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WEEK AHEAD BRIEFING NOTE

Sept. 13th /// 2021

"US Inflation Takes Center Stage"

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The ECB meeting didn't change much for EUR outlook even though bond purchases were scaled down. Fed policymakers were hawkish too, signalling tapering is firmly on the cards despite the NFP disappointment. However, USD has been unable to sustain its gains from earlier in the week. Can next week's inflation and retail sales numbers provide much of a boost?

Weekly Comment –USD looks to US CPI as gains trimmed after risk rebounds

The Highlights:

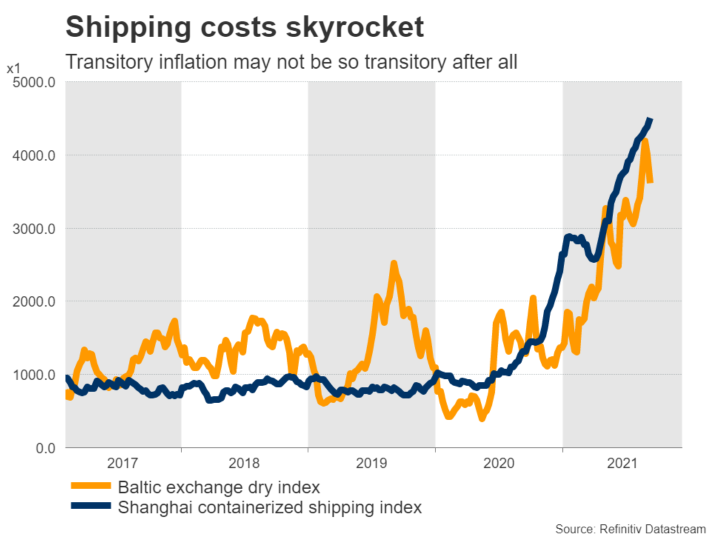
• US data will be investors' focal point as the consumer price index is out on Tuesday and retail sales on Thursday. But with forecasts pointing to weaker readings in August for both indicators, USD bulls might need to bide their time. The start of the Fed's blackout period won't help either.
• However, GBP might have better luck in getting a data lift. Tuesday's UK employment figures will likely show the jobless rate ticking lower. The annual CPI rate could jump nearly one percentage point on Wednesday and retail sales are forecast for an August rebound on Friday.
• But it could be a rockier time for AUD. On Thursday, traders will get the first glimpse on the impact of Australia's draconian lockdowns on the labour market. But that's not AUD's only headache. China's latest industrial output and retail sales prints are due the day before. Another deceleration in August, could knock back the bounce in risk sentiment.
• It's been a bad week for gold as USD's post-NFP comeback pushed the precious metal below $1,800/oz. However, with not long to go before the September FOMC meeting, some further consolidation might be in order.
• Global stocks managed to recoup some of their losses on Friday, but can they extend their recovery next week?

Without any central bank meetings on the agenda next week, the spotlight will fall on the latest edition of US inflation and retail sales. The chances of a Fed taper announcement this month have fallen dramatically after the disappointing jobs report, but this dataset could still be crucial for the normalization timeline and the dollar. There's also a storm of economic releases from the UK, Canada, Australia, and China.

Supply chain blues

It looks like inflation won't cool as quickly as the Fed thinks. The idea was that the pandemic disrupted global supply chains, pushing prices higher for some goods and services, but those issues would get resolved fairly quickly as companies adapted and expanded their production capabilities.

