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WEEK AHEAD BRIEFING NOTE

Aug. 9th /// 2021

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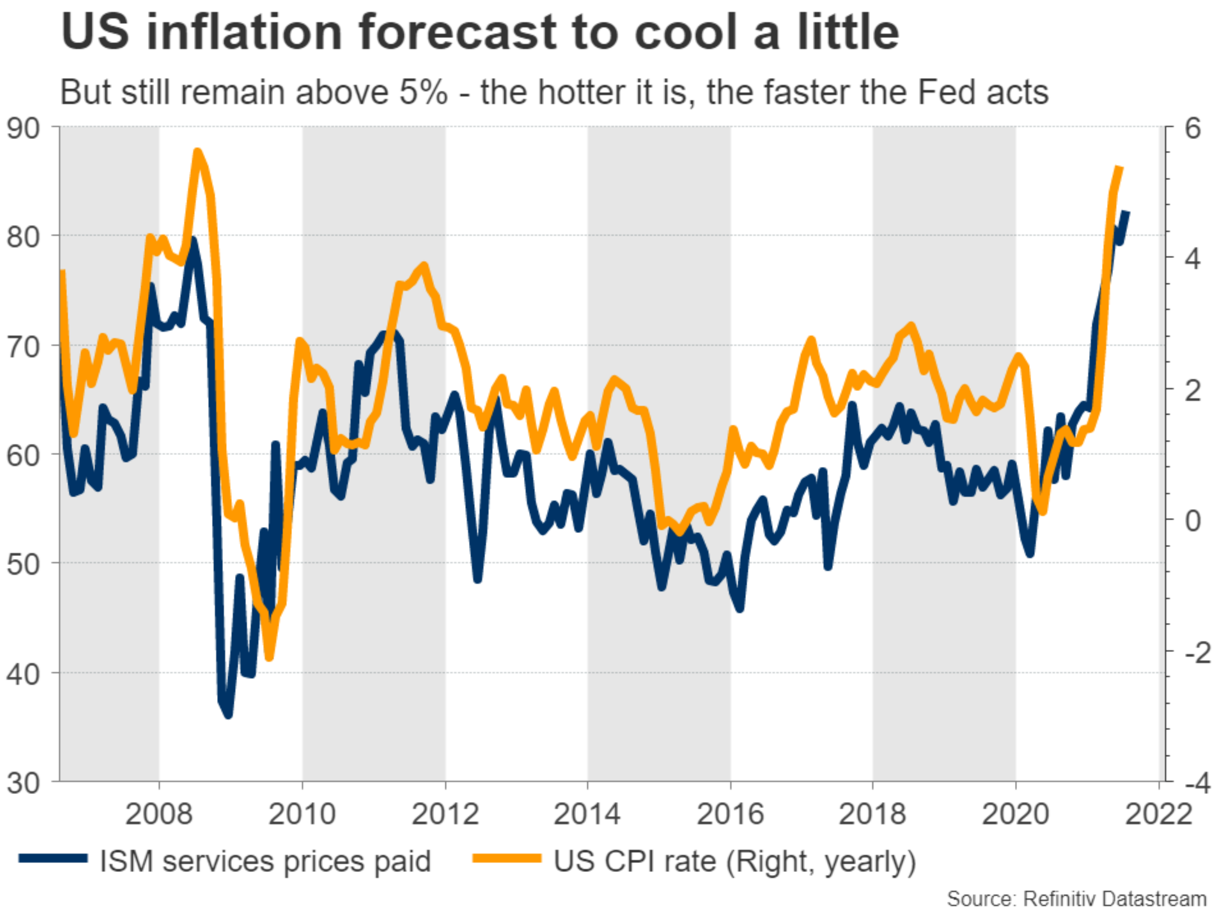
It will be a quiet summer week, with no central bank meetings and only a handful of economic data. The main event will be the latest edition of US inflation, which could shape the narrative around the Fed and the dollar. Overall, we are entering a period when market liquidity might be very thin, making sharp moves possible without much news.

