creeping higher above its red trigger line, while the RSI improves slightly ahead of the 50 threshold. However, the stochastic oscillator has adopted a bearish tone promoting more losses in the pair, with its %K lines' dive below the 80 level.

To the downside, immediate support may come from the cloud's upper band at 137.84 and the Ichimoku lines just beneath. Slipping back into the cloud, additional constraints to down moves may come from the 100-day SMA, currently located at the 61.8% Fibo of 136.96. Should extra weakening unfold, the pair could then meet the 50-day SMA at 136.26 and the cloud's lower boundary, ahead of the 200-day SMA at 135.56 and the neighbouring low of 135.05. If steeper declines accelerate past the 50.0% Fibo of 134.51 and the 134.39 level, the 133.03 key trough may step into the spotlight to challenge the bears.

Yet, if buying interest increases, a push off the cloud may encounter initial resistance from the 76.4% Fibo of 140.00 until the 140.28 high. Overrunning this crucial limiting belt, the price may hit the 141.42 barrier before revisiting the six-month peak of 142.70. Overthrowing this too, buyers may gear up for the 143.71 mark from February 26.

Overall, GBPJPY sustains its sideways demeanour in the short-to-medium-term. The current neutral-to-bullish tone may develop with a break either above 140.28 or below the SMAs and the 134.39.



Technical Analysis – GBPUSD set up for some recovery; key resistance area ahead

GBPUSD has been developing an upward structure in the four-hour chart since the end of September, recently unlocking a two-month high of 1.3311 near a key upward-sloping line, which has been curbing both upside and downside corrections from April onwards.

The price has decelerated thereafter but the 50-period simple moving average (SMA) managed to catch the fall around 1.3128 earlier this week, giving another chance to the bulls. With the Stochastics exiting the oversold area and the price having deviated above the lower Bollinger band, there is some optimism that buying appetite may return in the short run.

However, the negative MACD keeps warranting some caution as the pair is trading near the 1.3160-1.3200 resistance zone. A break above that border, which also involves the 20-period SMA could brush away this warning and send the pair probably up to the 1.3300 level and near the crucial restrictive line.

Otherwise, a drop beneath the 50-period SMA may stall near the 38.2% Fibonacci of the 1.2674 – 1.3311 upleg at 1.3068, a break of which is requested for an extension towards the 200-period SMA and the 50% Fibonacci of 1.2993. Lower, the next Fibonacci level of 1.2917 could be another key barrier, though the cluster of lows around 1.2858 would be the main target and the transition to the bearish side if violated.

In brief, GBPUSD may face upside pressures in the near term, though any bullish attempt may prove to be short-lived if the bulls fail to pass the 1.3160 – 1.3200 boundary.

Technical Analysis – USDCAD shows chances for increase above falling trend line

USDCAD is touching the falling trend line, which has been developing since April 21, despite the break to the upside at the end of October. The price is also flirting with the 20-day simple moving average (SMA) and the momentum indicators are confirming the upside bias. The RSI is heading towards the positive region, while the stochastic is approaching the overbought area.

An extension above the descending line could find immediate resistance at the 40-day SMA and the lower surface of the Ichimoku cloud around 1.3200. An upside attempt could drive the market until the 1.3420 resistance before meeting the 200-day SMA currently at 1.3547. Even higher, the 1.3715 and the 1.3850 barriers are waiting for the bulls.

On the other side, a failure upside move could take the price lower towards the eight-month of 1.2993 before resting near 1.2950. Steeper declines could send the bears to the September 2018 low at 1.2780.

To conclude, USDCAD is still in a negative direction in the long-term, however, it seems quite positive over the last few sessions. Only a jump above the 200-day SMA could switch the bias to neutral.

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