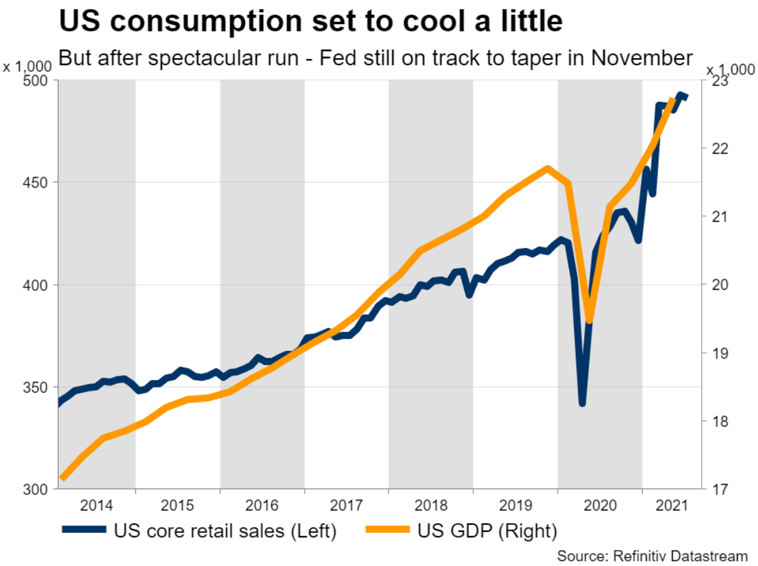
That narrative took a beating lately as several Asian economies went into lockdowns to battle the Delta outbreak. Business surveys like the PMIs highlight that supply disruptions have become even worse. Production and shipping costs are rising, and companies are passing much of that on to consumers in the form of higher prices. Even the world's largest chipmaker, TSMC, is raising its prices significantly next year.



The idea of 'transitory inflation' could therefore turn into 'slightly persistent inflation' soon. Funnily enough, once supply chains finally normalize and cost inflation cools down next year, demand-driven inflation could make a comeback as the labor market returns to full employment. Workers already enjoy more bargaining power than they have in decades and globalization is going in reverse.

In this light, markets will keep a close eye on the upcoming US inflation data that are scheduled for Tuesday, ahead of retail sales on Thursday. Forecasts suggest the headline CPI rate held steady at 5.4% in August, while retail sales are expected to have fallen for a second month.

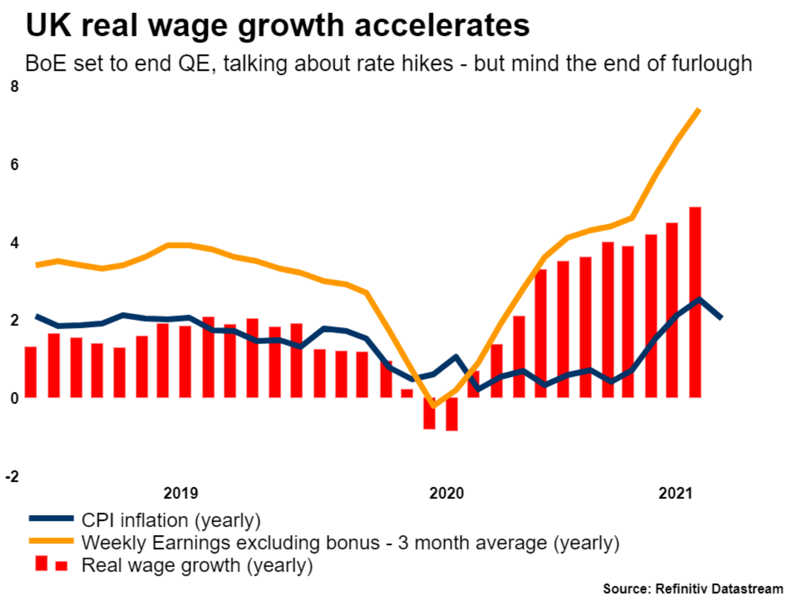
As for the Fed, the stars now point to a November taper announcement. Inflation will likely remain hot and the easing in consumption shouldn't be too worrisome given the astonishing gains this past year. The housing market is also booming. Policymakers essentially want to see another strong jobs report before they push the normalization button.



Therefore, the risks surrounding euro/dollar remain tilted to the downside, with the Fed set to out-normalize the ECB as the American economy heals faster than Europe's. The prospect of greater spending from Congress argues in the same direction. The wild card in this equation is the upcoming German election, which may allow the euro a brief relief rally if a center-left victory raises the chances of greater EU integration and investment.

Sterling awaits data flood

Across the Atlantic ocean, there's a flurry of data releases coming up in the United Kingdom. Jobs numbers for July are out on Tuesday, ahead of inflation stats for August on Wednesday and retail sales on Friday.



