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WEEK AHEAD BRIEFING NOTE

Aug. 22nd /// 2021

"FED Taper: Do Splits Loom Over Jackson Hole Summit?"

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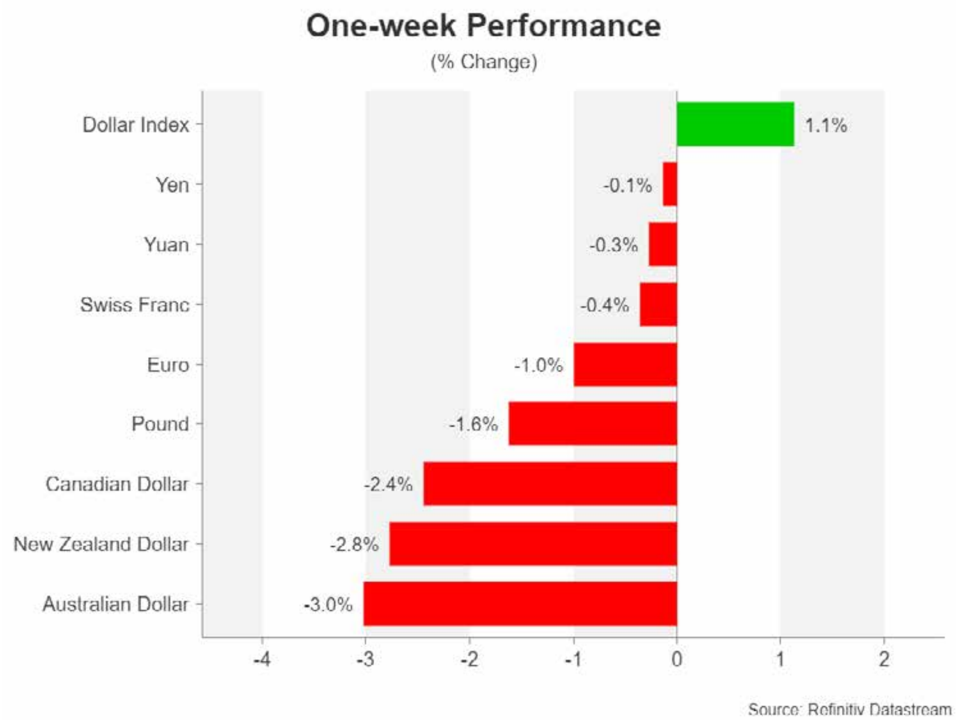
The upcoming week will kick off with a bang as the flash PMI readings for August will flood the markets on Monday. However, it might go all quiet after that before Fed officials gather at Jackson Hole later in the week for this year's economic symposium, which is set to be dominated by discussions on how and when to unwind the Fed's emergency stimulus. Will policymakers finally lay out their tapering plans, potentially lifting the US dollar to fresh yearly highs, or will divisions overshadow the event?

Euro breaches $1.17; can flash PMIs lend support?

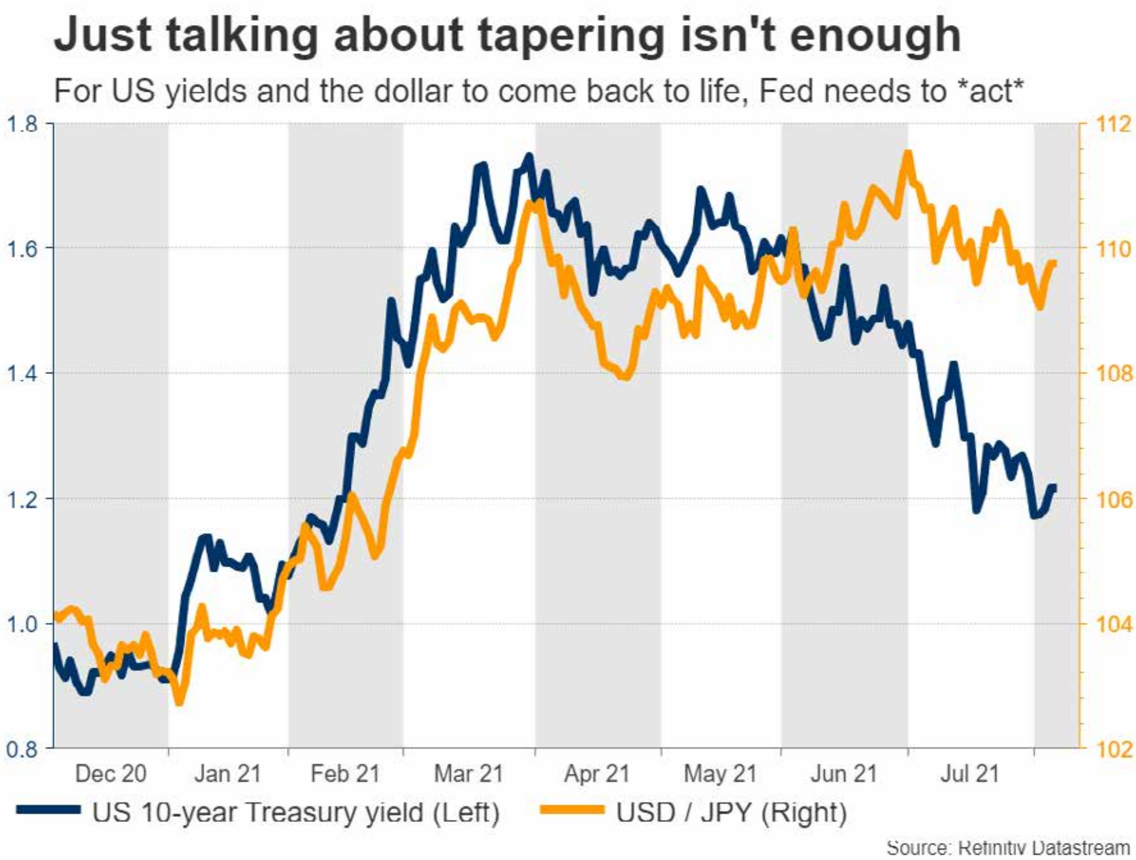
Intensifying worries that the global economic recovery has hit another major bump on the road as the Delta spread shows no sign of abating has sent markets into a spin in the past week. Everything from stocks, commodities and risky currencies got hammered from the latest panic selling, with investors fleeing to safe havens. As has been the case during this pandemic whenever nerves are heightened, the US dollar has been the main beneficiary of this flight to safety.



