Consultancy
Intelligence
Publishing

# BRIEFING NOTE FED OUTLOOK

July 27th /// 2021

## "How to Manage an Orderly Exit Without Screaming Fire?"

# "How to Manage an Orderly Exit Without Screaming Fire?"

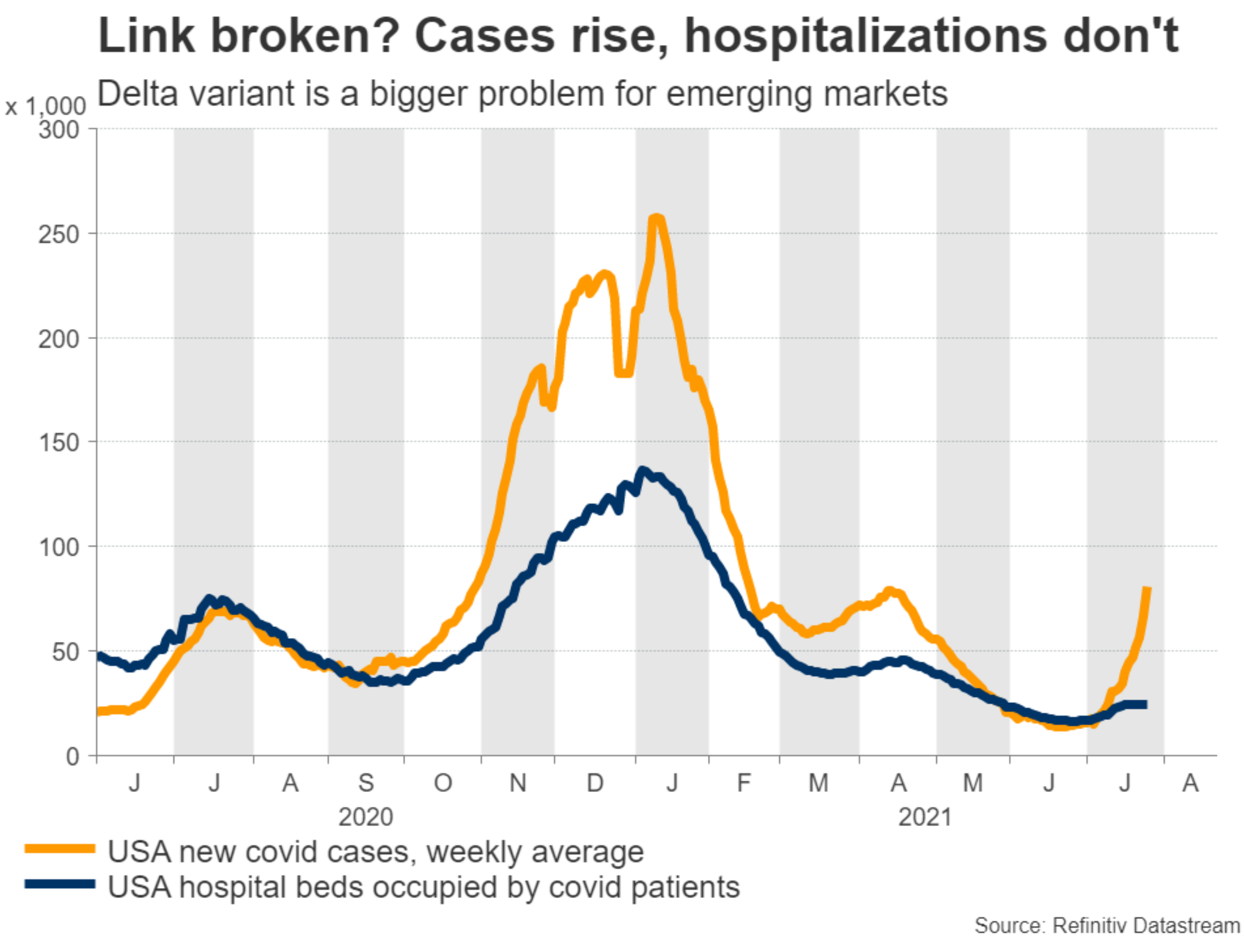
**The Fed will conclude its latest meeting at 18:00 GMT Wednesday. It will be a tricky one, as Chairman Powell will need to balance a strong US economy against fears of a sharp slowdown in emerging markets. As for the dollar, the big picture remains positive in an environment where America continues to out-recover other regions and the Fed ends asset purchases soon.**

## Stalling

Don't expect much from the Fed this week. No policy changes are on the cards and there won't be any updated economic forecasts either. This meeting will probably be used to buy time.

The US economy is booming. Inflation is running hot, consumption is strong, and the labor market is healing its wounds. Meanwhile, vaccination rates are high in most states and Congress is working on another massive round of infrastructure spending.

Normally, all this would argue for the Fed to start normalizing. But there are other elements to consider. Firstly, the Fed's leadership believes this inflation episode will fade soon. Most of the overshoot in inflation comes down to the reopening of sectors like air travel and hotels, as well as supply chain disruptions in the car industry.



