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BRIEFING NOTE

November 29th /// 2020

WEEK AHEAD:
Data overload may spoil vaccine euphoria

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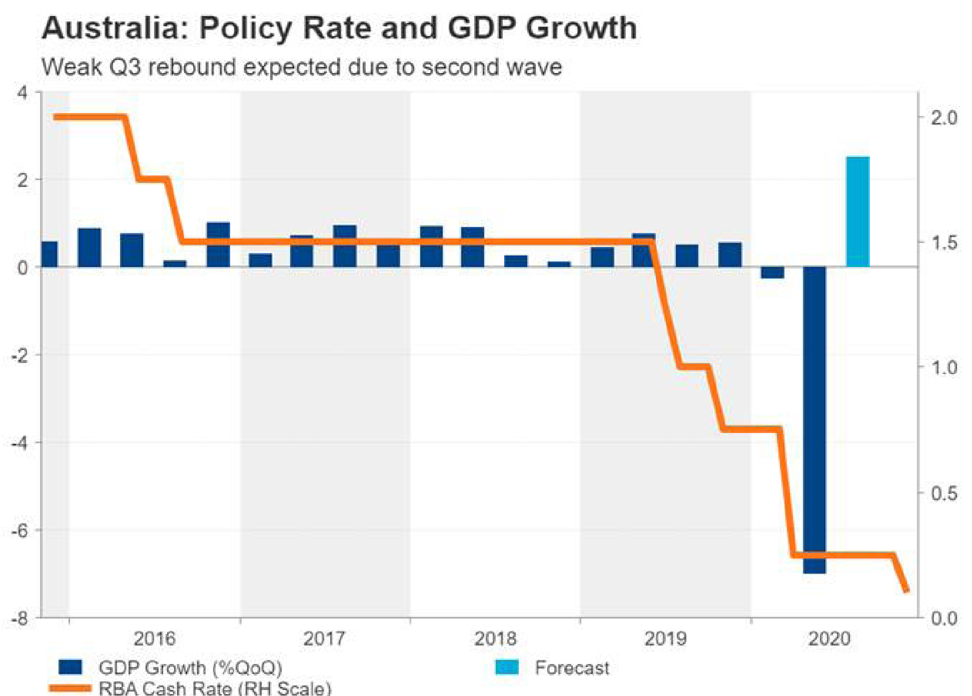
Data overload may spoil vaccine euphoria; NFP to lead the pack

It's NFP week and as investors battle the vaccine optimism against the short-term gloom, the latest jobs report from the United States may determine which way sentiment sways next. Canada will also publish jobs numbers along with its Q3 GDP print. The Reserve Bank of Australia, meanwhile, will kick off the December round of central bank meetings. In Europe, flash inflation figures will be watched in anticipation of the ECB's next move. But amidst the busy economic calendar, it's Brexit and an OPEC+ meeting that have the potential to produce the most volatility.

RBA to stand pat; Q3 GDP to shed light on recovery

After the decisive policy action in November, the RBA is almost certain to hold fire at its December meeting on Tuesday. There's also little chance of policymakers significantly altering their outlook so soon even if next week's data do point to a weak rebound in GDP from the record slump of Q2. The slash in the cash rate and expansion of asset purchases announced earlier this month were partly in response to Australia's second wave. Hence, weak numbers are unlikely to cause much alarm at the Bank.



The slew of data will begin on Monday with private sector credit for October, followed on Tuesday by building approvals for the same month and net exports contribution for Q3. The third quarter GDP report is due Wednesday and wrapping up the week on Friday are October retail sales.

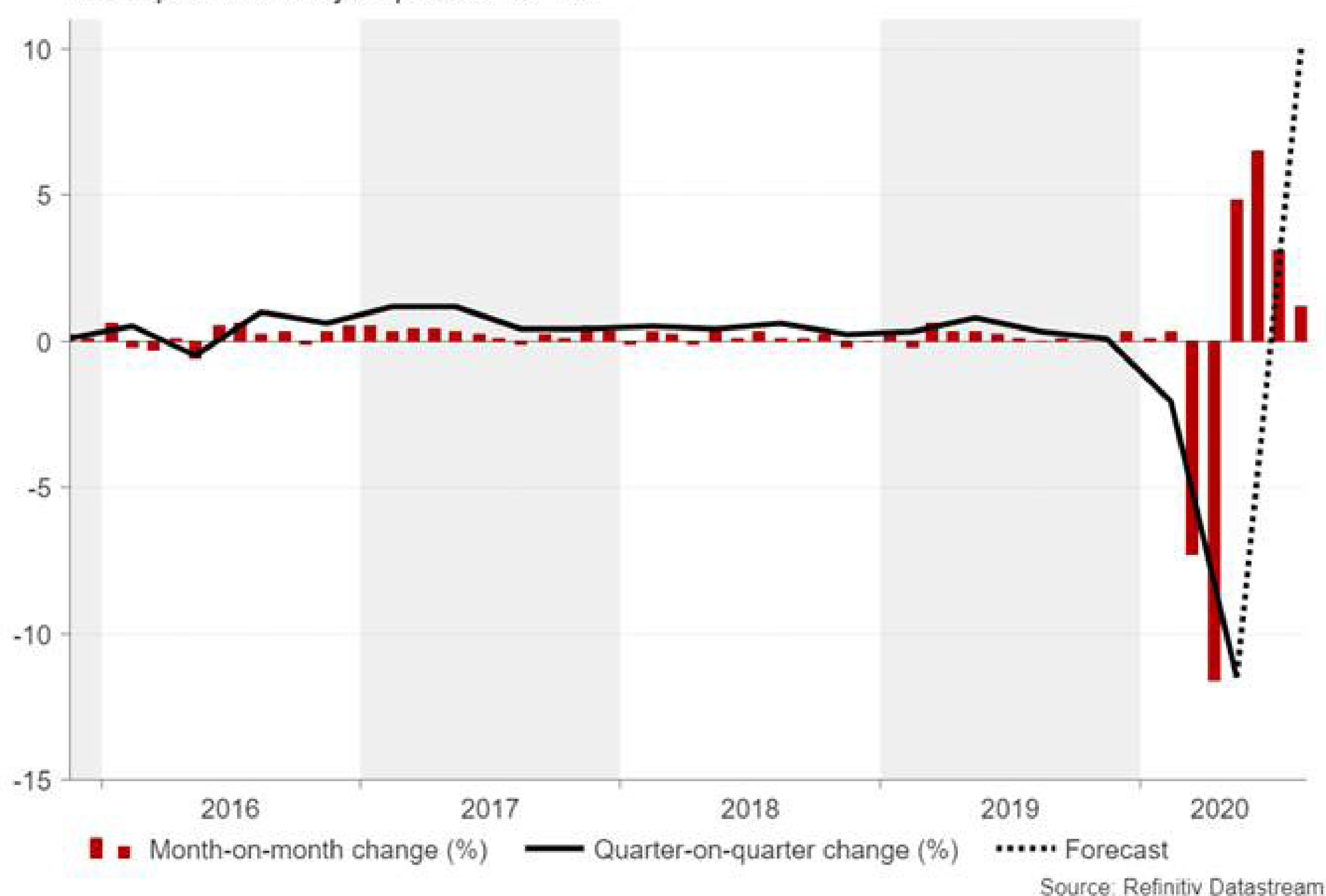
Having been struck by a second major Covid outbreak as early as September, Australia's initial V-shaped looking recovery came to an abrupt end. But early indicators suggest the economic dip from the tightened virus curbs in September wasn't as severe as in the Spring, with output bouncing back strongly in October.

