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# WEEK AHEAD BRIEFING NOTE

**Aug. 29th /// 2021**

***"The US Economy has More Jobs Open than People Unemployed!"***

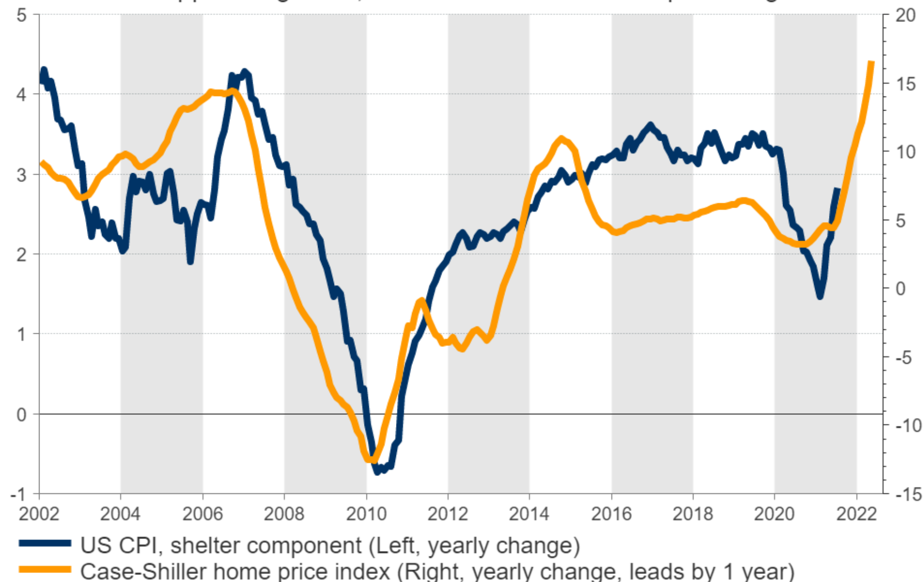
# "The US Economy has More Jobs Open than People Unemployed!"

**The calendar is void of any central bank meetings next week, so all eyes will be on the latest US employment report. It will be infinitely important in determining how soon the Fed pushes the taper button. Beyond that, there's also a heavy dose of data releases from the Eurozone, Canada, and Australia.**

## Inflation, jobs, and dollar

There's been a lot of talk lately about the Delta outbreak hitting the US economy and slowing down the Fed's normalization plans. Some early signs indeed suggest economic growth is losing steam. For instance, the latest composite Markit PMI fell in August thanks to worsening supply chain disruptions, while consumer confidence cratered as virus fears returned.

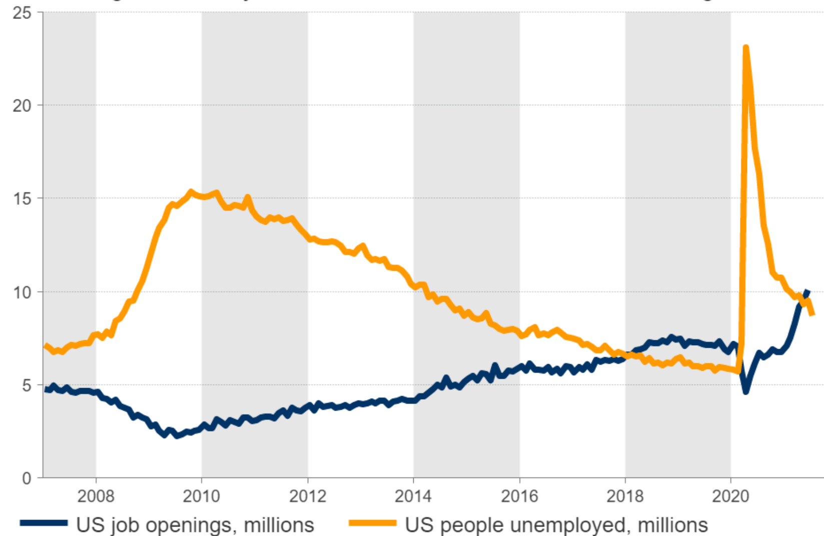
That said, the wheels are not coming off either. The economy is already larger than it was pre-crisis, the labor market is recovering at a stunning pace, and inflation is unlikely to cool anytime soon. The Supreme Court just cancelled the ban on evictions, which means rents could now begin to spiral, feeding the inflation story. Best of all, Congress is pushing ahead with another massive round of infrastructure spending.