There has been a lot of attention lately on the tax increases on workers that Prime Minister Johnson is trying to push through, to fund healthcare and social services. But what flew under the radar were some exceptionally hawkish remarks from the Bank of England Governor.

Speaking before lawmakers this week, Andrew Bailey essentially said his central bank was split 4-4 at its last meeting on whether the minimum conditions for a rate increase had already been met. This revelation suggests markets may be underestimating how quickly the first hike will be delivered. A quarter-point rate increase is currently priced in for next August.

At the least, the BoE will almost certainly end its asset purchase program this year. In the near term, the pound will have to grapple with the end of the furlough program, which risks a spike in unemployment. But given the record number of open jobs in the economy, that may never materialize. The bigger picture seems bright, particularly against the euro and yen, which won't enjoy higher rates in the coming years.

Canadian inflation eyed

Over in Canada, inflation numbers for August will hit the markets on Wednesday. The Bank of Canada was quite cryptic when it met this week, showing no concern about some signs that growth cooled in the second quarter. The Bank meets again in October, when it is widely expected to slash its asset purchases again.

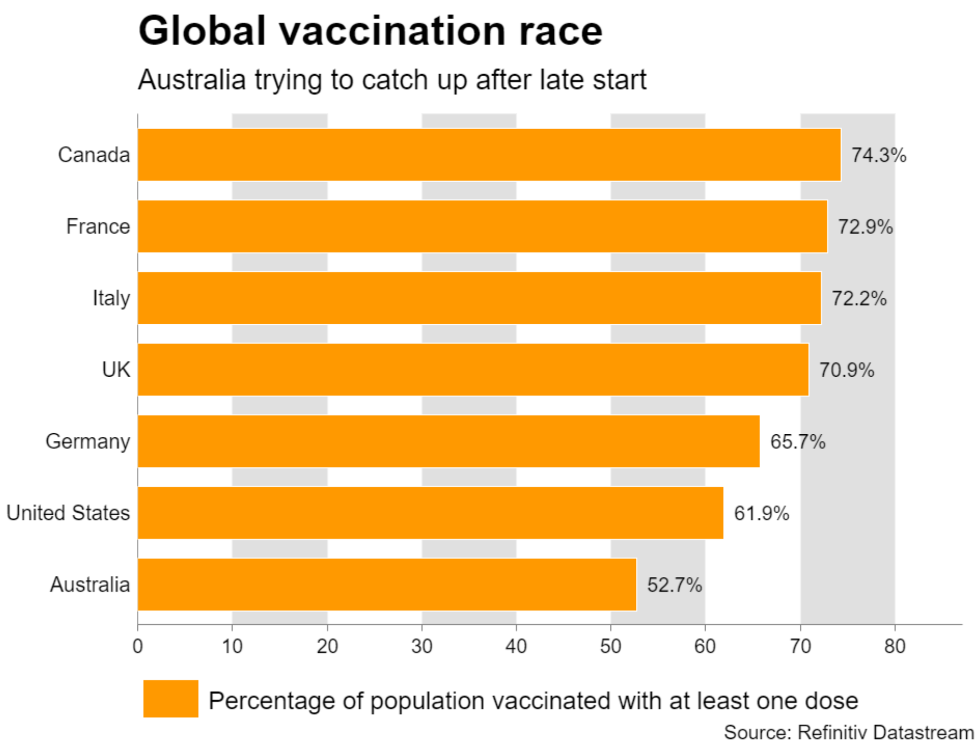
Overall, the economy is still in good shape. Vaccinations have been impressive, the jobs market has almost recovered, inflation is nearly double the BoC's target, and the housing market is on fire. The overall outlook for the loonie therefore remains positive, although for now, a lot will depend on the upcoming election on September 20.

Prime Minister Trudeau has fallen behind his conservative opponent in opinion polls, and if he loses, that would imply less spending in the economy moving forward. That could see the loonie take a hit, but it wouldn't change the bigger picture much, as any spending cuts are far away.

Australia and China

Staying in the commodity FX arena, Australia's employment report for August is out on Thursday. The aussie has staged an impressive rebound lately, drawing power from an accelerated pace of vaccinations, which opens the door for an escape from lockdowns over the coming weeks.

