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# The Context

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# The Context

Published weekly

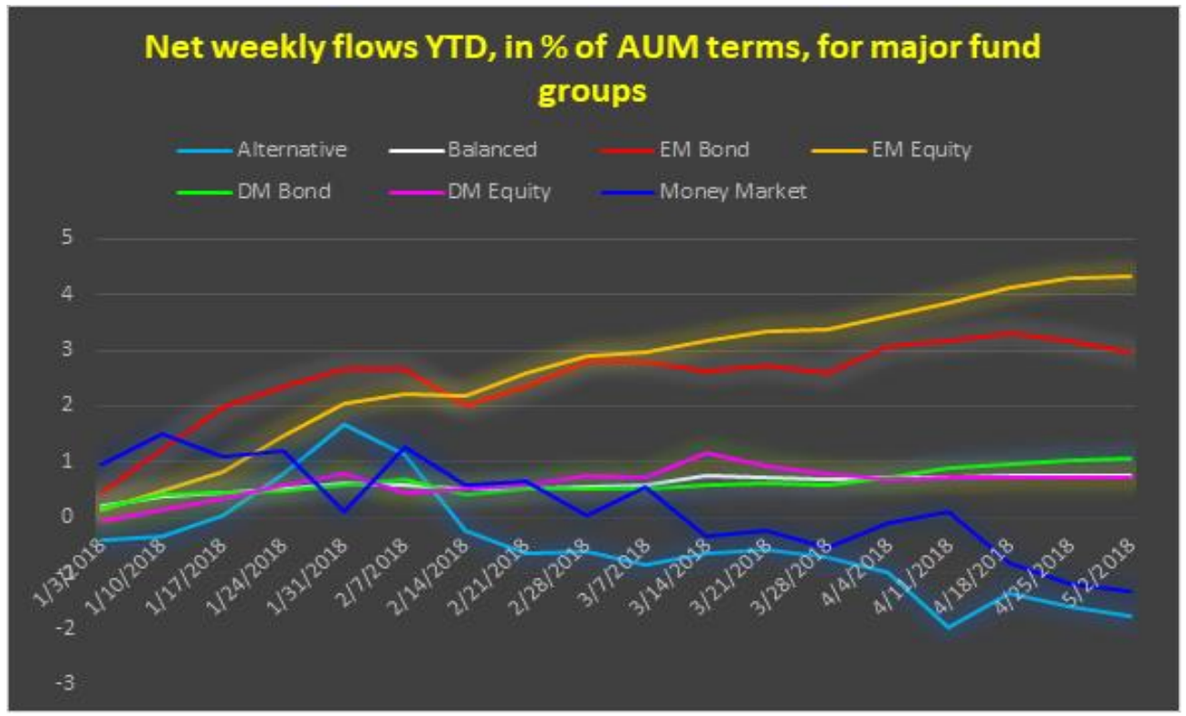
**Inside this week's edition**:

# Know the Flows

*By Cameron Brandt, Director of Research*

Coming into May, Emerging Markets Bond Funds posted consecutive weekly outflows for the first time in over 15 months and Europe Equity Funds extended their longest inflow streak since 2H16 as investors continue to look past a banner corporate earnings season to the leaner times, in terms of central bank accommodation, economic growth and corporate profits, they see ahead.

With the exceptions of China Equity Funds, Technology Sector Funds, Total Return Bond Funds and a handful of others, outflows or very modest inflows were the norm for most EPFR-tracked fund groups during the seven days ending May 2. Overall, Equity Funds recorded an outflow of $87 million - equal to 0.0008% of their collective AUM - while investors redeemed a net $208 million from Alternative Funds, $313 million from Bond Funds and $5.6 billion from Money Market Funds.




In addition to Emerging Markets Bond Funds, concerns that the pace and degree of US monetary tightening will overshoot beginning-of-the-year projections influenced flows to a number of other fund groups. Real Estate Sector Funds posted outflows for the 14th time in the past 16 weeks, Dividend Equity Funds for the seventh week running and Municipal Bond Funds for the fifth straight week while Inflation Protected Bond Funds experienced net redemptions for only the fourth time since the beginning of 4Q17.

At the single country fund level, flows into China Bond Funds hit an 11-week high and China Equity Funds extended their longest run of inflows since 1Q14. Saudi Arabia Equity Funds took in fresh money for the seventh straight week while Japan Bond Funds recorded their 19th consecutive outflow.

