



SIM INVESTMENT &  
NETWORKING CLUB

# SIM INC Monthly Market Analysis Report

Month: November 2016

**Department: Trading & Research**

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## **GBPUSD**

### **Summary**

- Chance of November rate hike is still highly unlikely
- Volatility expected to increase for the incoming week
- GBP/USD to be consolidating sideways

### **Fundamental analysis**

On November 8, the highly charged US Presidential Elections sees two very different candidates facing each other, with markets having very different views between them. As the election draws nearer with NFP just around the corner, we expect volatility in the financial markets.

Past this week, a substantial amount of US economic data were released and the US dollar is holding on to recent gains after an extremely bullish month of October. Friday's GDP report reported an increase of 2.9% in US GDP. Which further reinforces the bullish view on US economy.

However, US dollar(DXY) experienced a slight downturn after Friday's GDP report, which reported an increase of 2.9% in US GDP. Reasons for the slight downturn even as U.S. data has surprised to the upside could be due to Presidential Candidate Hillary Clinton is currently being investigated on her emails sent on a private server during her time as secretary of state, sending the market into a disappointment as Hillary Clinton victory might have already been priced in.

Another highlight next week is the BOE inflation report, which shows the Bank's latest projections regarding interest rates, GDP and CPI. The bank initially slashed its growth forecast of 0.8% GDP rate for next year, despite beating consensus for Q3. If the growth figures of the UK economy get slash further, we will expect a sharp drop in the pound as currencies start to feel the pressure from economic uncertainty due to post Brexit economy. The market will be anticipating the next monetary policy. As the market, has already virtually priced out the prospect of a further rate cut from the BOE, any wrong perception will weigh on sterling. Due to much uncertainty, banks have no near-term plans to cut rates, which would support GBPUSD trading in a range between 1.21-1.24 in the coming days.

### **Rate Hike**

For some reason, the consensus view of a rate hike in November is at 70%, but a logical view would be that a rate hike is highly unlikely given that the election is just next week. Despite the good US GDP reading of 2.9% which increase the possibility of a rate hike.

The current hot topic would be the rate hike on December, currently in the short term the feds are only expecting 1 rate hike. Therefore, investors should focus on economic data to determine when a rate hike would come as GDP reading is currently at 2.9%, coupled with any other significant growth news like inflation rates and NFP may cause the feds to pull forward its expectations of triggering a rate hike by 2017 March.

### **Non-Farm Payroll (NFP)**

Despite US job creation was below expectation in September as NFP increment was 156,000 with unemployment rate at 5% despite consensus of 171,000 jobs and unemployment rate of 4.9%.

US unemployment claims released on Thursday, was below Economist expectation. This means that the job market is performing better than expected. If NFP in the following were to agree with the unemployment claims data, the NFP would certainly be higher than expectations. The report comes at a critical time for the Federal Reserve as the central bank will be more confident towards a rate hike. US employment market is expected to gain 175,000 will be expecting the unemployment rate to decline further to 4.9% in November.

However, if upcoming NFP report on 4<sup>th</sup> November is lesser than expected, it could keep the feds on hold again. This coming FOMC statement could give investors some clues to whether the market will lift, given that there is a softening of words about a hike in December.

## Technical outlook:

### US Dollar Index



October 2016 have been a great month for US Dollar, as it flared up to 99.0 level. Uptrend has been really steep with RSI forming a double top and a strong rejection off the overbought session. Friday bearish engulfing bar close be due to Hillary Clinton email probe as Market might have already factor into Hillary victory.

### GBPUSD Daily Chart



Due to the massive drop in sterling on 7 Oct 2016, price has deviate about 9% from the moving average which might be “oversold”. Pound is currently undergoing consolidation mode, as we might expect a retracement towards the 50 EMA before going into the bear trend. Which is much similar as movement from before as highlighted in the blue box.

### Hourly Chart



On the hourly chart, pound seems to have make a triple bottom around 1.21 level. Price have been ranging sideways.

The general sentiment is that breakout to either side is highly probable, however we are expecting increase in volatility in this pair as the Dollar Index does not look favourable.

### Conclusion

Expecting higher volatility in the coming week due to FOMC and NFP, might be a wild swing. Hence we recommend anyone to **stay out** of this currency pair, as there is no clear short-term direction.

