SIM INVESTMENT& NETWORKING CLUB

SIM INC Monthly Market Analysis Report

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USD/CAD

Summary

The market analysis report on the USD/CAD pair is conducted based on Fundamental Analysis and Technical Analysis. However, as the USD/CAD pair is currently exposed to a high amount of uncertainty based on a few major news and events taking place in the near future, this report will focus more on the Fundamental Analysis. Below are the few factors that we have taken into consideration for this report:

- The uncertainty due to contradictory statements by OPEC and Russia will cause crude oil prices to be more volatile and thus, due to the nature of the USD/CAD pair, we expect the currency to fluctuate inversely with the crude oil prices.
- The non-farm payroll results which will directly affect the Fed decision to increase the interest rate. However, we expect the upcoming Non-farm payroll results to miss the respective forecasted figures.
- Increase in volatility in all financial markets due to the upcoming US Presidential Election. The current presidential poll suggest that Hillary Clinton would win the election and market stability is expected.
- Currently, there's 70% market anticipation for an Interest Rate hike in the FOMC meeting on 13-14 December.
- Technical Analysis conducted on the weekly candle stick chart is consistent with the Fundamental Analysis that suggest a bull market. The monthly and daily chart shows a bear market.

Market Sentiment: Bullish with chances of a bearish market from the technical analysis conducted, adverse news and/or events.

Fundamental Analysis

US Non-farm payroll & Unemployment rate

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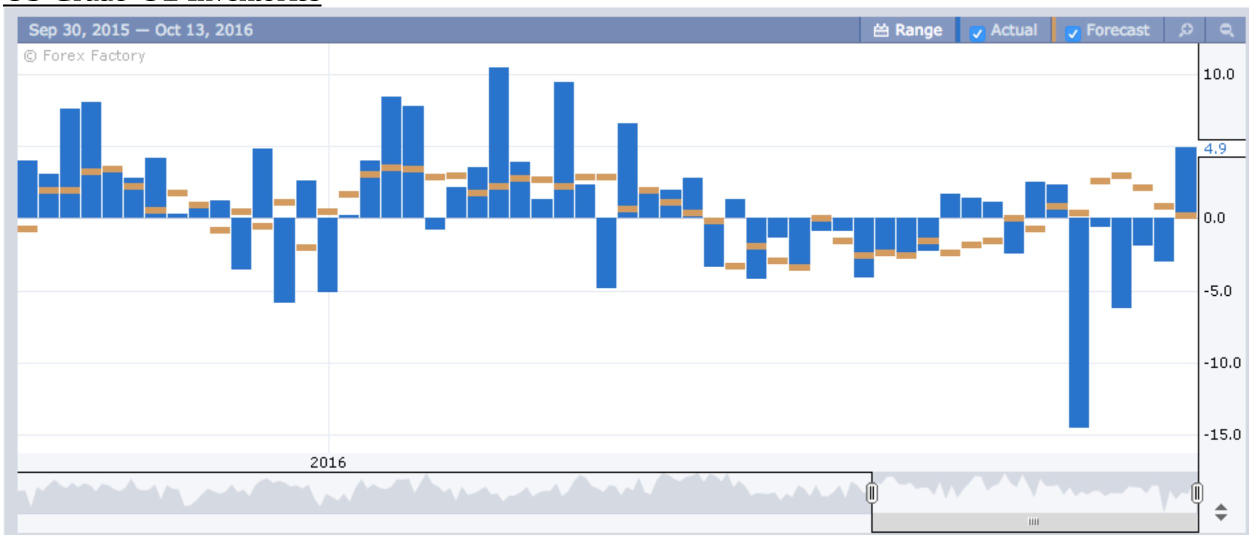
Total US non-farm payroll increased from 151,000 to 156,000 from August-September which fall short of market expectation at 175,000. Prior to the news release, the market sentiment was optimistic as USD/CAD strengthening before it plunged 101 pips from a high of 1.3289 to a low of 1.3188 just 2 hours after the release of the non-farm payroll results. The non-farm payroll expectation for October is expected to be at 190,000. The actual non-farm payroll is likely to miss for October as the US employment rate increased to 5% from 4.9%. We can conclude that the US job growth slows in September.

The US unemployment rate is at 5% for September which is an increase of 0.1% compared to 4.9% in August missing the market expectation of 4.9%. US unemployment rate is at a 5-month low since April. 5% is what US sees as a great progress but however, there are many underlying problems that needs to be tackled before US declares that it is booming.