A week of good earnings reports could not stem the tide of outflows from the major Sector Fund groups tracked by EPFR, as rising interest rates and signs momentum for the global economy may be slowing prompted investors to harvest long term gains. Of the 11 major groups, only Commodities, Consumer Goods, Technology and Utilities Sector Funds posted net inflows for the week ending May 2.

Benefiting from stellar earning reports for some of the big tech names, Technology Sector Funds experienced the largest inflow of any group and their largest net inflow since the second week of March. Eight of the 10 funds with the biggest inflows for the week were ETFs, while nine of the 10 have a U.S. geographic focus. Withstanding downward pressure from chip makers due to concerns about soft smartphone chip sales, two of the top three funds have semiconductor mandates.

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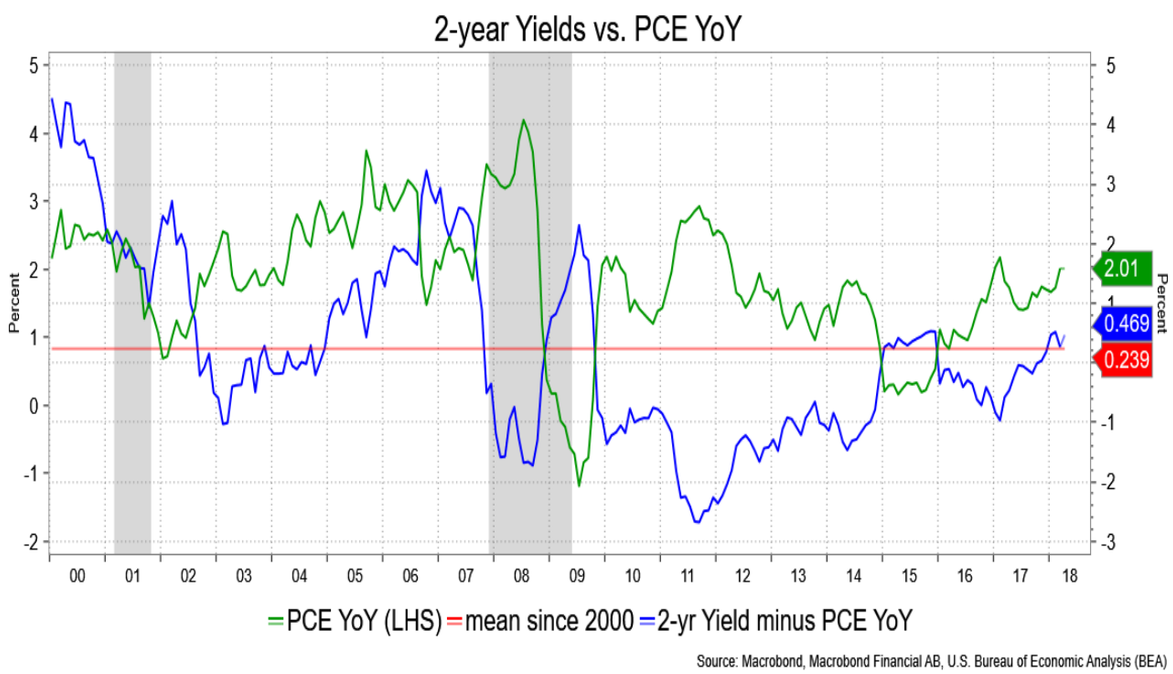
# Be Patient With Bullish Seasonals