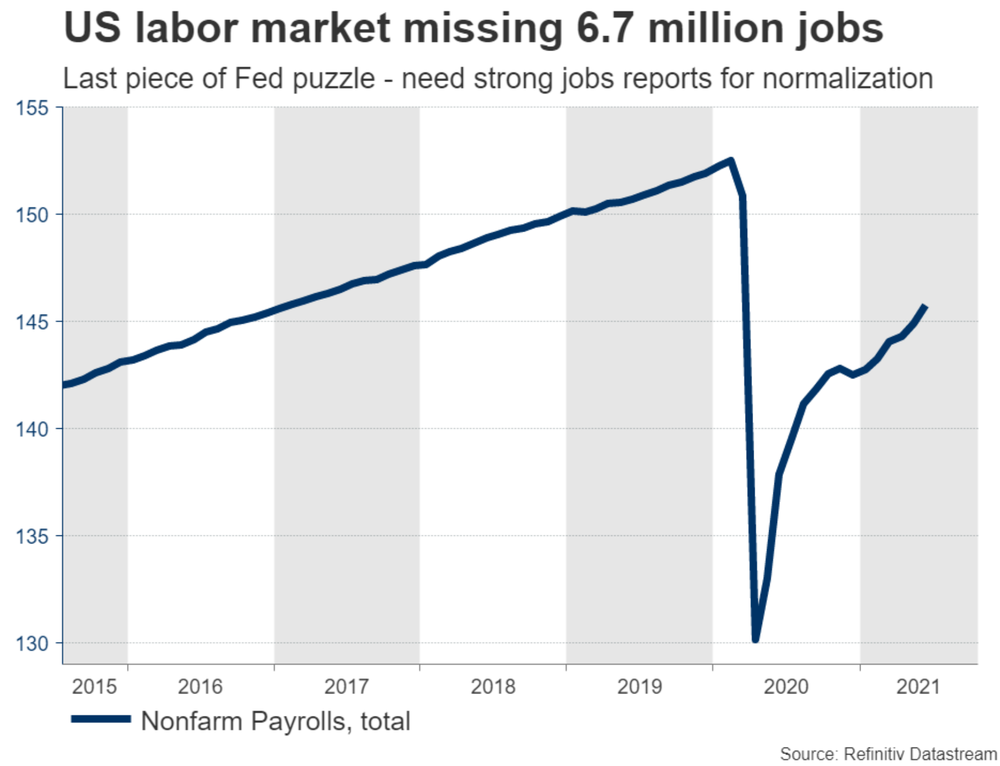

The other element that's likely to keep the Fed cautious is the Delta variant that's rampaging the world. This is admittedly a bigger problem for developing economies with low vaccination rates, but if those economies get hit hard enough, that could also hold back US growth.

## No commitments

The bottom line is that the Fed won't commit to anything for now. Waiting until September to make the real decisions gives policymakers more time to assess how virus and inflation risks will evolve, and allows them to examine more employment reports.

The market reaction this week will depend on the policy statement and Chairman Powell's tone during the press conference. Specifically, will the Fed remove the word 'substantial' from its forward guidance that "substantial further progress" in the economy is required before stimulus is dialed back?

If that word is removed, it would signal the Fed is moving closer to tapering its massive asset purchase program, setting the stage for an announcement in September. That would likely boost the dollar.




Otherwise, if that phrase is left intact, the dollar could take a minor hit as those looking for hawkish changes are left disappointed.

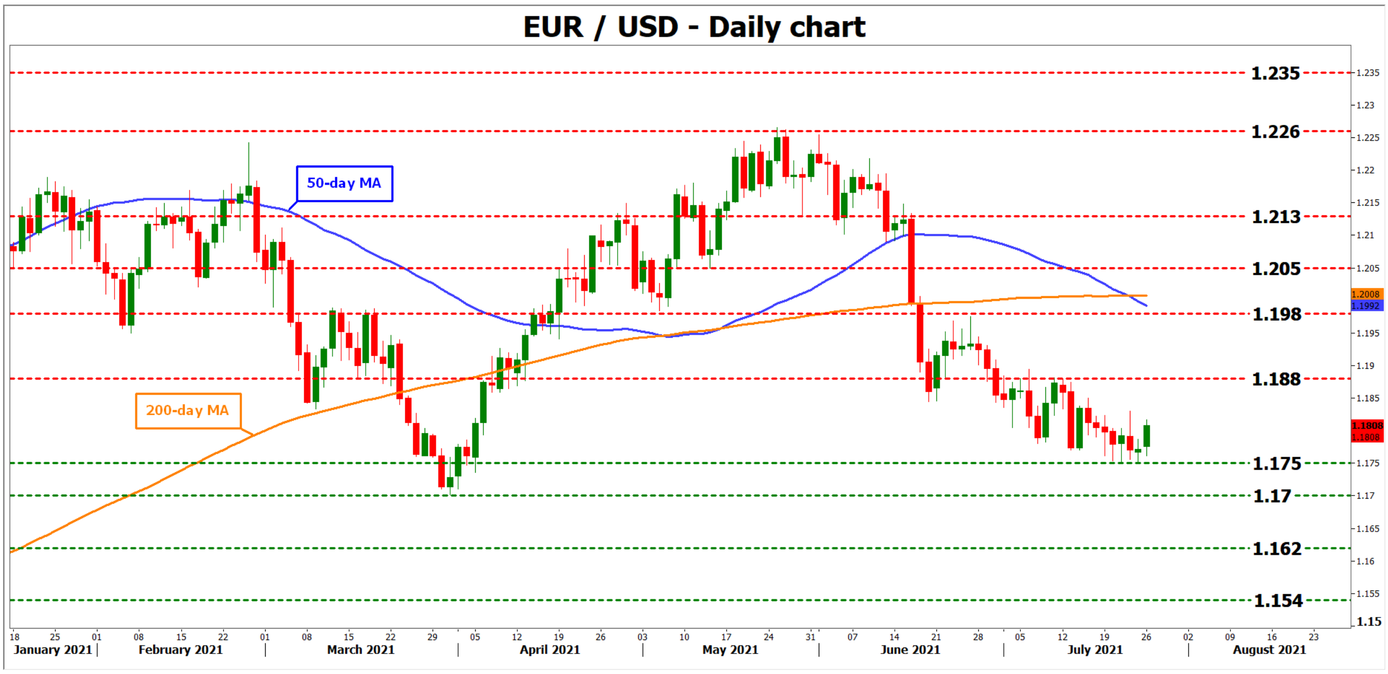
## Dollar looks good here

In the bigger picture, the outlook for the dollar seems promising. There is no question that the Fed will taper its asset purchases. The question is when. Ultimately, it doesn't really matter whether it's September or December.

What matters is that the Fed is years ahead of the European Central Bank and the Bank of Japan in the normalization game. Over time, this could allow real US yields to rise from depressed levels, making the dollar more attractive as interest rate differentials widen to its benefit.

And if the health situation in emerging economies deteriorates, that could also boost the dollar as investors look for defensive assets. It's a win-win situation, with the greenback benefiting both from US economic outperformance and safe-haven flows.