Rising Uncertainty

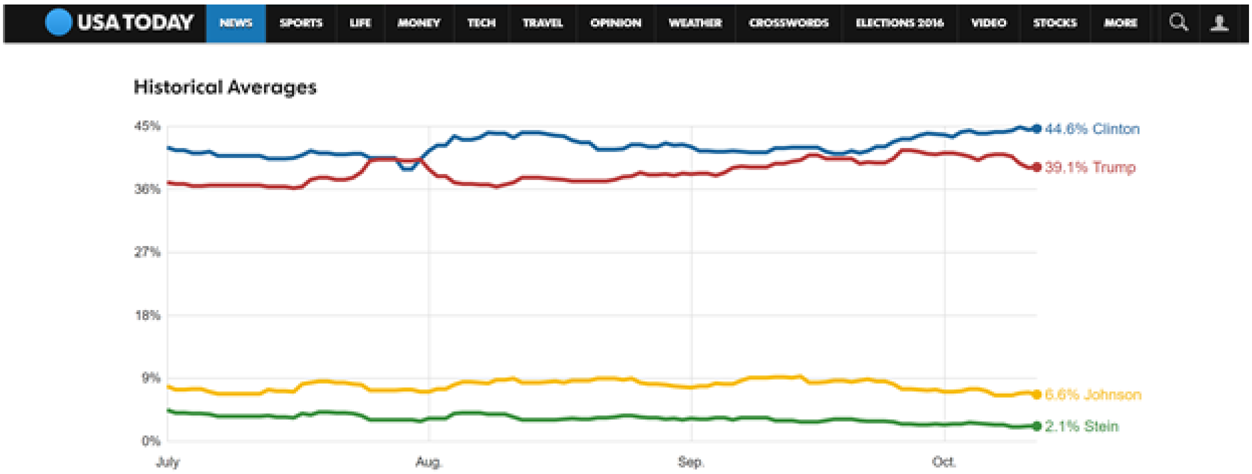
US Crude Oil Inventories



Source: www.forexfactory.com

The latest US Crude Oil Inventories on the 13th October was a first buildup in six weeks with 4.9 million barrels gain compared to the previous of -3.0 million. News of the Organization of the Petroleum Energy (OPEC) to reach an agreement with the non-OPEC members to cut oil production to stabilize energy prices are still ongoing. However, there are contradictory statements within Russia, the largest energy exporter, between Russian energy company Rosneft and President Putin. Rosneft said it would not back the OPEC production cut despites words from Putin announcing Russia was ready to join in to curb oil production. Lastly, BoC is not expected to cut rates in 2016, but could be forced to do so if the Fed fails to act this end of year.

Presidential Election in 8 November 2016



Source: USATODAY

As shown in the graph above, the market is anticipating Hillary Clinton to win the Presidential Election. Assuming Hillary Clinton wins, we don't foresee a huge impact on the financial market. Alternatively, if Donald Trump wins, we expect high market volatility and the USD/CAD pair to fall.

FOMC Meeting

The Feds are unlikely to raise interest rate in the FOMC meeting during 1-2 November as the Presidential Election will already increase volatility in the financial market. Furthermore, the Feds do not have much incentive and urgency to raise the interest rates in November.

Thus, the market is paying extra attention to the FOMC Meeting on 13-14 December with 70% anticipation that the Feds will raise interest rates. One of the main reasons why the market want the Feds to raise interest rates is because the equity market has been consistently flooded with cash due to the near zero interest rates and a market correction is in order to prevent the next Dotcom bubble.

Market Volatility

In anticipation of the FOMC meeting minutes on 11th October, the volatility rose when the market opened and the USD/CAD currency pair strengthened by 89 pips from 1.3175 at opening to 1.3264 at closing.

Approaching the end of the October, the volatility is expected to continue increasing due to the anticipation of the Federal Interest Rate hike and the Presidential Election. This gives incentive for the USD/CAD to strengthen.