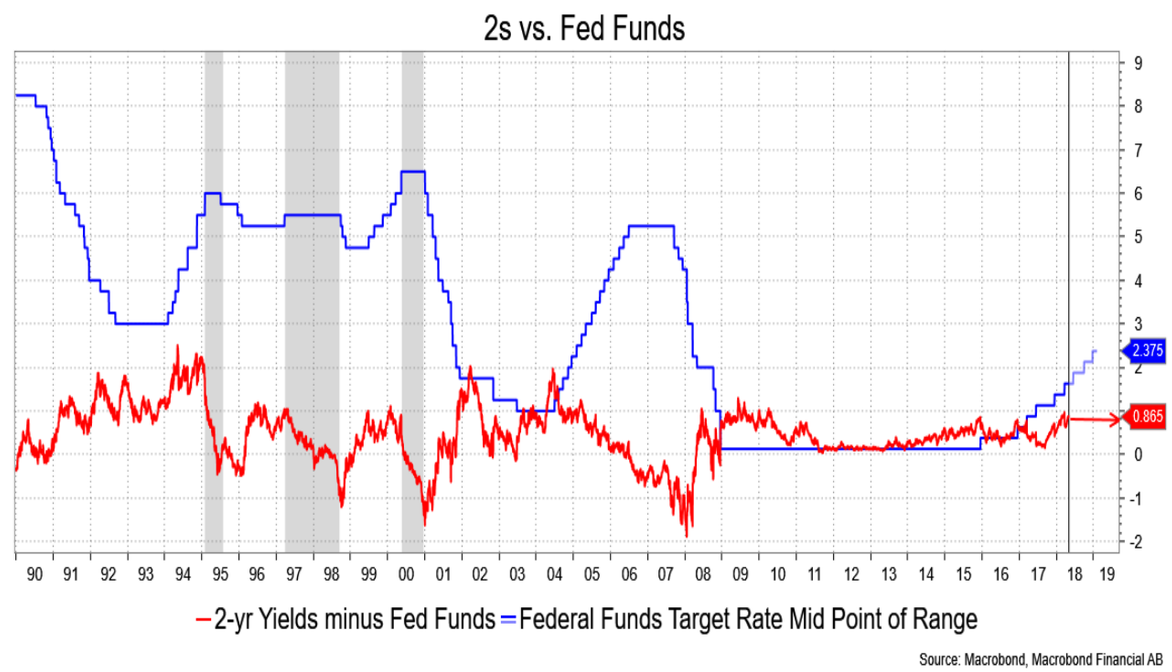
*By David Ader, Chief Macro Strategist*

NFP was rather disappointing. The overall gain was a tad lame vs expectations but with 30k in upward revision, pretty much matches the 193K consensus. However, the drop to a 3.9% UNR was a function of a fall in participation (i.e. fewer people in the labor force for the number of jobs out there) and AHE was up a slim 0.1% with a downward revision which should extract some from concerns over mounting wage pressures. This won't change the Fed's next two hikes, but odds for a third are, deservedly trimmed a bit.

I'm playing around with ideas here, so bear with me or ignore entirely. What I'm doing is trying to imagine where 2s go relative to the Fed and assuming a symmetric view to 2% YoY PCE, i.e. around that target. The first chart shows 2s MINUS YoY PCE shows that at about 50 bp now, we're near the recent wides and to get wider you'd have to go back to 2008-9 when PCE was lower (under 1%). By this measure, 2s are into a 'value' area relative to PCE, which begs the question 'whither 2s?'




I'm glad you asked that. This next chart shows Fed Funds projected to a mid target of 2.375% in December (implying three more hikes) and a steady spread to 2s. In the event, at 86.5 bp, we'll have 2s around 3.25%. This seems very unlikely unless the projection is for even more aggressive moves by the Fed. In the past hiking cycles, from the middle of said cycle on, 2s/Funds tended to narrow and then narrow sharply as the end of such a cycle enters the liturgy.




The mean spread between 2s and YoY PCE has been 24 bp since 2000 and 138 bp going back to 1990. I don't think we'll see it return to that era when YoY PCE averaged 2.3% from 1990-2000 because I think the Fed will be vigilant against such a 'norm' and between debt and demographics I think growth will be slower than during those days. So, take the middle spread, i.e. 75 bp difference between PCE and 2s. This, too, would suggest a 2.75% potential, 3% generously, all things being equal. I'm not sure that would give us an inverted curve, but certainly, against 3% 2s, a very flat one.

