IFI Research
Financial intelligence | informa

The Context

April 9th 2018

The Context

Published weekly

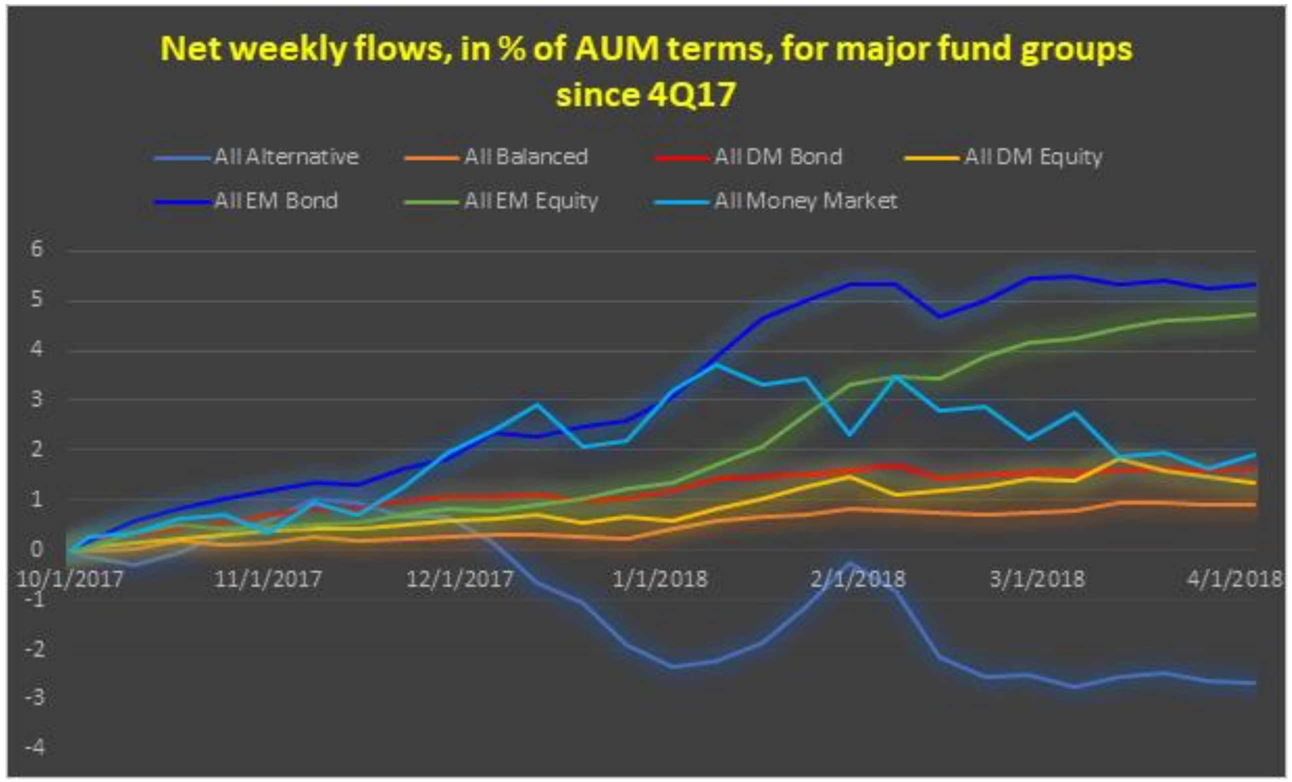
Inside this week's edition:

Know the Flows

By Cameron Brandt, Director of Research

EPFR-tracked Equity Funds started April by posting a third consecutive weekly outflow for the first time since 4Q16 as trade war fears and harsher scrutiny of US technology majors kept global markets on edge. But three fund groups that set new inflow records during the first quarter - Japan, Emerging Markets and Global Equity Funds - added to their year-to-date totals as investors look to benefit from the synchronized global growth story without exposing themselves to the uncertain political and regulatory climates in the US and Europe.

In addition to narrowing their equity focus, investors also rotated towards fixed income groups and Money Market Funds. Overall, flows to EPFR-tracked Bond Funds during the seven days ending April 4 hit a 12-week high while Money Market Funds, which have alternated weekly inflows and outflows since mid-January, absorbed over $19 billion with the bulk of that going to funds with US mandates.



Fund groups dedicated to tax advantaged US asset classes continue to struggle as investors try to reassess their relative value in light of the reforms pushed through late last year that will apply to the 2018 tax year. Flows into Municipal Bond Funds stalled while US Real Estate Sector Funds posted outflows for the 12th time in the 14 weeks year-to-date.

At the single country fund level, investors committed fresh money to South Africa Equity Funds for the eighth week running and to Saudi Arabia Equity Funds for the 10th time YTD. Romania Bond Funds extended an outflow streak stretching back to early September, but Russia Bond Funds posted inflows for only the third time in the 27 weeks since the beginning of 4Q17.

Flows to and from Sector Funds remained subdued during the week ending April 4 as uncertainty about global trade remained front and center, with eight of the 11 major groups tracked by EPFR recording outflows ranging from $23 million for Telecoms Sector Funds to over $1 billion for Consumer Goods Sector Funds.

Among the three groups attracting fresh money were Financial Sector Funds, which recorded their second consecutive inflow ahead of the first quarter earnings season where US plays are expected to deliver around 20% year-on-year growth. Higher interest rates and a reduced regulatory burden are among the reasons for the robust US earnings projections, while stronger economic growth is contributing to a drop - albeit from sometimes alarmingly high levels - in the non-performing loan rates for most developed European countries.