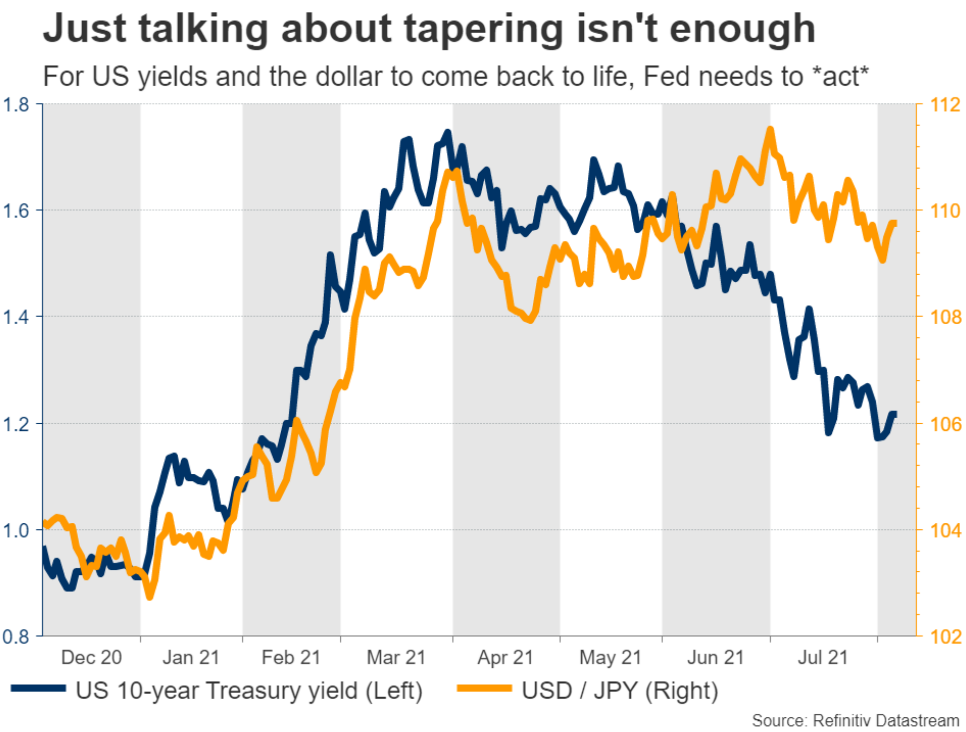
US inflation set to cool

Fed officials have started to beat the tapering drums. This past week, another two senior policymakers threw their weight behind dialing back stimulus soon. One of them was Vice Chairman Clarida, the Fed's second in command. The other was Board Governor Waller, who went as far as saying that if the next couple of employment reports are strong, the Fed should get the ball rolling in September already. Both are permanent voters in the FOMC, so their views carry weight.



Next week's inflation stats will be crucial. Forecasts point to a minor slowdown. The monthly CPI print is expected at 0.5% in July, which would push the yearly rate down a touch. That said, this would still leave the yearly rate comfortably above 5%. We could also see an upside surprise, considering the signals in the PMI surveys.