Still, whether this recovery has legs will also depend on how the Chinese economy performs, given the close trading relationship between Australia and China. In this sense, China's monthly data dump that includes retail sales and industrial production for August will be in focus on Wednesday. More signs that the world's second-largest economy is slowing could be bad news for the aussie and risk sentiment more generally.

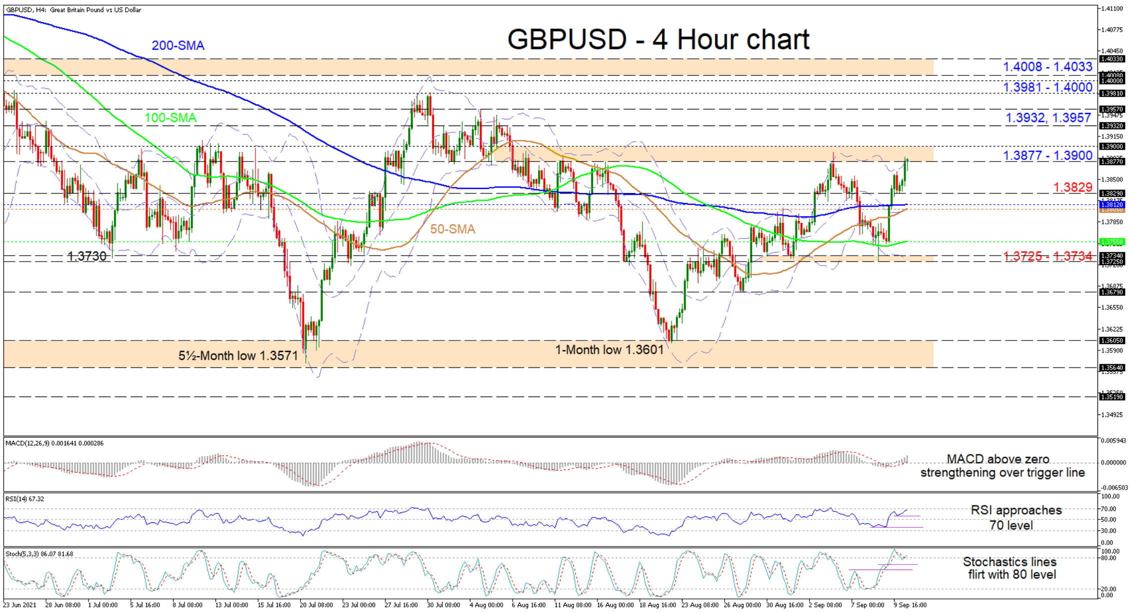


Finally, New Zealand second-quarter GDP stats will be released Thursday, but with the third quarter now almost over and the nation having suffered shutdowns lately, markets will likely view this dataset as outdated.

Technical Analysis – GBPUSD flashes green again and aims for 1.39

GBPUSD is currently pushing up against the upper Bollinger band within the tough resistance section of 1.3877-1.3900. Although the 200-period simple moving average (SMA) is demonstrating the ranging performance of the pair, the upturn of the 100-period SMA and the rising 50-period SMA are together endorsing a pickup in positive impetus.

The short-term oscillators are suggesting bullish momentum is on the rise. The MACD, in the positive region, is powering above its red trigger line, while the climbing RSI is nearing the 70 overbought level. The stochastic oscillator's lines are tussling around the 80 mark with the %K line having nudged a tad above its %D line, promoting the pair's preference to push higher.
To the upside, an immediate resistance blockade may stem from 1.3877-1.3900, toughened by the upper Bollinger band. In the event buyers conquer this border, the price could jump towards the 1.3932 and 1.3957 highs in early August. Should the upwards trajectory endure, an area of resistance could develop between the 1.3981 rally peaks from the end of July and the 1.4000 handle before the bulls target the 1.4008-1.4033 resistance boundary.
If sellers retake control and drive the price down, initial support could come from the 1.3829 low ahead of the converging 200- and 50-period SMAs at 1.3812 and 1.3805 respectively. Diving below these averages, the bears may accelerate the pair towards the 100-period SMA at 1.3755 before challenging the near-term support base of 1.3725-1.3734.
Summarizing, GBPUSD's short-term picture has been ranging between 1.3571 and 1.3981. For a clearer price path to evolve, the price would need to primarily break either above the 1.3877-1.3900 roof or below the 1.3725 trough.