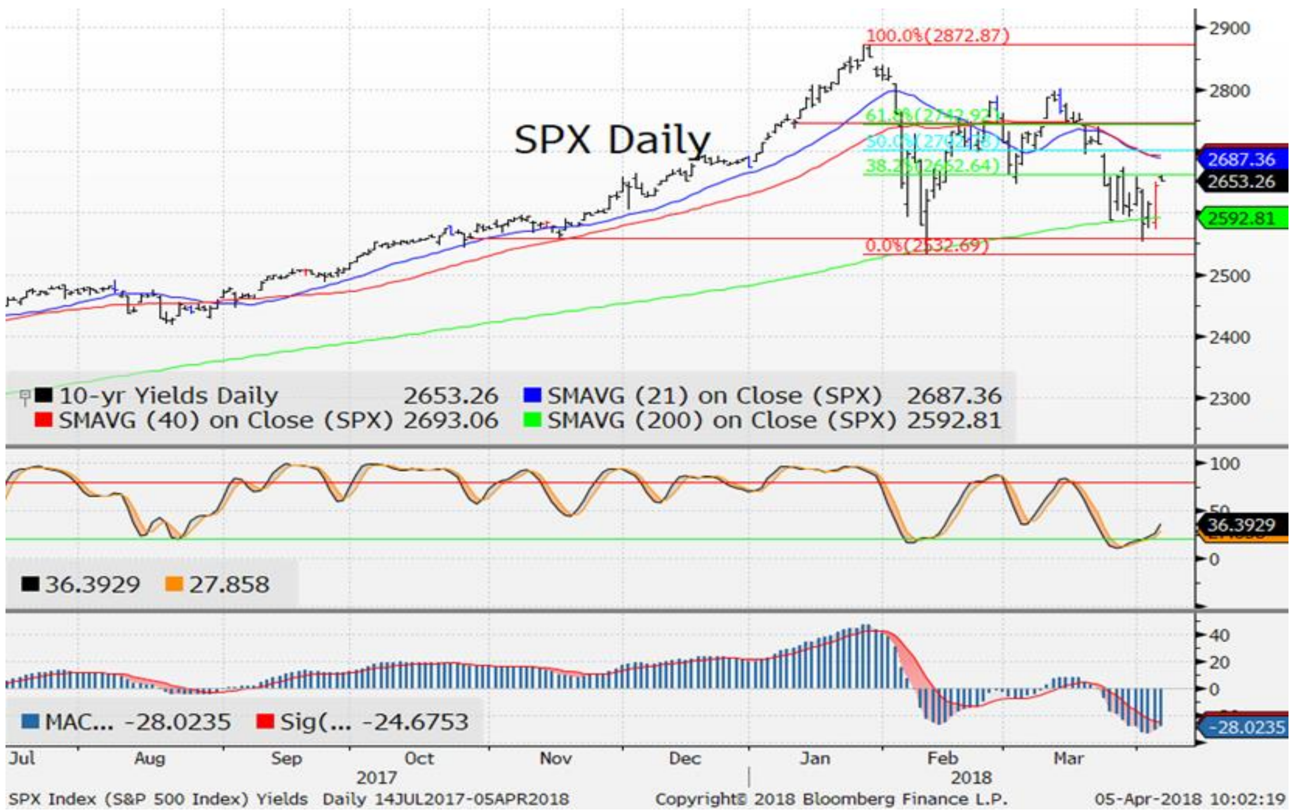
Back to Index Page

In The Words Of The Great One "I've Got A Big Mouth"

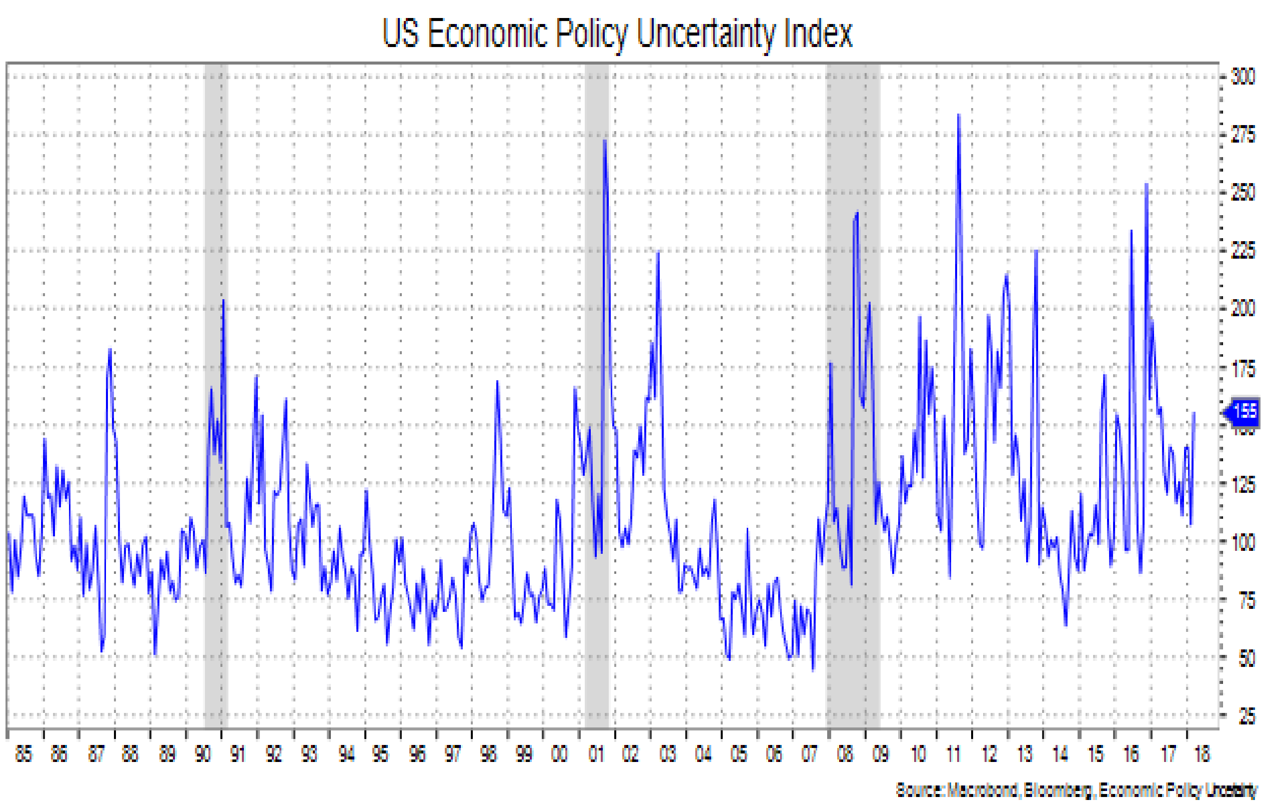
By David Ader, Chief Macro Strategist

Fans of "The Honeymooners" will fondly recall one of the iconic lines that Ralph Kramden would shout out when he recognized the error of his ways; "I've got a BIG mouth." Would that we all could own up to such proclivities, which brings to mind the state of the markets and what's behind it. There are, of course, many things and it would be unfair to cite a singular source. Still, in the current environment I think it's fair to put the mike in front of Donald Trump (or take one away) who just in November said, "The reason our stock market is so successful is because of me. I've always been great with money, I've always been great with jobs, that's what I do. And I've done it well, I've done it really well, much better than people understand and they understand I've done well."