The greenback has crushed everything in its way, including the euro, even though not much has changed as far as the policy outlook for the Eurozone is concerned. The ECB's dovish tilts in June and July had already put the single currency on a downward slope but the policy shift is mostly priced in now and it was down to the dollar's relentless charge that the $1.17 support ruptured for the first time since early November.

However, this is mainly of symbolic significance and the euro's losses will likely continue to stay contained relative to its peers'. That's because the Eurozone economy is so far weathering the Delta outbreak better than most, helped not only by a high vaccination rate but also by not abandoning all virus curbs altogether like Britain, which is keeping the latest virus escalation manageable.

Hence, the flash PMI prints by IHS Markit are expected to moderate only marginally in August, and this would be coming off the 15-year highs for the composite and services PMIs in July. There's no sign yet that the Delta wave poses a serious threat to the Eurozone recovery so unless the PMIs unexpectedly plunge in August, dollar strength will remain the euro's biggest downside risk.



The minutes of the ECB's July policy meeting due on Thursday are not anticipated to generate a huge amount of interest.

Pound caught in Delta storm; PMIs might not offer much relief

Like the euro area, the British economy has also been enjoying strong growth momentum during the summer. Whilst there are some concerns that the UK government is being too lax with virus restrictions and relying on vaccines alone to prevent a surge in hospitalizations, there's nothing too alarming in the medical data yet to prompt a rethink of this approach. The economy has made a strong comeback since the easing of the Winter lockdown and the Bank of England is preparing to end its bond buying programme at the end of this year.

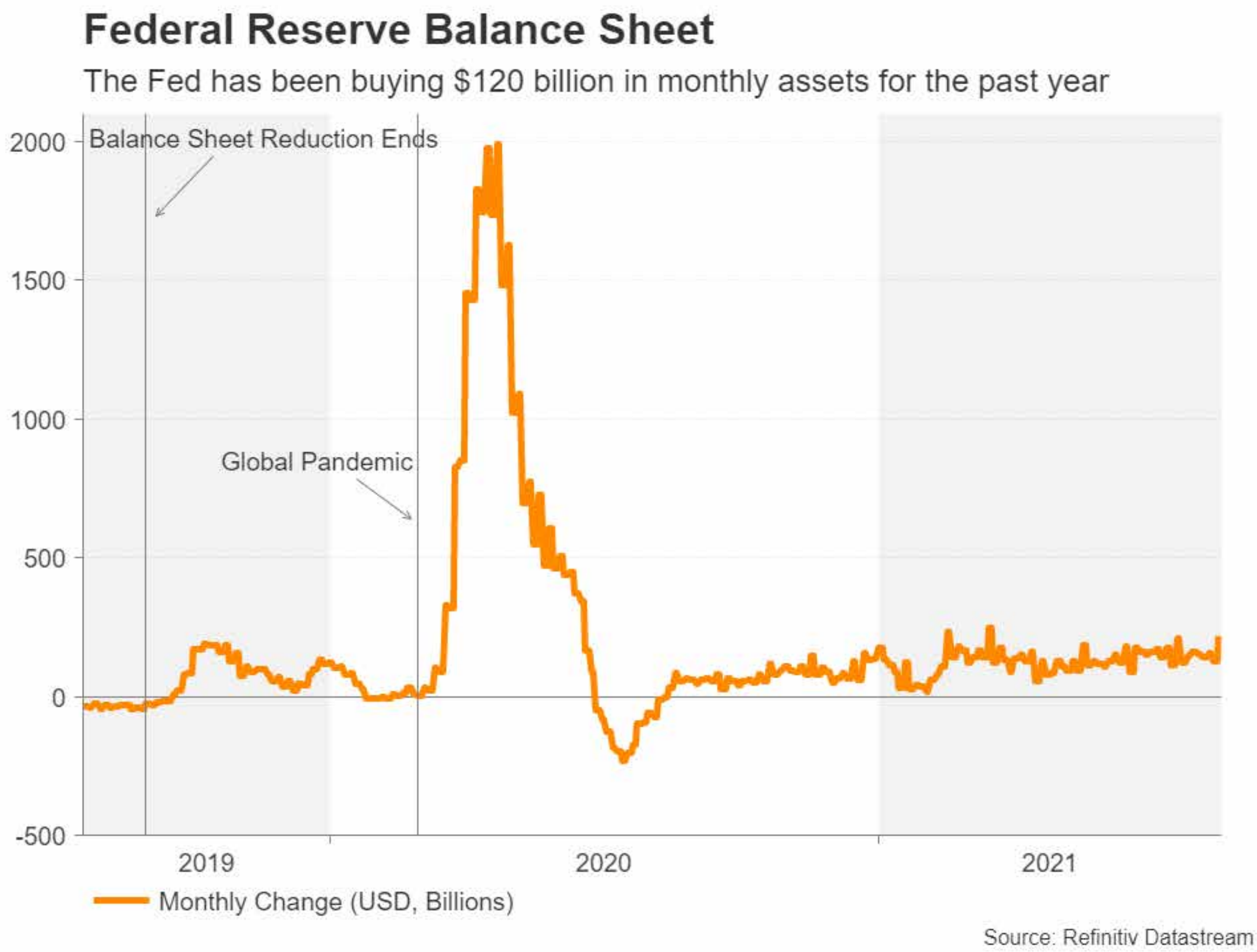
The UK labour market in particular is running hot, with job vacancies at a record high and wage growth reaching close to 9% y/y in June. It's therefore going to require quite a substantial deterioration in economic conditions to derail the BoE's taper plan and that probably won't happen in August because Monday's flash PMIs will likely point to an ongoing recovery.