Technical Analysis

Daily Chart

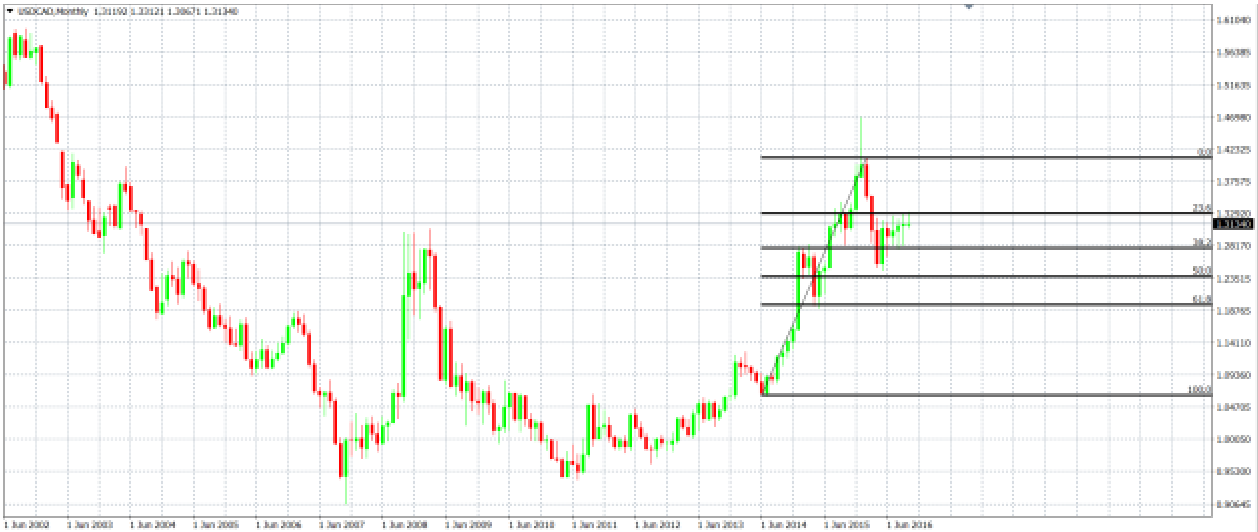
Currently, price seems to be hovering at 1.32, this level proves to be a resistance for USD/CAD. There is a higher probability that price might break the resistance and the ascending triangle and continue to ride on the upward trend, if that is true, the next resistance could be at 1.335. However, there is also a possibility that the resistance holds strongly and price goes downward, traders may enter a short position should there be any strong reversal candlesticks formed and the first support level would be at 1.305.

Weekly Chart

An ascending triangle is spotted. Resistance is formed with price hovering around 1.32 and 5 higher lows can be found touching the lower trend line. There is a higher chance that price will break the resistance trend line, continuing the uptrend. Traders can look to long USD/CAD if that happens, stoploss can be placed at 1.287. However, the price might also break the lower trend line thus resulting in a false ascending triangle.

Monthly Chart

According to the line drawn with reference to Fibonacci retracement, from level 100.0, prices rose up to level 38.2 quickly. There was a rally at 38.2 with the golden ratio acting as resistance. It retraced again at 61.8 before shooting up to 23.6. A short pullback appeared with support at 38.2. The price action rose with 0.0 action at resistance then rallying back down to 50.0 with it acting as support. Price is steadily rising up to 23.6, we are anticipating a retracement with 23.6 acting as resistance. However, it is possible that the price will break the resistance at 23.6 before rebounding at 0.0.



Conclusion

Looking forward, the current sentiment for USD/CAD is bullish. These are the few factors that support our thesis:

- Market is anticipating Hillary Clinton to win the U.S Presidential Election on 8th November 2016
- Market is anticipating a 70% potential interest rate hike in the FOMC meeting on 13-14 December.
- With the following events, the volatility is expected to increase, leading the USD/CAD pair to strengthen.

Alternatively, the USD/CAD might enter the bearish market if any of the following event takes place:

- US Non-farm payroll results fail to reach market expectations
- Market shock if Donald trump wins the Presidential Election in November (the correlation between USD/CAD won't hold for this event)
- Feds fail to raise interest rates in the FOMC meeting on December.

Also, it is important to note that this currency pair will be particularly volatile to any major news or announcements regarding crude oil and macroeconomic factors in the U.S. for the next few months. Please proceed any position with caution.

EUR/USD

Summary

Technical Analysis of 16 October 2016 - 23 October 2016 EUR/USD price movement
Increased volatility expected due to political turbulence in EU
Fed Funds Interest Hike and European Central Bank's another stimulus are likely to happen which press the EUR/USD down.

Technical Analysis

Recommendation: Strong Sell

Prices continues to fall after multiple failed attempts to break out of the resistance trend line and SMA(10)

Broke support line at 1.0995 and Psychological level at 1.1000

Next Support stands at 1.0950 July's low followed by 1.0910 (Post-Brexit low)

Increasing MA Divergence and Increasing volume shows the trend is amplifying

Fundamental Analysis

The Euro is showing strength against the dollar on Thursday with speculation that European Central Bank is considering winding down bond purchases before the conclusion of the quantitative easing. Given the fact that Germany, largest economy in European Union, and other EU countries showing positive economic outlook according to the ZEW economic sentiment. Europe's single currency has been undervalued against major currencies for a long time whereas the greenback is overvalued versus other G10 currencies. The exchange rate euro to dollar is at the historically low level and the negative issues, such as Brexit or negative yields on EU bonds, already reflected in the market. However, there are still big issues in US market. Market is paying attention on whether Federal Reserve will raise the Fed fund interest rate on November or December. In addition, the United States presidential election of 2016, November 8th 2016, will be the watershed of the nation as a whole. Philadelphia Fed chief Patrick Hawker stated that it would be prudent to wait on U.S presidential election in order to respond properly after its outcome.

