SIM INC Monthly Market Analysis Report

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S&P 500

Summary

- Chances of December rate hike approaches 100% probability
- Markets rallying on anticipation of Trumponomics to spur inflation and growth as Inflation hits 1.6% 2-year high
- Yields in treasuries soaring as bonds sell off in expectation of Fed tightening to combat Inflation
- Expect more downside should there be no rate hike

Fundamental Analysis

S&P 500 closed off higher at 2204.56 for a bullish week due to expectations of higher inflation and growth in the U.S economy riding on President-Elect policies. Despite data showing the probability of a rate hike in December approaches 100%, US Equity has been gaining in momentum on the belief that President-Elect Trump will increase productivity and drive up US economy.

However his policies for fiscal stimulus will require time to be drawn up and implemented. We expect to such policy earliest in the 2nd quarter of 2017. The market pricing in his policies are not based on solid grounds and should not be priced in until there is more confirmation and drawn up plan of such stimulus.

US Inflation has also increased to 1.6% hitting a 2-Year high, off 0.4% of the Fed's 2% inflation target. This is seen as a good sign of the US Economy, coupled with the expectations of President-Elect Trump's policies. There could be a market overreaction as his policies have yet come into play and the current bond sell off and equity rally is only based on the speculation that there will be Fed tightening to

combat Trump's fiscal stimulus in 2017.

Potential Rate Hike

It is probable that the Fed will increase interest rates in December. Yellen has reiterated that future rate increases will be "gradual" and signaled the U.S. central bank is close to lifting interest rates as economy continues to create jobs at a healthy clip and inflation inches higher.

As expected inflation increases under the possibility of substantial fiscal stimulus next year, it is very likely that the Fed will increase interest rates in December as if they were to wait. It could result in them having to tighten very abruptly once there

is more signals of fiscal stimulus. The current economy situation puts the Fed in a position that hiking rates will prove to be a strategic move in anticipation of next year's fiscal policies.

Bond Sell-off

U.S. Treasuries yields have risen tremendously as the market believes tightening monetary policies will be needed to keep check of inflation in expecting President-Elect Trump's fiscal stimulus next year. There is a high chance of a rate hike in December, however the market might have over-reacted to the degree of rate hike and there might be a correction of treasury prices after the decision.

Technical Analysis

S&P 500’s bullish momentum broke through the 2,187.5 resistance level with higher highs being made before closing off at 2,204.56, a level not seen before. This is highly due to the fact that investors are currently pricing in the newly elected president’s fiscal policy and the likelihood of the fed’s rate hike. A trend line can be seen indicating an upward trend for the S&P 500.

S&P 500 was ranging between 2,118.8 and 2,187.5 earlier for the past few months before diving to 2,081.6, a major support level. The inverted hammer candlestick (bullish indicator) was formed due to the strong support level at 2,081.6 where S&P 500 bounced off and was observed to rally thereafter. As such, it is evident that the short-term bullish momentum has picked up tremendously. However, it is wise to take note that the Relative Strength Index (RSI) is nearing one of its highest level, indicating that S&P 500 may very well be overbought/over-valued.

Conclusion

Our current view of S&P 500 is that it could be over-valued as gains are based on speculations of President-Elect Fiscal Stimulus which at earliest, might be passed in 2nd quarter of 2017. In addition, we believe there is a high chance of a rate hike in December and this might result in

- S&P500 rallying to further highs due to the rate hike, which is a signal to the world that U.S. economy is strong and push S&P 500 higher. However, it could face a sell off after clearing highs as for reasons mentioned below
- S&P500 selloff as the extent of fiscal stimulus are unknown and rate hike will set off a chain reaction which will in the end result in equities falling

Our Fundamental analysis shows that the market is current over-valued and there will be a correction in the market. Therefore, we recommend a short in S&P 500. However, Technical analysis still shows a bullish S&P 500 breaking through resistance and hitting higher levels as it is still in the bullish market structure. S&P500 is currently over-valued but speculations could drive prices higher and we recommend to wait for further technical analysis indications to give a green light before entering into position.

