SIM INVESTMENT&
NETWORKING CLUB

Currency Research Report Outlook
4th Dec 2017 to 15th Dec 2017
USDJPY Bloc

Prepared By:
Trading and Research Team

Analyst:
Rebecca Poh
Lee Shwu Ping
Eugene Voon
Edwin Yong

Disclaimer

Any names of financial assets listed during the sessions are for educational purposes only. It is not an offer to solicit any buying or selling of shares. Any recommended trades or investment undertaken will be of your own responsibility and will have nothing to do with SIM Group, SIM-INC, or any of the members from the Trading and Research Department conducting the session.

We are not a licensed trader or remisier and are therefore not allowed to make any buy or sell calls in relation to and financial asset. If you wish to invest or trade, please consult your licensed remisier or broker.

Any names of companies listed here are not an advertorial of the Club's products or services and solely for educational purposes only. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness.

This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, accounting, legal or tax advice. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

Market News:

USD

For the past week, USD seems to be gaining strength compared to JPY. However the surprise announcement that General Flynn is willing to testify against the White House in the Russian scandal, sent the US dollar much lower on Friday 1 December 2017. Fed released a dovish statement which helped tighten the spread between U.S. Government Bonds and Japanese Government Bonds.

Janet Yellen also spoke at the congress about her concerns over sluggish inflation and the likelihood of future rate hikes in 2018 and well as concerns over the stability of the financial markets. In her speech, she called on the congress to adopt policies that encourage business investment and capital formation, improve the nation's infrastructure, raise the quality of our educational system, and support innovation and the adoption of new technologies. She also added that the economy is appearing to be stepping up and with gradual adjustments in the stance of monetary policy, the economy will continue to expand and the job market will strengthen somewhat further, supporting faster growth in wages and incomes.

In addition, Senate Republicans also passed their $1.4 trillion tax bill on a 51-49 vote, after unveiling final changes just hours before they voted. The tax bill points towards tax cuts for individuals and businesses, a gash in the Affordable Care Act and new oil drilling in Alaska. They promised it would spur the economy and pay for itself. Now the House and Senate are reconciling changes between their two similar bills, with the aim of getting a bill on President Donald Trump’s desk by Christmas. This helped to boost bullish sentiment on USD.

Japan

For the past week, Japanese yen has been showing weakness with the US dollar. Even though there was a North Korea's missile test over the week, this did not helped to boost the Japanese Yen's safe-haven appeal, this is likely because the market is already muted to the reaction of North Korea

With the Japanese economy showing slow growth, there was speculation that the Bank of Japan is hinting at possibly departing from its post-crisis monetary policy, marked by ultra-low interest rates and bond buying, earlier than expected.

Any tapering made could give a significant boost to the yen, so traders are watching closely to BoJ statements and comments from BoJ policy makers, looking for clues on this. The recent comments from BoJ Governor Haruhiko Kuroda is that the Bank will not taper stimulus before inflation moves closer to the BoJ’s target of around 2 %. But a stronger yen is also not preferred as well since it would hurt exports, which is the key catalyst for Japan economy. Hence further observation needs to be placed on the BoJ policy makers to identify hints.

Based on the economic data released over the week, it can be concluded that inflation and wage growth remains low. In addition Japanese Retail Sales also disappointed with a decline of 0.2% for October as compared to previous month's strong growth of 2.3%. The Preliminary Industrial Production also performs poorly and missed the estimated 1.9%. Publishes Tokyo Core CPI.