The main risk around this view is the US labor market. Everyone expects the next few employment reports to be sizzling hot as the generous unemployment benefits expire and millions of workers return to the labor force. If that doesn't happen, the Fed could slow down its normalization plans, hitting the dollar.




Taking a technical look at euro/dollar, initial support to declines could be found near the recent 1.1750 low, a break of which would turn the focus towards 1.1700.

On the upside, the 1.1880 zone would be the first test for buyers. If they pierce through, the next target would be around the 1.1980 region, which also encompasses the 50- and 200-day moving averages.

Beyond the Fed, there's also the first reading of US GDP for the second quarter coming up on Friday to shake the dollar.

## Australian CPI may expose above RBA's target; aussie flattens – Forex News Preview

Australian CPI figures for the second quarter will be front and center on Wednesday at 01:30 GMT. The Q2 CPI statistics will be interesting to watch since they will reveal what inflationary pressures were simmering in the months leading up to the recent lockdowns. Markets are prone to exaggerate the economic damage done to Australia during the coronavirus pandemic.

### Inflation expected to rise above RBA's target

The inflation report is predicted to print 0.5% q/q for the trimmed mean, pushing the annual rate up to 1.6% from 1.1% for the second quarter of 2021. Previously, the Q1 CPI jumped to a 1.1% rate from 0.9% - the highest figure since Q1 2020 - which is expected to rise notably to 3.8% y/y, well above the RBA's target of 3%. This would undoubtedly help policymakers to make a stronger case for ending QE sooner rather than later, the fact that large swaths of Australia have just been placed under new lockdowns means the RBA is more likely than ever to overlook any transitory rises in inflation. The currency is flat today around $0.7360 so a deeper decrease may be on the cards on weaker-than-expected data.

### RBA's look at the latest meeting

The Board decided to remain the April 2024 bond as the yield target bond and maintain the 10bps objective during its most recent meeting on July 6. In addition, the cash rate target was set at 10bps, and the interest rate on Exchange Settlement balances was set at 0%. Policymakers are committed to achieving full employment and keeping inflation in the target range. Inflation and salary growth remain low, despite a strong job recovery and signs of labor shortages. While inflation and wage growth are expected to rise, the increase is predicted to be gradual and small. Governments are forecasted to be considerably more cautious to utilize lockdowns as vaccination rates rise by the end of November.

The Reserve Bank of Australia will probably observe a weak Q3 CPI print as a result of Sydney's lockdown, and talk continues that the RBA would reverse its QE taper at its August meeting the following week.

## Aussie eases to new 8-month low

While Australia was successful in the early stages of the COVID problem, there was a growing perception that it was having problems implementing vaccines, with fully vaccinated people falling well behind the other affluent economies. Technically, the Australian dollar has dropped to a new eight-month low of 0.7288 in the preceding week but is currently hovering above this support level. However, the strong bearish structure began after the rebound off the 0.7886 resistance, and only a break above the 200-day simple moving average (SMA), which is now at 0.7590, could turn this perspective neutral.

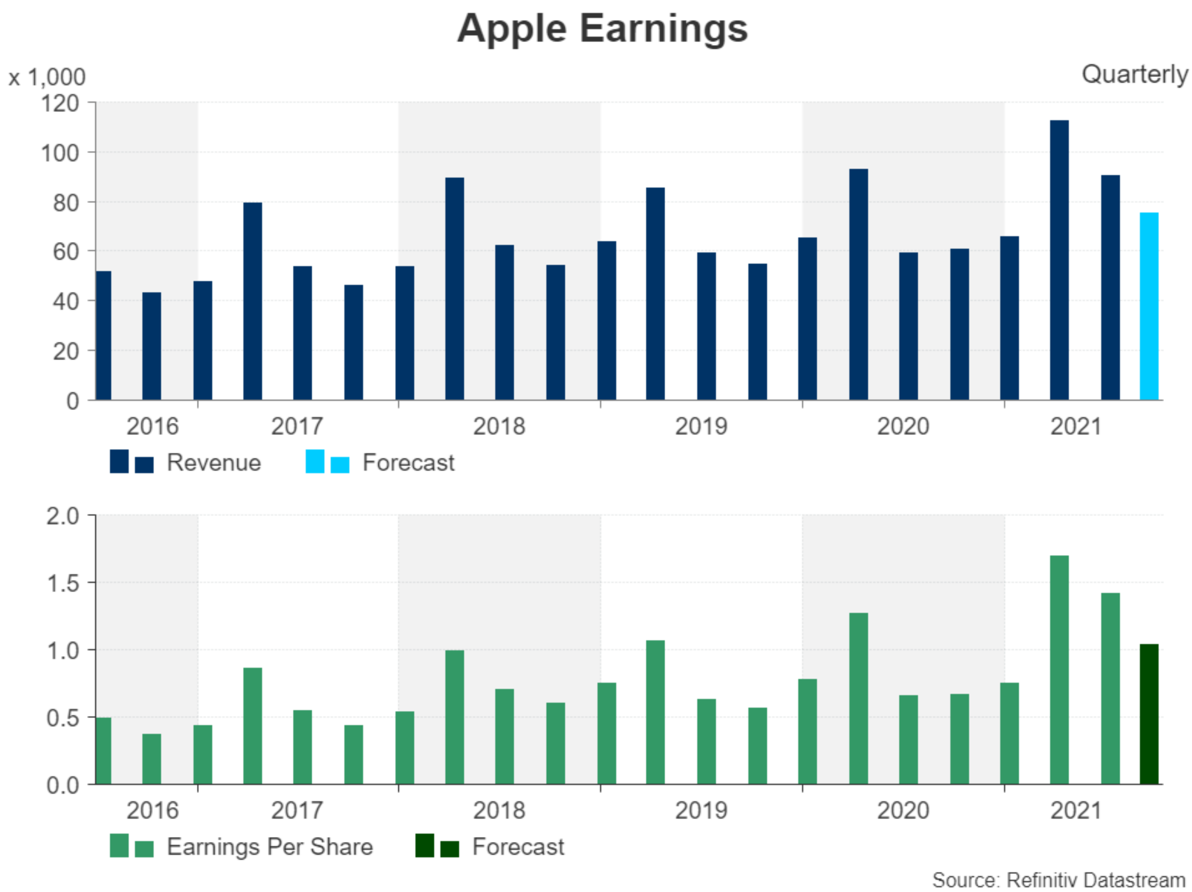
## Apple earnings: strong sales to keep stock's bullish trend intact – Stock Market News

Apple Inc. is due to announce its earnings results on Tuesday after the close of trading on Wall Street. Having managed to not only notch up positive year-on-year revenue growth during the pandemic, Apple has also been posting record earnings per share, catapulting its stock to an all-time high of $150 earlier this month. Expectations for the June quarter – Apple's fiscal Q3 – are running high on speculation of solid demand for its product line-up. However, with revenue estimates steadily edging higher in the runup to the earnings call, have investors become too optimistic?