Hence, the Delta outbreak looks like a mere speed bump in the recovery road. Even in a worst-case scenario where it does hurt the economy, that would also put more pressure on the politicians to get something done quickly, increasing the chances for a gigantic spending package.

The Fed is clearly preparing the markets for a tapering decision this year. It's not a question of whether they will taper, but rather when they will begin this process and how long it will last. Investors are still debating whether this will be announced in September, November, or even December.

The jobs report on Friday could go a long way in settling this debate. Nonfarm payrolls are expected at 763k in August, pushing the unemployment rate down two ticks to 5.2%. That would leave America some 5 million jobs shy of a full recovery. Subtract around 2.5 million people that retired early because of the pandemic, and we could be back to full employment by the turn of the year if this pace continues.



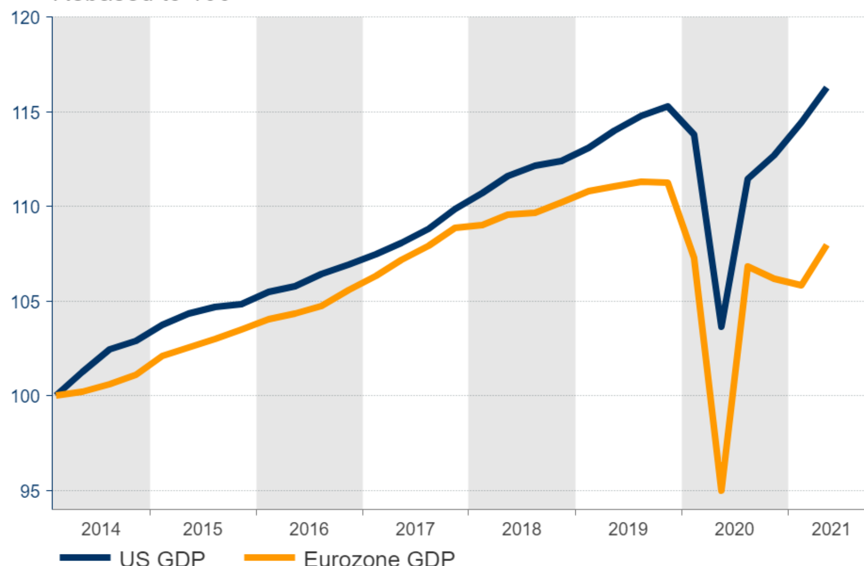

As for the dollar, the overall picture remains promising. Whether the Fed pulls the tapering trigger in September or November doesn't matter much. It is still years ahead of the ECB and the BoJ in normalizing, which ultimately argues for the dollar to shine against the euro and yen as investors warm up to carry trades again.

Aside from the employment report, markets will also focus on the ISM manufacturing and services PMIs for August, due on Wednesday and Friday respectively.

## Eurozone data barrage

Over in Europe, the ball will get rolling with preliminary German inflation numbers for August early on Monday. The Eurozone-wide inflation print will be released on Tuesday, ahead of unemployment figures for July on Wednesday. Then on Friday, the spotlight will fall on the latest edition of retail sales.

The Eurozone has come back to life lately as vaccinations went into overdrive and social restrictions were rolled back. Alas, the recovery pales in comparison to America's, as the euro area economy is still much smaller than it was pre-crisis. And the risk is that this latest recovery phase was simply a reopening boom that fades soon.



On the bright side, Europe has a very high vaccination rate. This means the Delta variant is less of a threat. Additionally, the Recovery Fund money is finally being rolled out, which will hopefully help struggling economies like Italy get back on their feet.