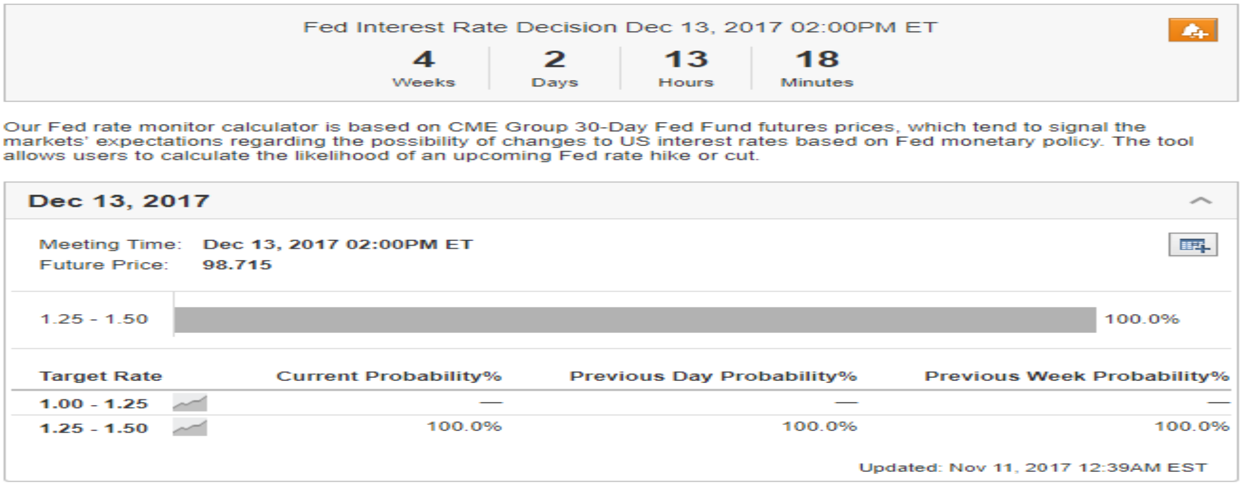
Market Perception

Commitment of Traders

Credit: www.cotbase.com

Based on COT report, large speculators net short positioning has reversed and move upwards. But as the net short positioning amount is still high, it still <u>reinforces</u> the bearish view on the currency, JPY. Hence this hints USD/JPY is currently still experiencing bullish sentiments with the large speculators, but COT data is lagging in nature and conclusion based on COT should be taken with a pinch of salt.

Likelihood of rate hike



Fed Interest Rate Decision Dec 13, 2017 02:00PM ET

4 Weeks | 2 Days | 13 Hours | 18 Minutes

Our Fed rate monitor calculator is based on CME Group 30-Day Fed Fund futures prices, which tend to signal the markets' expectations regarding the possibility of changes to US interest rates based on Fed monetary policy. The tool allows users to calculate the likelihood of an upcoming Fed rate hike or cut.

Dec 13, 2017

Meeting Time: Dec 13, 2017 02:00PM ET
Future Price: 98.715

1.25 - 1.50 100.0%

Target Rate	Current Probability%	Previous Day Probability%	Previous Week Probability%
1.00 - 1.25	—	—	—
1.25 - 1.50	100.0%	100.0%	100.0%

Updated: Nov 11, 2017 12:39AM EST

Credit: www.investing.com

The diagram above shows the fed fund monitor adapted from investing.com. Similar to last week, the market is still 100% priced in a rate hike on 13 December 2017. This should be because in the recent Janet Yellen speech, the attention was shifted to the possibility of rate hike in 2018 and there was also no clue that the rate hike in 2017 will not be carried out, hence the probability remains the same.

In addition, most of the economic data released over the past 2 weeks exceeded or met the forecasted data, hence showing that US economy is still moving well and thus there was no change to the probability figure.

A rate hike is usually positive on USD as investors are attracted to the higher interest rate offered in US and hence will start transferring funds from their home country into US. However, if Fed decided not to go ahead with the rate hike, it would be a strong downward pressure on USD/JPY. But currently,expectations remains high and we expect further strengths in USD/JPY.

Key Indicators (November 26 to December 2)