## Revenue jump eyed as stock surges on increased orders

Bloomberg reported a couple of weeks ago that Apple has ramped up production orders for the upcoming iPhone 13 with its suppliers by as much as 20%, fuelling a frenzy in its share price, which hit a new record high of $150 on July 15. However, it's worth pointing out that up until June, Apple stock had been underperforming the broader S&P 500 and even after the latest gains, many investors think the rally still has room to run. So are they right?

Well, revenue forecasts are certainly encouraging. The Cupertino-based company is expected to report $74.11 billion in revenue in Q3 according to Refinitiv IBES data. This would be up an impressive 24.2% compared to the same period a year ago but more than 17% lower from the prior quarter. However, the quarter-on-quarter comparison will likely be skewed by last year's delay in the launch of the iPhone 12. Moreover, all the indications are that the pandemic-related boost to demand for tech products and digital services persisted in the three months to June, lifting sales of not just the popular iPhone but for the iPad and Mac too, as well as for Apple Services such as Apple Music and Apple TV+.

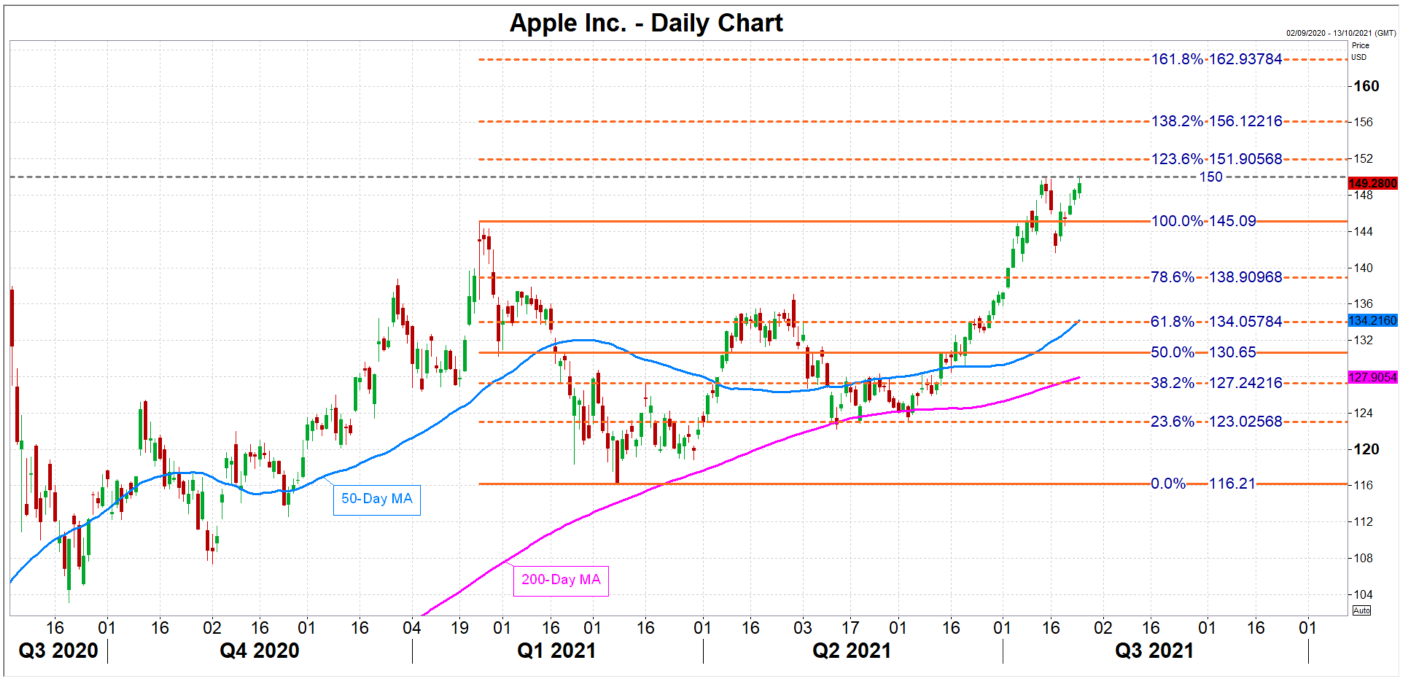


Looking at analysts' expectations for earnings per share (EPS), consensus estimates for Q3 are $1.02, down from $1.40 in Q2 but up 57.5% from 12 months earlier.

## Is another record high in sight?

Should Apple deliver better-than-expected results, the bulls are likely to challenge the all-time high of $150 before targeting the 123.6% Fibonacci extension of the January-March downleg at $151.91. In the event of a sharper rally, the 161.8% Fibonacci of $162.94 would be the next key resistance area.

However, if the Company's earnings fail to excite investors, the July trough of $141.67 would come into focus again before sellers eye the 78.6% and 61.8% Fibonacci levels at $138.91 and $134.06, respectively. The 61.8% Fibonacci also happens to be in close proximity to the 50-day moving average, making the $134 region a potentially important support base.