Nevertheless, a disappointing set of figures might still weigh on the Australian dollar if they coincide with a darkening market mood, serving as a reminder of the long journey ahead towards normality. Aussie traders will also be keeping an eye on manufacturing PMIs out of China next week.

China's official manufacturing and non-manufacturing PMIs are released on Monday, with the Caixin/Markit manufacturing PMI coming up on Tuesday. These have the capacity to lift market sentiment if they surprise to the upside. But given that risk assets are already riding high on the back of the positive vaccine news, any boost is likely to be limited. The big test for the aussie, in particular, will be if it can stretch its gains beyond the $0.7375 resistance area.

Employment in focus as Canada succumbs to second wave

Canada will be another country reporting GDP figures (due Tuesday), though it's recovery is expected to have been more solid than Australia's in the third quarter. After a record 11.5% quarterly contraction in Q2, Canada's economy is forecast to have bounced back by 10% in the three months to September.

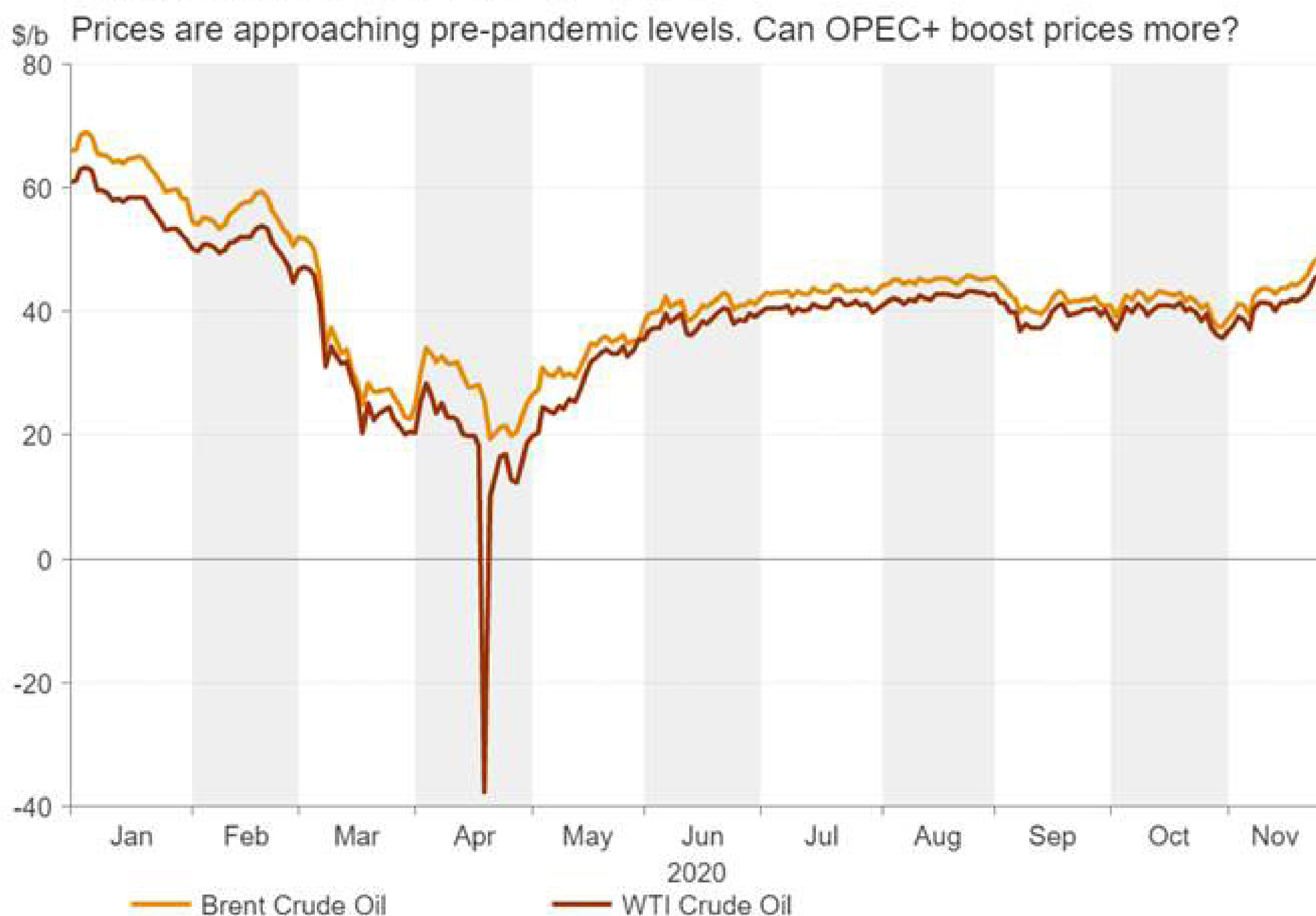


However, new coronavirus cases in Canada have been spiking higher since September and daily infections have now surpassed the peak from the first wave. As has been the case in Europe and some states in the US, restrictions across the country have been levelled up, with some cities like Toronto being placed under lockdown.