Date	Currency		Actual	Forecast	Previous	Effect
MonNov 27	JPY	SPPI y/y	0.80%	0.90%	0.90%	Bad
	USD	New Home Sales	685K	627K	645K	Good
TueNov 28	USD	Goods Trade Balance	-68.3B	-65.0B	-64.1B	Bad
	USD	Prelim Wholesale Inventories m/m	-0.40%	0.50%	0.10%	Good
	USD	HPI m/m	0.30%	0.60%	0.80%	Bad
	USD	S&P/CS Composite-20 HPI y/y	6.20%	6.00%	5.80%	Good
	USD	Richmond Manufacturing Index	30	14	12	Good
	USD	CB Consumer Confidence	129.5	123.9	126.2	Good
WedNov 29	JPY	Retail Sales y/y	-0.20%	0.10%	2.30%	Bad
	USD	Prelim GDP q/q	3.30%	3.30%	3.00%	Neutral
	USD	Prelim GDP Price Index q/q	2.10%	2.20%	2.20%	Neutral
	USD	Pending Home Sales m/m	3.50%	1.10%	-0.40%	Good
	USD	Crude Oil Inventories	-3.4M	-2.5M	-1.9M	Neutral
ThuNov 30	JPY	Prelim Industrial Production m/m	0.50%	1.90%	-1.00%	Bad
	JPY	Housing Starts y/y	-4.80%	-2.60%	-2.90%	Bad
	USD	Unemployment Claims	238K	241K	240K	Neutral
	USD	Core PCE Price Index m/m	0.20%	0.20%	0.20%	Neutral
	USD	Personal Spending m/m	0.30%	0.20%	0.90%	Good
	USD	Personal Income m/m	0.40%	0.30%	0.40%	Good
	USD	Chicago PMI	63.9	62.2	66.2	Good
	USD	Natural Gas Storage	-33B	-37B	-46B	Neutral
FriDec 1	JPY	Household Spending y/y	0.00%	-0.20%	-0.30%	Good
	JPY	National Core CPI y/y	0.80%	0.80%	0.70%	Neutral
	JPY	Tokyo Core CPI y/y	0.60%	0.60%	0.60%	Neutral
	JPY	Unemployment Rate	2.80%	2.80%	2.80%	Neutral
	JPY	Capital Spending q/y	4.20%	3.30%	1.50%	Good
	JPY	Final Manufacturing PMI	53.6	53.8	53.8	Neutral

	USD	Final Manufacturing PMI	53.9	53.8	53.8	Neutral
	USD	ISM Manufacturing PMI	58.2	58.4	58.7	Neutral
	USD	Construction Spending m/m	1.40%	0.50%	0.30%	Good
	USD	ISM Manufacturing Prices	65.5	67	68.5	Bad
SatDec 2	USD	Total Vehicle Sales	17.5M	17.5M	18.1M	Neutral

Last week, most of Japan key indicators underperformed it's forecast to a small extent. On the other hand, US indicators show mixed performances which points towards more uncertainty in the USD. But inflation indicators from the US are mostly neutral-good which further gives a reason for the fed to hike rates in December.

Technical Analysis:

USDJPY daily chart as at 3 December 2017

LONG TERM TREND: BULLISH

For the past week, the market continued to test the support area at 111.823. The candle first broke this support with a strong bearish candlestick. But soon after the break out, a doji formed which signals indecision in the market. Since it is a reversal candle, great attention was placed on the next candle. The next bullish candle after the doji signifies a potential upwards movement.

But for the next 2 days, the market hovered around that area and was unable to form new lows. The 2 candlesticks formed a tweezer bottom which further hints a reversal to the upside. After the tweezer bottom, a bullish candle opened above the earlier close and close even higher and retraces above the support level. This shows that the breakout of the support level was a false breakout.

The last bearish candlestick of the week halted the upward rally, this was due to the surprise announcement that General Flynn is willing to testify against the White House in the Russian scandal.

Even though, it tried to test the support again but it managed to close higher showing that the support level still holds. Hence, we can still conclude the market is still on bullish sentiment.

Currently the only possible buy zone is at the 111.5-112 region where the current support level is at. The take profit level should be placed at the resistance region of 114.1-114.6. Logically, stop loss level should be placed slightly below 111.823, possibly with a 60-80 pips range according to how past prices have reacted to this support level to accommodate volatility and prevent any whipsaws.

Intermarket Analysis

Nikkei 225

From the chart above which compares the stock indices, Nikkei (in orange) with USD/JPY daily chart, it can be seen that Nikkei continues to trend higher which hints and reinforces the bullish pressure on USD/JPY.

US 10 Year Treasury Yield

US treasury yield is an indicator of overall US bonds attractiveness. When US treasury yields are high, it will mean market is moving towards high yield assets such as US bonds which signals strength in USD hence bullish for USD.