Technical Analysis – US 30 index struggles to push over mid-Bollinger band

The US 30 stock index (Cash) has dived back below the mid-Bollinger band at 35,031, with its odds looking very slim for now in testing the resistance barricade reinforced by the simple moving averages (SMAs). As things stand, the converging SMAs are promoting a slight neutral-to-bearish tilt.

The short-term oscillators are favouring the downside. The MACD's climb is subsiding in the bearish region and it is heading down towards its red trigger line, while the stochastic oscillator is about to confirm negative forces as the frontrunner. The RSI has turned down ahead of the 50 threshold, signalling growing negative momentum.

To the downside, preliminary support could develop between the latest troughs in the zone of 34,785-34,868, where the lower Bollinger band also resides. Should the index surrender extra ground, the price may then target the lows in mid-August, forming a support band of 34,559-34,628. Another leg lower from here could then meet the 34,474 barrier.

Otherwise, if buyers re-emerge and push above the mid-Bollinger band at 35,031 and the nearby barrier of 35,083, the bulls may then face a critical resistance boundary between 35,165 and 35,252, which is reinforced by the SMAs and the upper Bollinger band. Triumphing over this crucial obstacle could bolster upside momentum, which could drive the price of the index up to challenge the 35,475-35,517 resistance ceiling.

Technical Analysis – EURJPY witnesses fast upside reversal near oversold zone

EURJPY saw its fortunes improve after the rapid upturn near the bottom of the Ichimoku cloud on the four-hour chart and the 38.2% Fibonacci of the 127.92 – 130.73 upleg at 129.66 early on Friday.

Having snapped the 130.00 mark, the price is currently pushing for a close above its 20- and 50-period simple moving averages (SMAs) with scope to test the former resistance around 130.40.

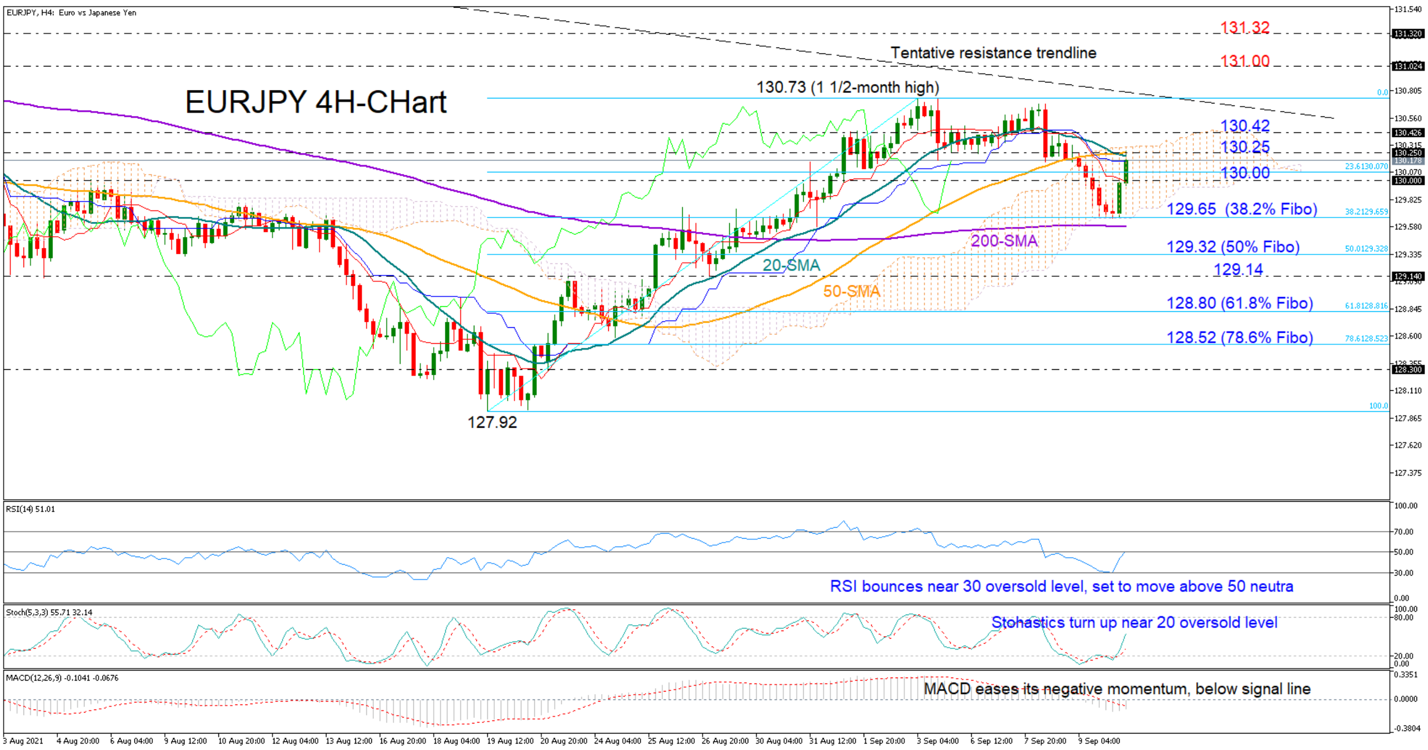
The steep rebound in the RSI, which collected strong foundation near the 30 oversold level and is currently looking to stretch above the 50 neutral mark, as well as the rapid increase in the Stochastics, point to additional upside corrections.