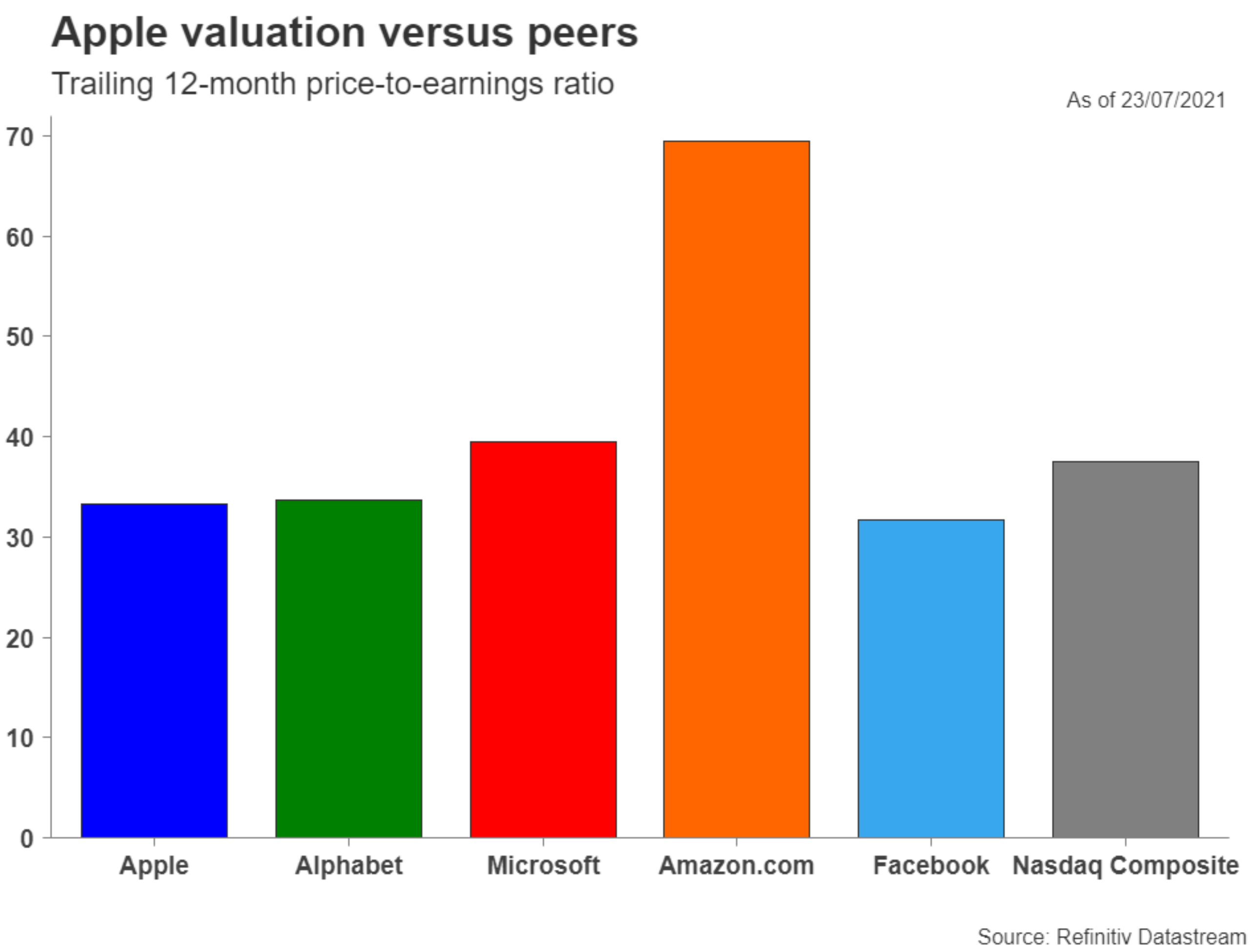

## Regulatory woes not going away

One big risk for Apple stock is that investors may be underestimating the impact of supply constraints on Q3 and future earnings. Chip and other component shortages are rife in the tech industry and could act as a major headwind to sales even if demand is robust. Supply problems could even be the primary reason why Apple bumped up production orders with its suppliers – to reserve more components for itself and minimize potential disruption to iPhone production. If investors get a sense that this was behind Apple's output boost rather than an expected rise in demand, the stock would be in danger of a major cooling off period.

Another risk ahead is the Company's long-running regulatory headaches, ranging from anti-competitive complaints to patent infringements, the latest being on how much control Apple has over third-party developers' apps on the App Store.

## Is Apple overvalued?

However, despite these troubles, Apple is still seen as an attractive bet with no sign yet of the huge popularity in its products waning anytime soon. Hence, analysts are maintaining their 'buy' recommendation for the stock, setting a median price target of $161.00.




From a valuation perspective, Apple has a pretty hefty trailing 12-month price-to-earnings (PE) ratio of 33, though many investors would argue that this is reasonable given its very strong cash flow. The PE is also comparable to those of its peers such as Alphabet and Microsoft, and slightly below the average of the Nasdaq Composite.

The sky-high valuation is likely to again be overlooked by traders should Tim Cook, Apple's CEO, sound upbeat about the next quarter even if he stops short of providing full guidance.

