The Context

November 26th 2018
Gold/Oil Ratio: Six-Month Base Underpins a Recovery Extension to 21.20
- by Ed Blake, p12
Buy dips in anticipation of an uptrend extension targeting 21.20, perhaps 23.02. Place a protective stop under the former base trigger at 17.42

AUD/NZD: Bulls Lie in Wait Near Multi-Year Trendline Support
- by Andrew Dowdell, p13
Look to buy for a target of 1.1176. Place stop below 1.0488.

US Breakeven 10-Year: Risks A Downtrend Extension To 1.917/1.856
AUD/JPY – Bullish MACD Divergence Points Higher
- by Ed Blake, p14
Look to sell as we await a break under the 1.917/1.934 support zone targeting 1.856/1.873. Place a stop above the former top trigger at 2.041/2.047.
The Context

The G20 ... At Last
By Marcus Dewsnup, IGM Head of Fixed Income Strategy

The lead-up to the G20 in Buenos Aires (Friday-Saturday) will dominate. This is where Presidents Trump and Xi are expected to meet. Recall, from January 1, the US is scheduled to up the tariff on $200bn of Chinese imports to 25% from 10% and there is the threat of 25% on all the circa $500bn of goods and services the US imports from China which is a large proportion of US trade.

Reports suggest the Communique will not include the standard anti-protectionist language (HERE, still, a Communique will probably be better than the lack of one at the recent APEC) and that Washington is considering quotas rather than tariffs on Canadian and Mexican steel (HERE for instance).

Thus far, global trade volumes do not seem to have suffered too much from tariffs. However, there is probably an element of front-loading ahead of January and South Korean export growth (oft used as an indicator for global economic and corporate EPS growth) slowed in the first 20-days of November. Further, there was a decline (during a non-holiday distorted month) in exports to China for the first time in nigh-on 3-years.

There is an interesting aside regarding the US economy which is at or close to full employment. Businesses are thought to be running down inventories in part because of supply chain disruption linked to tariffs (see HERE for example). If this continues and tariffs do negatively impact supplies, there is a substantial downside risk to economic growth.

The Saudi’s are also scheduled to be in Buenos Aires ... which brings-up Oil. The FRONT-END of the BRENT CURVE remains in CONTANGO until mid-2019, suggesting a market surplus that in turn spurs talk of OPEC+ production cuts at the December 6 Cartel meet.

This is an excerpt from Marcus’ IGM Weekly, full piece HERE.
The GBP Week – Bias is Neutral
By Tony Nyman, Head of G10 FX, and Andrew Dowdell, FX Technical Analyst

IGM FX & Rates Dashboard: United Kingdom

Source: IGM, EPFR, Bloomberg, CFTC

Date: Nov 26 2018

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The GBP Week – Bias is Neutral ...cont’d

Expected Gbp/Usd trading range is 1.2740/1.2910.

Not a lot scheduled in truth this week, with a number of housing releases potentially garnering attention, while Wed sees the BOE financial stability report and stress test results.

Of course, BREXIT will be main driver.

The Times reports UK PM May has launched a frantic two-week campaign to save her Brexit deal and premiership by telling MPs to do their duty and support her (in parliament) or face going “back to square one". To win support, May will embark on a nationwide tour to sell her plan directly to the electorate, as The Times believes up to 90 Cons threaten to rebel.

The Times also talk developments:

- EU leaders warned MPs they would not reopen Brexit talks if parliament rejected the deal.
- Macron said Britain would have to cede fishing rights if it wanted to leave the EU CU backstop.
- DUP’s Foster reiterated her opposition to the deal. No circumstances where the DUP would vote in favour.
- Reports May is considering a television debate with Corbyn.
- Several cabinet ministers are to hold secret meetings to plot a “Plan B” if parliament rejects her proposals, with the Norway model (Britain would stay in the single market and customs union) touted.
- Five other Remainer cabinet ministers are understood to be planning to push May to adopt a softer Brexit if her deal is voted down in parliament, including Hammond and Rudd.
- Hunt apparently said the govt could collapse if the deal failed.