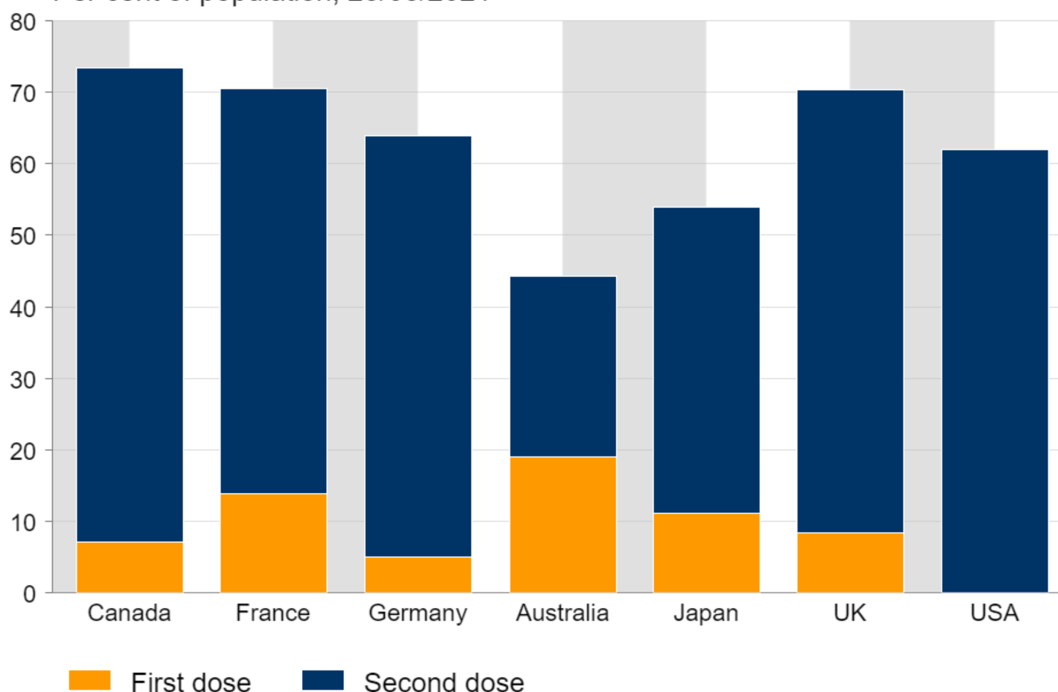
The problem is that this recovery package is way too small to make a real difference and there isn't much political appetite for any more, especially with government debts ballooning already.

Long story short, the Eurozone is doing better but nothing impressive. The ECB is well aware of this, hence why it doubled down on its commitment not to raise rates over the coming years. That's bad news for the euro, which could struggle against currencies whose central banks are moving towards higher rates.

## Canadian and Australian GDP data

Moving to the commodity-linked currencies, Canada's GDP stats for Q2 are out Tuesday. The Canadian economy continues to hum along nicely, enjoying the benefits of a very vaccination rate and elevated oil prices, allowing the central bank to roll back its asset purchases recently.

As for the loonie, the currency has been at the hands of risk sentiment lately, swinging wildly alongside stock markets and oil prices. The big picture remains bright thanks to the Bank of Canada's lead in normalizing policy, although a lot will also depend on how commodity prices fare. Beyond that, there's also an election coming up next month.




Over in Australia, things don't look so good. Most of the country is trapped in a strict lockdown, with the government waiting for the nation's vaccination rate to rise to around 70-80% before relaxing restrictions. This means several more weeks of lockdowns, which will inevitably hit the economy. Hence, the upcoming GDP data for Q2 on Wednesday are already outdated.

The RBA stuck to its guns lately, signaling it will go ahead with reducing its asset purchases soon despite the onslaught of negative news, but there is a strong chance it abandons those plans at its next meeting. As for the aussie, it has been demolished lately and the pain train could continue as long as the lockdowns rage, especially with China losing steam too.

Speaking of China, the nation's PMI business surveys for August will also hit the markets on Tuesday.

**Riskier trades staged a powerful recovery lately as markets became convinced that the Fed chief wouldn't signal an imminent normalization move. Stock markets hit new record highs, commodity currencies bounced back, and the USD lost some ground. Moving into next week, it's all about the latest US employment report.**

## The highlights:

Nonfarm payrolls out of America on Friday will dominate the agenda. Another solid jobs report is expected, which could cement market expectations for a Fed taper announcement in the next few months. That's good news for the USD, which will ultimately enjoy an interest rate advantage over the EUR and JPY.

There's also a data barrage from the Eurozone. While the European recovery has been solid, it pales in comparison to America's. The ECB won't raise rates over the next few years, so the EUR could struggle against currencies whose central banks are moving towards higher rates.

Meanwhile, GDP numbers for Q2 will be released in both Canada and Australia. The Canadian economy is humming along nicely, but things aren't looking so good in Australia, which is trapped in a strict lockdown.

The recovery in risk appetite was clearly reflected in oil prices lately. Even gold managed to claw its way higher as geopolitical risks intensified.

Finally, stock markets keep partying, turbocharged by expectations for another massive spending package from Congress and hopes that any withdrawal of cheap central bank money will be very slow.