The diagram above compares the positive correlation between US 10 year treasury yield (in orange) with USD/JPY. US 10 year treasury yield is currently consolidating around the region, hence it does not shows any specific movement in USD/JPY.

Significant events for the following week:

5th Dec (Tuesday)

USA will also be releasing the data for **ISM Non-Manufacturing PMI** which provide insights of the current business condition.

6th Dec (Wednesday)

USA will be releasing the data for **ADP Non-Farm Employment Change** which is an important hints on the possible data for the upcoming Non-Farm Payroll data which will be released on the Friday of the week.

7th Dec (Thursday)

Non-Farm Employment Change, Average Hourly Earnings m/m and Unemployment Rate data will be released. This is an important data which shows the labour market condition.

Conclusion:

The recent comment from Janet Yellen about US economy is building up and only gradual adjustment on monetary policy is needed to further boost the US economy helped strengthen the bullish outlook on USD. Coupled with the possibility that the tax cut will be implemented, this help to further strengthen the viewpoint of a stronger USD.

On the other hand, for Japan, the economy is still showing slow growth based on economic data and there was also no clue from the BoJ in the past 2 weeks if any tapering stimulus will be carried out. Meanwhile any comments from BoJ will still be watched closely to look for hints regarding to any tapering stimulus. Hence, as of now, we can still view Japan as weaker compared to US.

Hence, based on both technicals and fundamentals viewpoint, both are pointing towards a bullish USDJPY. Since the market is still 100% priced in on rate hike hence we will not expect any significant impact once the conclusion of rate hike is out. Instead, our viewpoint will be based on technical analysis, with the strong support level holding at the 111.5 to 112 region, it is a good time to long USDJPY at this point of time.

Market News

US Dollar Index

Russian Involvement in Presidential Campaign

Last week, news report from ABC news stated that former national security officer Michael Flynn was going to testify that he was instructed on the behalf of Donald Trump to contact Russians during the Presidential Campaign which caused a plummet in the DXY.

Tax Reform Uncertainties

The progress of the tax reform will be a key if not the main indicator of the strength of the U.S. Dollar Index since investors have been keeping an eye on it for the longest time. Last week, the DXY received a little encouragement when U.S. Senate Republicans said they had enough support to pass a tax overhaul bill. Thus, monitoring how the bill fares with the Senate will be key in watching how the U.S. Dollar Index performs under pressure. However, the public is generally upset that the bill was passed in an 'unorthodox' manner and there may be controversial issues coming up regarding the reformed tax bill which could potentially cause the market perception to shift.

FOMC Vacancies New Fed Chairman and potential Fed Vice-Chair Pick

With dovish members like Neel Kashkari & Charles Evans being replaced by hawkish members like Loretta Mester & John Williams in addition to the vacancies of FOMC voting members, the overall constitution of FOMC is rather hawkish, hence upcoming rate hikes might be accelerated as a result which will translate to an appreciation in the U.S. Dollar

With Jerome Powell confirmed as the new Fed Chairman, it signals continuity in the current Fed policies. Future aggressive rate hikes might not happen as a result. However, Powell who is well-equipped with Wall Street Knowledge might loosen regulations so as to not stifle the rally and growth of the U.S. economy. Rumours are spreading that President Trump is looking to elect Mohamad El-Erian to be the next Fed Vice-chair, who also has a deep Wall-Street background that might potentially further push for deregulations which can encourage growth of the U.S. Economy.

Geopolitical Risk

With North Korea testing their ICBM Hwasong-15 type weapon system off the coasts of Japan recently, it actually had a negative impact on the DXY as reports emerged that the new weapon system had the capability and range to threaten even Washington D.C. .Keeping a close eye on how Trump and North Korea engage each other will be key to how the DXY might move.