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

# US Inflation - Fed Stirred But Not Shaking Markets

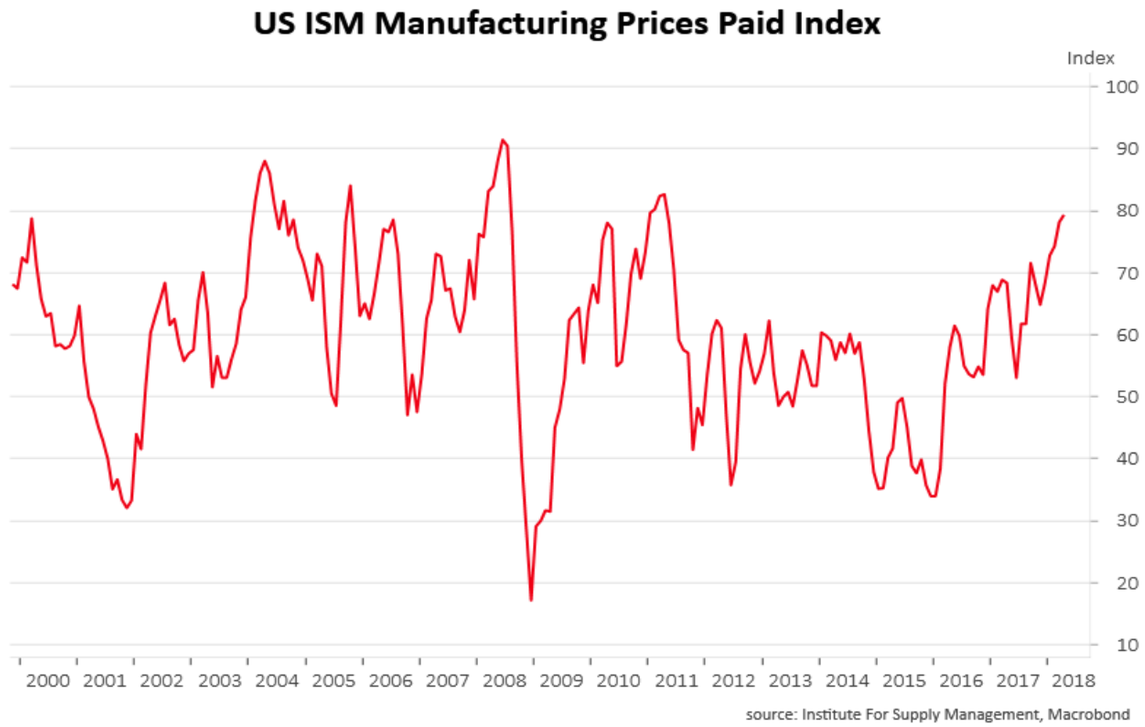
*By Marcus Dewsnap, Senior Editor/Analyst &*
*Ed Blake, Chief European Fixed Income Technical Analyst*

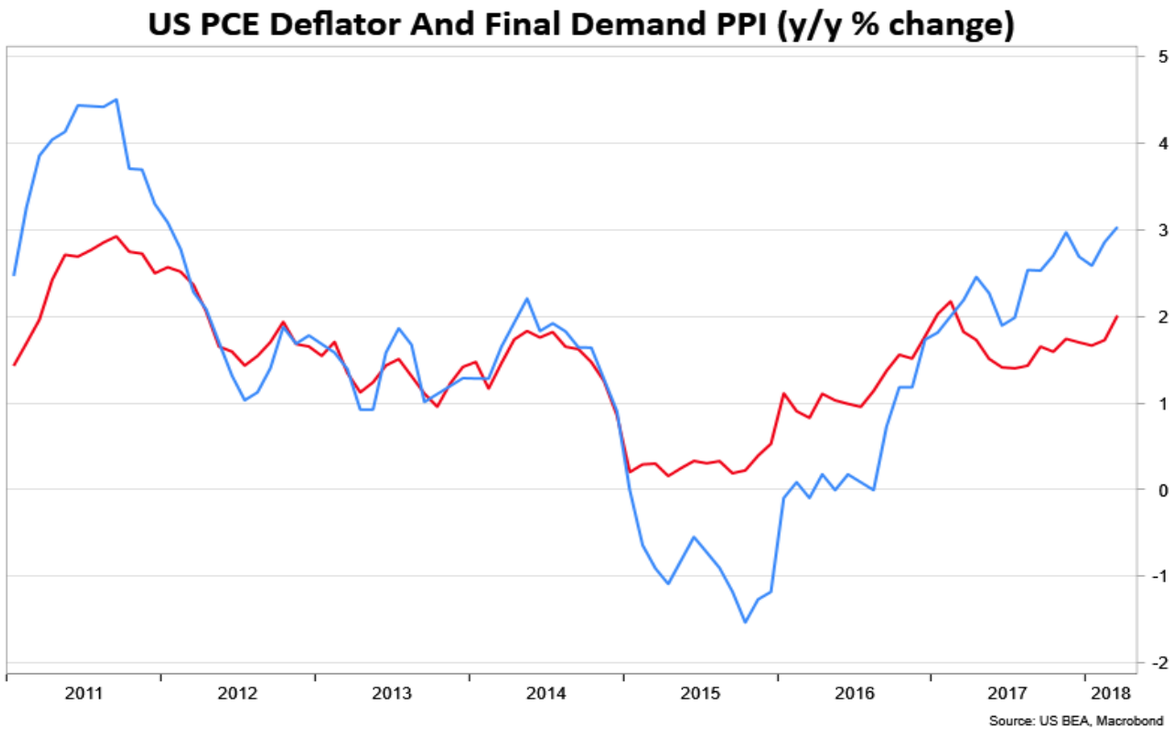
It is interesting that the Fed decided the inflation situation warranted the following line in its statement (my italics):

'Inflation on a 12-month basis is expected to run near the Committee's ***symmetric*** 2 percent objective over the medium term. Risks to the economic outlook appear roughly balanced.'