So why has the pound taken such a hit from the latest risk-off episode? Although investors are not as worried about the UK outlook as they are about more virus-exposed countries such as Australia and New Zealand, sterling is nevertheless a risky currency to hold during times of turmoil due to Britain's large current account deficit. Should markets remain jittery in the coming week, cable is likely to extend its slide.

Will Jackson Hole live up to the hype?

Investors have been touting Jackson Hole as the ideal occasion for the Federal Reserve to signal its tapering intentions for some time now. After all, the annual economic symposium organized by the Kansas City Fed has been used many times in the past to flag major policy changes.

However, as the August 26-28 event approaches and even though Fed speakers have been dropping tapering hints left, right and centre lately, there's a growing sense that markets won't get all the answers they're seeking next week. The minutes of the July FOMC minutes indicated that whilst policymakers agreed that tapering should start soon, they were at odds on the exact timing and pace of reducing asset purchases.



In the grand scheme of things, the timing won't make a great deal of a difference to the markets. Whether tapering starts next month at the earliest or the beginning of 2022 at the latest, either way, tapering is coming. However, the divisions on how much progress has been made not only towards the Fed's employment goal but also towards inflation may matter in determining how fast stimulus is withdrawn.

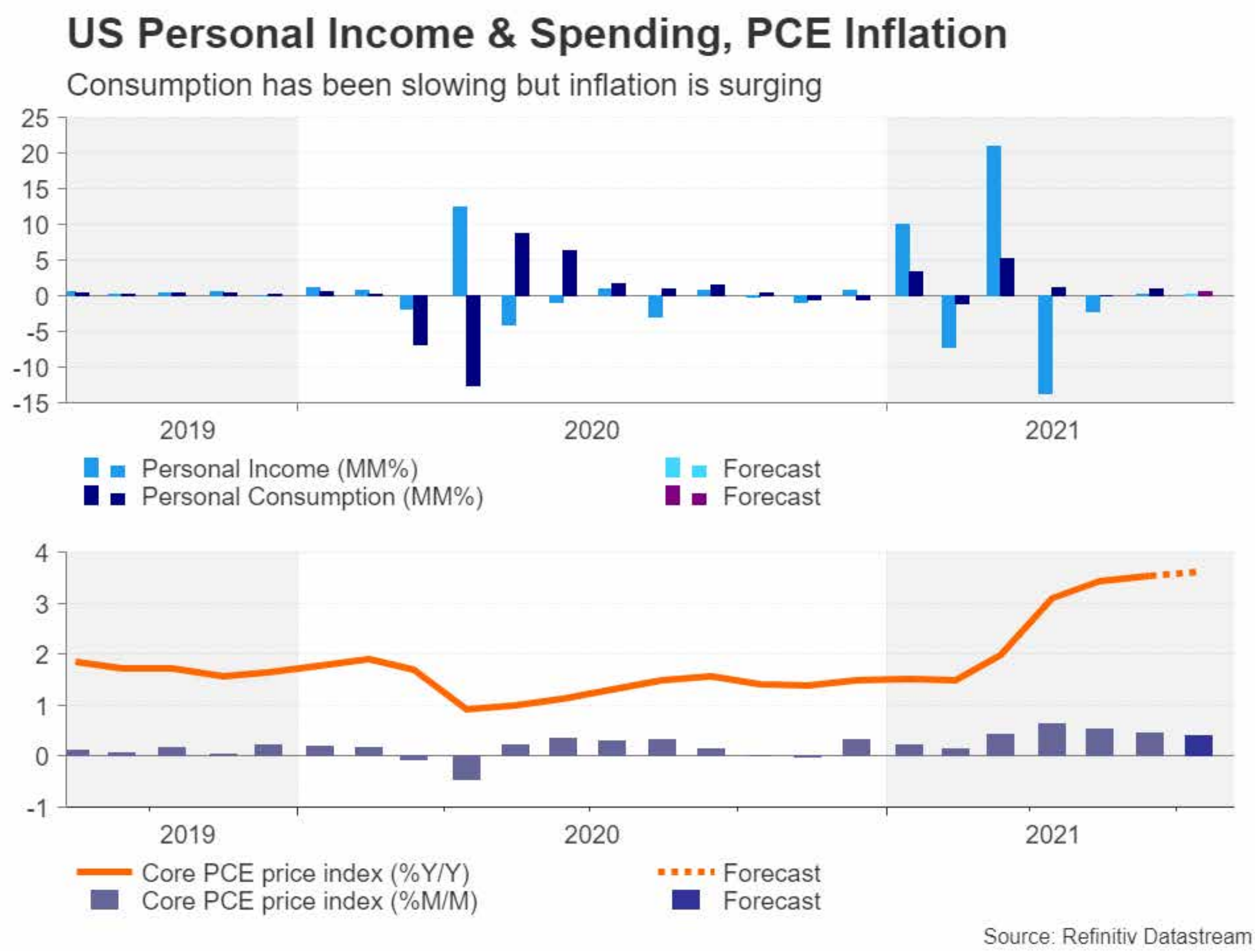
The worsening virus situation around the world makes a quick exit less likely, although delaying a decision for too long could also risk a cliff edge end to stimulus. But in the more immediate term, it is the uncertainty of what the Fed's taper will look like that could unsettle markets the most. Unless Chair Powell provides some clarity in his keynote address at Jackson Hole, speculation of a growing split will only mount.