Economic Data

The monthly Building Permits data released on 17 November 2017 showed an Actual figure of 1.30M as compared to the forecasted 1.25M. With more construction and infrastructure, this would create a boost for investor confidence in the future of the U.S. Whereas Core Durable Goods Orders was the same as the forecasted value of 0.4% . The Consumer Confidence Index released by the Consumer Board also did well as the actual value was 129.5 instead of the forecasted 123.9, showing that households have a positive outlook on current and future economic conditions

Fundamental Summary:

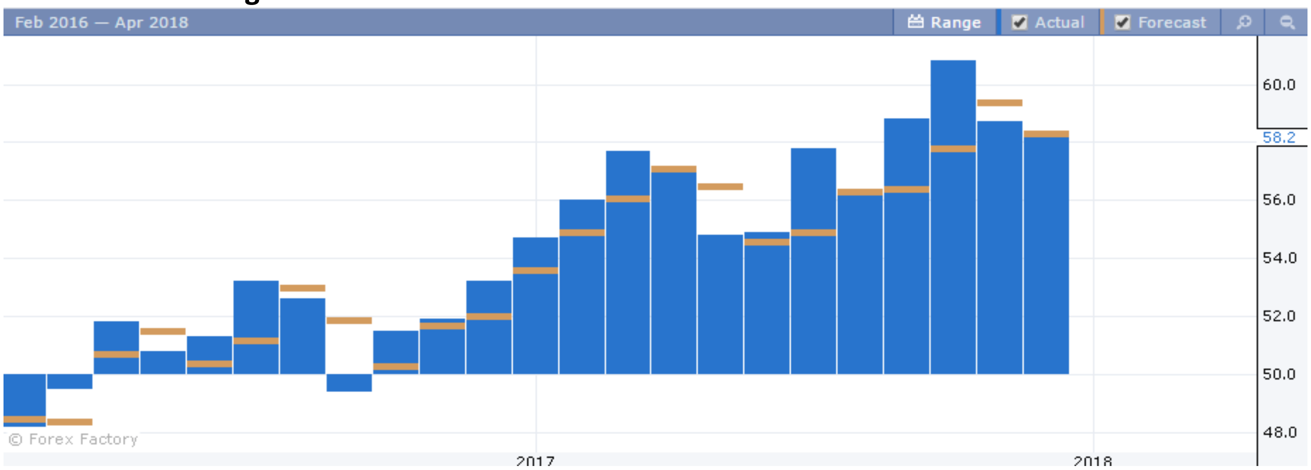
Currently there are a few significant events that have yet to be announced or happen but could potentially decide the long term outlook on the DXY, we advise traders to stay on the sidelines for now and wait for our next report to gather more opinions.

Market Perception

Commitment Of Trader

From the latest COT report, we can observe that the net positions of Commercials and Large Speculators have started to diverge from zero. However, position sizes are still small and minimal. With this information we can gather that there's a sentiment of uncertainty from large speculators and there is no definite outlook they share on the future of the U.S. Dollar from a swing trading perspective.

ISM Manufacturing PMI



ISM Manufacturing PMI for 1st December 2017 was 58.2 instead of the forecasted 58.4. However, we should not read too much into this because an index above 50 already indicates industrial expansion, the slightly lower index has simply shown that growth might have slowed down a little. which in turn signals decreased confidence in the business sector of US.

Technical Analysis

U.S. Dollar Index (DXY) Daily Chart

From September 2017 to October 2017 DXY has managed to stay above and is currently testing the 92-93 support level region. Over the last 2 weeks the EMA10 has cut below the EMA40 which signalled the continuation of the downtrend. At the beginning of last week,prices tested and rebounded off within the current support region at 92.50 and retraced towards to the downward trendline, but overall, prices had managed to stay above the support region possibly due to the tax reform that passed recently.. For the next 2 weeks, the price movement is uncertain as prices are currently testing the support region. Traders should keep a tight watch where prices could possibly bounce off and retrace back to 94-95.14 region. However, if prices manage to break below the support region, there would be a bearish signal and the next area to look out for would be the swing low formed on 8th september.

S&P 500 (SPX) Daily Chart

The SPX has been following a year long bullish trend as shown by the EMA10 being above the EMA40 throughout most of this year. At the close of last week, a pinbar was formed and price tested the

2605.88 level before eventually closing at 2642.22. From this we expect the year long trend of SPX to be tested here, and we may see a slight retracement or even a retest of the bullish trend line for the coming weeks. Traders should be keeping a close watch on the SPX for clues to determine the risk on/risk off outlook regarding the DXY. The current bullish trend still favours a bullish USD outlook.