Not exactly Pound positives any, but it is interesting that direction has slowed in the last week or so ahead of the vote in parliament, which could take place the week of Dec 10.

In the interim, keep glued to those red headlines.

RISK - The more Corbyn and the Tory rebels enter the fray (and show their alternative/s are no better and likely do not involve a second referendum) perhaps the more support May receives. There is a growing feeling the UK electorate is sick of the whole thing and the public and business could just say enough is enough. Back this deal. That should provide a fair Gbp boost if it pans out, although a potential mega Gbp spike looking unlikelihood as second referendum speculations has waned.

• Continues to trade within a multi-month triangle
• Wider structure remains heavy, with potential seen for a re-test of the pattern 1.2696/62 lows
• Through there would expose the Jun'17 1.2589 reaction low, possibly 76.4% of the 2016-18 advance (1.1841-1.4377) at 1.2439
• On rallies, barriers at 1.2950 and 1.3003 (near 50/100-dmas) guard the 14 Nov 1.3072 minor high
• Through the latter hints at basing and an attempt on the triangle highs from 1.3175 up to 1.3298
Russian Sanctions Off The Risk Radar This Year, But Remain A Cloud
By Christopher Shiells, Managing Analyst EM & Andrew Dowdell, FX Technical Analyst

The Impact of Russian Sanctions

Data showed that Russian GDP growth decelerated to 1.3% y/y in Q3 2018 and 1.6% y/y for the first 9-mths of this year, which is at the bottom of the 1.5-2.0% potential growth rate. The slowdown reflects weaker consumer and producer activity, which was again highlighted by the latest batch of October economic indicators. The contribution of local demand to growth is declining, reflecting the end of the electoral cycle, the end of the football World Cup and higher uncertainties related to external markets and foreign policy.

The data highlights that the Russian economy remains very soft and struggling for momentum as a result of Western sanctions. Since 2014 and Russia's annexation of Crimea, a sanctions regime led by the US and supported by the UK, EU and other western allies has sought to isolate Moscow by curbing its access to external finance, trade and diplomatic support in an effort to force a change in political approach from Pres Putin. These sanctions were added to in April and August this year, due to Russian meddling in the 2016 US election, allowing the use of chemical weapons in Syria and carrying out the attempted murder of former spy Sergei Skripal in the UK.

The threat of more sanctions continues to weigh on Russian sentiment, but last week saw the strongest Ruble rally since February, as it gained over 3% vs the USD, after it was revealed that leading Democrats and Republicans believe that new sanctions are unlikely before the end of the year. However, we would argue that whilst the timeline has been pushed out, the appetite for further sanctions on Russia has not diminished.

Russia has been under the weight of US and EU sanctions since 2014 and has been suffering the economic consequences ever since.

- The sanctions plunged Russia into a recession, with negative GDP growth of 3.2% y/y in Q2 2015, with households bearing the brunt of the pain (-11% y/y in Q4 2015). Further, the combined effect of the sanctions and the rapid decline in oil prices in 2014 caused significant downward pressure on the value of the Ruble and flight of capital out of Russia.

- Whilst it is clear there has been an economic recovery since 2016, the data also shows that since returning to growth in 2017 the economy has stalled and is now struggling for momentum, especially since the new sanctions were announced this year.

- The EPFR country flows data shows that investors fled Russian exposed funds after sanctions were put in place and that after briefly returning to net positive territory in 2018, the new sanctions led to another shift of flows out of Russia.

- Specifically the threat of sanctions on Russian govt debt has seen foreigners shed their holdings of OFZs, which are now down to 25.8% of the total market (end of Oct), the lowest in 2yrs.

- Russia's retaliation to sanctions included a ban on western imports that led to higher food prices and further inflation in addition to the effects of decreased value of the Ruble.

The US sanctions in April sent the Ruble tumbling and roiled metals markets, as the world's largest aluminium producer Rusal was at the centre of these sanctions. As the following dashboard shows, the sanctions are still impacting Russia, with Bloomberg arguing that the widening gap in potential versus actual growth implies that sanctions are having a prolonged impact.