The word 'symmetric' caught more than a few folks attention – seemingly to prevent any market overreaction if the PCE deflator pops up over 2% for more than a few readings. It is also a reminder that expecting a central bank to hit 2% with unerring accuracy time and time again is … well, lunacy (given this, i'm not sure why stating symmetric should be perceived as dovish either, but it is likely to raise questions such as - what rate is too fast? and ... at what point does time above 2% become too long?). Further, readings of up to say 2.5% do not necessarily mean the economy is overheating to the extent that significantly faster rate hikes than one 25bp per quarter are warranted. Nor for that matter, does it mean that the Fed is failing in its inflation mandate. The problem comes if the market perceives inflation is on a sustainably faster track and that the Fed will have to react.

There is, however, some evidence that pricing pressures are beginning to build. ISM manufacturing prices paid garnered much excitement last week. The 79.3 outturn is the highest in 7-years or so. Do note that typically when such levels are reached, a pretty dramatic fall tends to follow. Even so, prices paid in the non-manufacturing sector are also trending higher.

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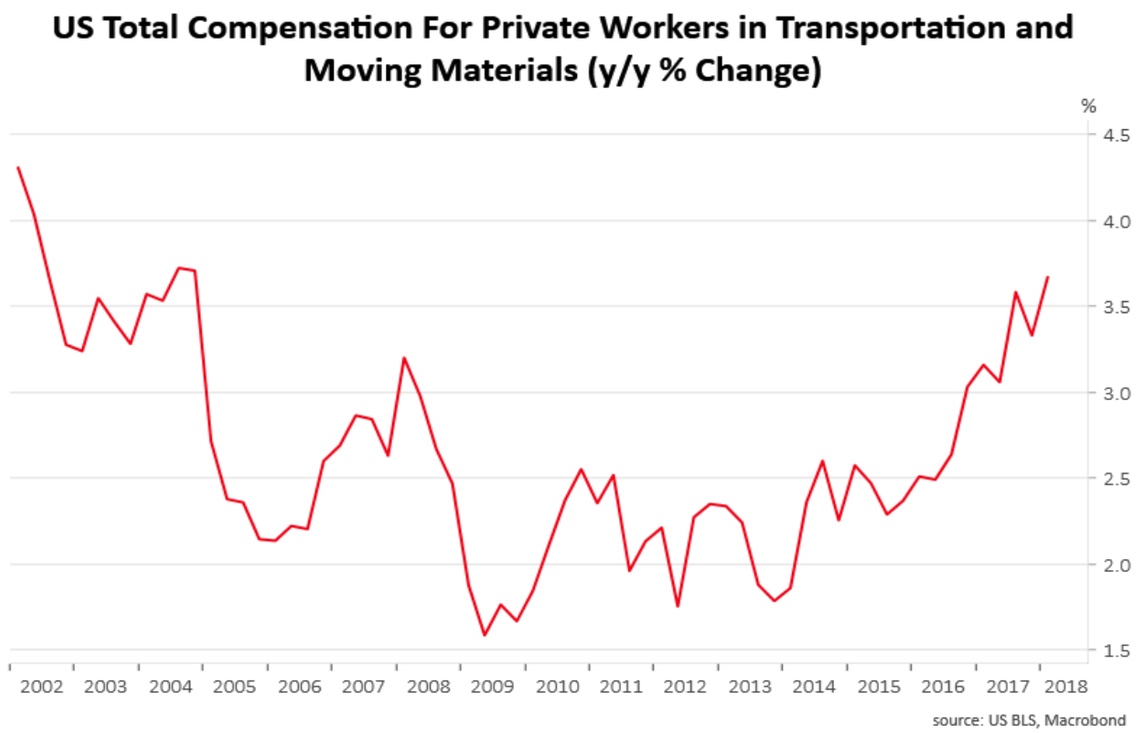
# US Inflation - Fed Stirred But Not Shaking Markets … Cont'd