Still, the big question is if the pair will be eligible to magnetize enough buyers to pass through the descending trendline drawn from June's highs and strengthen its August uptrend above the 1 ½-month high of 130.73. If such efforts prove successful, the 131.00 – 131.32 restrictive region, which encapsulates the 50% Fibonacci of June's sell-off, could be the next challenge before an aggressive rally takes place towards the 132.00 – 132.43 area.

Discouragingly, the recent bearish cross between the 20- and 50-period SMAs, although not clear yet, is reducing the case for an uptrend improvement.

In the event of a downside reversal, a move below the 130.00 round-level could set another test near the 38.2% Fibonacci of 129.66. The 200-period SMA is within breathing distance from here. Hence, traders may wisely wait for a close below this line before they raise selling orders towards the 50% Fibonacci of 129.33 and the key support zone of 129.14. Should the bears persist, the next stop could be somewhere between the 61.8% and 78.6% Fibonacci levels at 128.82 and 128.53 respectively.

All in all, the technical picture is suggesting more winning sessions for EURJPY in the near term, though whether the pair can deliver a bullish trend extension above the key trendline remains to be seen.



Technical Analysis – USDCAD loses steam above SMAs; sellers step up

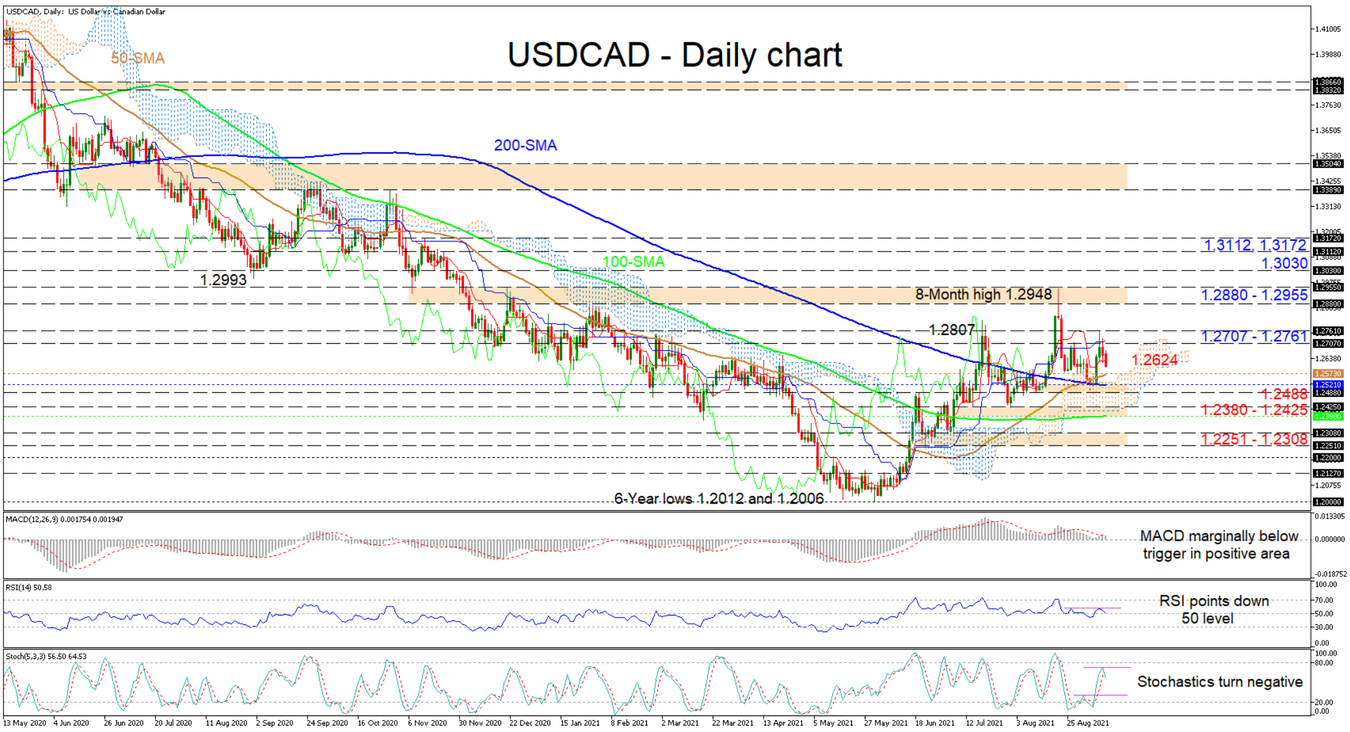