## Technical Analysis – EURUSD shows buyers are fighting back

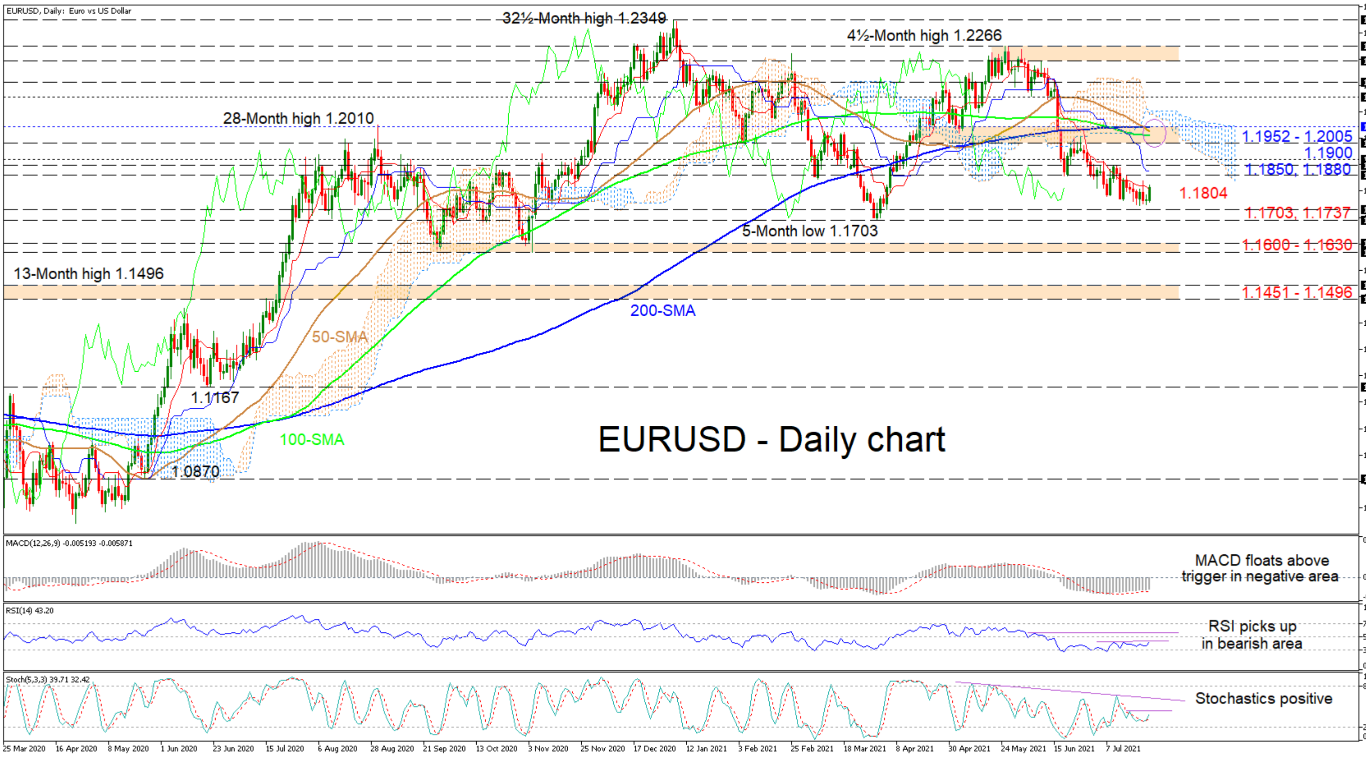
EURUSD's downward bearing from the 1.2100 mark has softened considerably, and negative powers are waning even more so as the price approaches the 1.1700 level. In spite of the diving 50-day simple moving average (SMA), the 100-day SMAs dipping demeanour is somewhat abating, indicating that downward forces are losing their edge.

The Ichimoku lines are sustaining their bearish charge however the short-term oscillators are showing that buyers are starting to gain the upper hand. The MACD, in the negative region, is hovering above the red trigger line looking to improve, while the RSI is rising in bearish territory. The stochastic oscillator has also reclaimed a positive charge, promoting an increase in buying interest.

If buyers clearly overstep the red Tenkan-sen line at 1.1804, early resistance could emanate between the 1.1850 and 1.1880 nearby highs, surrounding the blue Kijun-sen line. From here, should the pair successfully nudge past the 1.1900 barrier, buyers may gain confidence to challenge the critical resistance section of 1.1952-1.2005 and the adjoining Ichimoku cloud, the former being an area that also encapsulates the SMAs.

Otherwise, if selling interest intensifies again, initial tough support could develop around the 1.1737 low and the neighbouring trough of 1.1703. Should negative forces start to dictate the bias again, the base of 1.1600-1.1630 could come into play. In the event this foundation breaks down, the border of 1.1451-1.1496 could signal a possible significant shift to the downside.

**Summarizing, EURUSD is sustaining a slight neutral-to-bearish tilt in the medium-term timeframe. However, the tables appear to be turning, especially if the price manages to endure above the 1.1703 trough.**




## Technical Analysis – US 500 index stretches to fresh record high of 4,415

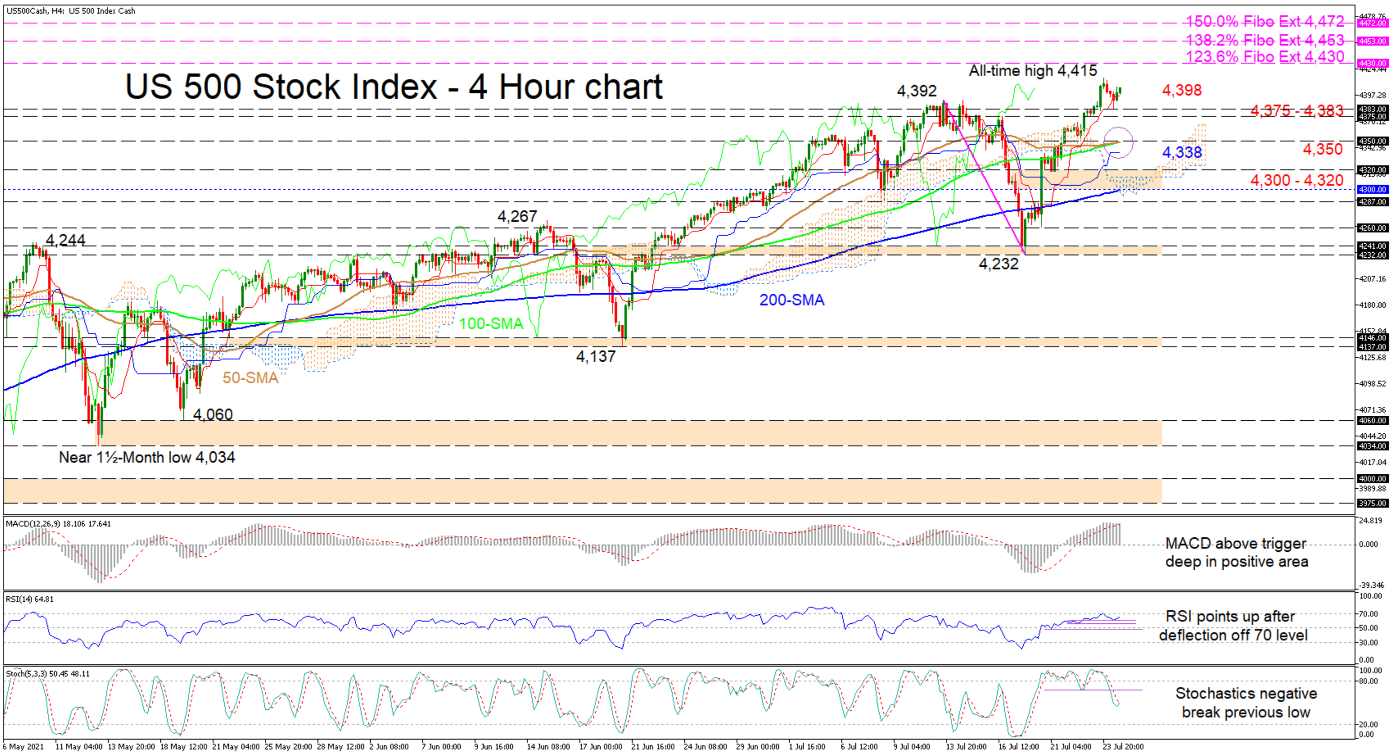
The US 500 stock index (Cash) is ticking back up after a minor pullback from its recently reached all-time high of 4,415. The positively charged 100- and 200-period simple moving averages (SMAs), along with the recouped elevation in the 50-period SMA's slope, are endorsing upside momentum.