However, some argue that the sanctions have not had the impact they were designed to have, changing the behaviour of Pres Putin. Deals with Russia have continued to be made, as Moscow has moved closer to allies away from the West. China, Turkey, Israel, Saudi Arabia and Iran have all presented Russia with new trade opportunities and closer diplomatic ties, and are helping fill some of the financing/investment gaps. However, the sanctions have always been aimed at hurting Russia without causing a shock that could spill over into other markets.

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Russian Sanctions Off The Risk Radar This Year, But Remain A Cloud

Impact of Russian Sanctions since 2014

Bloomberg and EPFR

Continued p8
Russian Sanctions Off The Risk Radar This Year, But Remain A Cloud

Current Sanctions and New Sanctions Threat

New sanction acts still to be approved by Congress:
• 'Defending American Security from Kremlin Aggression Act of 2018' (DASKA)
• 'Defending Elections from Threats by Establishing Readiness Act of 2018' (DETER)

Existing sanctions bills that can be leveraged further:
• ‘Countering America's Adversaries Through Sanctions Act (CAATSA)’
• ‘Chemical and Biological Weapons Control and Warfare Elimination Act’

Rouble Outlook

We would argue that Russian markets may have got too carried away in pricing out sanctions risk this year and given the oil price outlook would suggest that Usd/Rub downside is limited from here.

The potential introduction of sanctions against new Russian state debt is not yet priced into asset prices and poses a downside risk to the Rub. The EPFR data and the OFZ holdings data clearly shows there is further room for outflows to impact given what happened in 2014 and the recovery since. Non-residents hold ca. USD28-30bn in local OFZs and, if there were to be sanctions it is estimated that up to 30-100% of that sum could be withdrawn. In the event of the worst-case scenario - sanctions on existing Russian sovereign debt - Usd/Rub could easily rebound back to the 70 marker.

• The rejection from last week's 68.274 high has dampened short-term momentum, but the broader outlook remains constructive.

• Weekly stochastics have unwound from overbought levels and bulls are now attempting to mark out a fresh base over support in the 64.539/63.869 area.

• Back above 68.274 would bode well for a stronger recovery through Sep's 70.842 peak towards 61.8% of the 2016-18 fall at 74.344.

• Bears need to breach 61.639 (11 Nov low) to threaten the wider basing scenario.
The Context

China Insight: Invest in Onshore or Offshore RMB Bonds?
By Tim Cheung Head of China, Riki Zhang EM Analyst

The China Foreign Exchange Trade System (CFETS) on 1 November 2018 informed all bond settlement agent banks that they are in the process of upgrading the China Interbank Bond trading system. The new trading system, called "New Generation", will enable foreign investors to manage their own RMB-denominated bond trading accounts based in mainland China.

Before that, CFETS and Bank of China jointly launched the CFETS-BOC Traded Bond Index on June 14, which subsequently started to be listed on the Singapore Exchange (SGX) on 14 November.

All of the above-said infrastructure developments suggest Chinese policymakers keep striving to attract foreign investors’ participation in the RMB bond market in mainland China. Needless to say, more foreign investment in onshore RMB bonds is positive to FX reserves growth, which is particularly crucial to the central government when a trade war is going on.

While policymakers are working hard to attract more foreign investment in onshore RMB bonds, the latest data suggests that foreign institutions have increased their holdings of RMB bonds at a decreasing rate (chart 1).

Slowdown of foreign institutions' RMB bond investment, in our view, is largely attributed to the narrowing China-US interest rate gap and the depreciation of CNY FX.

As per official data, foreign institutions have increased their holdings of onshore RMB bonds for 20 straight months. At the end of October, the amount of onshore RMB bonds held by them was around CNY1440bn, representing 56.5% y/y growth and also setting a new record high. However, on a monthly basis, October only registered an increment of around CNY253mn, which is the smallest monthly increase over the past 20 months.

As said above, besides the narrowing China-US interest rate gap, the depreciation of CNY FX is also another reason for a decrease in foreign investors’ appetite for RMB bonds.

Chart 2 shows CFETS RMB index has been declining since the US-China trade war started in the summer. In order to reduce their FX risk exposure, we should not be surprised if foreign investors choose to invest less in onshore RMB bonds.