Can dollar bulls count on the Fed for a taper boost?

When it comes to the dollar, though, it's hard to say what the reaction would be if Powell's remarks leave traders none the wiser. The dollar index has just climbed to a new 2021 peak and there could be further gains in store for the currency if sentiment continues to sour. Markets being left in the dark about the Fed's QE exit strategy could add to the risk aversion, but would this necessarily bolster the greenback?

The other danger is that Powell does send a strong taper signal but does not accompany this with enough reassurances that the move will be very gradual. Against a backdrop of fresh virus woes, this could spark even more panic.

But there could be some good news from US data that could help ease concerns about an economic slowdown. Personal income and spending numbers out on Friday are expected to show incomes rising by 0.2% and consumption by 0.5% month-on-month in July. The core PCE price index for the same month will be released alongside those data. Forecasts are for the Fed's favourite inflation metric to edge up to 3.6% year-on-year from 3.5% in the prior month, in potentially another sign that price pressures may be ebbing.



Other numbers to watch are the flash August PMIs and existing home sales on Monday. New home sales will follow on Tuesday, durable goods orders on Wednesday and the second estimate of Q2 GDP growth on Thursday. However, the one that might attract the most attention is the final estimate of the University of Michigan's consumer sentiment gauge on Friday. A strong upward revision to the index following the shock slump in the preliminary reading could go some way in allaying growth concerns in the United States.

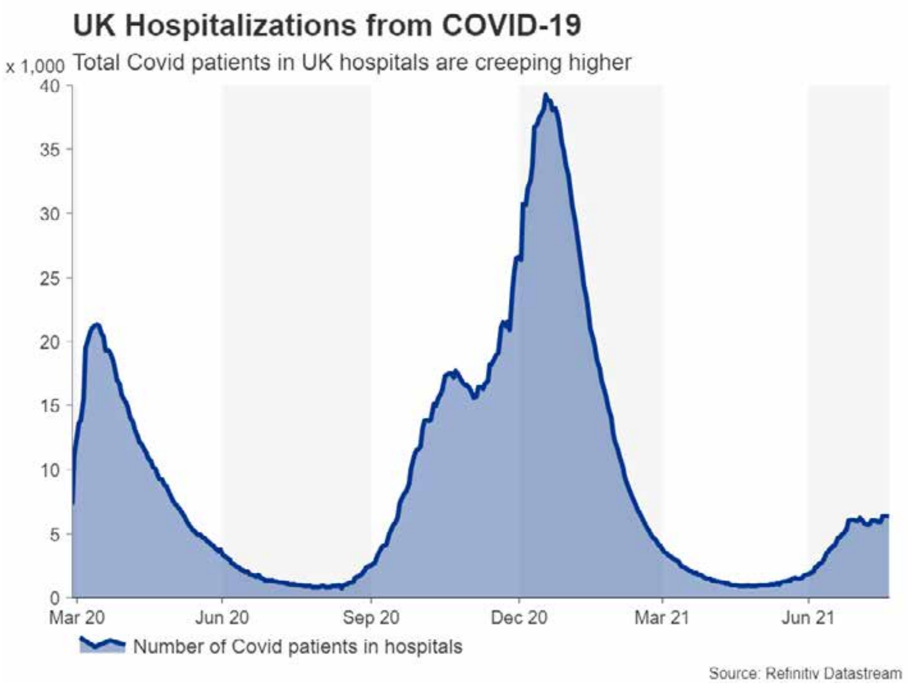
Finally, the heavily battered antipodean currencies will be hoping for some data boost next week. The aussie will be eying flash PMIs on Monday and capital expenditure figures for the second quarter on Thursday. The kiwi, meanwhile, will come under the spotlight on Tuesday from quarterly retail sales numbers.

Pound tumbles ahead of UK PMIs as global sentiment sours – Forex News Preview

It's been a bruising week for sterling as investors have been selling riskier currencies and buying US dollars amid fresh jitters about the global growth outlook. A mixed bag of data out of the United Kingdom over the past week hasn't helped matters for the pound and Monday's flash PMI prints due at 08:30 GMT probably won't either.