Which begs the question of whether he recently shorted it and covered?



I refer good naturedly, of course, to Tweets and the like about Amazon, NAFTA, various sanctions, the revolving door in the White House, the Russia thing, and the current silence of responsibility of the markets' volatility/turmoil. How does the old expression go? Victory has 100 fathers and defeat is an orphan. Perhaps it's that very lack of credibility and resulting uncertainty that is behind, at least in some part, the markets' source of uncertainty. This is a point driven home by a glance at the Economic Policy Uncertainty Index (news based) that tallies 155, much higher, rather much MUCH higher, than the average for any Administration since the thing started in 1985. (see chart).



Back to Index Page

This is an excerpt from Ader's Musings. For the full article, please click HERE.

What To Watch Out For In Q2

By Jian Hui Tan, Fundamental Analyst

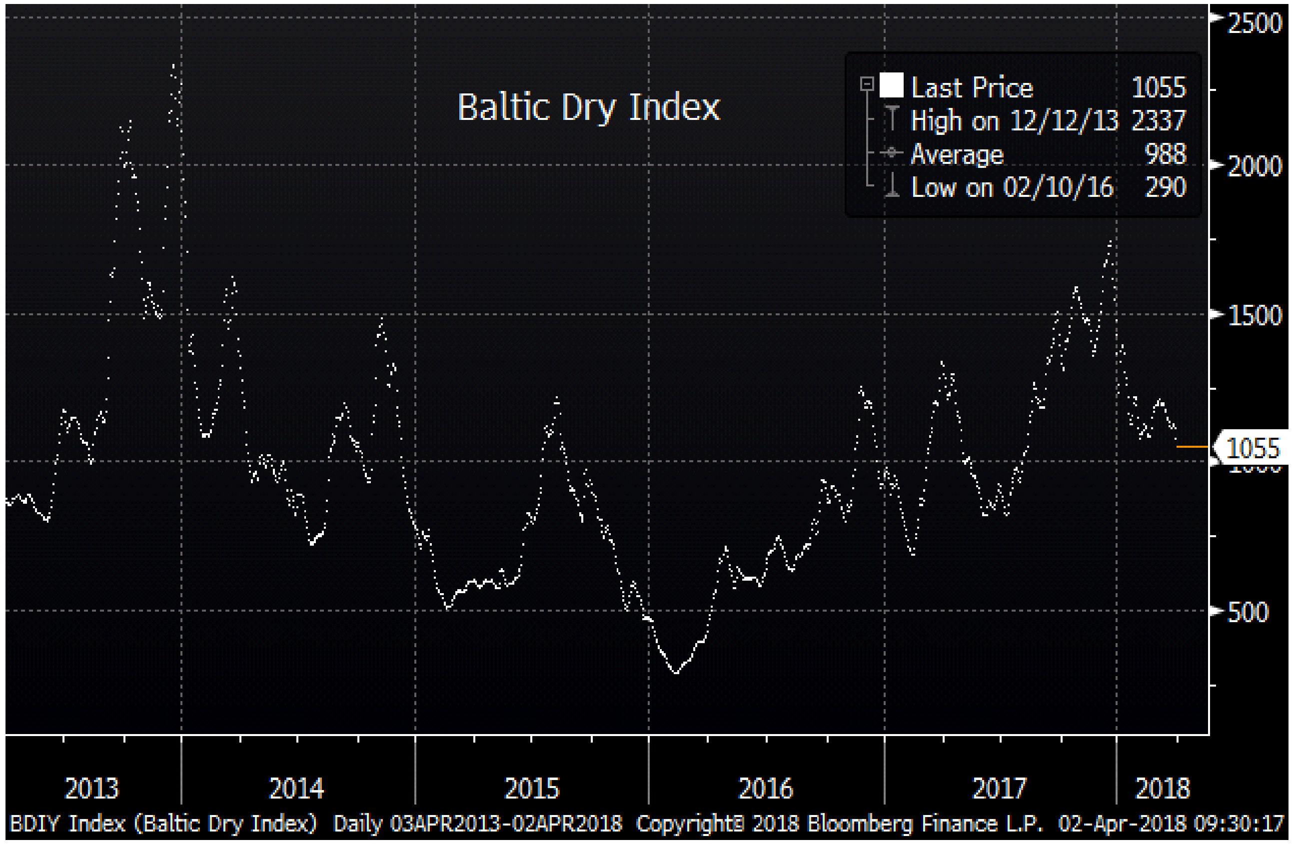
Market Volatility

Either as a result of trade tensions or a byproduct of macro cues, all eyes are on whether **market volatility** flows over to Q2 (implied vols across all asset classes spiked the most on a q/q basis over Q1 since the height of the 2011 European debt crisis).

Our suspicion is that elevated volatility is here to stay, a reversal of the 2017 trend, on the basis that most in the market are still holding onto an optimistic growth outlook which may need to be revised if global data show more signs of a slowdown. Bear in mind too, as with all cycles, the trend of a sustained low vols environment will eventually have to end and when such a shift happens, there's normally follow through.

Softening Global Demand

As a signal of **softening global demand**, we would point to hard evidence such as the sharp drop in base metal demand (as evidenced by their price action) and the slump in the **Baltic Dry Index** (lowest since Aug 2017).



Widening credit spreads/elevated LIBOR-OIS spread aren't risk positive

There's also the ominous sign of widening credit spreads and the elevated USD LIBOR-OIS differential that aren't positive signals for risk appetite.

Inter-play between bond/equity markets

The other question one needs to ask is how the bond market trades and the corresponding reaction from the equity space. The 2 likely scenarios are both risk negative.