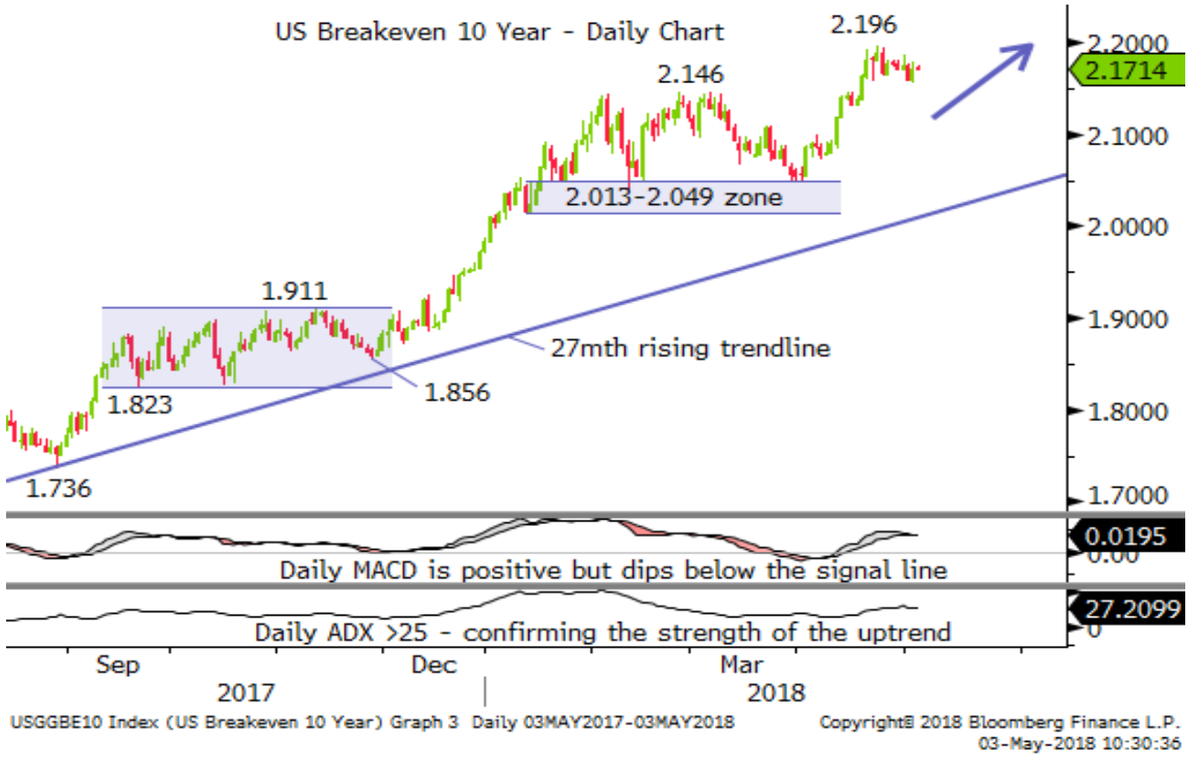
PPI has been steady accelerating … but a lot can happen to a price before it gets to the consumer.

However, there is general directional correlation with PCE. And this is without that constant 'missing puzzle', wage growth. Even here, companies in the transport sector bemoan the difficulty in hiring staff. Truckers in particular seem in short supply and he recent ECI (headline sub-2.7% y/y, fastest since 2008), this sector's pay growth has accelerated significantly (see next graph).




Part of this maybe structural/regulatory, but for some time now, companies in general have been talking about tightening labour markets and accompanying wage pressure. And it seems there are more logistical issues in the form of capacity bottlenecks appearing (whatever happened to the great infrastructure plan?).

This is not a suggestion that there is an inflation 'scare' around the corner, nor for that matter that the Fed is going to either redefine/remove 'gradual' from its language to imply a pace of rate hikes faster than the generally accepted 25bp quarter. Breakeven rates, although higher than at the start of the year, have settle around 2% between 2s and 10s (and recall, these are based on CPI which tends to be higher than the Fed's favoured PCE measure). Technical Analysis (see below) does suggest scope for a higher 10-year BEIR.




If anything, current pipeline pressures support the notion of 1-hike per quarter as the FOMC looks to ***cap*** inflation at circa 2% y/y. Do listen out for Fedspeak, between now and the June meeting, in particular, attempts to jawbone the market into pricing closer to 3 more hikes this year – also, and this applies to Fed talk for the next several months, any change in nuance which implies pipeline pressures are beginning to concern the Fed enough to prepare/suggest a move to a faster hiking schedule is at least a feasible option. This would be highly likely to shake the market.