Delta scare wreaking havoc

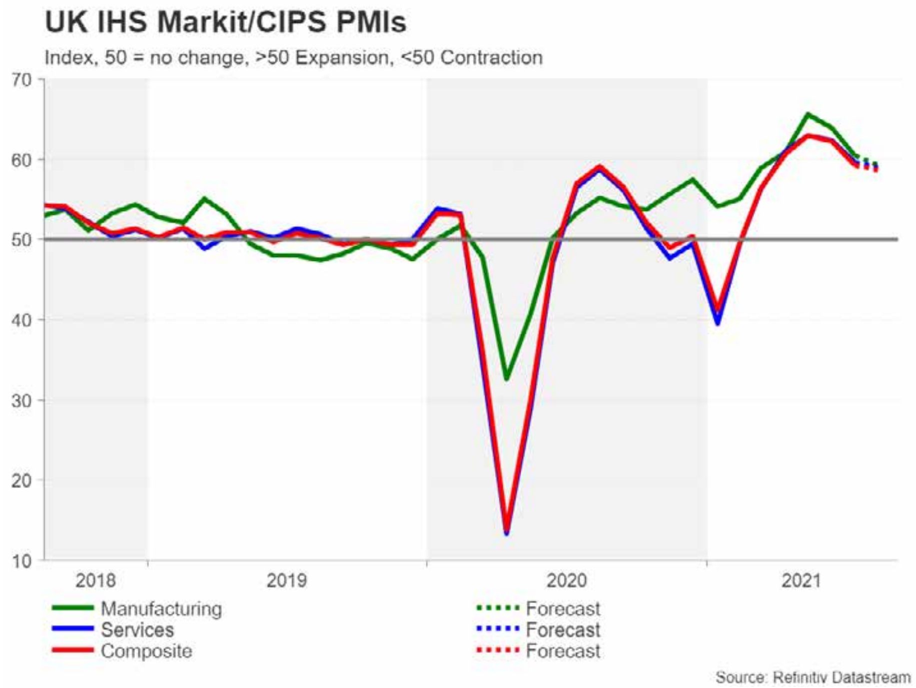
The Delta variant has been front and centre for investors this week as its spread is showing no sign of receding. Countries that had managed to stay relatively virus-free this year have been plunged into lockdown, while those boasting high vaccination rates are seeing hospitalizations creep up. In the UK, where the only restrictions kept in place are those on international travel, hopes were raised after the number of Covid patients in hospitals started to level off in late July but are now rising again.



But that's not the reason why the pound is falling as there's no immediate prospect of the UK government changing its response to the Delta variant and reimposing some virus curbs. It's the broader theme in global markets that's weighing on the British currency, which tends to lose out at times of increased risk aversion due to the UK's massive current account deficit that makes sterling more exposed to capital outflows.

UK recovery solid but slowing

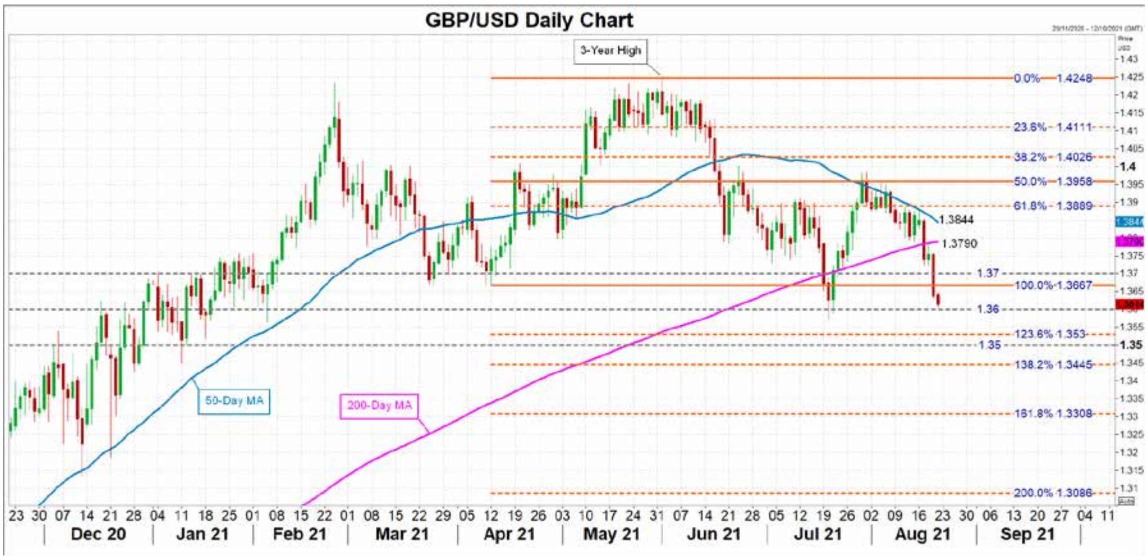
Should the situation worsen to the degree where the government has no choice but to reintroduce restrictive social distancing measures, the currency's losses could become even more dramatic. But for now, it's mainly a dollar and risk-off story, which can also mean that the pound's fortunes could easily turn around if sentiment were to improve. Combined with some solid PMI readings, sterling could get a nice lift next week if the panic subsides. The flash estimates are expected to show the UK economy lost some steam in August but continues to grow at a healthy pace. The composite PMI is forecast to moderate from 59.2 to 58.7, with the services PMI expected at 59.0 and the manufacturing PMI at 59.3.