USDCAD, currently at the red Tenkan-sen line at 1.2624, is surrendering ground from the 1.2761 high after its recently made headways, resulting from a bounce off the 200-day simple moving average (SMA). The longer-term 100- and 200-day SMAs are validating a more neutral tone in the pair. That said, the bullish crossover of the 200-day SMA by the 50-day SMA has yet to confirm that sellers are now taking the lead.

The somewhat static Ichimoku lines are indicating a pause in downward forces since the price retreated from the 1.2948 high, while the short-term oscillators are negatively skewed. The MACD, in the positive zone, is being capped by its red trigger line, while the downward facing RSI is flirting with the 50 threshold. The negative charge in the stochastic oscillator is promoting additional bearish price action.

If sellers stay in the driver's seat, initial downside friction could arise at the 50-day SMA at 1.2573 ahead of the support belt of 1.2488-1.2521. Diving beneath the 200-day SMA, the pair may target the support barricade of 1.2380-1.2425, which encompasses the Ichimoku cloud's floor as well. From here, a deeper decline could then encounter its next obstruction around the 1.2251-1.2308 barrier.

If buying interest increases, the first region to try and mute upside forces may reside between 1.2707 and 1.2761. However, conquering it could catapult the price to challenge the tough resistance section of 1.2880-1.2955. Passing this reinforced boundary, the pair may then meet the 1.3030 barrier, while another push higher could face the 1.3112 and 1.3172 highs from mid-November 2020.

Summarizing, USDCAD seems to lack convincing upside power and is somewhat adopting a sideways pattern. A clearer price direction could evolve either with a break above 1.2761 or below 1.2488.