U.S. 10 Year Bond Yields (US10Y) Daily Chart

Continuing from the last report, US10Y is still in an ascending broadening wedge which is a bullish pattern. During the past 2 weeks prices consolidated and we saw the lower limit of the wedge tested multiple times and bouncing off each time. Despite the retests of the lower limit, the EMA10 did not cross below the EMA40 so prices are still sustaining its bullish momentum.. We expect the US10Y to consolidate due to a contraction in volatility above the lower limit of the wedge depicted by the lower trend line. Since US10Y appears to be on a bullish momentum at least until the supportive trend line is broken. This reinforces the current short term bullish trend observed since september 2017 on DXY.

CRB Index (TRJEFFCRB) Daily Chart

Over the past two weeks, the CRB Index retested the previous weeks high of 192.9 but failed to close above it. Last week we saw price fall and eventually close at the 190.686 level. The EMA10 dipped towards the EMA40 but did not cross over as price is still in a uptrend. Based on the current trend, we expect the CRB to continue its 4 month long bullish trend. Due to the nature of inverse correlation between the CRB and the DXY, comparing the two we can tell there is a temporary stall in the momentum towards the upside. Possible areas to look out for would be the upward trend line currently supporting the CRB index. However, the positive correlation between DXY and CRB index for the past 2 months stated in our previous report should be taken with a pinch of salt. But a rising CRB index should eventually put some downward pressure on DXY.

Key Upcoming events for next week (4th December to 8th December)

06th December (Tuesday)

ISM Non-Manufacturing PMI

The ISM Non-Manufacturing PMI reveals the relative level of health of the DXY by having purchasing manager insights on the business conditions in their companies. A value above 50.0 means the industry expansion whereas a value below 50.0 means industry contraction. A higher value that the forecast would mean the DXY is doing well.

ADP Non-Farm Employment Change

The ADP Non-Farm Employment Change is an estimate of the change in employment rate compared to the previous month. This excludes the farming industry and the government. A higher employment rate could mean the business is doing well and thus, able to employ more workers. It is important for traders to look at this as an increase in employment would be good for the DXY. Likewise a drop in employment would mean the DXY may fall.

07th December (Wednesday)

Crude Oil Inventories

Crude Oil Inventories reports the change in barrels of crude oil commercial companies have in inventory compared to the previous week. It affects mainly the USDCAD and has little impact on the DXY thus traders should look to other economic data but do beware of the volatility observed during this data release.

Unemployment Claims

Unemployment Claims is a report of the number of people who filing for unemployment insurance. Lower than forecast numbers is good for the DXY. Lower unemployment indicates that companies are doing well enough to employ more workers thus signalling that the DXY is doing well. Traders should keep an eye on this report for clues to the direction in which the DXY is headed to.

08 December (Thursday)

Average Hourly Earnings m/m

The Average Hourly Earnings m/m is a report that tells traders of change in labour costs. This is important as rising labour costs would mean a rise in prices paid by consumer in order to cover higher labour costs. Higher than forecast would be good for the DXY.

Non-Farm Employment Change and Unemployment Rate

The Non-Farm Employment Change and Unemployment Rate are important economic data that report changes in number of employed and unemployed people compared to the previous month. An increase in employment means more people are earning money and would therefore have more spending power. An increase in employment would be good for the DXY. A drop in employment would have a negative impact on the DXY as it means businesses are earning less and that would mean less workers and higher number of unemployed people.

Conclusion

From a Fundamental standpoint, our short term recommendation is to follow the news closely as anything positives emerging from the tax reform scene will definitely inject a boost of revitalisation into the DXY. At the same time, looking out for North Korea's upcoming actions will be key as well because Kim Jong Un's relentless testing of missiles might evolve into an actual threat rather soon

From a technical standpoint, the DXY is currently testing previous support areas and will likely continue to do so over the next week. Breaking of the support zone would signal for a continued downtrend that has been going on since November.. Traders can use the support region to decide to either look for a reversal of trend to the upside or short the DXY.

For the next two weeks, traders can attempt to short the DXY if price breaks through the support zone. One thing traders should be looking out for would be next week's key events such as employment and unemployment reports which will almost guarantee an increase in volatility in the US markets.