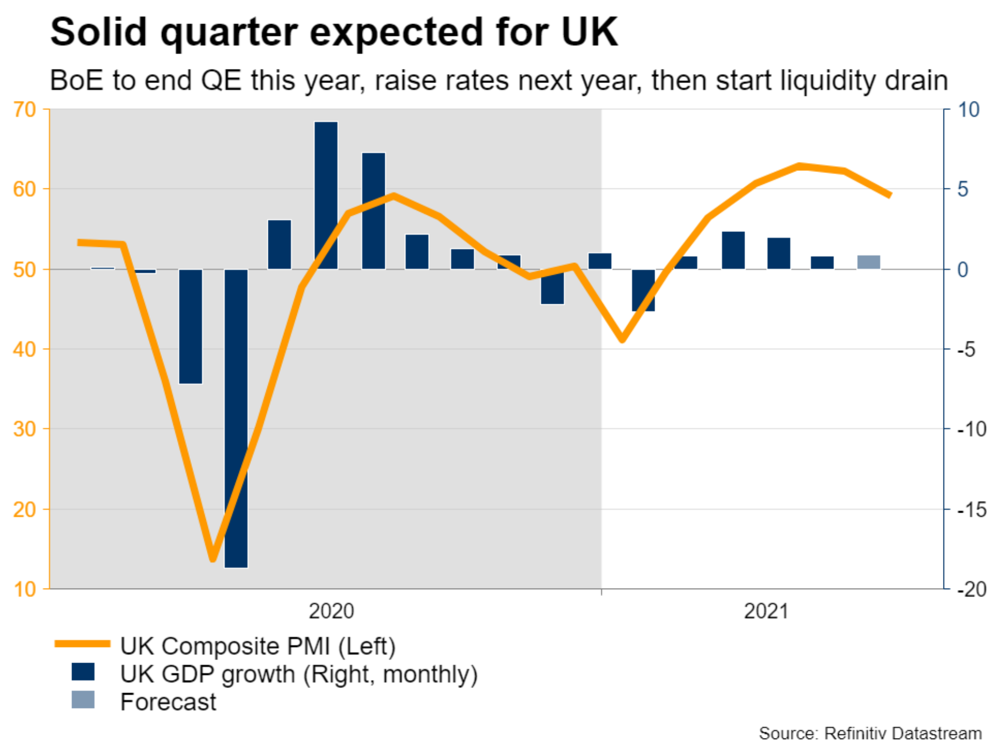
The dollar's path next week will depend on this dataset. It could determine whether the prospect of a September tapering announcement is realistic or not. The hotter inflation is, the better the chances that the Fed gets moving early. In the big picture though, it doesn't really matter whether the announcement comes in 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. Ultimately, this points to a stronger dollar against the euro and yen.



The catch is that any dollar strength may not materialize until the Fed actually begins to withdraw stimulus. Fed officials have been flirting with tapering for months now, but real US yields continued to slide. For that to change, the Fed needs to take its foot off the gas, not just talk about it. As the saying goes, talk is cheap.