- If the bond market slumps on elevated US Treasury issuances through Q2, that could negatively impact the equity space by reigniting the focus back on rising borrowing costs/narrowing profit margins.

- If the UST yield spread flattens aggressively (front-end propped up by the Fed dot plots while the belly to back-end react to risk aversion/premium over subdued inflation), that brings up the spectre of how a flattening yield curve has historically been a signal of a recession which would gain even more traction if global economic data shows a growth slowdown.

Continued p6

What To Watch Out For In Q2 … Cont'd

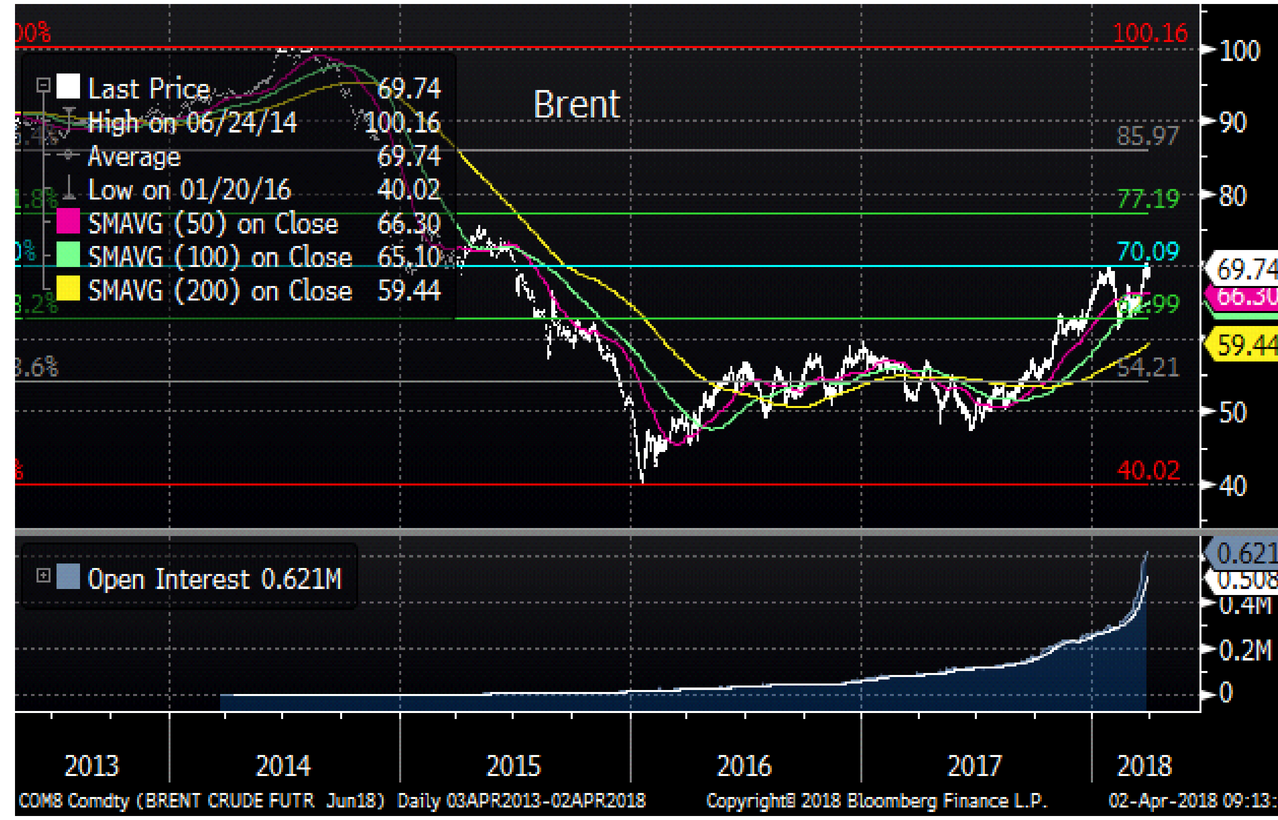
Tech breakdowns in stock indices

Add into the mix how many major stock indices have either broken down (Chinese indices) or could be on the verge of breaking down (S&P 500)

Crude

Both WTI and Brent are pushing up against it 1H2015 bases and Fib resistances and the question one needs to ask is if a double top could pan out?

Fundamental reasons to argue for a double top are the continued overhang of US shale production (filling the breach left by the OPEC output cuts) and increased inventories, weak equity markets, global trade concerns and worries that global consumption is starting to moderate.



Q2 may turn out even worse for bulls

While Q1 was bad, Q2 may turn out even worse for bulls on the above arguments.

In this sense, we remain bullish on the Yen, retain a buy on dips call for belly USTs, Gold, short-dated vols, while we would also look for relief bounces in equities to enter short trades.

Back to Index Page

IFI Research
Financial intelligence | informa

Dollar Seasonality in April

By Tony Nyman, Head G10 FX

It's a holiday impaired start to the month, with only small moves seen in mixed trade.

The Usd is down in Q2 against -0.3% NOK, -0.6% GBP and -0.7% CAD, but Usd gains of +0.4% vs AUD, +0.5% EUR, +0.6% SEK and +0.8% JPY so far.

However, how does the Usd fare generally during the month of April? Are there any seasonal patterns, is the big Usd a broad loser or winner and do any other G10s tend to out or underperform? Let's look back:

- In Apr 2017, the Usd generally lost out, -0.2% NOK to -2.3% EUR and -2.2% GBP, with the USD a decent winner vs +1.9% AUD, +2.0% NZD and +2.5% CAD.
- In 2016, the USD was a near loser across the board, -0.2% losses vs CHF to -1.8% GBP, -2.7% NOK, -3.6% CAD and -5.7% JPY. Only USD gains vs the AUD +0.7%.
- In 2015, the USD lost out against all G10s, between -0.6% JPY, -3.6% GBP, -4.0% AUD, -4.3% CHF, -4.6% EUR, -5.0% CAD and -7.0% NOK.