So much of the focus now is on the fourth quarter and Friday's jobs report will be watched for any signs that the new virus curbs started to hurt the labour market in November. Poor employment numbers might prompt Bank of Canada policymakers to think twice before dialling down their quantitative easing program like they did in October. However, aside from some 'recalibrations', the BoC is largely expected to stay on hold for the foreseeable future so the Canadian dollar is likely to take its cues from broader risk appetite, as well as the outcome of the OPEC+ meeting.

OPEC and non-OPEC to discuss cuts extension

Major oil producers will hold a two-day meeting on Monday and Tuesday to decide whether to extend the existing cuts of 7.7 million barrels per day into 2021. Expectations are high that OPEC and its non-OPEC allies will extend the output quotas by at least another three months, possibly by six months. However, after the vaccine breakthrough, which has not only considerably raised the demand outlook for oil but prices have already started to surge in anticipation, an extension of longer than three months might be a bit of a push for some members.



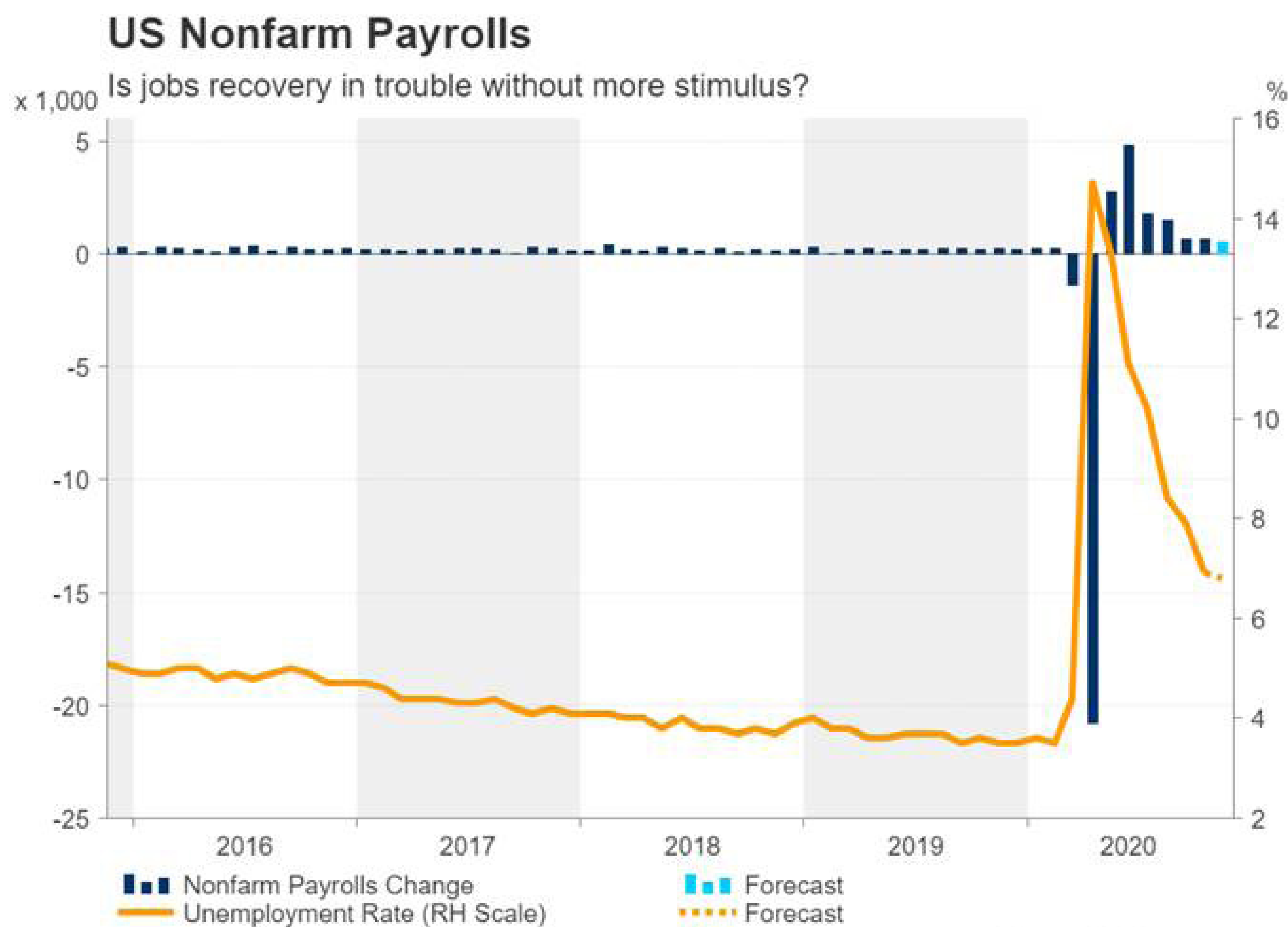
Several countries have gone along with the huge cuts quite reluctantly and some like Libya and Nigeria might not support further extensions unless they're given exemptions. This poses a potential risk for oil prices next week as their almost one-month long rally would be vulnerable to a steep downside correction if OPEC+ fail to come to any agreement.

All eyes on NFP as Fed keeps markets in the dark

The message being broadcast by the Federal Reserve over the past few weeks has been pretty consistent: the economy needs continued monetary and fiscal support. However, the Fed has given little away in terms of how much additional help they think the economy needs now that virus cases in the US are spiralling out of control again and the Treasury has cut off funding for key emergency lending programs. There were some hints from the minutes of the November policy meeting that increasing the size of asset purchases could be on the cards, but investors' best bet might be to sift through next week's important data events.