The bullish Ichimoku lines are reflecting a pause in positive price action, while the short-term oscillators are transmitting mixed signals in directional impetus. The MACD far above zero is dwindling towards its red trigger line, while the RSI is trying to improve in the bullish region. The stochastic oscillator's negative charge seems to be abating somewhat, suggesting that upside forces are on the rise.

If the index regains buoyancy, initial resistance could arise around the fresh all-time high of 4,415. In the event the index navigates once again into uncharted waters, the ascent could falter around the 4,430 barrier, which happens to be the 123.6% Fibonacci extension of the corrective wave from 4,392-4,232. However, should buying orders intensify, the price may then challenge the 138.2% Fibo extension of 4,453 before piloting for the 150.0% Fibo extension of 4,472.

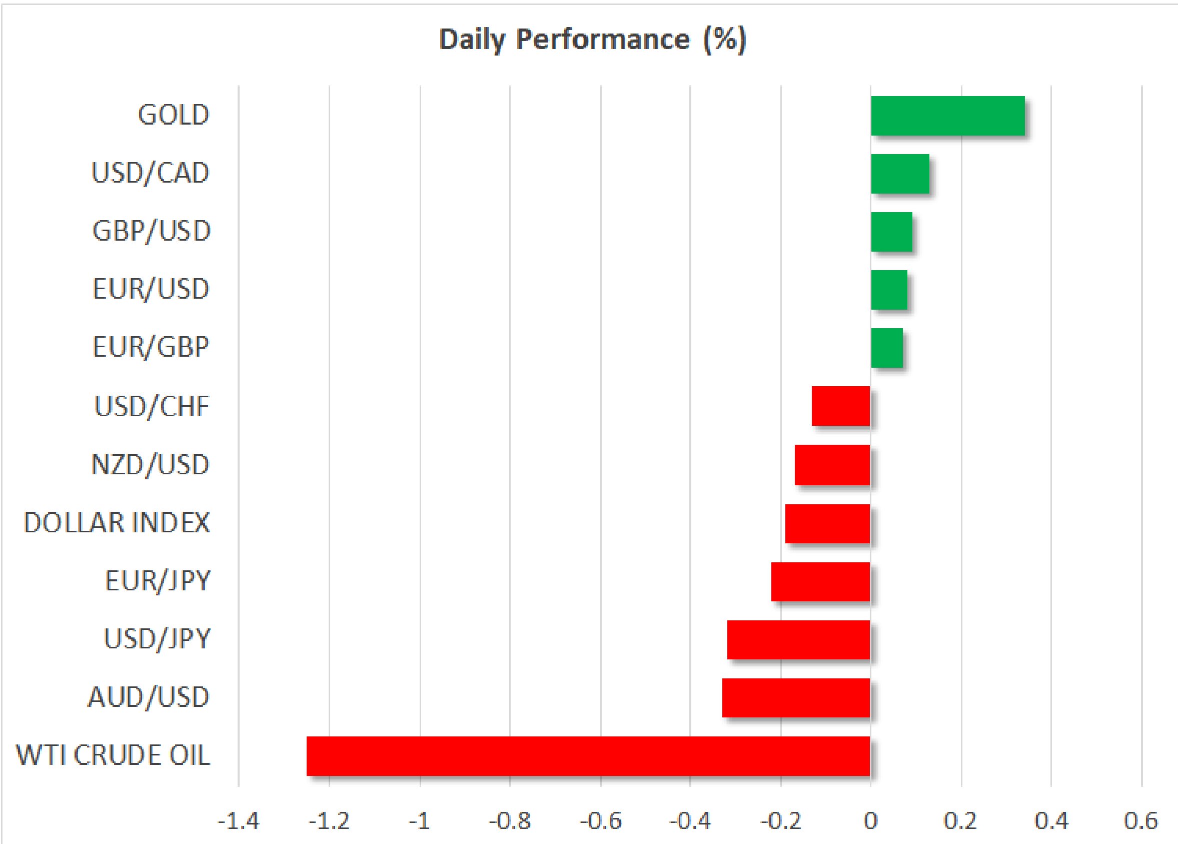
Alternatively, if sellers manage to dip the price below the red Tenkan-sen line at 4,398, preliminary support could develop at the 4,375-4,383 nearby boundary. However should the index recoil beneath this obstacle, the price may target the 4,350 vital low, reinforced by the converged 50-and 100-period SMAs. From here, if negative pressures persist, the price could overshoot the blue Kijun-sen line at 4,338 and target the crucial support section of 4,300-4,320.

