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WEEK AHEAD BRIEFING NOTE

Aug. 2nd /// 2021

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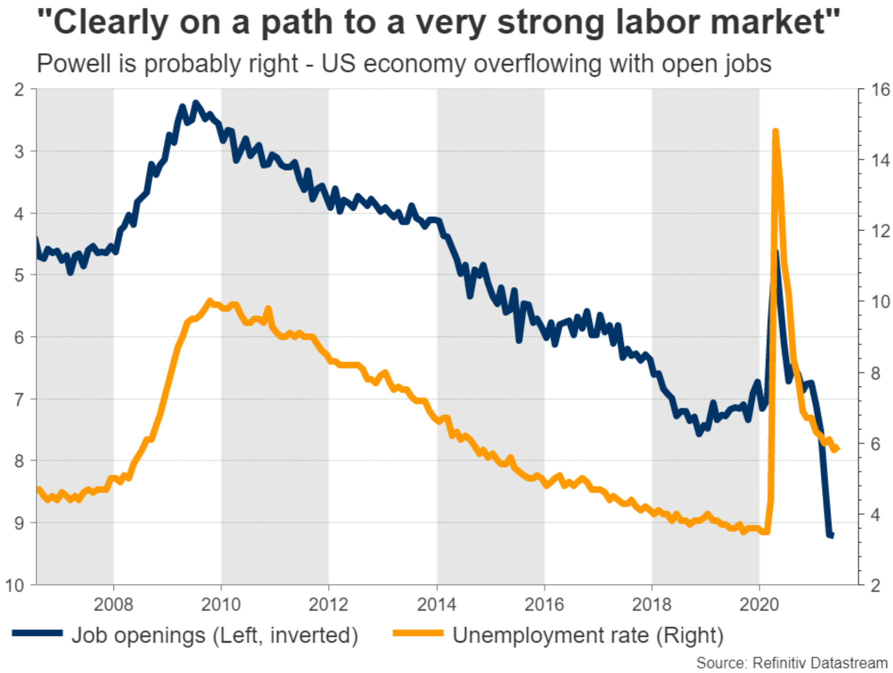
Global markets will go into overdrive next week, with two central bank meetings and a landslide of data coming up. The RBA will probably reverse its tapering plans amid extended lockdowns in Australia, whereas the Bank of England might strike a slightly more optimistic tone. Of course, the main event will be the US jobs report, which will determine how quickly the Fed dials back stimulus.

Dollar braces for payrolls

Fears that the Federal Reserve might announce a slowdown of its massive asset purchases in August subsided this week after Chairman Powell stressed that the labor market still hasn’t recovered properly. The dollar moved lower in the aftermath as real US yields fell to new record lows, with the markets clearly pricing out the risk of an imminent taper.

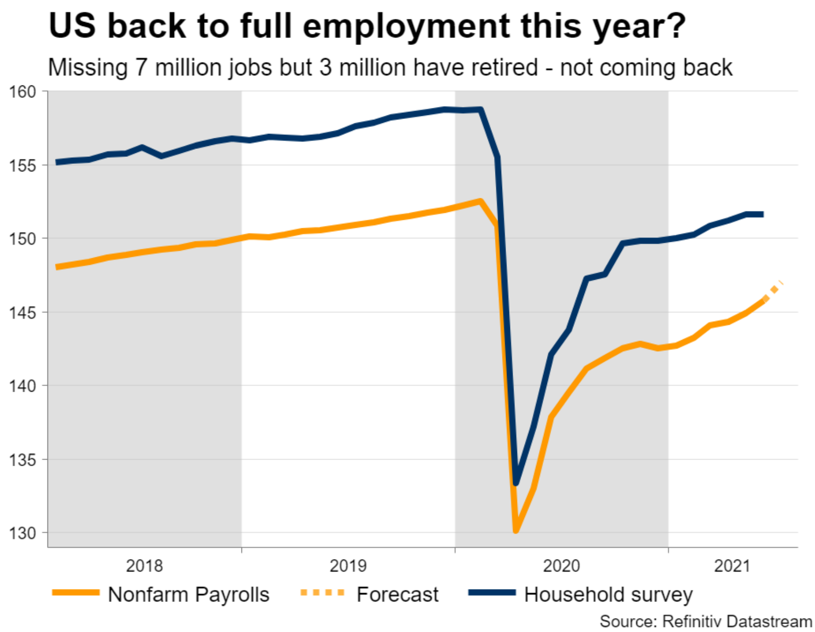
That said, the overall message wasn’t so dovish. The Fed highlighted that the economy has made progress towards its goals and Powell even said “we are clearly on a path to a very strong labor market”. He also dismissed the Delta variant as being a major risk and suggested that inflation might head even higher in the near term, before cooling later on.