Things will get off to a slow start on Monday with the Chicago PMI for November and pending home sales for October. But on Tuesday, the ISM manufacturing PMI will take centre stage. Investors will be watching to see if the index moderated in November from the near two-year high set in October. The ISM non-manufacturing PMI was equally strong in October, so any signs on Thursday that the services sector slowed in November might fuel expectations of Fed action next month.

The biggest highlight, however, will be Friday's jobs numbers. Nonfarm payrolls are projected to have risen by 520k in November, down from 638k previously. The smaller gain means the unemployment rate is forecast to edge down by just 0.1 points to 6.8%.

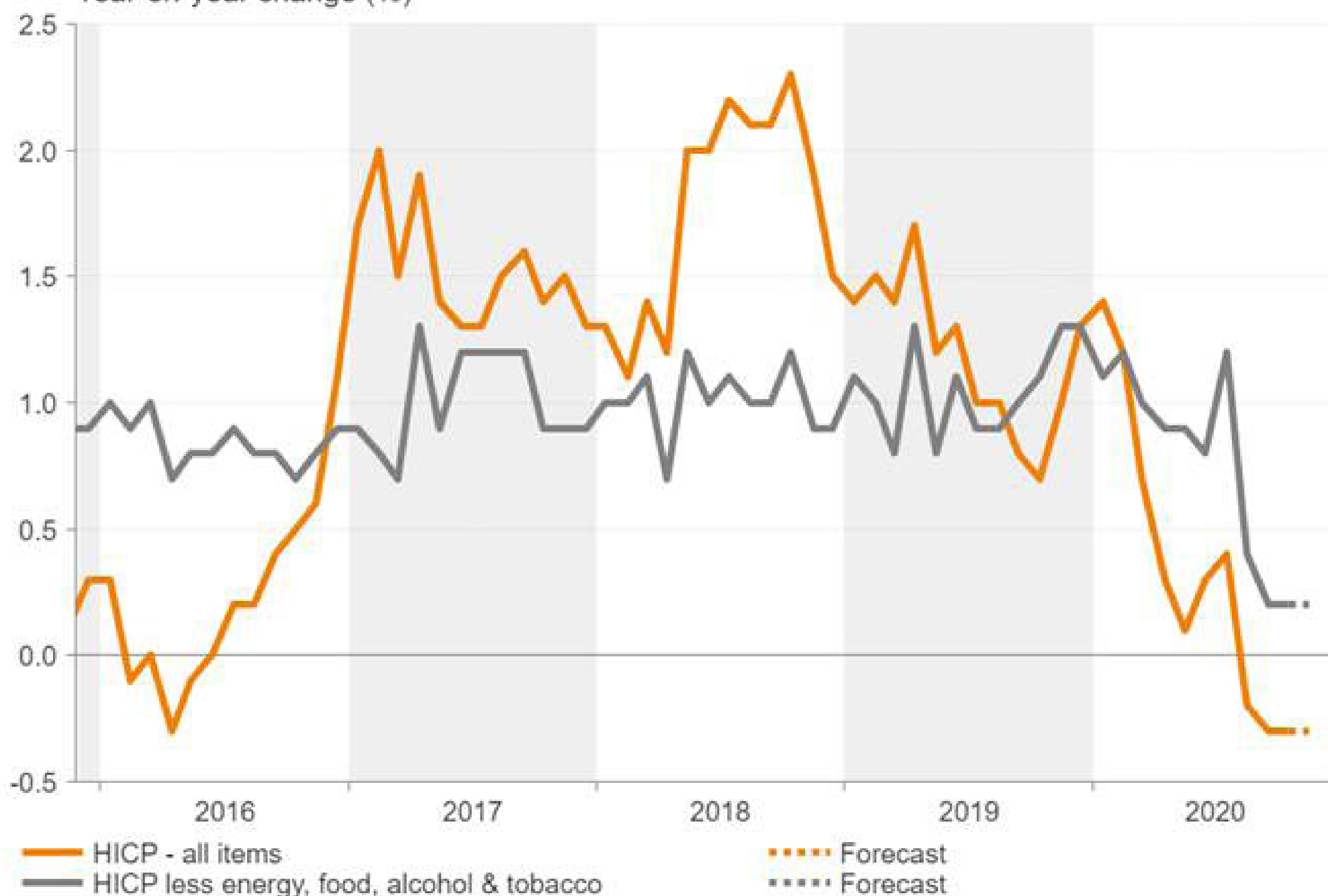


If the employment and jobless readings are much worse-than-expected, they could go some way in pricing in more Fed easing in December. The US dollar is fast approaching a 3-month low against a basket of currencies and those losses could intensify if the data point to looser monetary policy in the near-term.

Eurozone data to underscore need for more ECB stimulus

The Fed isn't the only central bank under increasing pressure to do more to bolster the recovery as the European Central Bank is also under the spotlight as its December 10 meeting approaches. But unlike the Fed, the ECB has been more forthcoming about signalling additional measures after large swathes of Europe were forced to enter tough restrictions in November. There is already a visible hit on the economy, with the services PMI plunging to the lowest since May in November's preliminary estimate.

The final readings of the November PMIs are due on Tuesday (manufacturing) and Thursday (services). The other main release for the euro area is the flash inflation estimate, also on Tuesday. The Eurozone's headline inflation rate is forecast to stay unchanged at -0.3% y/y in November.