Technical Analysis – GBPJPY stubbornly tests a bullish trendline breakout

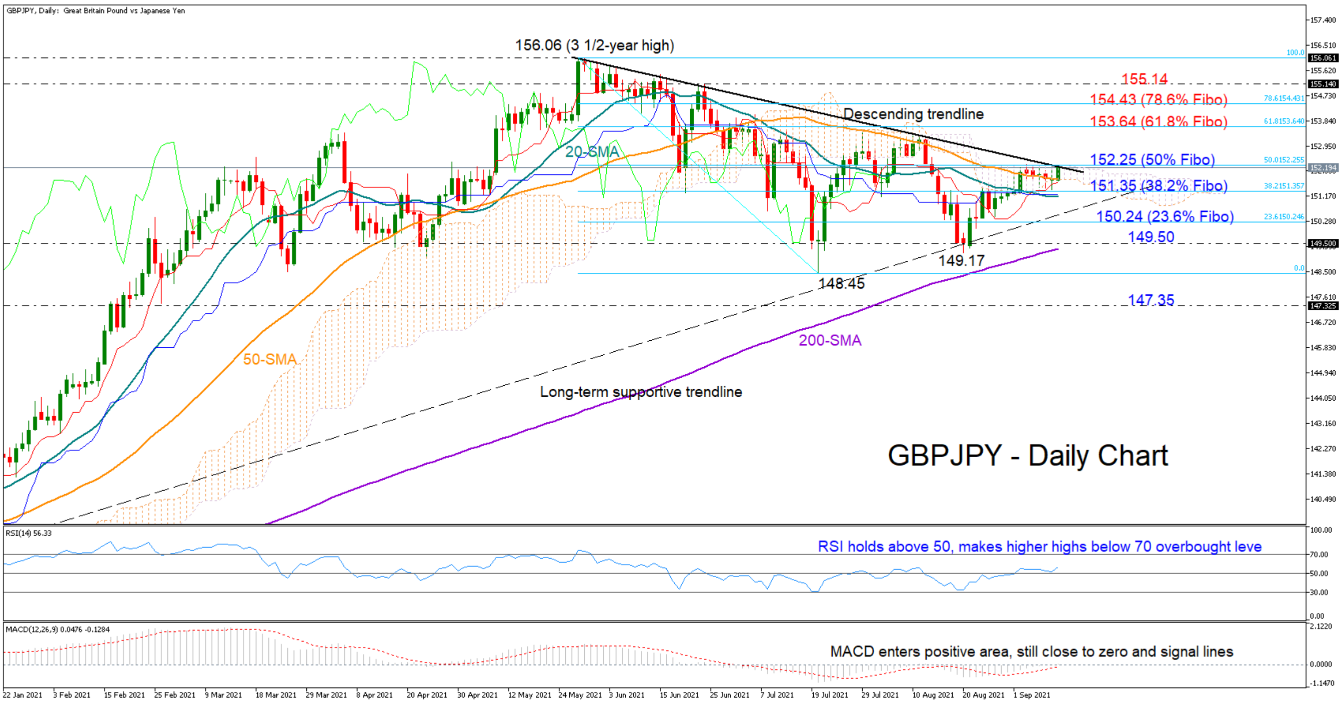
GBPJPY has been in a tight range over the past week but still stubbornly active near the tough resistance trendline, which has been cancelling bullish actions for the third consecutive month.

With the price gaining stronger positive traction early on Friday and the RSI escaping a drop below its 50 neutral mark and printing fresh higher highs below its 70 overbought mark instead, the odds are in favor of an upside breakout. Encouragingly, the MACD managed to enter the positive area despite its anemic upturn .

Note that the 50% Fibonacci of the 156.06 – 148.45 down leg at 152.25 and the surface of the Ichimoku cloud are also positioned in the same neighborhood. Therefore, technically, a clear close above this bar is expected to take a rapid turn up to the 61.8% Fibonacci of 153.64. Slightly higher, the price could face some congestion between the 78.6% Fibonacci of 153.64 and the 155.15 resistance territory before approaching the crucial top of 156.06.

On the downside, the 38.2% Fibonacci of 151.35 and the 20-day simple moving average (SMA) have been on the defense against the bears recently. Nevertheless, even if they give way, a negative correction would not result in an outlook deterioration if the long-term dashed supportive trendline drawn from the 2020 lows strictly rejects the bears with the help of the 23.6% Fibonacci of 150.24. Failure to hold above the latter would bring the downtrend from the 156.05 peak back under examination, though the key support of 149.50 and the 200-day SMA could delay any selling practises. If not, a dip below the 148.45 would give shape to fears of a down-trending market.

In summary, the short-term risk for GBPJPY is still skewed to the upside despite the latest narrow trading, with the bulls expected to pick up steam once the restrictive trendline pulls over.



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