- In 2014, Apr brought mostly light Usd losses, ie -0.4% CHF to -1.4% JPY and -1.5% GBP, with light USD gains vs +0.2% NZD and +0.7% SEK as the Fed advocated an extraordinary easy commitment, 'low for long' mantra.
- In Apr 2013, the USD fell broadly, -0.5% SEK, -2.0% GBP, -2.3% NZD and -2.5% EUR. USD gains only vs +0.5% AUD, +4.3% YEN, as the BOJ opted to buy Jpy 7tln of bonds p/m to stimulate Japan's economy.
- In Apr 2012, the Usd was mixed, down -0.1% to -1.3% GBP and -2.8% YEN. USD gains were made vs +0.4% CHF to +1.8% SEK.
- In 2011, Fed stimulative policies, US govt shutdown worries and S&P's neg US outlook saw the Usd fall across the entire G10. The USD lost out vs +1.9% CAD, -3.7% GBP, -5.5% NZD, -5.6% AUD and -6.8% CHF.

Continued p8

Dollar Seasonality in April … Cont'd

- In 2010, the USD only lost out vs -0.1% NOK to -2.7% NZD. Light USD gains were seen vs +0.1% GBP to -1.4% SEK, +2.2% EUR and CHF.
- In 2009, it was mostly USD losses from -0.4% CHF , -2.2% GBP and largest vs commodity blocers -2.3% NOK, -3.8% AUD and -5.7% CAD. The lightest of USD gains +0.1% JPY and EUR to +0.5% NZD.
- In 2008, a mixed bag, but again the USD generally underperformed between -0.1% EUR, -0.6% GBP, -1.3% CAD, -2.1% NOK and -4.0% AUD. Some USD gains +0.6% NZD and safe havens/funders +2.0% JPY and +2.2% CHF.
- For good measure, in Apr 2007, near full USD losses of -0.7% CHF, -1.1% GBP, -2.6% NOK and NZD, -4.2% CAD and -4.8% SEK. USD gains only vs the +1.4% JPY.

So, clearly, April does not tend to be positive for the USD. When gains are made, it's usually against the likes of funders the Yen and Sek. GBP, in bold, is a particular outperformer. In fact, Apr tends to be the Pound's favourite/strongest month (See below).

Back to Index Page

IFI Research
Financial intelligence | informa

Correlation Between AUD/JPY And S&P500

By Tan Jian Hui, Fundamental Analyst & Clarence Poh, Technical Analyst

If one were to look for the purest risk arbiter, **AUD/JPY** would be it and its price action over the past few months is rather instructive. A Dec 2017 rally (sparked by the market's uber-bullish narrative that coordinated global growth would stay strong well into 2018 which lifted equities and commodities alike) failed to find follow-through traction beyond the 3rd week of Jan.

Looking at the historical correlation between the AUD/JPY and the S&P500, it is positive although the coefficient has ebbed and flowed (noting that while equities rallied hard in 2017, the FX space was a lot more nuanced with the Yen supported by Pyongyang provocations, White House strife, and with the BoJ in "stealth tapering" mode which prompted speculation about tweaks to their QQE program). That said, there's been a pick-up in the positive correlation since end-Jan and the question that begs to be asked is which has led the other?

We would trace the source back to how bond traders threw down the gauntlet to equity bulls early in 2018 by sharply driving up yields (which raised concerns over the impact that higher borrowing costs would have on corporate profits and ultimately P/E ratios). This culminated in the flash crash on 05 Feb. While the S&P500 had already retreated in the days prior to this, in reaction to the burgeoning uptick in implied volatility, the unprecedented surge in the VIX on 05 Feb that wiped out ETNs positioned for low volatility and the flash crash in other asset classes fundamentally altered the market dynamics. While most in the market called it an outlier and an opportunity to buy the "long-awaited" dip, we held a contrasting view after having looked back at the 2010/15 flash crashes and found them to be major sentiment reversal points.

So our postulation is that the 05 Feb flash crash was the initial catalyst, but that AUD/JPY has thereafter foreshadowed what was to come on the S&P500.

In the 2 trading days after 05 Feb, AUD/JPY attempted to rebound back above its 200-day MA but failed, which kicked off the 600-pip slump towards 80.50. In the process, the 100-week and 200-month MA supports (not shown) were broken with relative nonchalance. Impending extension towards a Fibonacci confluence zone at 79.45/32 (1.618 projection of Sep-Nov 2017, 90.31-84.35 wave from 5 Jan 89.09 peak/61.8% retracement of Jun 2016-Sep 2017, 72.53-90.31 rally) may be realized in the coming days/week.