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# The Gbp Week - Bias Is Bearish (But ....)

*By Tony Nyman, Head G10 FX*

Expected Gbp/Usd trading range is 1.3450/1.3650.


See above, that's the consequence of a bad data run. From 1.4377 highs on Apr 17 the -6.0% decline has coincided with:

- IP 0.1% m/m
- NIESR GDP est0.2% (vs 0.3% f/c, revised softer 0.1 last)
- RICS house price balance 0
- AWE 2.8%
- CPI 2.5% y/y
- Retail sales -1.2% m/m
- Q1 GDP 0.1% q/q (0.3%)

We now suspect a 1.3700/20-plus reclaim will prove a tough assignment near-term. You remember the ***BOE who meet this week.*** Before that bad data run, it was near 100% probability that Carney and co would be tightening in May. Now, it's down to 11.7%.

Despite the concerns over a UK slowdown (or something worse), renewed concerns, Brexit (NI hard border, customs union) and the state of British politics, as yet there has been no sustained break below the 200-dma (1.3540/45) and the psych 1.3500. That's not to say it's not coming, but to an extent that will depend on the broader Dollar.

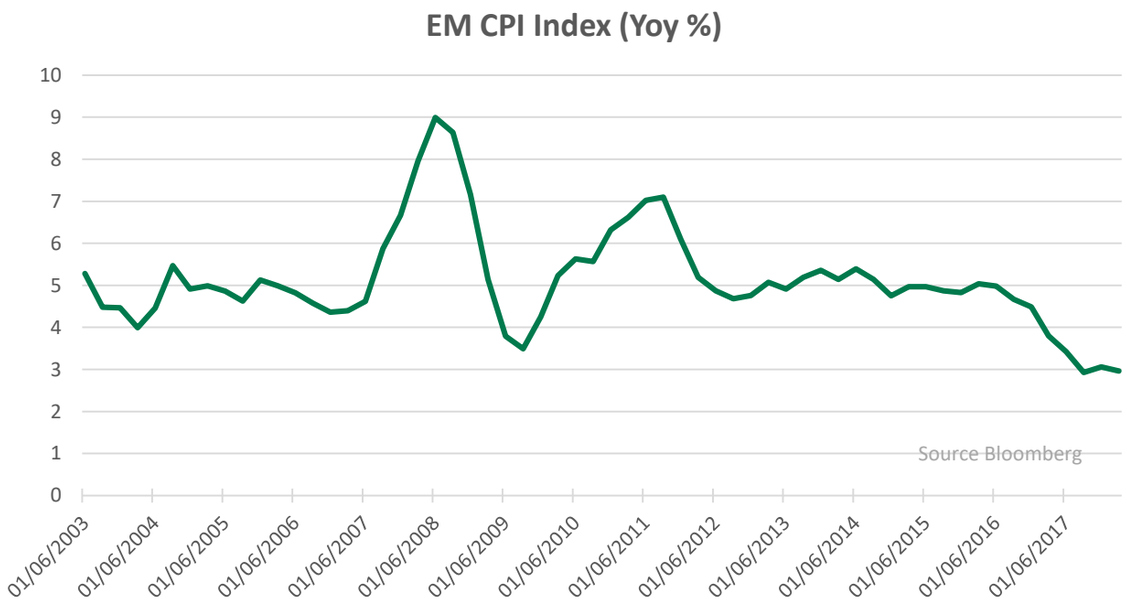

**RISK** - How about things potentially Gbp positive?

- Have we seen 'Peak Corbyn'? Labour did not do as well as hoped in last week's local elections and today *The Times* writes Senior European officials have stated concerns over a future Labour government's economic policies are the main reason for the EU's insistence on a tough "level playing field mechanism" in a future deal after Britain leaves.
- August BOE rate hike probability is fairly steady above 50%. There is a feeling that the MPC is keen, not desperate, to continue on the path to normalisation. Could hints that an early H2 tightening is coming get the Pound back on track?

# Is Emerging Market Inflation On The Turn, And Do Investors Need To Worry?

*By Chris Shiells, Emerging Markets Managing Analyst*

Next week brings a host of April CPI releases, with figures so far showing a firmer trend from March. With the slump in EM FX in April/May), there are fears that these could push up inflation expectations and with that force central banks to tighten policy, potentially slowing EM growth. However, a broad measure of EM inflation (via Bbg), shows that CPI has not been this low since 2009, so should investors worry?