The fundamentals that dragged the market

Post Brexit

The U.K's exit negotiations with the European Union will be controlled by a group of 12 ministers of Theresa May's cabinet, the new U.K. prime minister. The group includes six ministers who sided with May at the June referendum to leave EU. The committee and EU will define the new relationship between them in terms of border ,trade and economy. As May's new plan,so called hard Brexit, prioritize Immigration issues over access to EU's single market. Nevertheless, European Union President Donald Tusk responded to the British prime minister's plan and said "Hard Brexit" or "no Brexit". If both the U.K. government and its EU partners could not narrow the gap, the saga of the British Pound Sterling and The City of London will face bad ending. The pound could be in for further volatility and weakness; and the impact on the rest of Europe will not be favorable.

Federal Open Market Committee vs ECB

The U.S economy is still recovering from the Great Recession damage and it will be costly when premature tightening happens. The States probably is not at full employment and inflation is still below 2% target. The Federal Open Market Committee left the benchmark rate unchanged at 0.5% for the six straight meeting last month.

However, Federal Open Market Committee Minutes, released on this Wednesday, showed a growing number of the Fed officials forecast rate hike will happen 'relatively soon'. Especially, Kansas City Fed president Esther George, Cleveland's Loretta Mester and Eric Rosengren of Boston dissented at the meeting in favor of higher rates. The probability of rate hike in the end of year is highly likely. Market pricing implies a 67 percent change of an increase in interest rates by December, with a 19 percent change by November.

Whereas European Central Bank leaves the door for further rate cuts in order to meet its inflation target of 2%. ECB president Mario Draghi said that ECB is poised to pump up more money to the economy to push inflation rate up to its target. He also mentioned that interest rates are expected to present level or even lower level for a longer period and ECB is also looking for another instrument for supporting its policy with consistency. ECB's Governing Council meets to review interest rates and stimulus program on 20th October.

Conclusion

It is likely that EUR/USD bearish trend will continue in the short term.

Different policies from the two main central banks' will cause downward pressure on the EUR/USD pair. Once the interest spread between two nations becomes wider, capital will move from Europe to America and this will definitely cause the dollar to appreciate against the euro.

Half Brexit happened. EU still have risks associated with the Britain. ECB's next action and coming negotiation with U.K will determine whether this trend last for a long period.

Our recommendation for EUR/USD is short. Since political issues of Brexit are still left in the continent and there are no forecasts on the outcome, it is highly recommended to trade intraday. The market momentum for this currency could be reversed at any time; hence, follow the trend with liquid position.

S&P500

Summary

Chances of December rate hike is possible and highly probable
Rate hikes not priced into the market. More downside if a December rate hike happens
Expect an increase in volatility

Fundamental Analysis

S&P 500 tumbled the most in four weeks on Tuesday after Alcoa's profit miss and companies including Illumina Inc. warned of disappointing results. However, JPMorgan Chase & Co. and Citigroup Inc. helped the benchmark eke out a gain on Friday as results topped forecasts.

While the price of British Pound is still falling, gold is at its 28-month high with some stocks having been affected positively.

Gold and long-term yields has been rising for the past months with some stocks having positive returns. Bond yields in the developed world have been rising this month and the 10-year yield in German bunds has been moving back above zero again. Investors have been shedding bond holdings due to growing expectations that the Federal Reserve would raise short-term interest rates before the end of the year. Worries that major central banks in Japan and Europe have been reaching their limits in buying long-term government bonds have also sent yields higher.

A rate hike will be detrimental to S&P 500. The economic indicators signals a healthy economy and a rate hike in December is probable. The FOMC minutes on Wednesday revealed how close the Fed is to raising rates. However, on Friday, Federal Reserve Chair Janet Yellen said that letting the economy run hot for a while could be beneficial for the economy. This was conflicting to the FOMC minutes therefore it is too soon to conclude a rate hike in December.

Job report

The non-farm payroll indicated an increase in 156,000 jobs in September. However, this fell short of the forecasted value of 175,000. The non-farm payroll was also lower than the August figure of 167,000. Unemployment rose from 4.9% to 5%. It was the highest jobless rate since April. These figures indicate that there was still room for improvement in employment.