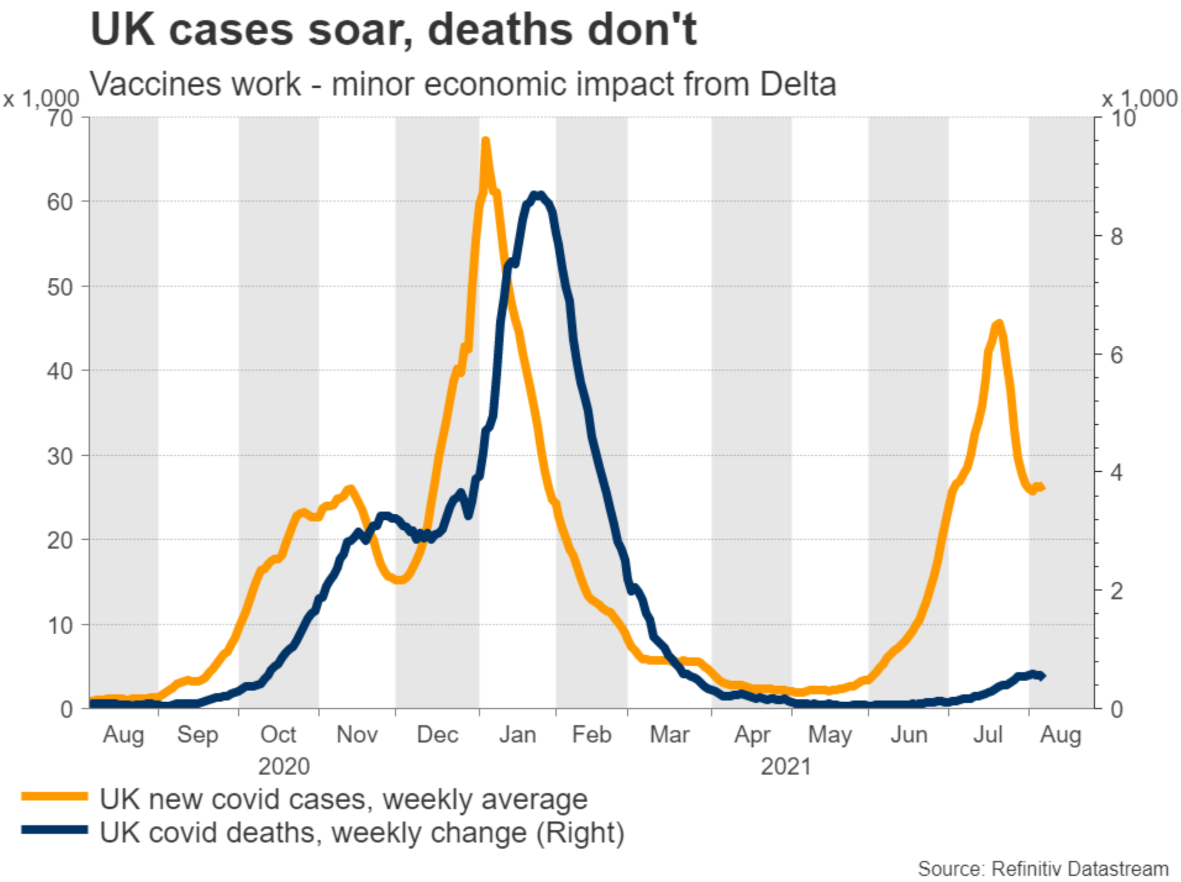
Sterling turns to UK growth

Across the Atlantic, British economic growth numbers for June and the entire second quarter will be released on Thursday. It was a good quarter overall, with widespread vaccinations enabling the reopening of the economy and boosting consumption. Markets will probably focus on business investment, to gauge whether this momentum will be sustained.



The Bank of England took another step towards normalization this week. The first rate increase is now expected in late 2022, and policymakers also signalled that once the Bank Rate hits 0.5%, they will stop reinvesting maturing bonds. This means that after two rate increases, the BoE will begin 'quantitative tightening', like the Fed did back in 2017-2019. Higher UK yields are on the horizon.

As for sterling, this is good news. If the UK economy continues to perform, allowing the BoE to be among the first major central banks to raise interest rates this cycle, the pound could also shine against the euro and the yen.
The FX market is essentially divided into two camps right now - the central banks that will be raising interest rates in the coming years and those that won't. America, Britain, Canada, and New Zealand are moving towards higher rates, whereas Europe, Japan, and Switzerland aren't.



For the pound, the risk is what happens to unemployment now that the government's job-protecting programs are being rolled back. The furlough scheme has been cut back and will end completely in late September. On the bright side, the BoE doesn't foresee a spike in unemployment because of this.

Chinese and German data coming up

Over in China, trade data for July will be released over the weekend, ahead of inflation numbers early on Monday. Markets usually pay more attention to producer prices, which are seen as a proxy for global factory demand.

In Germany, the ZEW survey for August is due out on Tuesday. This is typically not a market mover for the euro, but it will be interesting to see how strategists see the Eurozone's largest economy performing in August.

Finally, the earnings season will begin to wind down with household names like Walt Disney, eBay, Electronic Arts, and Airbnb releasing their quarterly results.

It was another volatile week that ended with the USD cruising higher, after the Fed Vice Chairman threw his weight behind tapering soon and nonfarm payrolls beat forecasts. The Bank of England took another step towards normalization too. There aren't many events next week, although US inflation data could spice things up.

The highlights:

Inflation stats out of America will be released Wednesday. Forecasts suggest inflation will cool down a little, but still remain above 5%. Combined with a strong labor market, that could keep the Fed on track to announce tapering as early as September, which is good news for the USD.

In the UK, economic growth numbers for Q2 will hit the markets Thursday. It was a solid quarter. As for GBP, the picture remains positive. The Bank of England will be among the first central banks to raise interest rates this cycle, and is also planning 'quantitative tightening' down the road.

Over in China, trade numbers for July will be released over the weekend, ahead of inflation data on Monday. These could be crucial for stock markets and the AUD.

It was a tough week for gold, which got smashed by a stronger USD and rising Treasury yields. Oil struggled too, amid fears that the Delta variant could kneecap crude consumption in emerging markets.

Finally, stock markets continue to hit new records. The earnings season has been impressive so far, and will continue next week with Walt Disney, eBay, and Airbnb releasing their results.