The bottom line is that August may be too early for a tapering announcement, but September is still in play. The Fed can examine another two employment reports by then to make sure the labor market is strong and Congress could deliver another round of spending on infrastructure. Ultimately, this argues for a stronger dollar, especially against the euro and yen as neither the ECB nor the BoJ will follow the Fed anytime soon.

Considering all this, the upcoming US employment report on Friday will be absolutely critical for how the dollar performs. Nonfarm payrolls are expected to clock in at 926k in July, pushing the unemployment rate down two clicks to 5.7%. It seems like many people are returning to the jobs market now that the generous unemployment benefits have started to expire.

The US economy is still missing some 6.7 million jobs to recover completely. However, many people decided to retire once the pandemic hit, around 3 million by some estimates. Therefore, America might only be missing around 4 million jobs for a full recovery, which means we might be back at full employment by the end of the year at this pace!

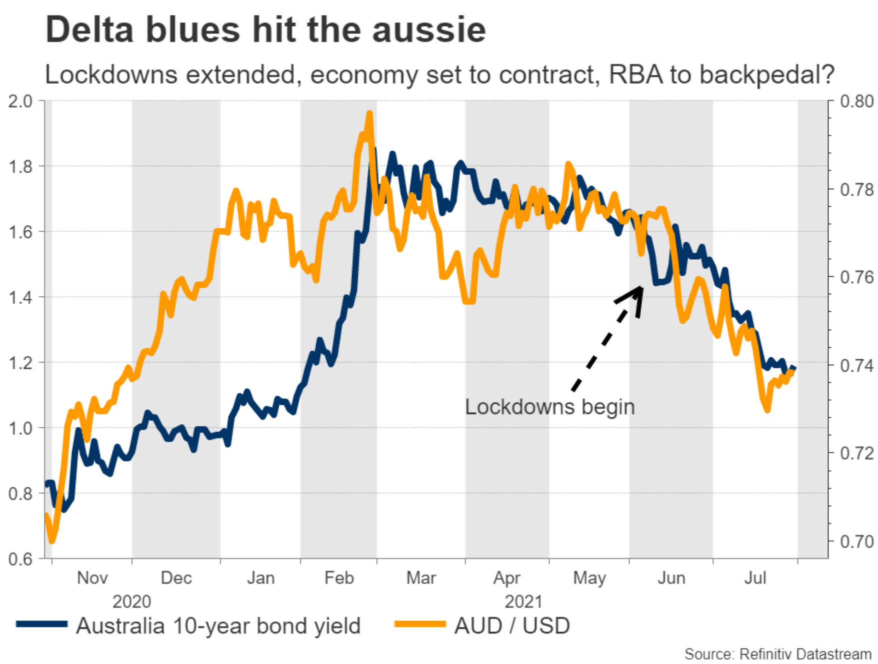


Ahead of Friday's jobs numbers, the ISM manufacturing PMI will hit the markets on Monday, before the services index is released Wednesday

RBA to put tapering plans on ice

The Reserve Bank of Australia meets on Tuesday and it might be forced to abandon its plans to trim asset purchases. Just four weeks ago, the RBA said it would slow down its purchases of government bonds as the economy was much stronger than it had expected. Things have changed dramatically since then, with much of Australia trapped in a lockdown to fight the Delta variant. The economy is headed for a contraction this quarter that will cost many jobs, canceling out much of the earlier progress in the recovery.

Hence, the RBA will probably strike a very cautious tone next week. Policymakers have long stressed that bond purchases can always be increased again if the economy weakens, and now would be a great time to demonstrate this flexibility.