- FOMC and NFP are just around the corner, high volatility is expected
- Hillary Clinton email probe might not have been priced in totally on the Dollar Index

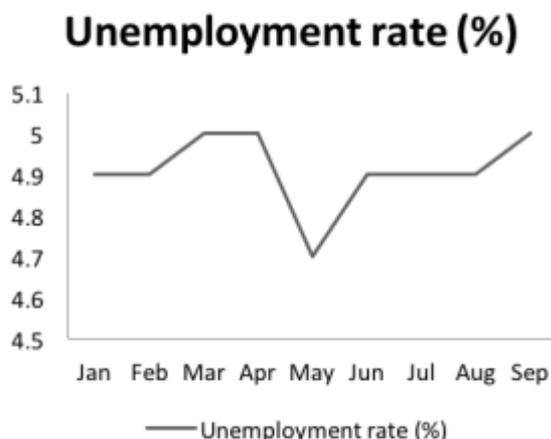
# USDJPY

## 1. FUNDAMENTAL ANALYSIS

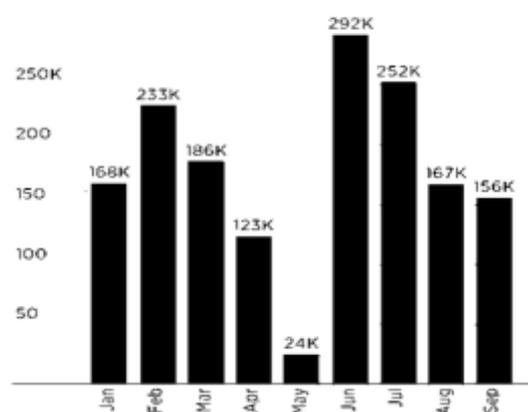
### 1.1 US MARKET SUMMARY

- Non-farm payroll increased by 156,000 in September
- Unemployment rate remains rather steady at 5.0%
- Jobless claims decline to 258,000
- CPI 1.7% out of 2%, reasonably close to target
- GDP grows fastest in two years at 2.9% in Q3

#### US Unemployment Rate and



#### U.S. Nonfarm Payrolls

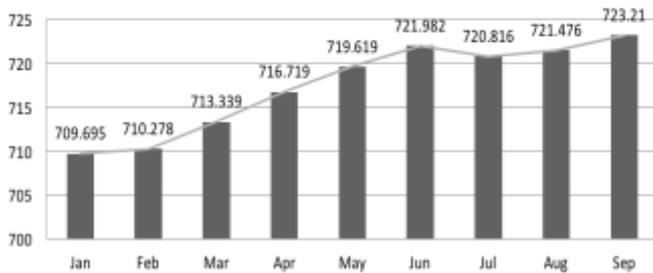


#### Nonfarm Payroll

Non-farm payroll increased by 156,000 in September, the unemployment rate remains rather steady at 5.0 percent. The largest employment gain is seen in professional and business services with an increase of 67,000 and in healthcare 33,000. Despite the labour market has slackened, the above data have shown that the labour market still has room for improvement. However, on the positive side, the September wage rate has increased by 6 cents to \$25.70 just as what Fed wanted, a faster wage rise.

## CPI 1.7% out of 2%, reasonably close to target

### CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS (CPI-U) 2016



Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

	Seasonally adjusted changes from preceding month						
	Mar. 2016	Apr. 2016	May 2016	June 2016	July 2016	Aug. 2016	Sep. 2016
All items	1	4	2	2	0	2	3
Food	2	2	-2	-1	0	0	0
Food at home	-5	1	-5	-3	-2	-2	-1
Food away from home <sup>1</sup>	2	2	2	2	2	2	2
Energy	9	3.4	1.2	1.3	-1.6	0	2.9
Energy commodities	1.9	7.6	2.4	3.3	-4.4	-9	5.5
Gasoline (all types)	2.2	8.1	2.3	3.3	-4.7	-9	5.8
Fuel oil <sup>1</sup>	1.7	1.9	6.2	3.3	-1.3	-2.5	2.4
Energy services	2	-1	-2	-5	1.0	0	7
Electricity	4	-3	-2	-5	5	5	7
Utility (piped) gas service	-7	6	1.7	-4	3.1	2.1	8
All items less food and energy	1	2	-2	2	1	3	1
Commodities less food and energy	-2	-1	-2	-3	-1	1	-1
commodities	0	-3	-1	-2	2	0	-1
New vehicles	-1	-3	-1.3	-1.1	-1.0	-6	-3
Used cars and trucks	-1.1	-3	0.8	0	0	2	-7
Apparel	3	5	-4	8	5	1.4	6
Medical care commodities	2	3	3	3	2	3	2
Services less energy services	2	3	4	3	2	3	4
Shelter	2	3	3	3	-2	1	0
Transportation services	1	3	5	2	5	1.0	0
Medical care services	1	3	5	2	5	1.0	0