**Summarizing, for the US 500 index to sustain a positive bearing, the price would need to persist above the SMAs and the 4,232 trough. That said, a close below the cloud and the 200-period SMA could suggest downside forces are growing.**




## US equities shine ahead of Fed but caution prevails elsewhere

- Wall Street rallies on strong earnings even as US Covid hospitalizations surge
- Caution is the order of the day elsewhere as Delta and growth fears linger
- Dollar starts Fed week on steady note but yen and gold inch higher, yields slip again



## US stocks ride high; can anything spoil the fun?

Wall Street ended Friday in a euphoric mood as Q2 earnings continued to beat expectations, but trading has gotten off to a much more cautious start on Monday, with the Fed meeting high on investors' agenda. All three leading indices finished the week in record territory, with the Dow Jones closing above 35,000 for the first time, while the S&P 500 shot above the 4,400 level.

The earnings season continues in earnest this week as all the Big Tech names are due to report, starting with Tesla today, followed by Apple, Microsoft and Alphabet tomorrow.

Nasdaq futures were outperforming on Monday, standing flat in early European trading amid strong optimism about tech earnings. But Dow Jones and S&P 500 futures were tracking the broader markets lower.

Worries about rising virus cases around the world and the subsequent toll on economic growth were heightened on Monday. Even the United States is seeing a fresh spike not just in infections but in hospitalizations as well, as the country's vaccination pace has ground to a halt lately.

Further roiling markets today are more signs of regulatory crackdown in China on locally listed tech companies, with Tencent becoming the latest victim after authorities' recent assault on Didi. But the intervention is now widening to the education and property sectors, sending shares in Hong Kong and China into a spin and dragging the rest of Asia lower as well, with the exception of Tokyo.

## Markets hoping for a dovish but optimistic Fed

The question now is whether the worsening outbreak of the Delta variant will eventually catch up with Wall Street. Throughout the pandemic, 'buy the dip' mantra has always generated a quick rebound from any panic selling, though US tech giants' newfound status as defensive stocks has ensured that the dips haven't been very steep. But lately, the appeal of non-tech US equities has also been growing, attracting funds from emerging markets in particular as, apart from stellar earnings, the American economy is increasingly being seen as the most resilient to further virus crises.
Whether the Fed is feeling quite as upbeat could be crucial as to how well the positive sentiment holds up. The Federal Open Market Committee (FOMC) meets on Tuesday and Wednesday to deliberate how soon the $120 a month in asset purchases should be dialled back. Although it's unlikely policymakers will explicitly flag a tapering decision just yet, investors will be anxious to see how much further progress the Fed thinks has been achieved since the last meeting and whether the rampant spread of the Delta variant has affected the outlook.

Judging by which way Treasury yields were headed on Monday, the market doesn't seem to be betting on a hawkish surprise.

| GMT | COUNTRY | INDICATOR | PERIOD | UNIT | ACTUAL | REUTERS POLL | PRIOR |
|---|---|---|---|---|---|---|---|
| 22:45 | New Zealand | Imports | Jun 2021 | NZD | 5.69 | | 5.4 |
| 22:45 | New Zealand | Trade Balance | Jun 2021 | NZD | 261 | | 469 |
| 22:45 | New Zealand | Annual Trade Balance | Jun 2021 | NZD | -0.25 | | -0.06 |
| 22:45 | New Zealand | Exports | Jun 2021 | NZD | 5.95 | | 5.87 |
| 0:30 | Japan | Jibun Bank Mfg PMI Flash | Jul 2021 | Diff.Idx | 52.2 | | 52.4 |
| 8:00 | Germany | Ifo Business Climate New | Jul 2021 | Index | 100.8 | 102.1 | 101.8 |
| 8:00 | Germany | Ifo Curr Conditions New | Jul 2021 | Index | 100.4 | 101.6 | 99.6 |
| 8:00 | Germany | Ifo Expectations New | Jul 2021 | Index | 101.2 | 103.3 | 104 |
| 14:00 | United States | New Home Sales-Units | Jun 2021 | No. of | | 0.8 | 0.769 |

## Technical Analysis – AUDUSD deflects off 50-MA; downside risks stay active

AUDUSD has become curbed again by the 50-period simple moving average (SMA), reviving the pair's bearish trajectory. The price descent has endured for nearly seven-weeks now and upside sentiment appears to be lacking, something also being indicated by the dictating bearish tone in the SMAs. The Ichimoku lines are leaning slightly to the downside with the horizontal bearing of the blue Kijun-sen line; while the short-term oscillators have yet to provide convincing signals that the bulls have taken the lead. The MACD is holding marginally below its red trigger and zero line, while the RSI is gaining a minor incline towards the 50 level. The stochastic oscillator has secured a bullish tone but this may subside sooner rather than later. If sellers retake the wheel and steer the price below the blue Kijun-sen line at 0.7343, initial support could develop at the near 8-month low of 0.7289. Reviving the broader decline, the bears may hit the 0.7265 low - from the end of November 2020 - before challenging the crucial support boundary of 0.7197-0.7221. Deteriorating further, the pair may then sink towards the 0.7144 trough, identified on November 5 of the previous year. Otherwise, if buyers push over the red Tenkan-sen line at 0.7362, preliminary upside deterrence may emanate from the 50-period SMA and the cloud's lower surface around 0.7378 ahead of the key resistance barricade of 0.7395-0.7416. Should buyers successfully defeat these obstacles, the nearby 100-period SMA at 0.7431 and the adjacent 0.7442 high may try to impede further gains from testing the resistance zone of 0.7483-0.7503. Additional progress from here may cheer buyers to tackle the 200-period SMA at 0.7515.

## Concluding, in the short-term timeframe AUDUSD remains heavy below the SMAs and the 0.7395-0.7416 border. For optimism in the pair to grow, the price would need to improve above the 0.7598 high.


### ABOUT XM.COM

With over 3,500,000 clients since it was founded in 2009, XM has grown to a large and well established international investment firm and has become a true industry leader.
XM is currently built of more than 450 professionals with long-year experience in the financial industry.
Our extensive experience combined with support for well over 30 languages, makes XM the broker of choice for traders of all levels, anywhere. We have the expertise and the resources to help everybody realize their investment goals, like only a big broker can.

Consultancy
Intelligence
Publishing