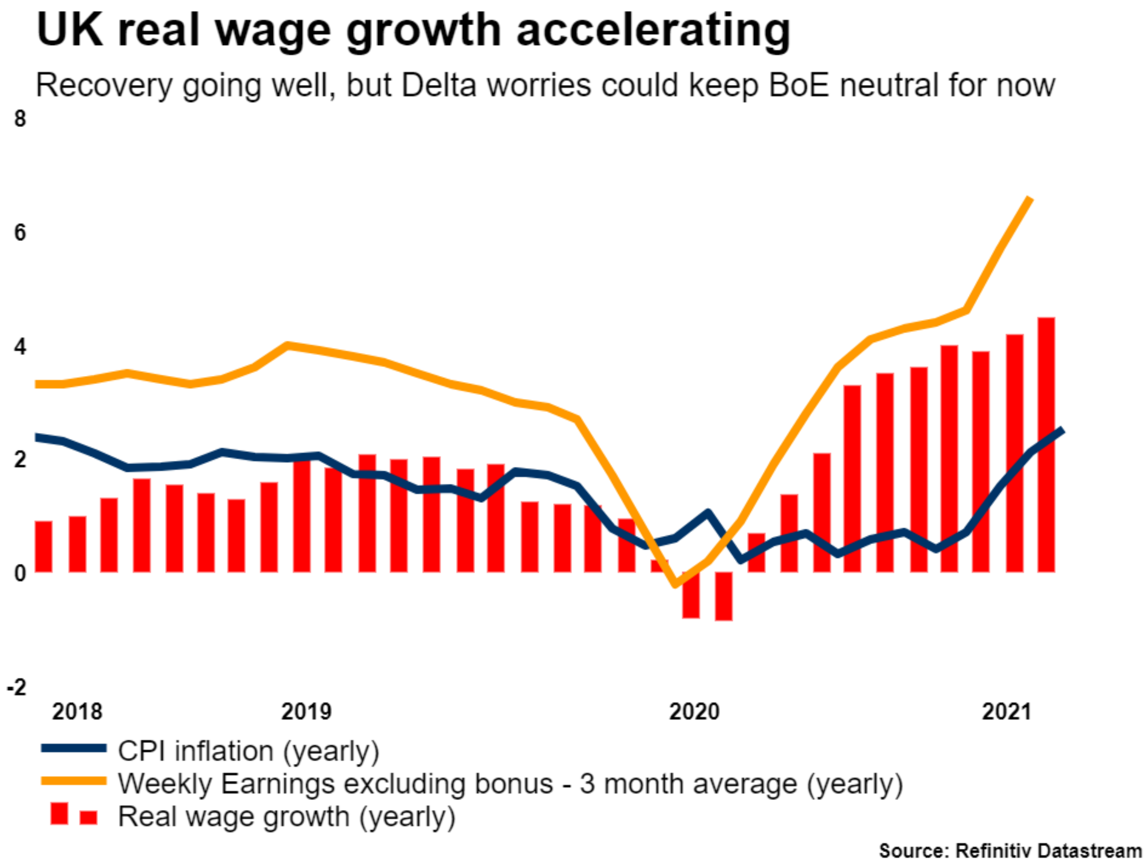
If the central bank indeed abandons its taper plans and signals that bond purchases won't slow down after all, that could hammer the aussie lower.

BoE: Neutral, with an optimistic flavor

On Thursday, the central bank torch will pass to the Bank of England. A couple of BoE officials made headlines recently after they called for withdrawing some stimulus.

Inflation is already running hot and they fear that unless the Bank takes its foot off the accelerator soon, this could start to infect inflation expectations and become more permanent. If enough people expect higher inflation moving forward, then it becomes a self-fulfilling prophecy because people take actions based on that.

However, the rest of the Committee doesn't really share this view. Most members have been adamant that withdrawing stimulus too early would be an even bigger risk as it could hurt the recovery, especially now that the government is phasing out its job-supporting programs.