BoE tapering should support pound

However, that's not to say that the pound's woes won't deepen if there is a negative surprise in the PMIs, as it would come hot on the heels of today's retail sales figures, which showed an unexpected drop for July. The jobs data earlier in the week was much more encouraging and overall, the outlook for the UK economy remains positive, with the Bank of England widely anticipated to end its QE programme by the end of the year.

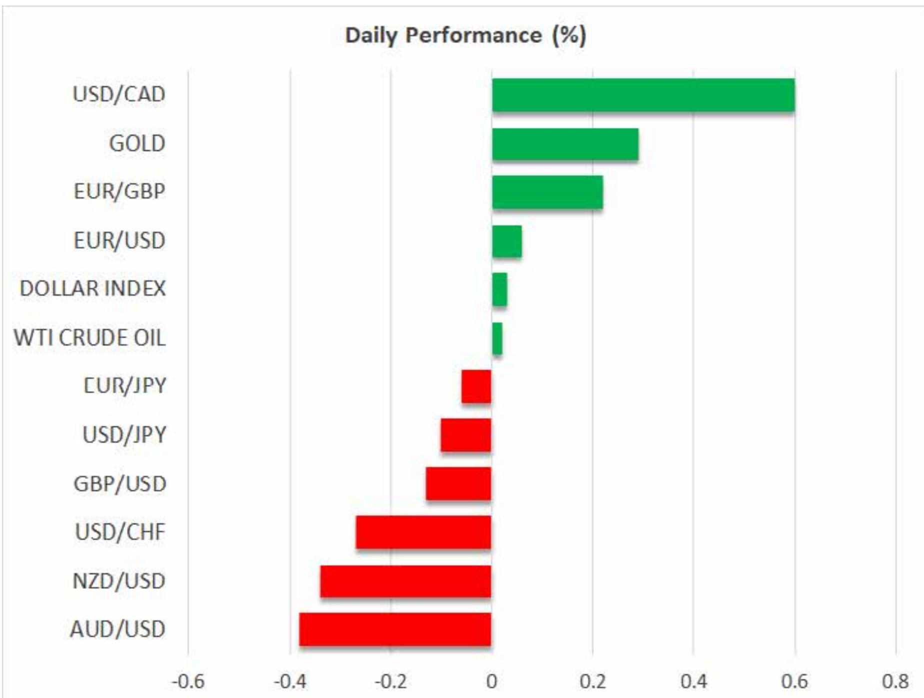
Tapering expectations should provide some support to cable as the latest risk-off drama plays out, and if the $1.36 level holds, pound/dollar could reverse higher. The key tests to the upside will come from the March/April lows around $1.3667, followed by the 50- and 200-day moving averages at 1.3844 and 1.3790, respectively.



However, if the $1.36 support fails, attention will turn to the 123.6% and 138.2% Fibonacci extensions of April-June upleg at $1.3530 and $1.3445, respectively.

Commodity currencies in agony, stocks undecided

Dollar stands tall as commodity FX continues to break down
Big tech keeps US stocks afloat, Chinese markets sink
All eyes on the Fed's Jackson Hole symposium next week



Commodity currencies bite the dust

It's been a wild week for financial markets, dominated by concerns that the Delta outbreak will put the brakes on the global economic recovery. **Even though many of the major economies are protected by a vaccine shield, the fear is that the virus could cool demand in unvaccinated developing markets, which ultimately comes back to bite everyone.**

Adding fuel to the pessimism has been the relentless regulatory crackdown in China, where Beijing continues to tighten the screws on the tech sector. The nation just passed a strict data protection law, the latest in a long series of moves to align the Chinese economy with the party's social values.

All this is playing out against the background of a slowing Chinese economy, amid a fading credit impulse and new restrictions to battle the Delta variant. As a result, commodities and commodity-linked currencies have been taken to the cleaners, with the loonie, aussie, and kiwi all headed for a weekly loss of around 3% against the mighty dollar. Crude oil and iron ore prices tell the same story.

While most charts are painting a scary picture right now, past episodes of covid-fueled panic didn't last very long. This is almost a self-correcting mechanism. If virus fears escalate enough, there comes a point where investors begin to anticipate greater liquidity injections from central banks and more fiscal firepower from governments, which ultimately calms market nerves. That said, it might get even uglier before we reach that point.

Wall Street fights back

The volatility in equity markets is starting to reach a crescendo. Wall Street managed to hang on for dear life on Thursday, with the major indices erasing some early losses to close virtually unchanged, propped up by tech heavyweights like Microsoft. However, futures are pointing lower again on Friday.

While indices like the S&P 500 haven't fallen much, there is a major sector rotation taking place under the hood. Small caps and many unprofitable 'growth' stocks have been demolished lately whereas tech titans have stood their ground, highlighting that quality tech has almost transformed into a defensive play during this crisis.

The overall message seems clear. Small caps will either suffer from a global slowdown or from a withdrawal of Fed liquidity, as investors move higher along the quality spectrum. Neither will be as damaging for mega-cap US tech.
Of course, China is a different beast. Tech stocks have taken heavy damage lately as Beijing continued its regulatory crusade, with the pain now spilling over into other sectors like healthcare and alcohol producers amid concerns the hammer will fall on those next. Hong Kong's Hang Seng index lost almost 2% today to touch new lows for the year.

Dollar awaits Powell's signals

The calendar is almost empty today, with the only noteworthy release being Canada's retail sales for July. It has been a tough week for the loonie despite the nation's inflation rate rising further, as the currency realigned itself with suffering oil prices.