## Technical Analysis – USDJPY holds neutral as 50-Day MA obstructs gains

USDJPY has enjoyed some modest gains over the past 10 days but the overall trend in the last couple of months has been flat. Momentum indicators are portraying a mixed picture in the short term. The stochastics continue to rise and the %K line has even crossed into overbought territory. However, the MACD has yet to climb above zero and the red signal line remains mostly flat, suggesting the bullish shift in the short-term bias hasn't been very substantial so far. The price is currently attempting to overcome the Ichimoku cloud and the 50-day moving average (MA), both in the 110.10 area. Clearing this hurdle convincingly would help strengthen the positive bias, opening the way for the August top of 110.79. Higher up, the bulls would need to battle the 15-month high of 111.65 from July 2 if they want to keep the longer-run uptrend intact.

If, though, the latest upside push falters, USDJPY could be propped up by the 20-day MA and Kijun-sen line in the 109.75-109.80 region. Should this support fail, the recent trough of 108.72 could be tested first before the price slides towards the 200-day MA, currently at 107.70.

In the medium term, however, the pair looks set to consolidate for a while longer even if it gains some further positive traction in the immediate term, with only a break above 111.65 able to restore the bullish outlook.

## Taper or not taper

The weekly consolidation phase in FX markets could last a bit longer until Federal Reserve chairman Jerome Powell starts to speak at the top of the hour at the much-awaited Jackson Hole symposium.

Following a bulk of comments from Fed speakers this week, the clear message is that the bond tapering process will kick off this year, though what is still unknown is when the central bank will make the official announcement and starts the stimulus reduction phase, and how the pace of cuts will flow.

## US core PCE index as expected

US Inflation is hovering at the highest since 1990s, and while the upside momentum has slowed down, with the core PCE index ticking up to 3.6% y/y as expected, there is still no convincing evidence that the rise in prices is temporary. Meanwhile, personal income, which accompanied the price index, came in surprisingly stronger at 1.1% m/m, while personal consumption arrived steady at 0.3% m/m.

All in all, the current economic conditions cannot oppose the tightening narrative, but the shift to a virtual Jackson Hole meeting format increased suspicion that the dove chair may avoid any serious commitments today and let the debate continue during September's FOMC meeting as hospitalizations pick up steam in the US.

Earlier in the day, Atlanta Fed president Raphael Bostic attempted to send some spoilers, saying that "if August job gains match those in June and July, it would be reasonable to trim bond purchases in October.

## Markets in steady mode

Nevertheless, the last word will be Powell's today, with the US dollar reacting little to any headlines. Dollar/yen is still struggling to close above the 110.00 level, trading neutral in the day.

In other major pairs, euro/dollar is also facing trouble near a key resistance trendline at 1.1760, while pound/dollar is enjoying some gains after finding support around 1.3690.In commodity currencies, the strength in oil prices could not boost the loonie, leaving the pair stable near yesterday's lows, but it would be interesting to see if this could change as damaging hurricane-force winds head towards the US Gulf coast.

Kiwi/dollar and aussie/dollar were also in wait-and-see mode at0.7040 and 0.6942 respectively.

Gold continued to trade in a tight range below the 1,800 level and the 200-day simple moving average as the rise in US Treasury yields halted. Note that a flood of Treasury options will expire today. Hence, some volatility cannot be ruled out if Powell surprises investors. Turning to stocks, the loss in financials and utilities offset the surge in real estate stocks, keeping the pan-European STOXX 600 steady. US futures tracking the S&P 500, Dow Jones and Nasdaq 100, are pointing to a mildly positive open.