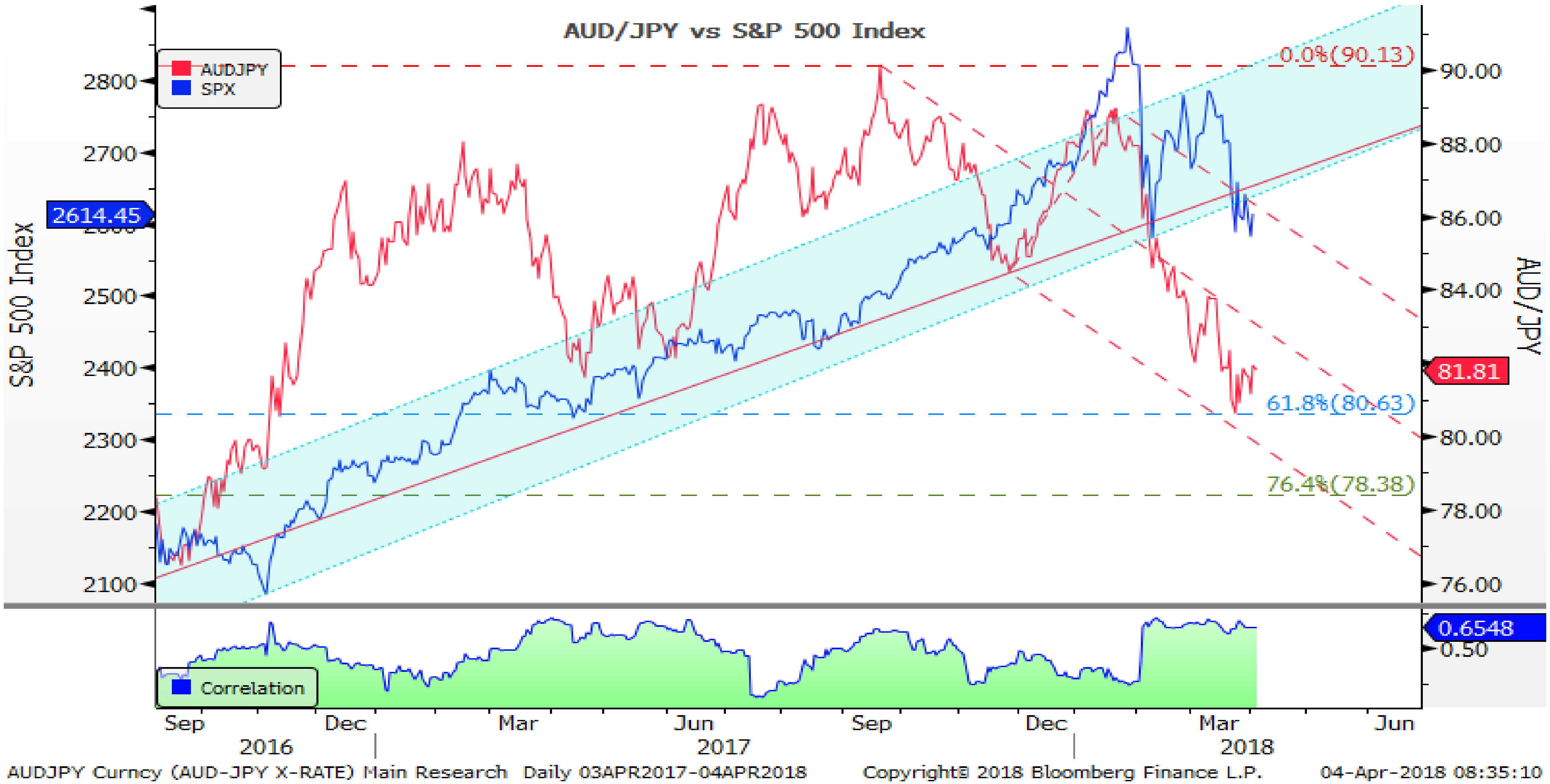
Continued p10

Correlation Between AUD/JPY And S&P500 … Cont'd

Looking at the S&P500, it looks to be trying to mirror the AUD/JPY move by pushing below its uptrend channel.

Momentum studies and the break of channel/MA supports would draw up similarities with Aug 2015 (another flash crash) and Jan 2016, while we also have the fundamental backdrop this time of trade tensions, a US tech sell-off (Facebook crisis, Trump's Twitter barrage against Amazon, and with no product renewal cycle on the horizon to bump up topline expectations), and signs of a moderation in global growth (PMIs at the start of 2018 have generally been softer than expected, while we expect demand out of China/EZ to moderate).

With AUD/JPY looking poised for more downside ahead (base metal weakness, trade tensions, ominous signs of widening credit spreads and elevated USD LIBOR-OIS spread aren't positive signals for risk appetite), there's the likelihood that the S&P500 will follow suit, down towards 2400/2362.



IFI Research
Financial intelligence | informa

Back to Index Page

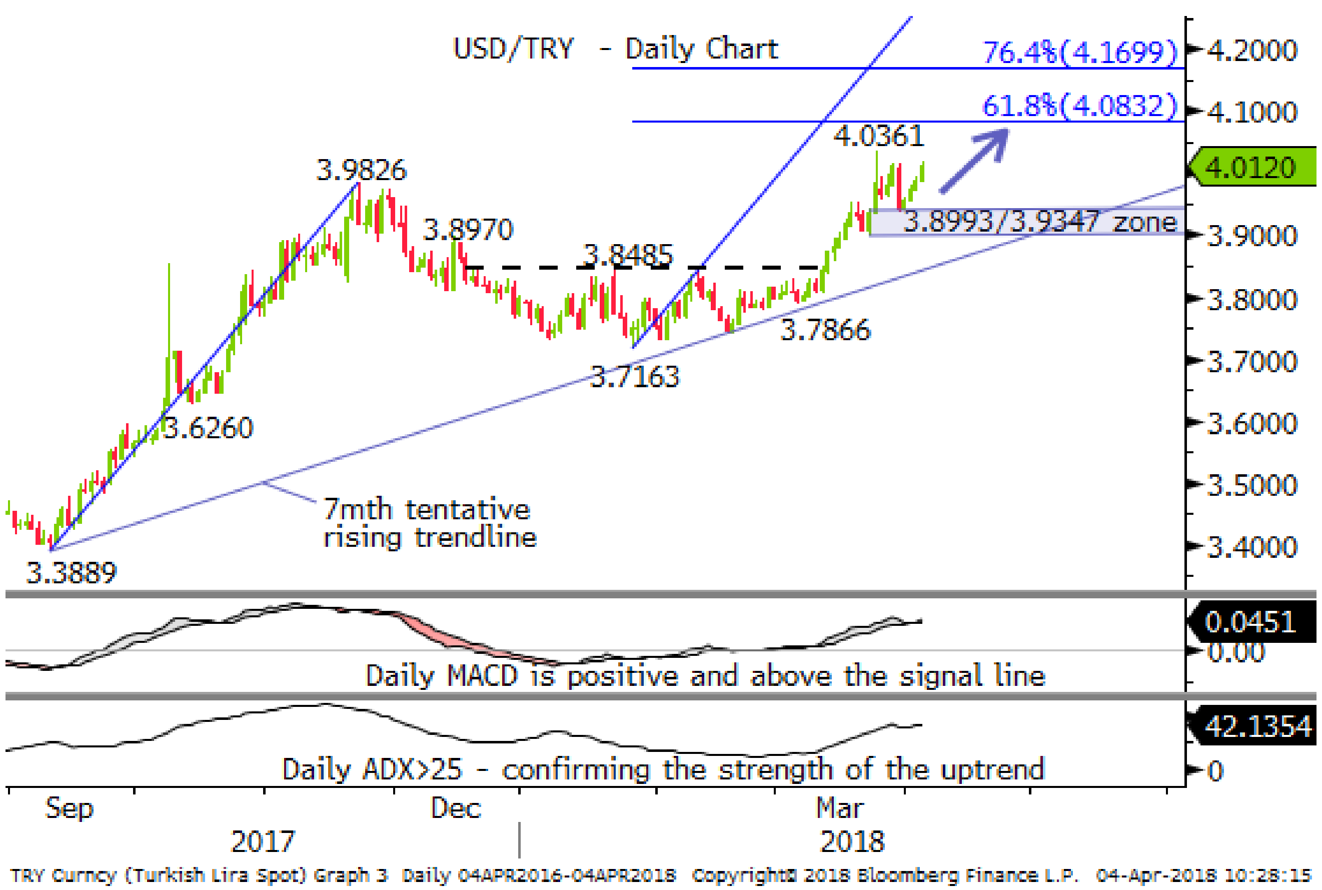
Usd/Try Set For More Sustained Move Above 4.0000