On the other hand, all this pessimism has put the wind back into the dollar's sails, which won the battle against some crucial technical levels across multiple charts and is now headed for a healthy weekly gain.

Whether this lasts will depend on next week's speech by Fed Chairman Powell at the Jackson Hole economic symposium. **Will he lay the groundwork for a September taper announcement or will he play it slow?** The answer will likely drive the dollar for now, even though in the big picture, it doesn't matter much whether tapering is announced in September or November.

GMT	COUNTRY	INDICATOR	PERIOD	UNIT	ACTUAL	REUTERS POLL	PRIOR
23:01	United Kingdom	GfK Consumer Confidence	Aug 2021	Balance	-8	-7	-7
23:30	Japan	CPI, Core Nationwide YY	Jul 2021	Percent	-0.2		-0.5
23:30	Japan	CPI, Overall Nationwide	Jul 2021	Percent	-0.3		0.2
6:00	Germany	Producer Prices MM	Jul 2021	Percent	1.9	0.8	1.3
6:00	Germany	Producer Prices YY	Jul 2021	Percent	10.4	9.2	8.5
6:00	United Kingdom	Retail Sales MM	Jul 2021	Percent	-2.5	0.4	0.5
6:00	United Kingdom	Retail Sales Ex-Fuel MM	Jul 2021	Percent	-2.4	0.3	0.3
6:00	United Kingdom	Retail Sales YY	Jul 2021	Percent	2.4	6	9.7
6:00	United Kingdom	Retail Sales Ex-Fuel YY	Jul 2021	Percent	1.8	5.7	7.4
6:00	Norway	GDP Growth Mainland	Q2 2021	Percent	1.4	1.7	-1
12:30	Canada	Retail Sales MM	Jun 2021	Percent		4.4	-2.1
12:30	Canada	Retail Sales Ex-Autos MM	Jun 2021	Percent		4.6	-2

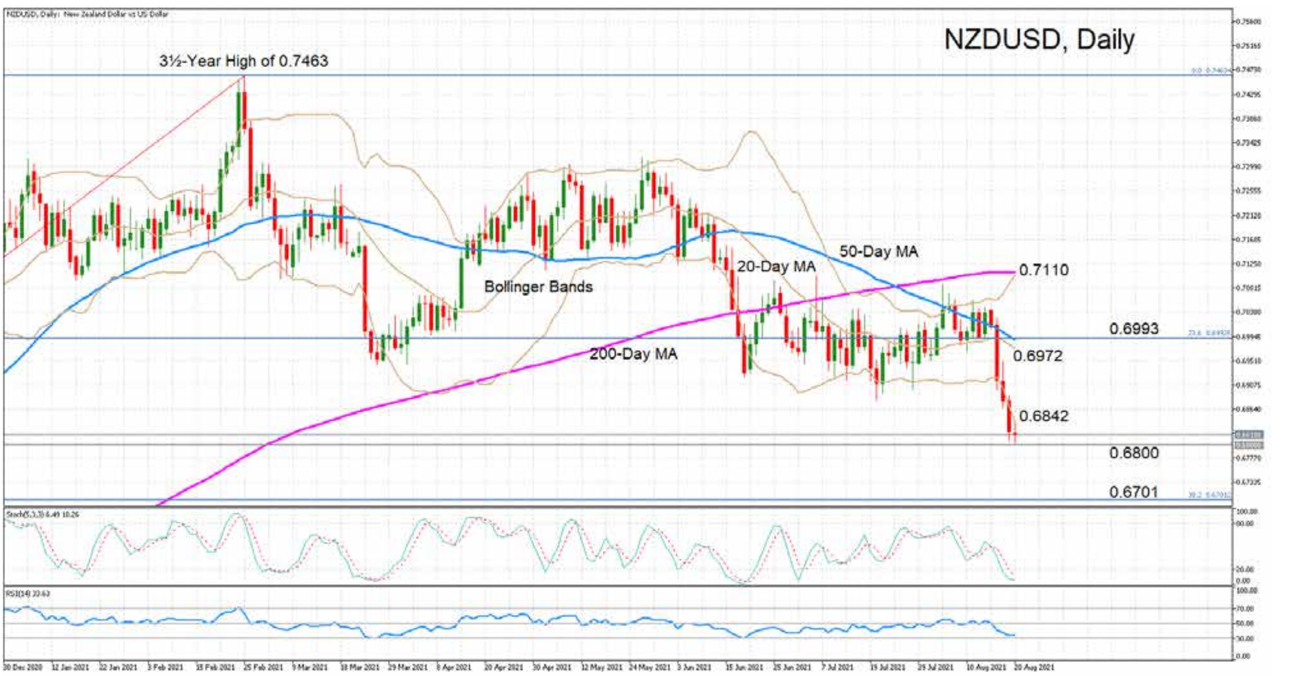
Technical Analysis – NZDUSD licks wounds at 9-month low; more losses may come