## Technical Analysis – GBPJPY lacks bullish signals despite rebound

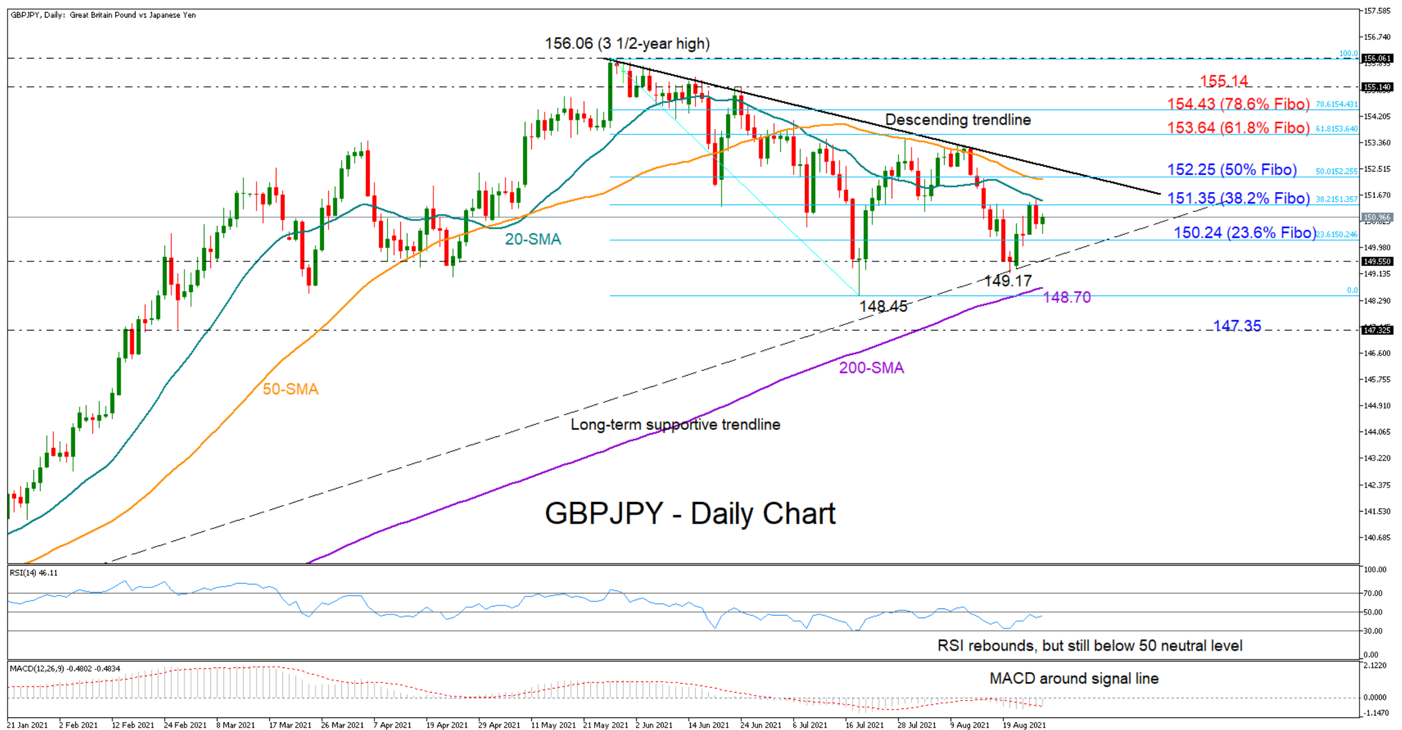
GBPJPY has been on recovery mode this week, partially erasing last week's losses thanks to the long-term dashed ascending trendline, which has been supporting the market since the 2020 freefall.

The 38.2% Fibonacci retracement of the latest down leg at 151.35 currently accompanied by the 20-day simple moving average (SMA) remains the main obstacle to upside movements for another week as the RSI and the MACD continue to fluctuate in the bearish area despite the recent improvement.

However, even if the price runs above 151.35, traders would like to see a sustainable extension above the short-term descending trendline and the 50% Fibonacci of 152.25 to express a bullish view on the pair. If that's the case, the pair could gear up to the 61.8% Fibonacci of 153.66. Then, a close above the 154.43 – 155.14 restrictive region will be needed to secure access to the 156.06 peak.

On the downside, the 23.6% Fibonacci of 150.24 and the long-term supportive trendline could prevent any decline towards the 200-day SMA and July's low of 148.45. Breaching the latter, the sell-off could sharpen towards the 147.35 handle.

**In brief, GBPJPY is still lacking bullish signals despite this week's rebound. A bounce above 152.28 is required to raise buying interest, while a step below 148.45 will put the market back on the bearish path.**




## Technical Analysis – USDCAD gains on trendline support

USDCAD stepped decisively on the ascending trendline, which has been supporting the market since the drop to a 3 ½-year low of 1.2006 in May, and drifted northwards to hit resistance within the 1.2680 – 1.2700 zone.