Data source: China Central Depository & Clearing

Data source: Bloomberg

Continued page 10
The Context

China Insight: Invest in Onshore or Offshore RMB Bonds? ...cont’d

We believe a certain percentage of foreign investors are still very enthusiastic about investing in RMB bonds. However, they now might be giving more favour to offshore RMB bonds than the onshore ones given the fact that the former give better yields (chart 3). With the China-US interest rate gap narrowing, there is no reason why the yield-sensitive foreign investors would not care about the yield premium (which can be as much as 30bp!) given by offshore RMB bonds versus onshore ones. That could be one of the reasons why offshore RMB bond issuance saw a sharp increase in the first 10 months this year (chart 4).
The following pages are dedicated to Technical Analysis.

IGM’s global team of Technical Analysts constantly look for interesting patterns in prevailing price action of a broad range of currency pairs, fixed income and commodity products.

We will highlight the most compelling on these pages.
For information on the full spectrum covered, please contact your Account Manager.
The Context

Gold/Oil Ratio – Six-Month Base Underpins A Recovery Extension To 21.20
Technical Analysis by Ed Blake

- Rallied from 13.88 (3 October, four-year low) through a 33-month trendline and the 17.42 lower high to complete a 6mth base

- Improving daily/weekly studies suggest additional recovery targeting strong clustered resistance by 21.20

- A pullback may follow, but while the former base trigger (17.42) limits dips, bulls should resume for 22.49/23.02

- Only a sustained break under the base trigger at 17.42 would damage upside scope and risk 15.90/13.88

STRATEGY SUMMARY

Buy dips in anticipation of an uptrend extension targeting 21.20, perhaps 23.02. Place a protective stop under the former base trigger at 17.42
The Context

AUD/NZD – Bulls Lie in Wait Near Multi-Year Trendline Support
Technical Analysis by Andrew Dowdell

- Pulling back to 3+ year trendline support, where fresh buyers are expected to emerge

- Stochastics are at oversold levels and flat 100/200-Week MAs increase the likelihood of a reversion higher

- A renewed up-turn is favoured (as part of a longer-term basing pattern), targeting 1.1176 initially

- Below April’s 1.0488 low would break the series of higher lows off the 2015 record low at 1.0021

STRATEGY SUMMARY

Look to buy for a target of 1.1176. Place stop below 1.0488.
US BREAKEVEN 10 YEAR – Risks A Downtrend Extension To 1.917/1.856

Technical Analysis by Ed Blake

- Broke under 2.041/2.047 (9 February/29 May lows) to complete a ten-month top under 2.208 (17 May, 4¼ year high)

- New 11-month lows are being posted and with studies/moving averages declining, watch for further easing

- Below the 1.917/1.934 zone (21 December 2017 low/50% of 1.661/2.208) risks 1.856/1.870 (28 November 2017 low/61.8% retrace)

- Only decisively over the former top trigger (2.041/2.047) and then 2.085 (8 November high) would cause a re-think

STRATEGY SUMMARY

Look to sell as we await a break under the 1.917/1.934 support zone targeting 1.856/1.873. Place a stop above the former top trigger at 2.041/2.047

<table>
<thead>
<tr>
<th>Resistance Levels</th>
<th>Support Levels</th>
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<tbody>
<tr>
<td>S5</td>
<td>S1 1.917 21 December 2017 low, near 50% retracement of 1.661/2.208 rally at 1.934</td>
</tr>
<tr>
<td>S4</td>
<td>S2 1.856 28 November 2017 low, near 61.8% of 1.661/2.208 (1.870) and ten-month top target (1.873)</td>
</tr>
<tr>
<td>S3</td>
<td>S3 1.823 21 September 2017 low, near 17 October 2017 low at 1.826 and 31 July 2017 high at 1.837</td>
</tr>
<tr>
<td>S2</td>
<td>S4 1.790 76.4% retracement of 1.661/2.208 rally</td>
</tr>
<tr>
<td>S1</td>
<td>S5 1.736 29 August 2017 higher low</td>
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IFI: who we are and how to contact us

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