For the week ahead: 5 - 9 December 2016

- Monday (5 Dec): U.S. Purchasing Manager Index (PMI)
- Tuesday (6 Dec): U.S. Trade Balance, U.S Factory Orders
- Wednesday (7 Dec): U.S Crude Oil EIA/DOE Weekly Status
- Thursday (8 Dec): U.S. Employment - Unemployment Claims WoW
- Friday (9 Dec): No Major reports scheduled

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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:

- Strengthening of US economy based on US non farm payroll and unemployment rate which will directly affect the Fed's decision to increase the interest rate. We expect the upcoming NFP news release on 2nd December to meet the expected forecast figure.
- Increase volatility of USD/CAD pair due to OPEC meeting on 30th November. We expect the pair to enter a bear market before retracing the next few days.
- Anticipation for a interest rate hike in FOMC meeting on December 13-14.
- Technical Analysis conducted on Monthly, Weekly and Daily charts are all suggesting a bullish trend. However, there are still chances of it entering a bearish trend.

Market Sentiment: Bullish with chances of a bearish market from adverse news and technical analysis conducted.

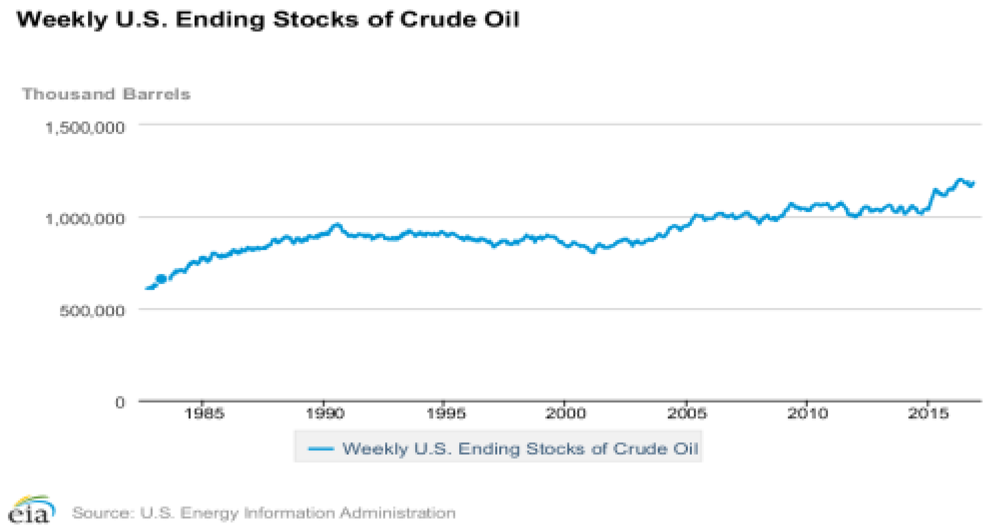
Fundamental Analysis

US non farm payroll and unemployment rate

The total non farm payroll in the US increased from 151,000 in September to 156,000 in October which fall short of market expectation at 175,000. Prior to the news release, the market's sentiment was pessimistic as USDCAD was weakening. The market was closed when the news was released. The market opened at 1.33379 from previous 1.33988, a total of 21 pips gap. The non farm payroll expectation for November is 180,000. The US labour force shows signs of gradual strengthening while it was below the expectation, some economists suggested it was due to Hurricane Matthew may have caused some companies from adding to the payroll. With the US economy strengthening, we are anticipating a interest rate hike in December. With the optimism for the US economy and decrease of unemployment rate from 5% to 4.9%, the actual non farm payroll for November will likely hit the expectation.

The US unemployment rate decreased from 5% in September to 4.9% in October which is line with market expectation.