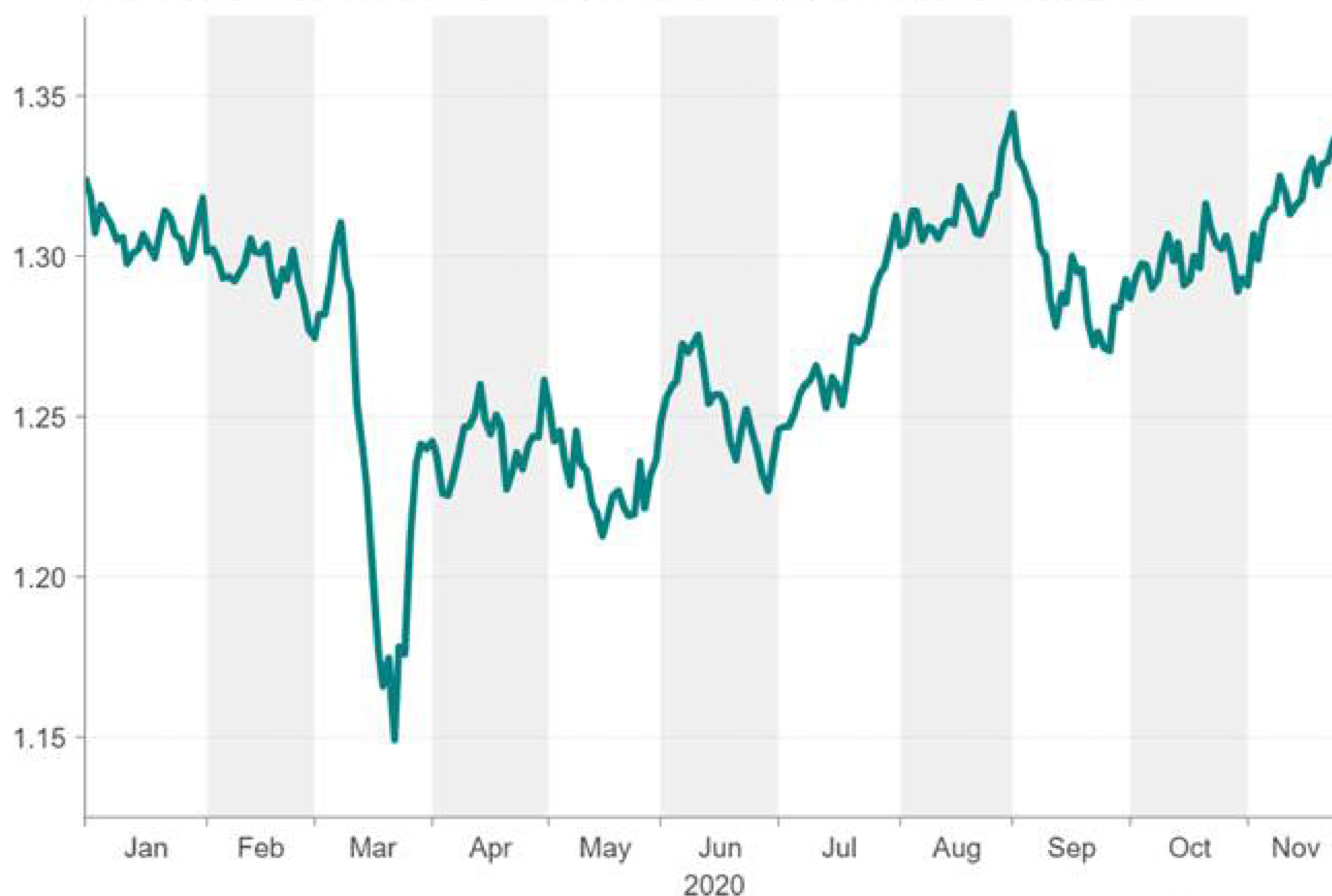
The buildup of negative price pressures from the virus crisis would be another reason for the ECB to beef up its pandemic response. Policymakers have been downplaying the growing deflationary risks but the longer it takes for inflation to rise comfortably back above 0%, the more difficult it will be for them to pretend they are not worried.

Another problem for the ECB is the appreciating euro, which just hit a 3-month high of $1.1940, not far from the $1.20 level that tends to trigger a red alert at the Bank. The euro has been gaining lately on the back of a softer US dollar even though the Eurozone economy is in much more dire straits than America's. But unless there's a major risk-off incident, it will be hard for the dollar to stage a comeback.

Fresh doubts about Brexit talks

One such risk-off event could be sparked by a collapse in the Brexit talks. Negotiations between the UK and EU for a post-Brexit trade pact are ongoing and although the two sides have reportedly agreed on about 95% of the deal, the remaining 5% is what could make or break it. The outstanding issues have not changed; fisheries, level playing field and dispute resolution are the areas where compromises still need to be made.

But with less than five weeks before the transition period ends on December 31, time to find a solution to those differences is quickly running out. Monday is seen as the last realistic deadline if an agreement is to be approved on time, though the EU is looking at the possibility of implementing the deal provisionally and ratifying it later in 2021.