Technical Analysis – GBPJPY edges sideways as advances curbed by 50-MA

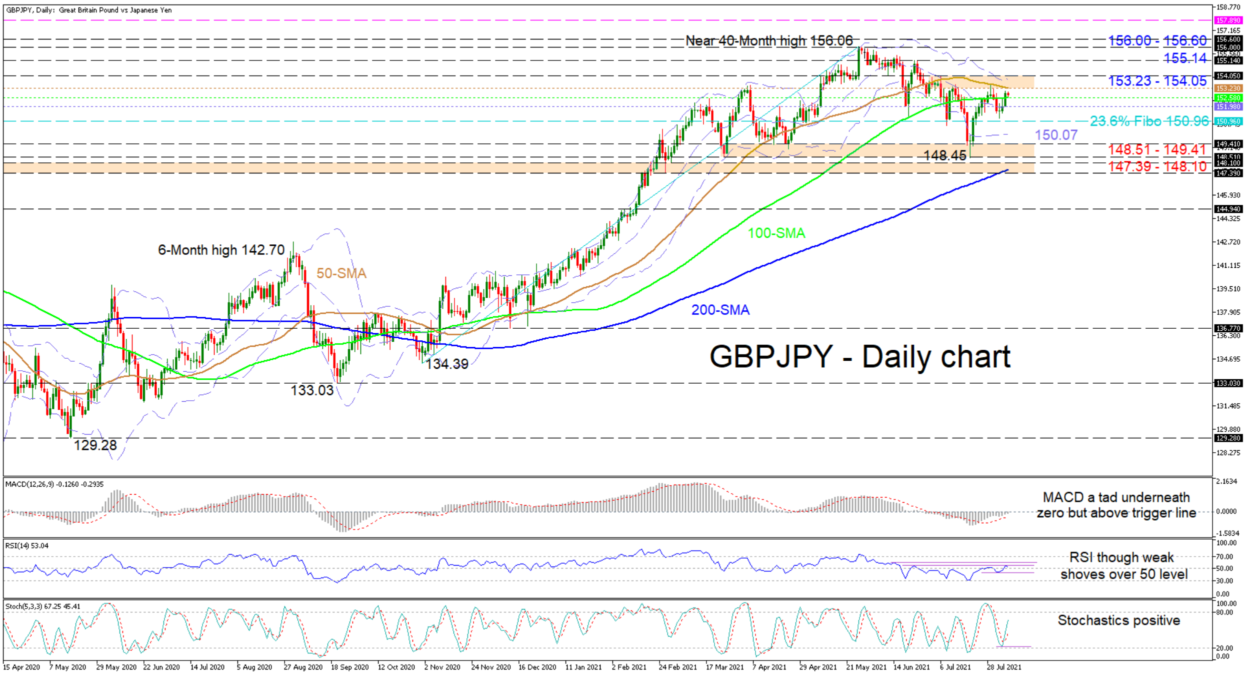
GBPJPY is presently stuck between the 50- and 100-day simple moving averages and directional momentum appears to have become feeble. The 200-day SMA is backing the positive structure, while the 50- and 100-day SMAs are endorsing a more neutral trajectory in the pair.

The short-term oscillators are indicating a pickup in buying interest but the power behind the bullish impetus appears to be somewhat lacking. The MACD is above the red trigger line and is rising towards the zero line, while the RSI is fighting to improve further above the 50 level. The positive charge in the stochastic oscillator is promoting additional positive price action in the pair.

If upside forces start to strengthen, upside limitations could commence from the zone between the 50-day SMA at 153.23 and the 154.05 high. Overcoming this barrier, which encompasses the upper Bollinger band, the next resistance obstacle may develop at the 155.14 nearby high. Conquering this too may cheer buyers to challenge the resistance section of 156.00-156.60, the latter being the rally peak in February 2018 and the former the near 40-month high.

If selling interest intensifies, an initial support area between the immediate 100-day SMA at 152.58 and the mid-Bollinger band at 151.98 could form. If the price successfully dips beneath this zone, next support may transpire from the 150.96 barrier, which happens to be the 23.6% Fibonacci retracement of the up leg from 134.39 until 156.06. Next, if the lower Bollinger band at 150.07 fails to dismiss a deeper decline from evolving, the bears could then retest the support base of 148.51-149.41. In the event downward forces steer the pair below the 148.45 trough, a neighbouring support border of 147.39-148.10 could deny sellers the chance to gain the upper hand.