US Crude Oil Inventories (EIA) & OPEC Meeting



The US Crude Oil Inventories for Y2016 is expected to reach a new high in history. The crude oil inventories level will be released in the morning of the OPEC Meeting. OPEC members will be watching this figure closely during the OPEC meeting. With competition for market shares and increase in global market volatility, in line with the pessimistic market sentiments, an agreement to cut output by around 1 million barrels per day (bpd) during the OPEC Meeting is unlikely to be successfully.

Furthermore, an oil production cut will leave little to no long term impact on the oil prices as Non-OPEC members will make up for the production cut and increase market share. This leaves little incentives for OPEC members to agree on an oil production cut.

During the All-day OPEC Meeting on 30th November, USDCAD is expected to bear high volatility throughout the day and enter a bear market during and/or after the meeting is concluded. USDCAD market is expected to retrace within the next few days.

Looking forward to 2017, when the new POTUS officially takes over, the oil & gas industry might have a new outlook as the new POTUS is showing support for the industry. If the OPEC members agree to an oil cut, the prices of oil will fluctuate around the low $50s per barrel.

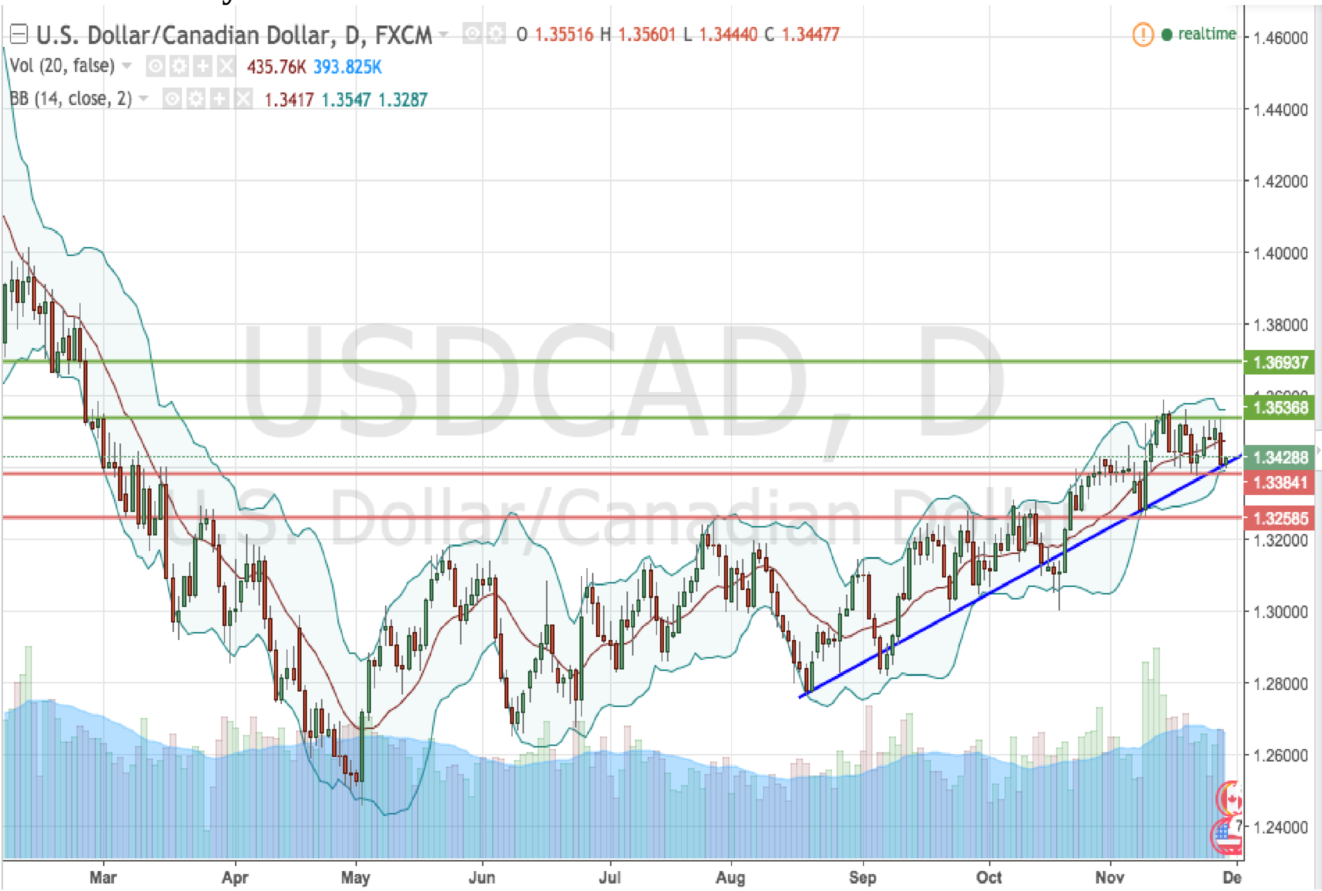
BoC Inflation and Interest rate

Source: www.tradingeconomics.com

With Canada's core inflation rate tracking slightly below the expectations of 2% due to temporary decline in prices of gasoline, food and telecommunications. BoC left its overnight rate unchanged at 0.5% in October 2016. The economy in Canada is on track towards its expected inflation of 2% and is confident of reaching it in early 2017, thus we will not be expecting any interest rate in the next month, December 2016. However, BoC governor Stephen Poloz indicated that if it fails to reach the expected inflation of 2% next year, he is ready for unconventional measures and possibilities of additional tools to spur the Canada's economy.

Technical Analysis

USDCADDailyChart



Source: Tradingview

USDCAD is now trading at the lower band of the Bollinger Band, which indicates it is being oversold now, it is also testing the upward trend line. If price continues to ride on the upward trend, its next level of resistance could be 1.3536 followed by next resistance at 1.3693. However, if price breaks the upward trend and market turns short USDCAD, the first level of support could be 1.3384. The next level of support could be at 1.3258, which has been tested in Mar – Apr and Sep – Nov.