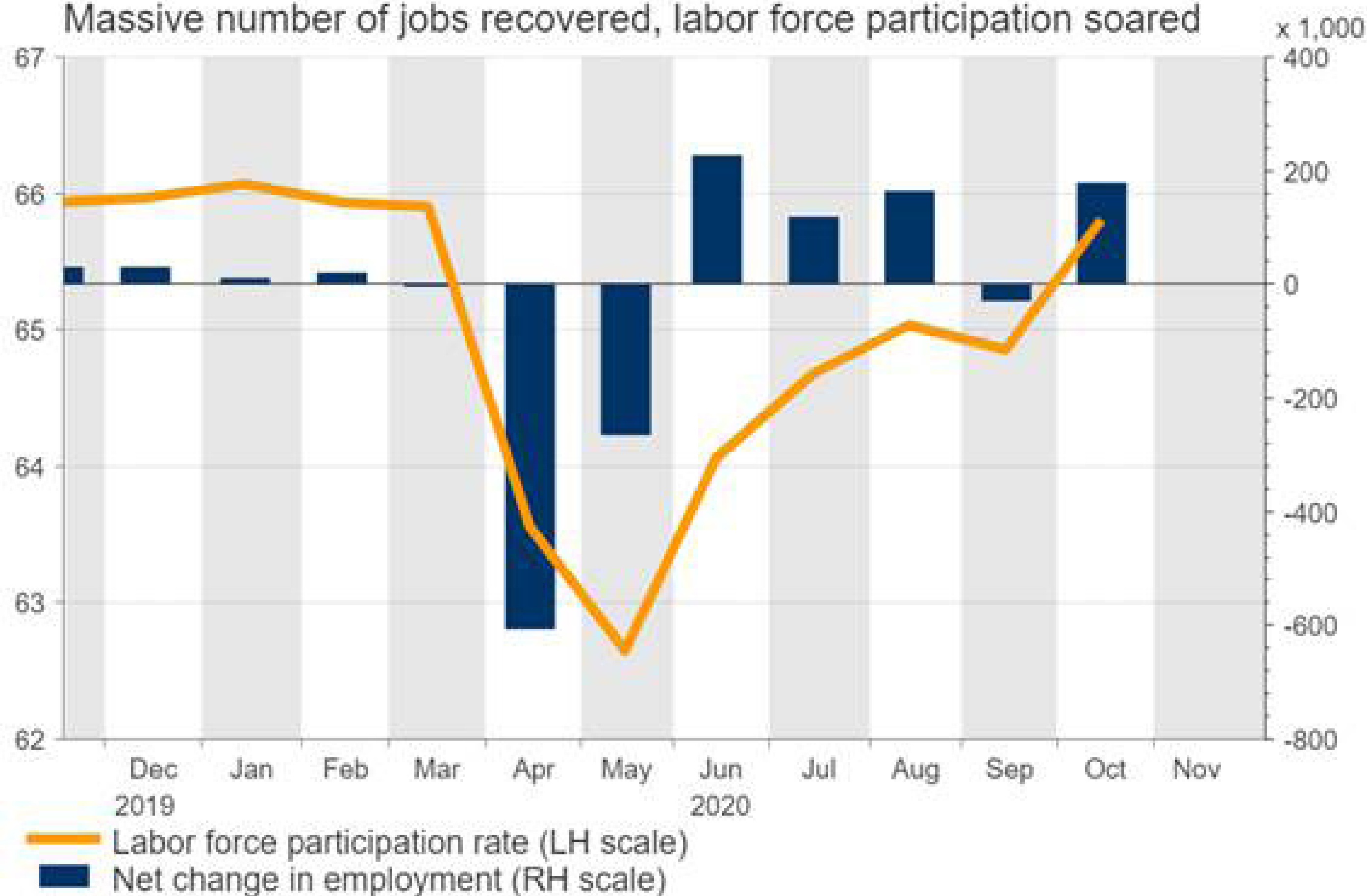
The pound has slipped on the uncertainty about where the final stage of the negotiations is headed. After rising sharply on the hopes that a deal is within reach, cable could come crashing down if there's no agreement in the coming week. Having said that, dollar weakness and hopes of a 'temporary' deal would likely limit any selloff in such a scenario.

The Reserve Bank of Australia will hold its final meeting for the year at 03:30 GMT Tuesday. Having cut rates last month, no action is expected this time, so the market reaction will depend on the language of the accompanying statement. Economic data have improved lately and vaccines have been announced, so a slightly more optimistic tone may be warranted. That would argue for a positive, but minor, reaction in the aussie.

Going all out

It took some time, but the RBA finally decided last month that it was sensible to provide some more support to the economy, to accelerate the recovery process. The central bank cut interest rates by 15 basis points to 0.1%, expanded its QE program, and confirmed it is ready to do more if necessary.

One could argue that all this won't make much difference for the real economy, but the RBA thinks it will, because of the effects on the exchange rate. The aussie has rallied very powerfully lately. While most of this rally is linked to the vaccine news, the RBA argues the currency would have been even higher by now if it hadn't delivered this stimulus package. That would be a threat to inflation and growth.



More broadly, the Bank signaled a change in strategy. First, more rate cuts are "extraordinarily unlikely". If more support is needed, it will come through bigger QE doses. Second, the main variable that will guide future decisions will be the labor market. Addressing the high unemployment rate is now 'an important national priority'. And third, the Bank won't rely on forecasts as much. Before removing any stimulus, it wants to actually see unemployment declining and inflation heating up.

What's the play this time?

Admittedly, not much has happened domestically since the latest meeting, so any major change in language is unlikely. The Bank will likely repeat that it's prepared to do more, as the medium-term risks are still prevalent. The all-important JobKeeper program is set to expire in March, which may keep unemployment under stress next year.

That said, there is some scope for a slightly more optimistic tone. The two biggest developments since the RBA last met were 1) that the world will have multiple vaccines to combat the coronavirus soon and 2) that the Australian jobs market improved dramatically in October.

Granted, this is just a single month's worth of data, but the vaccine news is truly game-changing as it eliminates most of the longer-term downside risks. It is probably too early for the RBA to remove its easing bias because of this, but policymakers could still sound more upbeat. If so, that would argue for a small spike higher in the aussie as speculation for even bigger QE doses fades.

Taking a technical look at aussie/dollar, a potential break above 0.7385 could open the door for the 0.7415 region.

What does next year look like?

In the big picture, 2021 is shaping out to be a solid year for the aussie. Vaccines will be rolled out and the global environment could stabilize, lifting demand for Australia's commodity exports. Should all of this weaken the US dollar as well, then aussie/dollar might still have some miles left in the tank.

The main downside risk is the deteriorating Australia-China relationship. China just slapped aggressive tariffs on Australian wine, the latest in a series of trade hostilities. China is furious that Australia supported a global inquiry into the origins of the coronavirus. The aussie hasn't responded much yet, but this is something to keep an eye on. One third of all Australian exports go to China, so the aussie might not stay immune for long if this brawl intensifies.

In case of a pullback, initial support in aussie/dollar may come from the 0.7330 zone, where a break would turn the focus to 0.7260.