However, the markets do not appear overly concerned as other employment indicators were steady.

Despite the rising unemployment, the average hourly wages went up from 21.63 to 21.68. The labor force participation rate was forecasted to be 62.8% but the actual participation rate in September was 62.9%. The initial jobless claims fell by 5,000 to 249,000 in September. This indicates that lesser Americans are filing for unemployment benefits. The increase in unemployment has been paired up with positive results from other employment indicators.

Overall, the labour market seem to be in a healthy condition and would increase the likelihood of a December rate hike.

Potential Rate Hike

Based on the Fed Funds Interest Rate Future, there is a 74% chance of a hike at the December meeting. During the September meeting, three out of 10 of the US central banks' rate-setters voted for an immediate increase in rates. The Fed decided to keep rates unchanged was because there was still room for improvement in the labor market and inflation was still running below the target of 2%.

The Federal Reserve FOMC minutes on 13 October indicates a high probability of a rate hike in December. Majority of the 17 participants forecast at least one rate hike this year. During the meeting, the number of participants in favour of waiting was a close call from the number of participants in favour of a rate hike. The rate hike in December would be heavily reliant on economic figures of unemployment and inflation.

On Friday, 14 October, Federal Reserve Chair Janet Yellen signaled the central bank will remain deliberate in raising interest rates. Yellen said at Boston Fed conference there are "plausible ways" that running the economy hot for a while could repair some damage caused to growth during the recession, indicating a willingness to slowly tighten policy even as inflation reaches or surpasses the central banks' target.

Economists have said the Fed would normally increase rates if job growth was at a level of at least 100,000 new jobs, preferably 150,000. This increase in jobs indicates that unemployment rate is low despite the slow pace of jobs increasing. If there are at least 100,000 new jobs available, it would hence imply that the labor market is healthy and economy remains stable.

Fed Funds Interest Rate Future

Fed Funds Interest Rate Futures is used to bet on central-bank policy. According to CME group, investors and traders feels that there will be a 74% chance of a rate hike in December. This was up from 65.1% for the previous week.

CBOE Volatility Index (VIX)

source:https://www.tradingview.com/chart/PN1Nfhq3/

VIX is a volatility index that measures the implied volatility of S&P 500. VIX levels has been rising for the week ending 14 October. When the stock market opened on Monday, VIX was at 13.4 and at its high, VIX was at 17.9. This means that S&P 500 was more volatile due to uncertainty or investor fear. This was attributed to the FOMC meeting on 13 October where investors hoped to see clues on the timing of the next rate hike.

US Presidential Election

Speaking of general election, volatility has risen since the race between Hillary Clinton and Donald Trump drew closer, beginning several weeks ago. Volatility is expected to increase as the day of election draws nearer.

Technical Analysis

Source: https://www.mql5.com/en/charts/5940835/spx500usd-d1-oanda-division7

The S&P 500 is flirting with the danger zone again. The current resistance and support line are 2189 and 2107 respectively.

S&P 500 has broken below the lower support line on a 22-month and 3-month chart.

The Relative Strength Index (RSI) has been declining and is currently at 37.0. This indicates that S&P 500 is oversold at the moment.

Prices are expected to rise temporary due to prices exceeding the bollinger bands.

Prices are expected to move sideways between the resistance level of 2189 and the support level of 2107 for the weeks to come.

Conclusion
We take a neutral position based on the following factors:

The probability of a December rate hike will significantly affect the index. Currently, there are various conflicting figures for unemployment and the Janet Yellen announced that there are benefits to letting the economy run hot. The market however, feels that there will be a 74% chance of a rate hike in December.

We expect an increase in volatility caused by the uncertainty. S&P 500 will become more volatile as the presidential election date draws nearer.

OPEC consensus to cut supply of oil has driven the prices of oil up. Stocks and oil generally have a positive correlation. Therefore oil is a key factor to look out for.

Potential policies advocated by presidential candidates, Hillary Clinton and Donald Trump, have not been priced into the market. The market will definitely be paying a close attention to their comments.

S&P 500 is now facing a big test of trend support

A turn higher is needed very soon; else October could turn ugly

The market at its current state is anticipating a rate hike in December. Should there be any news by any of the U.S central bank's rate-setter, the prices will react according to it. It is recommended to enter any position with caution.

The week ahead: October 17—21
Monday: Empire State Survey (Index)
Tuesday: Consumer Price Index
Wednesday: Net Long-term TICS Flows, Building Permits, Housing Starts
Thursday: Initial Claims, Existing home sales
Friday: None

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