By Chris Shiells, Managing Analyst Emerging Markets
and Ed Blake, Technical Analyst

USD/TRY has cleared that 4.0000 barrier with a high so far last Weds of 4.0195. Recall, back on Mar 8 we predicted the pair would clear the 4 handle and it has now done this three times in two weeks (with a spike to record high of 4.0361 on 23 Mar). We expect that this time it will be more of a sustained move. This is based on the below factors;

- Core-CPI will likely not slow into single figures this year, due to elevated inflation expectations, an economy running above potential and the recent Lira depreciation.
- The CBRT is either not allowed or not willing to hike rates, and will delay doing so for as long as possible. As long as CPI is still trending lower, coupled with signs of slowdown in real economy, the CB will continue to keep policy on hold.
- Political tensions with the United States over Turkey's incursion into Syria's Afrin and deteriorating relations with the European Union, previously the major source of foreign investment for Turkey's economy.
- The USD is expected to remain firm in the near-term on recently improved data, shrinking liquidity and the widening of the USD Libor/OIS spread.
- We have heard that Sabah is apparently reporting the Turkish government is to announce a package of measures to slow inflation in 2 weeks. These are likely to be supply side measures on food prices, whilst BlueBay's Timothy Ash sees an announcement on a single Treasury account for SOE borrowing to reduce IR costs.

This leaves room for further USD/TRY upside, which is supported by the below technical graph, and we eye a further near-term move to new record highs of 4.0832.



- Extended the long term uptrend to 4.0361 (23 March record high), before ranging over 3.9347 (29 March low) within a potential short-term bullish continuation pattern.
- Daily-monthly studies remain constructively aligned and should underpin an eventual clearance of 4.0361 to new record highs.
- Initial resistance is pegged at 4.0832 (.618 projection of 3.3889/3.9826 off 3.7163), possibly 4.1699 (.764 projection) on extension.
- Any corrective dips should hold the 3.8993/3.9347 zone (22/29 March lows) and only below would caution for 3.8485 (22 January former high/near a seven month tentative rising trendline).

EUR/GBP – Downside Looking Vulnerable

Technical Analysis by Andrew Dowdell

- Price action is growing heavy, with the Mar-Oct .8968-.9033 range highs now presenting a formidable barrier.
- Bulls have been unable to reclaim the 200-Day MA, which has flattened out and is in danger of rolling over.
- The 20-Day MA has already turned lower, having so far capped the recent attempt to rally off .8668.
- Bears continue to probe 61.8% of the Apr-Aug 2017 rally at .8693 which is starting to give way.
- Scope is seen for a deeper fall, targeting .8548/24 next ahead of .8468.
- Above .8798/.8830 is needed to relieve immediate pressure.

STRATEGY SUMMARY

Scope is seen for a deeper setback towards .8548/24, possibly .8468. Recovery over .8798/.8830 is needed to relieve immediate pressure.

Resistance Levels		
R5	.9033	12 October 2017 high
R4	.8968	7 March 2018 high
R3	.8890	200-Day MA
R2	.8830	19 March 2018 high
R1	.8798	27 March 2018 high
Support Levels		
S1	.8668	22 March 2018 low
S2	.8548	76.4% of .8314-.9307 rally, near the 18 May 2017 low at .8524
S3	.8468	38.2% of the 2015-2016 rally (.6936-.9415)
S4	.8384	10 May 2017 low
S5	.8314	18 April 2017 low, near the 5 December 2016 low at .8305 (not shown)

IFI Research'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.

IFI Research
Financial intelligence | informa

Back to Index Page

BTP/BUND Spread – Awaits Extended Narrowing Targeting 113/102

Technical Analysis by Ed Blake

- The BTP/Bund spread narrows within a year-long falling channel to threaten fresh tests of the 2018 low at 120.
- With daily-monthly studies deteriorating, a downside break would signal new 20mth lows and initially risk 113.
- Sustained narrowing opens key support at 102-106 (March 2016 low/3yr rising trendline/12mth channel low).
- Failed narrowing under 120 and/or widening above strong resistance between 142/147 would cause a rethink.

STRATEGY SUMMARY

Sell into any near term corrective widening as we await extended narrowing targeting 113 then 102. Place a stop above 147.

Resistance Levels		
R5	203	7 June 2017 lower high
R4	178	11 July 2017 lower high, nr 23 August and 4 October 2017 highs at 174
R3	163	2018 highs – 2/3 January
R2	147	5¾yr falling trendline, near 12mth falling channel top (145) and 14 March 2018 high (142)
R1	130	7 March 2018 former low
Support Levels		
S1	120	2018 low – 7 February also 76.4% retracement of the 92/213 rally
S2	113	15 August 2016 higher low
S3	102	16/21 March 2016 lows, nr a 3yr rising trendline (104) and 12mth falling channel low (106)
S4	92	2 December 2015 higher low
S5	88	2015 low – 12 March

IFI Research'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.