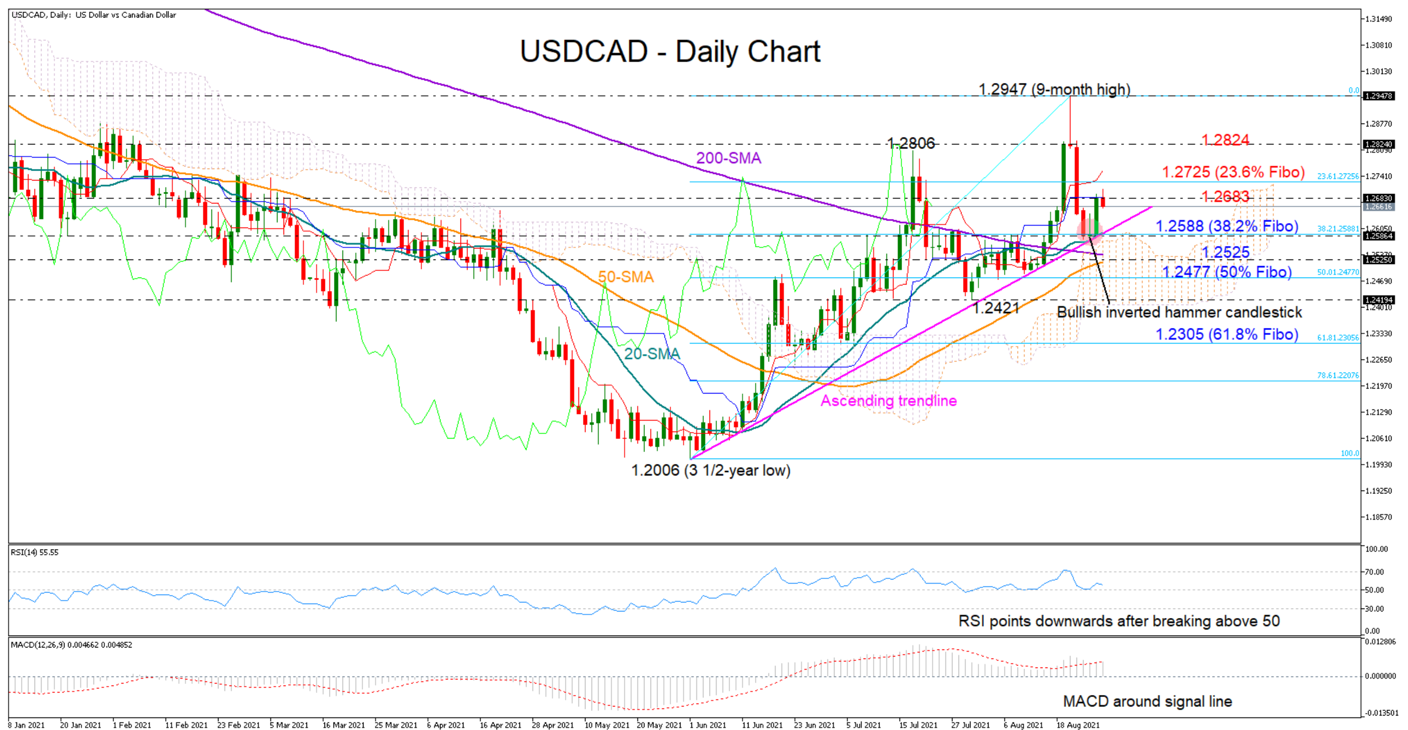
The cheerful upside correction in the price was not strong enough to drive the MACD above its red signal line, while the rebound in the RSI seems fragile as the indicator is currently pointing to the downside again. That said, the inverted hammer candlestick which preceded yesterday's rebound could be a warning that buying pressures may remain in play, even if some weakness occurs.

In trend signals, the fresh bullish cross between the 20- and 200-day simple moving averages (SMAs) raised confidence in the ongoing uptrend and a potential intersection between the 50- and 200-day SMAs could further boost optimism that the upward trajectory could hold on for longer.

If selling pressures resurface, the ascending trendline may come to the rescue once again, helping the price to find its feet near the 38.2% Fibonacci retracement of the 1.2006 – 1.2947 upleg at 1.2588. This is also where the surface of the Ichimoku cloud is currently positioned. Hence, unless the 1.2525 – 1.2470 territory, which encapsulates the 50- and 200-day SMAs and the 50% Fibonacci, blocks the way down, the price could dive towards its previous low of 1.2421. Ay step lower would invalidate the upward pattern.

In the bullish scenario, where the pair advances above the 1.2680 – 1.2700 wall, breaking the 23.6% Fibonacci of 1.2725 too, the bulls will push for a close above the tough 1.2824 resistance. If efforts prove successful, the door will open for the nine-month high of 1.2947, where any violation would attract new buying interest, upgrading the positive outlook.

**Summarizing, USDCAD is currently holding a neutral-to-bullish bias. A clear close above 1.2725 could confirm additional gains, while a break below 1.2588 could shift the bias to bearish.**



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