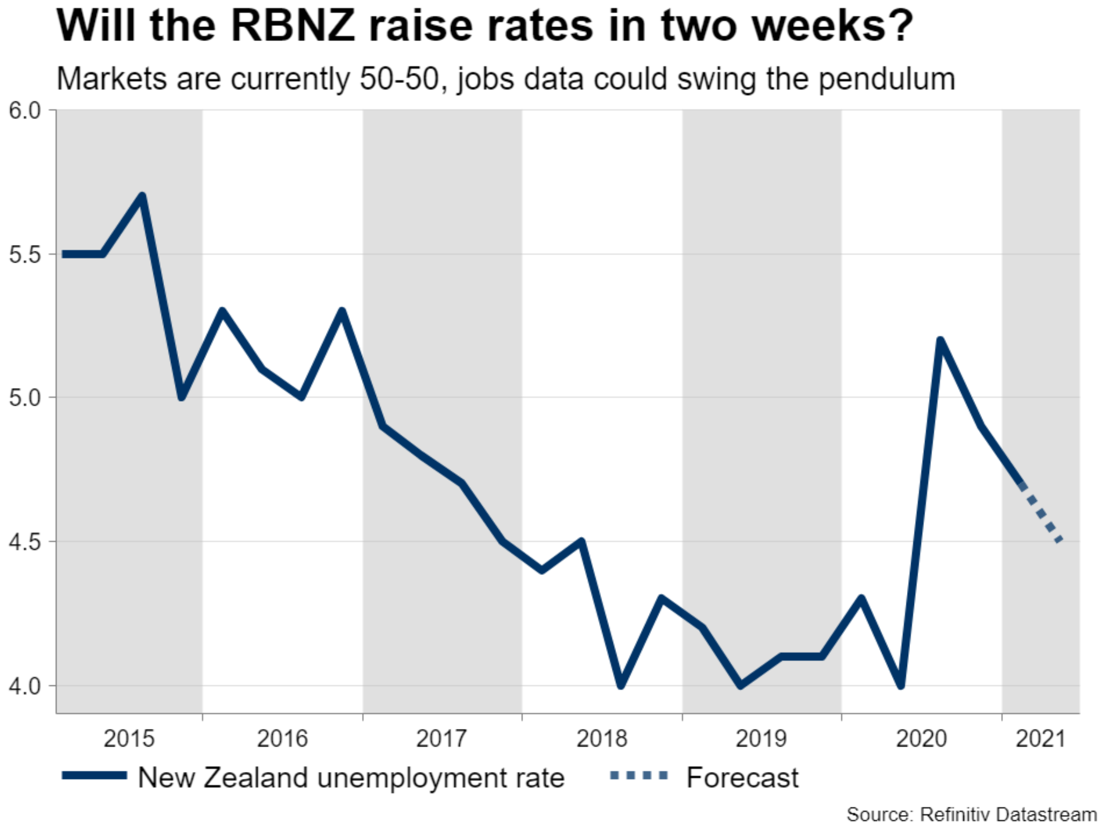
As such, the most likely conclusion this week is the BoE signalling that the economy is doing better, but that it is too early to withdraw any stimulus for now. Saunders and Ramsden might dissent, calling for an immediate withdrawal.

The pound has staged a phenomenal comeback in recent days and the outlook remains bright. The UK enjoys one of the highest vaccination rates globally and the BoE will probably be among the first central banks to raise interest rates this cycle. Markets are currently pricing in a 15bps rate increase for June next year, which seems reasonable.

Loonie and kiwi turn to jobs data

Beyond America, employment data will also be released in New Zealand and Canada. This will be the last major data point before the Reserve Bank of New Zealand meets in mid-August, where markets are pricing in a 55% probability for a rate increase.

As such, this dataset will shape market expectations ahead of this meeting, driving the kiwi as traders position accordingly. Forecasts point to a solid report, with the unemployment rate set to fall further. If that's the case, markets could become more confident about an immediate rate hike, breathing some life back into the kiwi.



In Canada, jobs numbers for July will hit the markets on Friday. The Bank of Canada trimmed its asset purchases once again at its latest meeting, encouraged by a strong economy and widespread vaccinations. The Bank remains on track to end its QE program completely by year-end. Coupled with high oil prices, the outlook for the loonie remains positive.

Chinese PMIs and ECB minutes

Over in China, the manufacturing and services PMIs for July will see the light on Monday and Wednesday, respectively. The economy seems to be losing steam, so these will be closely watched.

Finally in Europe, it's a relatively quiet week. Retail sales for June are out on Wednesday, before the minutes of the latest ECB meeting on Thursday. Markets don't pay much attention to either, but the minutes could be interesting as this was the meeting when the ECB committed to negative rates for longer.

Weekly Comment – Dollar loses altitude; can NFP report rekindle summer rally?