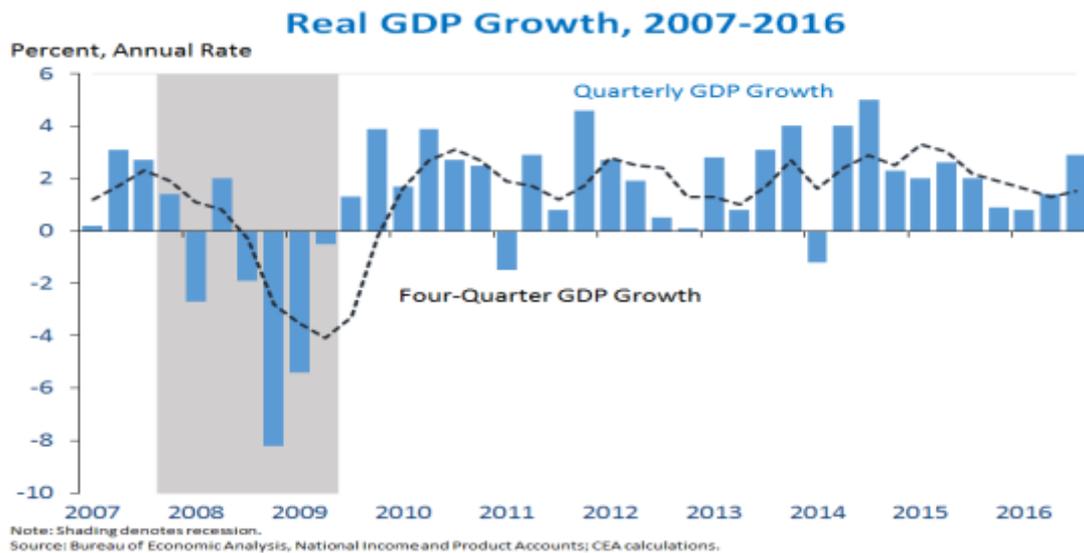
<sup>1</sup> Not seasonally adjusted.

September recorded the highest gain in the consumer price index (CPI) in 2016 of 723.21. The US CPI continues to see a steady increase throughout the year at a rate of 1% with a record increase of 1.5% last month. The spike in CPI is mainly due to the increase cost of gasoline with a jump of 5.8% after falling 0.9% in August and rents.

The Fed 2% inflation target and the current inflation rate recorded is 1.7%, which is reasonably close, this increase the probability of a rate hike in December. Furthermore, with Fed Vice-Chair Stanley Fischer states that the current inflation and employment rate is "very close" to its targets, this has provided a more concrete evidence of this coming December rate hike.

All in all, with strong evidence that there is going to be a rate hike in December, there Fed still has to consider the unpredictable outlook in the next few months. In addition, with the US presidency election in November, this will have a huge impact for US economy moving forward and Fed will need to consider it at the next meeting.

## GDP grows fastest in two years at 2.9% in Q3



The U.S. economy is finally showing its strength. Following a weak first half of the year, the 2.9% pace of growth in Q3 will let markets breathe a sigh of relief. The increase was largely driven by another increase in consumption, which even though it was below consensus and last month's figure, continues to be supported by gains in the labor market

### 1.2 JAPAN MARKET

- BoJ Policy Impact

Under the new policy, Japan's central bank bought an estimated additional ¥1,000tn Japanese government bond (JGB), an amount equivalent to 65% of its GDP. If BOJ continues to maintain such rate of purchasing this could lead to a more detrimental impact on the bank's profit.