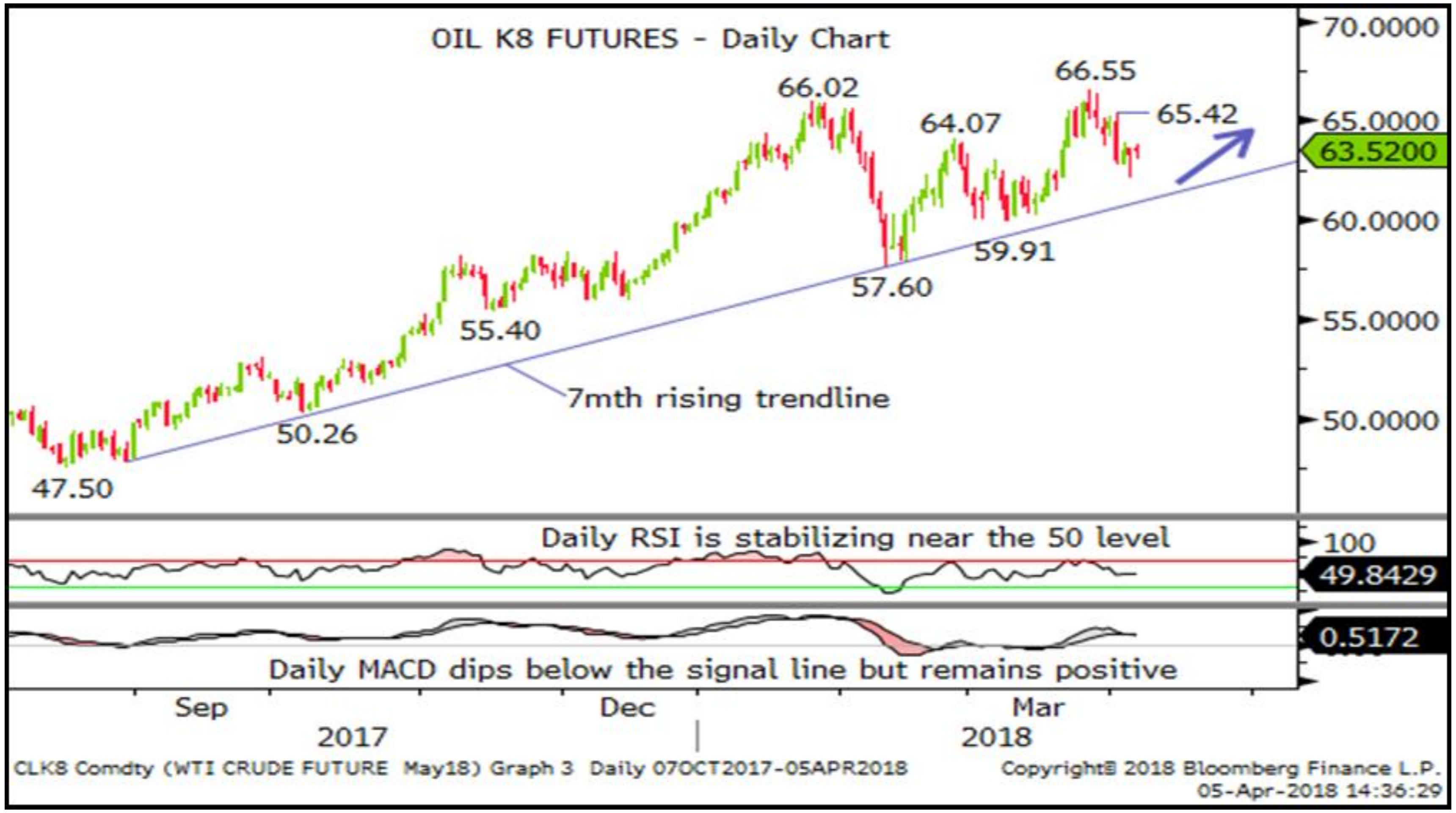
IFI Research
Financial intelligence | informa

Back to Index Page

WTI Oil K8 Future – Bullish Bias Whilst 59.91-60.92 Zone Limits Dips

Technical Analysis by Ed Blake

- Guided by a seven-month rising trendline, bulls extended the uptrend to 66.55 (contract high), before easing.
- Upside momentum has slowed during 2018 and with daily/weekly studies deteriorating, a deeper near term correction remains possible towards strong support at 59.91-60.92 (8 March low/seven-month rising trendline).
- While this holds, watch for a resumption of the broader uptrend - albeit at a reduced momentum.
- A clearance of the 66.55 contract top opens 69.54 (continuation chart high), perhaps 71.24 (equality projection).
- Only below 59.91 would compromise bulls and expose the 57.60 higher low - beneath which would signal a four-month top.



STRATEGY SUMMARY

Look to buy into near term dips as we await a resumption of the longer term uptrend re-opening 66.55 then 69.54. Place a protective stop under the 59.91 higher low.

Resistance Levels		
R5	73.25	14 November 2014 continuation chart low
R4	71.24	Equality projection of 26.05/55.24 rally from 42.05 (continuation chart)
R3	69.54	1 December 2014 continuation chart high
R2	66.55	26 March 2018 contract top, nr 66.89 (50% retrace of 107.73-26.05 continuation chart fall)
R1	65.42	2 April 2018 high
Support Levels		
S1	62.06	4 April 2018 low
S2	60.92	Seven-month rising trendline
S3	59.91	8 March 2018 higher low
S4	57.60	2018 low – 9 February
S5	55.40	15 November 2017 low

IFI Research'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.

IFI: who we are and how to contact us

Informa Financial Intelligence (IFI), a unit of Informa plc (LSE: INF), provides fund flows, asset allocation, FX, credit issuance and banking data, quantitative products, research and analysis to financial institutions – both public and private -- around the world. Our market moving data services include daily, weekly, and monthly equity and fixed income fund flows and monthly fund allocations by country, sector and industry.

IFI encompasses products providing data, analysis and solutions to the mutual fund, banking, wealth management, investment advisory and public sectors: EPFR Global, Informa Global Markets (IGM), Informa Investment Solutions (IIS), iMoneyNet, TrimTabs, WealthManagement.com, PlacementTracker, Informa Research Services, eBenchmarkers, Mapa Research and BankTrends.

To find out more, please visit: https://financialintelligence.informa.com

To contact us, please email: sales.financial@informa.com

London	New York	Tokyo	Hong Kong	Singapore	Shanghai
+44 20 7017 5402	+1 212 907 5802	+81 3 6273 4273	+852 2234 2000	+65 6411 7788	+8621 2326 3766