USD finally caught up with tumbling real yields in the past week, with the Fed's stubbornly dovish inclination intensifying the selloff mid-week. However, USD bulls shouldn't lose hope as the June jobs report is coming up next week, along with more central bank meetings.

The highlights:
• Nonfarm payrolls are due on Friday in the US and could jump by 900k in July. But how much of a boost would this be for the battered USD when the Fed is nowhere near committing to a taper timeline?
• The Reserve Bank of Australia meets on Tuesday, which could spell more trouble for AUD as policymakers may backtrack on tapering plans amid ongoing lockdowns in Australia.
• But it might be a better week for GBP as 'Super Thursday' lurks for the Bank of England. The BoE will likely give clues as to whether more QE is on the way after December, though its forecasts may be more telling if they imply the next round will be the last.
• It's been a relatively strong week for CAD and there could be more gains ahead if Friday's employment report out of Canada points to a further jobs recovery in July. However, New Zealand's jobs numbers on Wednesday may spur greater volatility for NZD as the RBNZ's August rate decision may rest on the strength of the data.
• With most of Wall Street's heavyweights having already reported their Q2 earnings, stocks might struggle for direction in the coming days. Tech stocks in particular are on shaky ground right now.

Technical Analysis – USDCAD seeks demand near 1.2440 but bears could dominate

USDCAD retreated below the short-term supportive trendline and to a two-week low of 1.2431 on Thursday following the multiple rejections from the 200-day simple moving average (SMA).

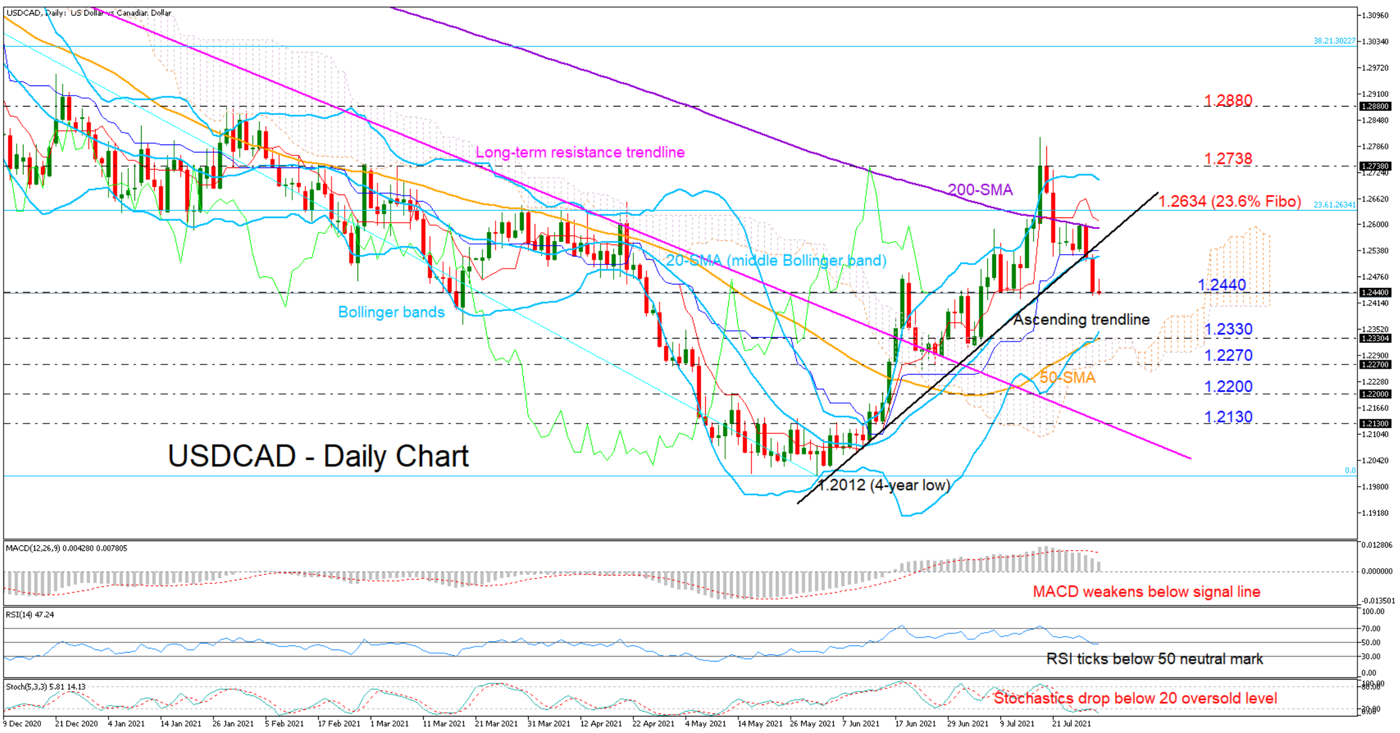
The current consolidation area around 1.2440 overlaps with July 9-13's support region and the 200-period SMA on the four-hour chart. Hence, it could be an ideal pivot point as the Stochastics sink in the oversold territory. Yet, with the price trading some distance away from the lower Bollinger band, the RSI set to explore the bearish zone, and the MACD strengthening its negative momentum below its red signal line, the bears could rule the roost afterall.