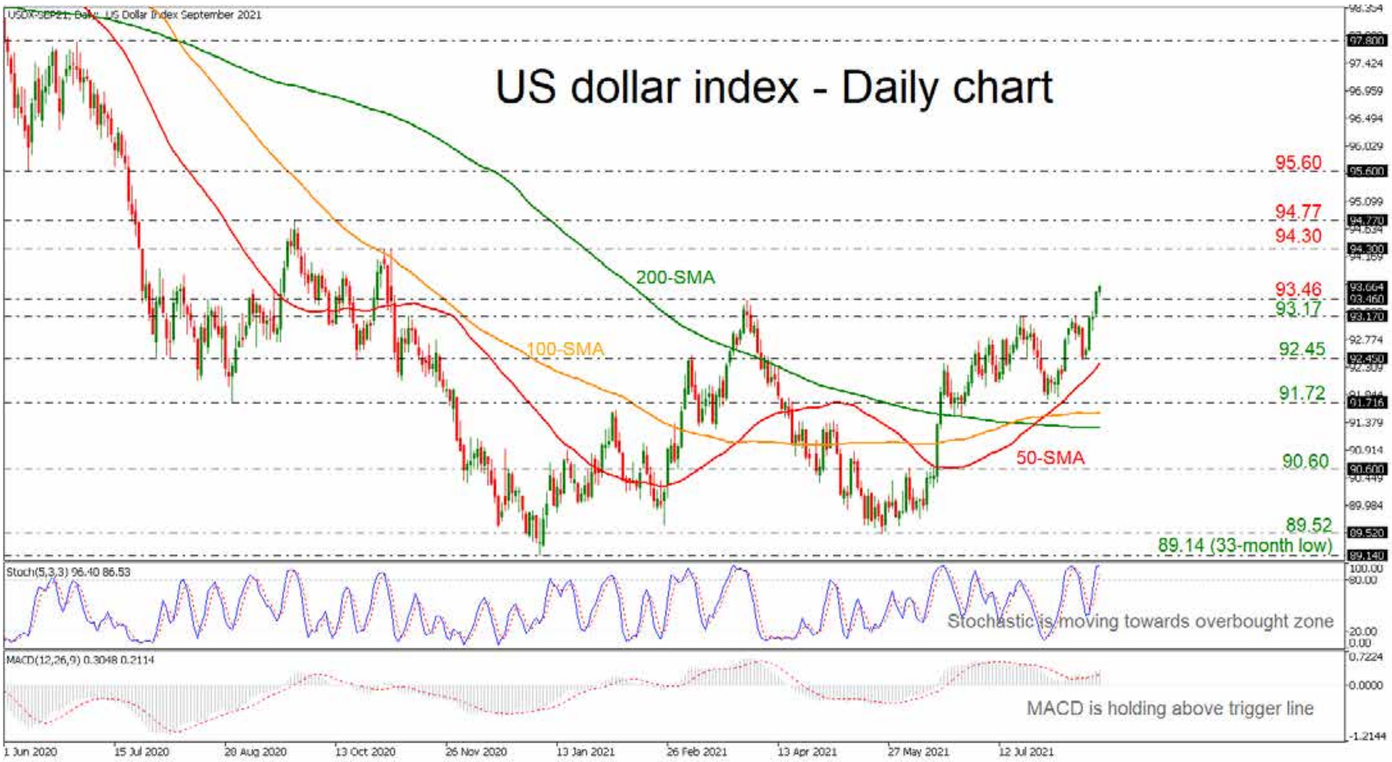
NZDUSD slid to a more than 9-month low of 0.6804 on Friday, extending its weekly losses. But the selloff may not be over as the momentum indicators remain deep in bearish territory. The Stochastics have tumbled within the oversold zone but have yet to show signs of reversing higher. The RSI, meanwhile, has flatlined just above the 30 level. The only positive signal is coming from the price having violated the lower Bollinger band, which indicates that a rebound may be nearing.

If the downside pressure persists and NZDUSD breaches the key 0.68 handle, a major support will probably not be found until the 0.67 level, which lies just below the 38.2% Fibonacci retracement of the March 2020 – February 2021 uptrend. A drop below it would open the way for the 50% Fibonacci at 0.6466.

However, if the negative bias in the short term eases and the price turns upwards, there will be immediate resistance at the lower Bollinger band at 0.6842. Climbing above it would bring the pair within range of the 20-day moving average (MA) at 0.6972. But with the 50-day MA and 23.6% Fibonacci towering over it, the 0.6990 region may prove difficult to overcome.

If successful though, the 200-day MA at 0.7110 would be the next target for the bulls.
To sum up, NZDUSD is looking bearish in both the short- and medium-terms. A break below the 0.68 level would confirm the negative shift in the outlook, while a rebound towards the 50-day MA would help restore a more neutral picture.





Commodity-linked currencies like the AUD, NZD, and CAD were slaughtered in a week dominated by concerns around global growth. Stock markets suffered as well alongside oil prices, while the USD shined bright as investors looked for shelter. Next week will bring the Fed's highly anticipated Jackson Hole symposium and a barrage of crucial data.

The highlights:

Federal Reserve officials will gather on Thursday for an event that's been used in the past to signal major policy moves. Will Chairman Powell hint that a September taper announcement is coming or will he play it slow? The answer will determine whether the USD keeps flying high or whether it cools down. In Europe, PMI surveys will hit the markets early on Monday. The EUR pierced below some crucial support levels recently, so this dataset could be crucial. Overall, the outlook for the currency looks bleak, with the ECB likely to be left behind in the central bank normalization game. British PMIs will also be released on Monday. The GBP has been pummeled by the latest episode of risk aversion, but the nation enjoys a very high vaccination rate and the BoE is on track to end its asset purchases this year.

In commodity markets, crude oil and iron prices took a beating as global growth concerns intensified. Gold prices didn't respond much.

Finally, stock markets retreated but not dramatically. There's a major sector rotation taking place under the hood, with small caps getting demolished but big tech holding its ground.

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