USDCAD Weekly Chart

Source: Tradingview

Overall, USDCAD is in a bullish trend. Using Ichimoku, the next few weeks is expected to be bearish as the market has recently entered the 'Sell' side. USDCAD is fluctuating within the channel with no signs of major breakout. USDCAD is expected to retrace back to the resistance line when it nears 1.32 (Support line in black) in the next few weeks.

Current Sentiment: Weak Bear, Overall Bullish

USDCAD 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 rose up to 23.6 and broke the resistance and still rising towards 0.0. We are anticipating continous uptrend towards 0.0. However, it could also be a noise and plunge downwards.

Conclusion

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

- Potential interest rate hike in December
- US non farm payroll to hit forecast figure
- Retracement due to OPEC meeting

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

- Feds fail to increase interest rate
- US non farm payroll miss forecast figure
- OPEC meeting on December 13-14

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.

Executive Summary

- Technical Analysis of 27 November 2016 - 4 December 2016 EUR/USD price movement
- Markets are now pricing in around a 95% chance of a December Fed hike will further strengthen the dollar.
- Italian constitutional referendum, French and German election will likely drive euro downwards/

Technical Analysis

Recommendation: **Sell**

- Although weekly trend shows oversold, no significant signs of reversal.
- The long term trend has been **DOWN** since Oct 19th, 2016 at 1.09554
- The intermediate term trend has been **DOWN** since Nov 11th, 2016 at 1.08510
- The short term trend has been **DOWN** since Nov 23rd, 2016 at 1.05792

- Broke support level at 1.0654 and 2nd support level at 1.0555
- US Election rally still going strong with funds inflowing to US from Emerging Markets

Fundamental Analysis

The Non Farm Payroll(NFP),reported on the first Friday of every month, is one of the most significant indicator for traders which gauge the current state of the economy and estimate future levels of economic activity. However, with the U.S. presidential election ahead and no dramatic changes in job, market, unlike ordinary times, have shown little volatility on the day.
Although the Euro is trading at record low level since early of the 21st century, there are still downward pressure on the currency which has not been reflected on price and could drag it down further.