If the bearish scenario unfolds, the pair may dip to meet fresh demand near the lower Bollinger band and the 50-day SMA at 1.2330. The surface of the Ichimoku cloud is also located in the same neighborhood, adding extra importance to the region. Breaking that floor too, the former support area around 1.2270 may attempt to catch the fall before the focus turns to the 1.2200 – 1.2130 restrictive zone, and the broken long-term descending trendline.

Should the 1.2440 base stand firm, the price could push for a close above the 20-day SMA (middle Bollinger band) and the short-term trendline around 1.2545. The 200-day SMA is also converging to the same location, while the 23.6% Fibonacci retracement of the 1.4667 – 1.2012 downleg is within breathing distance at 1.2634. Therefore, stronger buying pressures will be needed to knock that wall and bring the 1.2738 resistance and the 1.2800 peak back into view. Beyond the latter, the bulls could pin a new higher high around 1.2880.

As regards the market trend, the bullish cross between the 20- and 50-day SMAs is still defending the upward move from the four-month low of 1.2012. A potential bullish intersection between the 20- and 200-day SMAs could further brighten trend optimism.

Summarizing, USDCAD is expected to trade bearish in the short-term, though the pair could find some footing around 1.2440 before heading lower again.



Technical Analysis – GBPJPY attempts to overcome 40-day SMA

GBPJPY is challenging the 40-day simple moving average (SMA) and the 153.40 resistance, following the bounce off the 148.45 support level.