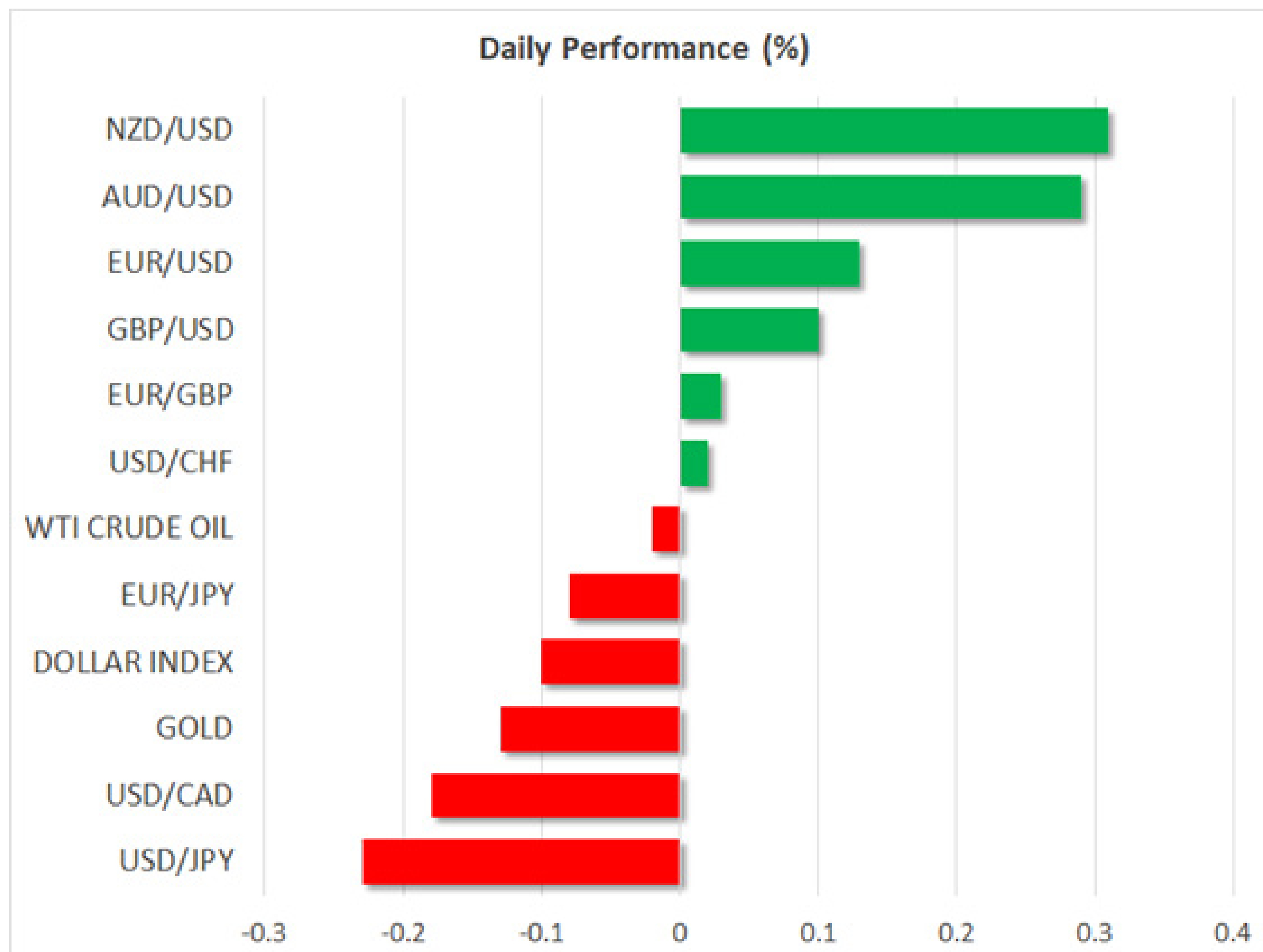
Finally, Australia's third-quarter GDP will be released one day after the RBA meeting, though markets will likely see this data as outdated.

· Greenback hovers near lows, markets quiet overall

· What's the outlook for euro/dollar from here?

· China slaps tariffs on Australian wine, but aussie immune

· Crunch time in Brexit talks as EU negotiators travel to London



It was a relatively subdued session in global markets yesterday with US traders being away on holiday. Most stock indices closed flat and currency pairs generally traded in narrow ranges, with no real headlines to steer the price action and volatility in short supply.

The dollar remains near its recent lows, unable to stage a successful rebound even amid continued disagreements on the EU budget and reports that the Brexit talks are stuck in the mud. The showdown between Poland and Hungary against the rest of the EU seems to be getting worse, though this has not really trickled into the euro yet.

It could be that investors view this standoff as just another drama scene in the endless European soap opera, which ultimately will be resolved but only after lots of kicking and screaming.

What's next for euro/dollar?

For now, it is difficult to envision much further upside in euro/dollar from here. The pair is trading above the $1.19 region once again but without a breakthrough in the Brexit saga or another tsunami of QE by the Fed next month, it is hard to see what will push the price even higher, especially with the ECB 'defending' the $1.20 handle lately.

Relative EU/US economic performance and FX positioning are two other elements to consider. Gone are the days when Europe was expected to 'out-recover' America. The euro area will almost surely contract sharply again in Q4 due to the lockdowns, whereas the US may suffer much less growth-wise. Additionally, while long-euro speculative positions have been unwound a little lately, they remain at stretched-long levels.

The bottom line is that euro/dollar has been stuck in a range between $1.16 to $1.20 for four months now, and an upside break doesn't look imminent here without some jet fuel from Brexit or the Fed.

Aussie shrugs off China tariffs, gold stabilizes

In the latest escalation in trade tensions, China slapped tariffs on Australian wine today ranging from 107% to 212%, which is a staggering amount. The move follows a series of intensifying hostilities between the two trading partners, with China furious that Australia supported a global inquiry into the origins of the coronavirus.

About one third of all Australian exports go to China, so this diplomatic brawl could have dire economic implications. The aussie hasn't reacted much to all this and continues to ride the vaccine euphoria, but this is still something to keep a close eye on. Australia literally relies on China to absorb its exports, so the aussie might not stay immune for long if this skirmish worsens.