Key Drivers that dragged the market

President-elect Donald Trump

Donald Trump won America's presidential election, an astonishing victory which the market could not expect, aligned with triumph of both House and Senate. Before this shocking event, majority of people believed that if Donald Trump win his campaign the market will expose to huge uncertainty so that the dollar lose its value against the other developed currencies since the market price already reflected the victory of Hillary Clinton. But, United States is just United States, the most powerful, biggest and developed in the world. Market's narrative on the economic outlook under Trump has shifted from 'uncertainty' to 'growth after his victory speech. Mr. Trump's main political framework is loosening fiscal policy and tightening monetary policy. From Ronald Reagan's economic policies, we could possibly assume that the new policies of Mr. Trump will result in strong dollar in the long run.

Political Risk in Europe

European Union is under biggest political turmoil in its history. The Brexit remind us the European Union was in fact based on the fragile idea of One Europe and showed the idea could be threatened any time. In next year, Europe could wake up to an immediate threat of EU disintegration. The rise of right wing populism in the continent is upon us. In several European countries, including Finland, Hungary, Latvia, Lithuania, Norway, and Switzerland, right-wing parties have taken the reins of government. And even where right-wing populists haven't gained power, groups such as Britain's UKIP, the French Front National, and Germany's Alternative für Deutschland are enjoying record popularity. Those parties are indeed not caring about One Europe and preparing referendums or different political ways in order to maximize their own people's interests or national interests. The Europe's big four have political risk within their own borders.

France

Marine Le Pen,president of the National Front, a right-wing Eurosceptic party, promised that she will hold a referendum to decide whether France remains in the Union if she becomes president. She Said "The Brits have shown us that you can leave the European Union and you can come out better.It is time to move on and I think that people need a project for the future. Let's be democrats, finally, and let the people decide."

German

German Chancellor, Angela Merkel announced that she will run for a fourth term in an election next September. However, Her approval ratings hit a four-year low because of her decision made when Europe refugee crisis happened and she faces difficult negotiations with United Kingdom about trade, security and foreign policy issues. The rise of Afd, rightwing political party is a real threat to CDU and Ms. Merkel.

Italy

A constitutional referendum is planned to be held in Italy on Sunday 4 December 2016. Italian prime minister has promised to resign if he lose the referendum which could pave the way for Five Star Movement to seize power. Five Star Movement is obviously eurosceptic party and does not want Italy to be intervene by European Union.

Britain

Voters in United Kingdom decided to exit the European Union on 23 June 2016. New British prime minister, Theresa May will trigger Article 50 not later than end of March 2017 and official Brexit to be happened. Then, London would not be The City of London anymore.

Central Banks

At meeting on 20 October 2016, the Governing Council of the ECB decided to unchanged their key interest rates at 0.00% , 0.25% and -0.40% respectively and continue the monthly asset purchases of €80 billion until the end of March 2017, or beyond if necessary. Whereas next month's federal reserve rate hike is certain as death and taxes, as the futures price fully represented the market consensus. In addition, another increases in fed fund rates are likely to happen in next year which means the interest rate gap between two largest central bank will be widen and hence encourage strong dollar or weak euro.

Conclusion

It is likely that EUR/USD bearish trend will continue in the long run.

- Donald Trump's America First policies will pump the largest economy which will occur capital inflow in the States. His plan for tightening monetary policy will also push down the EUR/USD regardless of economy in Europe.

- Rising geopolitical risks in Europe is not fully priced yet.

Recommendation for EUR/USD : short

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