Summarizing, GBPJPY is exhibiting a neutral tone in the near-term. A break below the 200-day SMA could shift the bias to bearish, while a push above the 154.00 mark could fuel optimism in the pair.

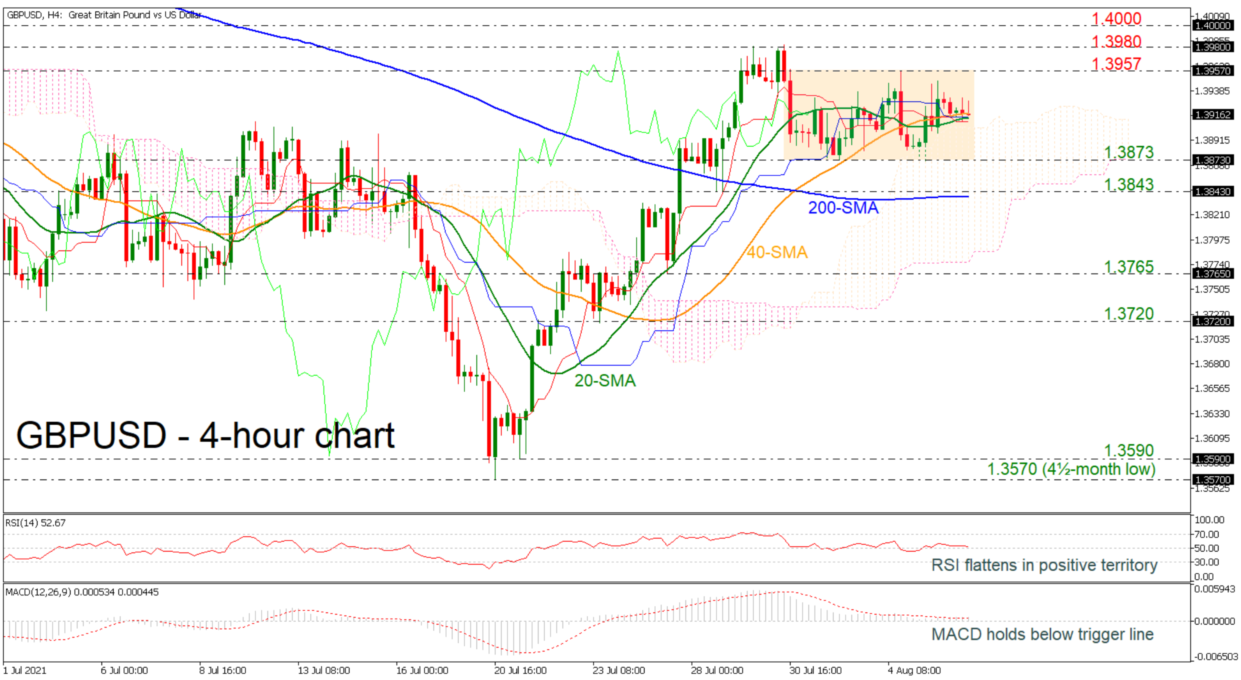


Technical Analysis – GBPUSD consolidates around 1.3900; broader outlook is bullish

GBPUSD is struggling to gain positive momentum, remaining in sideways move with the upper boundary of the 1.3957 resistance and lower boundary the 1.3873 support level. The slowdown in the RSI justifies the diminishing buying pressure, and the MACD is hovering beneath the trigger line and above the zero level.

A close above the 1.3957 barrier will brighten the broader outlook, pushing the price towards the 1.3980 key level, which has been frequently tested at the end of July. Beyond that, the rally may gear up to 1.4000 and 1.4070, taken from the inside swing low of July 10.
Should selling forces strengthen, the 1.3873 barrier could come under the spotlight before hitting the 1.3843 support and the 200-day SMA. Moving lower, the 1.3765 hurdle could next add some footing ahead of 1.3720.

In brief, GBPUSD is facing a weakening bullish bias, where a drop below 1.3873 is expected to enhance selling interest.