As the bank in Japan is already facing a downward profitability trend over the years due to structural problems, the purchasing of JGB will worsen the current problem. However, it is said to be temporary if banks are able to manage its portfolio well. Furthermore, coupled with negative interest rates, this will further add-on the pressure on banks forcing them to shift its focus on taking more risk to earn profit.

Also, in the real estate sector lending in this area has out-paced the credit growth in other industries according to the BOJ. The report from Japan Land

Ministry last month said that commercial land prices continue to surge in the three biggest cities.

All in all, The BOJ has reassured that its financial system is rather stable and the real estate market does not show signs of overheating on the whole, despite having certain transactions in metropolitan areas took place at high prices and came with low investment yields. Nevertheless, it still creates uncertainty in the Japan economy for investors.

## 2. MULTI-TIME FRAME TECHNICAL ANALYSIS

### 2.1 DAILY ANALYSIS



USDJPY traded at a 3-months high on October 27<sup>th</sup>, Thursday, at 105.350 as Dollar showed strength across the board as December rate hike probability rose to 73%. This broke the previous resistance of 104.32. According to the daily chart, tankan-sen (7) crosses kijun-sen(22) below the cloud to the upside, indicating a strong uptrend. This is further supported by the lagging chikou span (22) piercing through the clouds. Hence, USDJPY is assumed to be trending upwards, investors should look for opportunities to buy.

However, it is also possible that the price may form a consolidation range with a reversal pattern based on candlestick pattern from 6<sup>th</sup> Oct to 26<sup>th</sup> Oct. Possibly, as the instrument has broke 105.00 level which seemingly acts as the breakdown level, it may begin to reverse and fall back to 103.00.

## 2.2 WEEKLY ANALYSIS



In the previous report, there was an obvious descending triangle observed and we predicted that prices might bounce off support level and push the price upwards. In the past weeks, as supported by low RSI, prices have broken out of the triangle. It is likely that prices will continue to surge up.

On the flip side, as obvious market trends cannot be determined at this moment, the market is considered to be ranging. With the use of Bollinger bands, it is observed that prices have touched the upper band and might experience a bounce soon.

## 2.3 MONTHLY ANALYSIS



Price has been dropping consistently for the past 16 months as plotted with a downward trend line. The highest price point was on the 5th of June 2015 with a price of 125.5 to a price of 101.2 as of 30th September 2016. That is a massive 19.4% drop.

The support at around 115 from May 2015 till February 2016 changed to resistance as the pair plunged down deeply. It has been dropping consistently for another 5 months with its support at 106. At the end of June 2016, the pair plunged once more leading the support into resistance again. This trend is likely to continue again.

As shown with the Bollinger band indicator, the band is plunging down from November 2015. The stock price has hit the band limits several times and it shows several trend reversals. As it is calculated via moving average and standard deviation, it is likely to see the price dropping even further in the future.

### 3. SENTIMENTS ON USDJPY

Commentaries	Sentiment	Commentaries	Sentiment
Consolidation to the downside according to TA	<b>Bearish</b>	Relatively positive US Economy	<b>Bullish</b>
BoJ's future actions limited	<b>Bullish</b>	FEDs Dec Rate Hike Possibility rise to 73%	<b>Bullish</b>

### 4. UPCOMING EVENTS

<b>Events from October 31 – November 4</b>	
<b>31/10/16 Monday</b>	Japan Retail Sales (y/y)
<b>01/11/16 Tuesday</b>	Bank of Japan interest rate decision US ISM Manufacturing Index
<b>02/11/16 Wednesday</b>	US ADP Employment Survey
<b>03/11/16 Thursday</b>	FOMC- Feds Fund Rate US ISM Non-Manufacturing Index
<b>04/11/16 Friday</b>	US Unemployment US Non-Farm Payroll

## 5. Conclusion

The past 2 weeks have been relatively quiet for Yen and active for USD. With eyes on the outcome of US Presidential Elections and the possibility of rate hike in December, it is difficult to determine the direction of the market in the month of November. However, with supporting technical analysis, we suggest a **buy** due to the strengthening of USD. Proceed any position with caution.

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