In the commodity theatre, gold prices seem to have established a short-term floor just above the $1800 region and the 200-day moving average. For now, bullion's fate lies with the Fed's next move and the rollout of vaccines. If $1800 is violated too, there may be stronger hands waiting around the $1750 zone, which encapsulates the 50-week moving average.

Meanwhile, crude oil is taking a breather at elevated levels, waiting for Monday's OPEC meeting. A sell-the-fact reaction seems quite likely if the cartel only delivers the simple three-month extension that markets have largely priced in already.

Brexit crunch time

Today, all eyes will be on the Brexit saga. EU negotiators will travel to London for talks, so headlines over the weekend and gaps in sterling on Monday are certainly plausible. The latest updates suggest there hasn't been any progress lately, though some political intervention from Boris Johnson could change that.

Finally, US markets will only open for a half day, so liquidity will be thinner-than-usual.

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GMT	COUNTRY	INDICATOR	PERIOD	UNIT	ACTUAL	REUTERS POLL	PRIOR
23:30	Japan	CPI Tokyo Ex fresh food YY	Nov 2020	Percent	-0.7	-0.7	-0.5
23:30	Japan	CPI, Overall Tokyo	Nov 2020	Percent	-0.7		-0.3
7:00	Germany	Import Prices MM	Oct 2020	Percent	0.3		0.3
7:00	Germany	Import Prices YY	Oct 2020	Percent	-3.9	-4.1	-4.3
7:45	France	Consumer Spending MM	Oct 2020	Percent	3.7	2.9	-5.1
7:45	France	GDP QQ Final	Q3 2020	Percent	18.7	18.2	18.2
7:45	France	CPI (EU Norm) Prelim YY	Nov 2020	Percent	0.2	0	0.1
7:45	France	Producer Prices MM	Oct 2020	Percent	0.1		0.2
8:30	Sweden	GDP QQ	Q3 2020	Percent	4.9	4.4	-8
8:30	Sweden	GDP YY	Q3 2020	Percent	-2.5	-3.6	-7.5
10:00	Euro Zone	Business Climate	Nov 2020				-0.74
10:00	Euro Zone	Economic Sentiment	Nov 2020	Index		85.5	90.9
10:00	Euro Zone	Industrial Sentiment	Nov 2020	Balance		-10.5	-9.6
10:00	Euro Zone	Services Sentiment	Nov 2020	Balance		-15.5	-11.8
10:00	Euro Zone	Consumer Confid. Final	Nov 2020	Balance		-17.6	-17.6

Technical Analysis – US 30 index retains bullish bias despite minor pullback

US 30 stock index (Cash) has retreated ever so slightly from its freshly logged all-time-high of 30,213. Positive sentiment seems to be taking a breather as the index, to some degree, is nudging sideways. The bullish 50- and 100-day simple moving averages (SMAs) could boost the price, sending the index to new unknown peaks.

The short-term oscillators are transmitting mixed clues in directional momentum. The MACD, in the positive region, is holding above its red trigger line, while the stochastic oscillator is conveying a negative tone, promoting a deeper retracement. However, the RSI is exhibiting a stalled positive picture.

In a bullish scenario, immediate resistance may develop from the 30,070-30,213 section, involving the all-time-high. Should the index thrust above this new ceiling, the price may propel towards the 30,500 number ahead of the 30,696 level, which happens to be the 161.8% Fibonacci extension of the down leg from 28,957 to 26,065. Steering further into unmapped territory, the price may target the 176.4% Fibo extension of 31,125.

On the flipside, a more intense retracement may encounter reinforced support from the zone of 28,900-29,195, which also contains the mid-Bollinger band. Failing to halt negative tendencies, the price may hit the 28,560 barrier, before a tough region from the 50-day SMA at 28,356 until the 100-day SMA at 27,950 - which surrounds the low of 28,070 - tests the bears' efforts. Sinking even further the price may aim for the lower Bollinger band at 27,425 and the neighbouring 27,017 low.

Summarizing, the US30 index preserves a neutral-to-bullish bearing above the 28,900-29,195 zone, while a definitive shift below 26,000 could seriously dampen the positive structure.

Technical Analysis – NZDUSD flies to 29-month high above 0.7000

NZDUSD has been developing near to multi-month highs of 0.7028, continuing the powerful buying interest that started from 0.6586. The RSI indicator is hovering around the overbought region, while the MACD is strengthening its movement in the bullish area but marginally beneath the trigger line. The simple moving averages (SMAs) are endorsing the upside tendency as all of them are ticking higher in the near term.

A jump above today's high could open the way for the 0.7060 resistance, being the top in June 2018 ahead of the 0.7150 obstacle, taken from the peak on March 2018.

On the other side, a decline below the 20- and 40-period SMAs could reach the 0.6945 support before hitting the lower surface of the Ichimoku cloud at 0.6900. If sellers persist could send the market until the 0.6876 barrier.

To sum up, NZDUSD has been in an upward rally in the short- and long-term timeframes, however the momentum indicators are signaling an overbought marker, suggesting a downside reversal in the near term.

Technical Analysis – USDCAD stands around several tested 1.2993; bearish bias

USDCAD has found significant support at the 1.2993 barrier over the last three months, posting a negative spike around 1.2930, which is a new two-year low on November 9. The RSI indicator is still moving sideways in the negative territory, while the stochastic oscillator is turning higher, ready to complete a bullish crossover within its %K and %D lines in the oversold zone.

The price has been remaining in a descending tendency since April 21 and the next support would come from the two-year low of 1.2930 before turning the attention to 1.2780, registered in September 2018. More losses could open the door for the April 2018 low at 1.2530.

Alternatively, an attempt above the falling trend line could meet the 1.3160 resistance, which stands slightly above the 40-day simple moving average (SMA). Breaching these levels, the 1.3420 barrier could halt bullish movements ahead of the 200-day SMA at 1.3533.

Overall, USDCAD is still in a negative direction in the long- and short-terms. Only a jump above the 200-day SMA could switch the bias to neutral.

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