Technical Analysis – Gold takes the downhill within July's range area

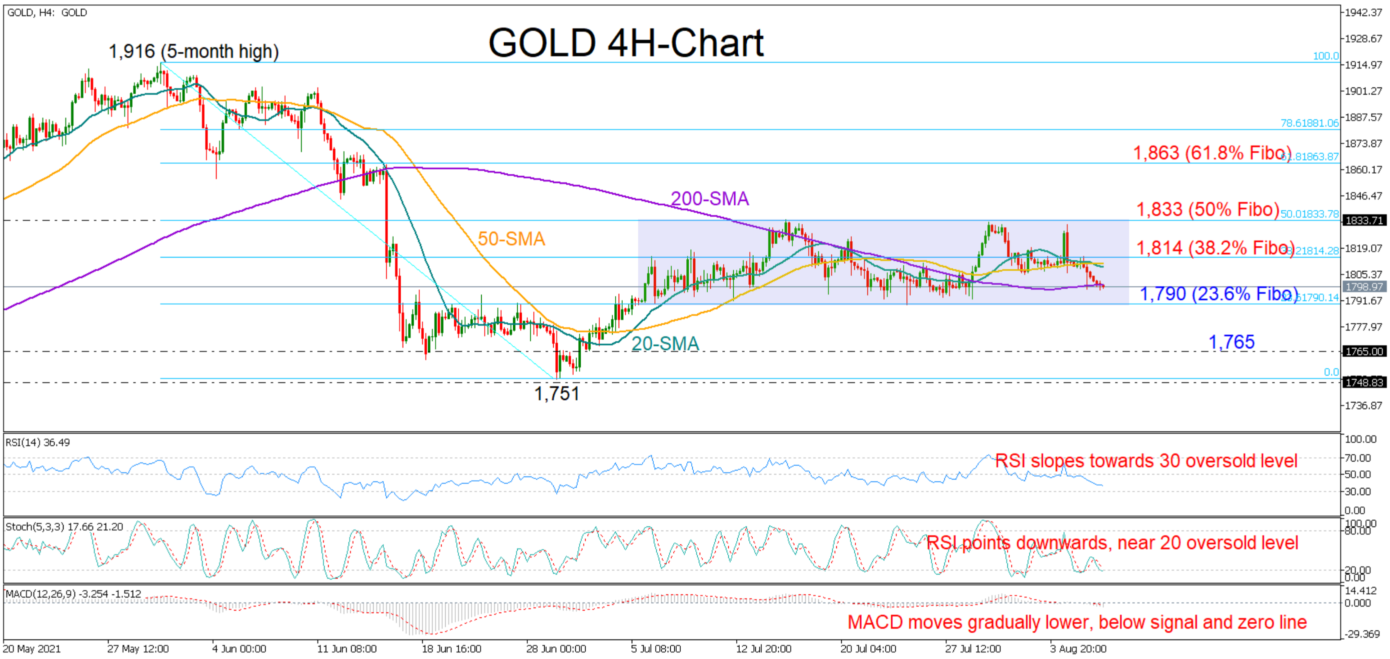
Gold extended Thursday's bearish run towards the 200-period simple moving average (SMA) on the four-hour chart and to a one-week low of 1,797 early on Friday.

Previously, the rejection near the 50% Fibonacci retracement of the 1,916 – 1,751 downleg at 1,833 foresaw another tumble towards the base of July's range area near the 23.6% Fibonacci of 1,790. Perhaps, the bears could reach that bottom in the near term as the RSI is sloping downwards to meet its 30 oversold level, while the RSI and the Stochastics are also sailing southwards, keeping the bias on the bearish side.

That said, if the yellow metal manages to set a foothold around the 200-period SMA, the price could recoup some lost ground to test the 38.2% Fibonacci of 1,814. If the latter proves easy to claim, the 50% Fibonacci of 1,833 would come back under the spotlight, a break of which is expected to feed a sharper upside correction up to the 61.8% Fibonacci of 1,863.

Otherwise, failure to rebound near 1,790 could activate fresh selling orders, with the price likely sinking to find support around 1,765 before all attention turns to the 1,751 low again.

Summarizing, Gold's selling phase could get more legs in the near term, unless the 200-period SMA and the bottom of July's range area stop the bears within the 1,797 -1,790 zone.



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