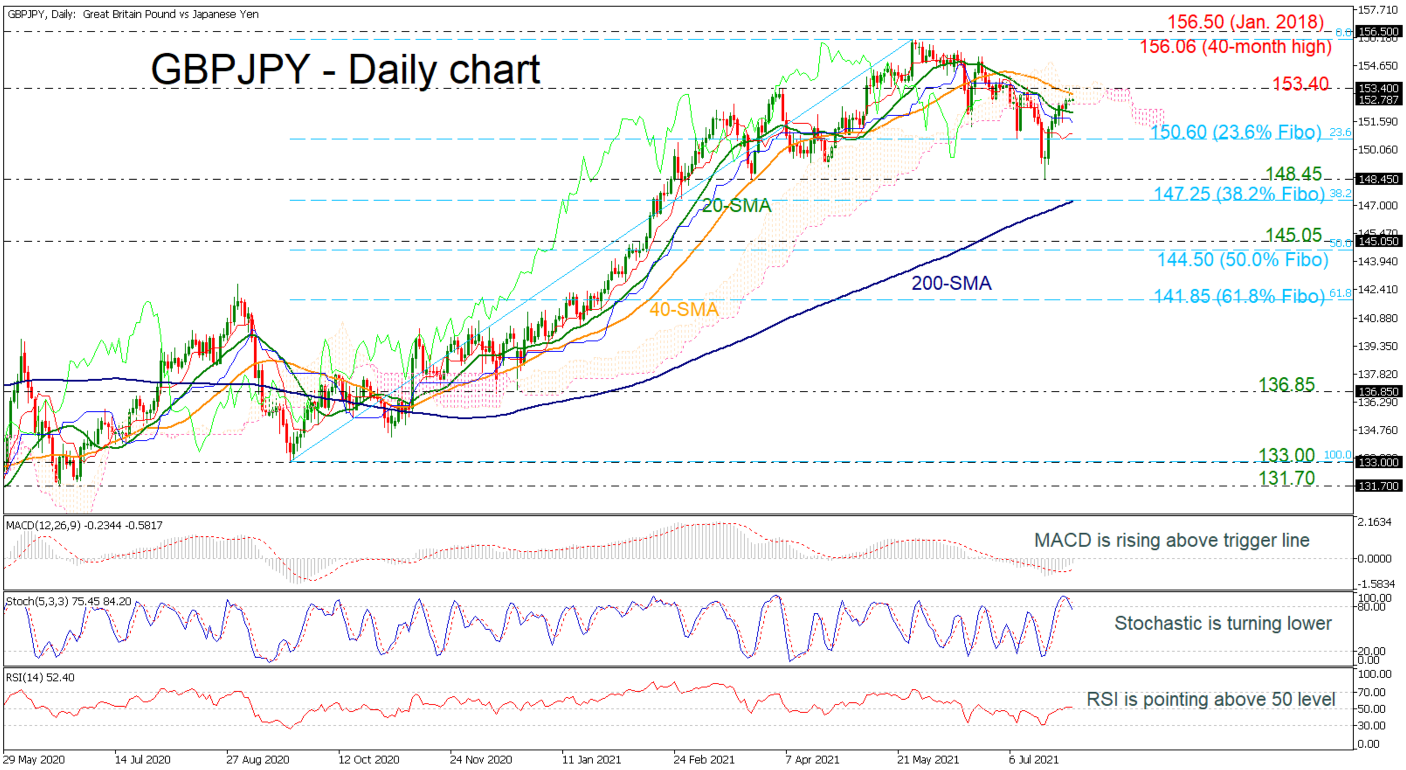
A successful jump above 153.40 could take the market towards the 40-month peak of 156.06 before meeting the 156.50 barrier, reached in January 2018. Moving higher, the 162.80 line, taken from the inside swing high in April 2016 may halt the bullish actions.

According to the technical indicators, the MACD oscillator is gaining ground in the negative territory, jumping above its trigger line, while the RSI is extending its positive move above the neutral threshold of 50. However, the stochastic oscillator created a bearish crossover within the %K and %D lines above the 80 level, suggesting an overbought market.

In case the price retreats below the 20-day SMA, immediate support could come from the 23.6% Fibonacci retracement level of the upward move from 133.00 to 156.06 at 150.60 before pausing the decline at 148.45.

Underneath these obstacles, the 200-day SMA, which overlaps with the 38.2% Fibonacci of 147.25 could be in the spotlight.

In conclusion, GBPJPY is in a positive move in the near-term and in a declining tendency in the medium-term after the fall from 156.06.



Technical Analysis – USDCHF cements a negative tone beneath MAs

USDCHF's decline has recently stalled around the 0.9043-0.9053 support obstacle. In spite of this, the falling 50- and 100-period simple moving averages (SMAs) and their recent bearish crossovers of the 200-period SMA are nourishing the plunge in the pair.
The Ichimoku lines are diving, and the distancing of the red Tenkan-sen line below its blue Kijun-sen line, is indicating that negative forces hold the lead. The short-term oscillators are somewhat mixed but a slight bearish preference has yet to abate fully. The MACD is currently weakening below its red trigger line in the bearish region. The RSI is flirting with the 30 level and pointing up, while the stochastic oscillator is signalling that buyers are fighting back.
If sellers defeat the immediate support of 0.9043-0.9053, downside constraints may then develop around the 0.9000-0.9010 region. If negative pressures intensify from here, the 0.8986 barrier could come next before sellers target the 0.8933-0.8964 support base.
Otherwise, if the pair generates additional positive traction, initial upside limitations could arise from the red Tenkan-sen line at 0.9067 and the nearby high of 0.9075. Improving past this, the 0.9090-0.9100 resistance blockade could try to negate advances from gaining pace. Next, recapturing the zone above the barrier of 0.9117-0.9131 could stabilise the pair in the short-term.

Summarizing, USDCHF's prevailing negative tilt may keep the upper hand as long as the price persists below the 0.9075 barrier. Yet, for some confidence to be reinstated in the pair, buyers would need to lift the price above the 0.9131 obstacle.

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