The recent EM FX sell-off is leading some to question if the inflation and interest rate cycle is on the turn. A mixture of the below factors suggests they are.

- Base effects.
- EM GDP is widely expected to expand ca +5% this year closing output gaps and putting pressure on prices and wages.
- Soaring energy and metals prices, which will increasingly show up in EM inflation.
- EMFX weakness that will result in pass-through inflation pressures.

Over the past month, EM FX weakness, driven by rising US yields, has led to some reactions from EM central banks, and continued currency weakness is likely to encourage more EM central banks to tighten policy, but they are coming from a low base and inflation pressures remain contained.

So far there has not been a strong relationship between US rates rises and EM policy tightening, which suggests that Fed normalisation is unlikely to result in a sharp hiking cycle by EM central banks. In fact, markets are pricing in a smaller degree of rate hikes in EM countries than in the US (see table).

| Country | Change in Market Implied Policy Rate (1yrs time) |
|---|---|
| US | +70 |
| Romania | +168 |
| Brazil | +73 |
| Malaysia | +69 |
| Korea | +49 |
| Turkey | +46 |
| Russia | +3 |
| S.Africa | -10 |
| Mexico | -19 |

Source: Bloomberg

Thus, for many, subdued inflation and remaining spare capacity should keep emerging-market monetary policy normalisation gradual, even if growth remains sturdy and the Fed continues along its tightening path.

Hence, so far there has been no repeat of the 2013 taper tantrum, whereby investors flooded out of EMs due to fears of Fed tightening:

Flows have softened over the past month, but due to a broad improvement in EM macroeconomic fundamentals since 2013, particularly their current account balances and their encouraging return to growth, investor sentiment has not yet completely turned, and anyway, as the graph below shows periods of rising EM inflation have not necessarily led to EM Bond Fund outflows. However, memories of the Taper Tantrum and a large increase in EM countries loading up on

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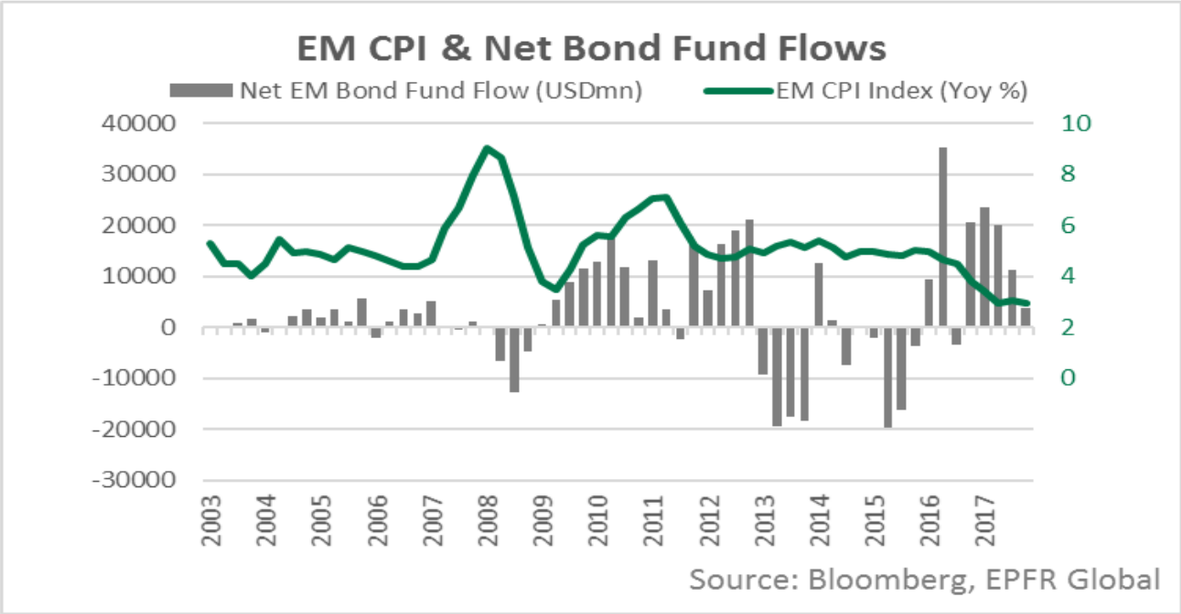
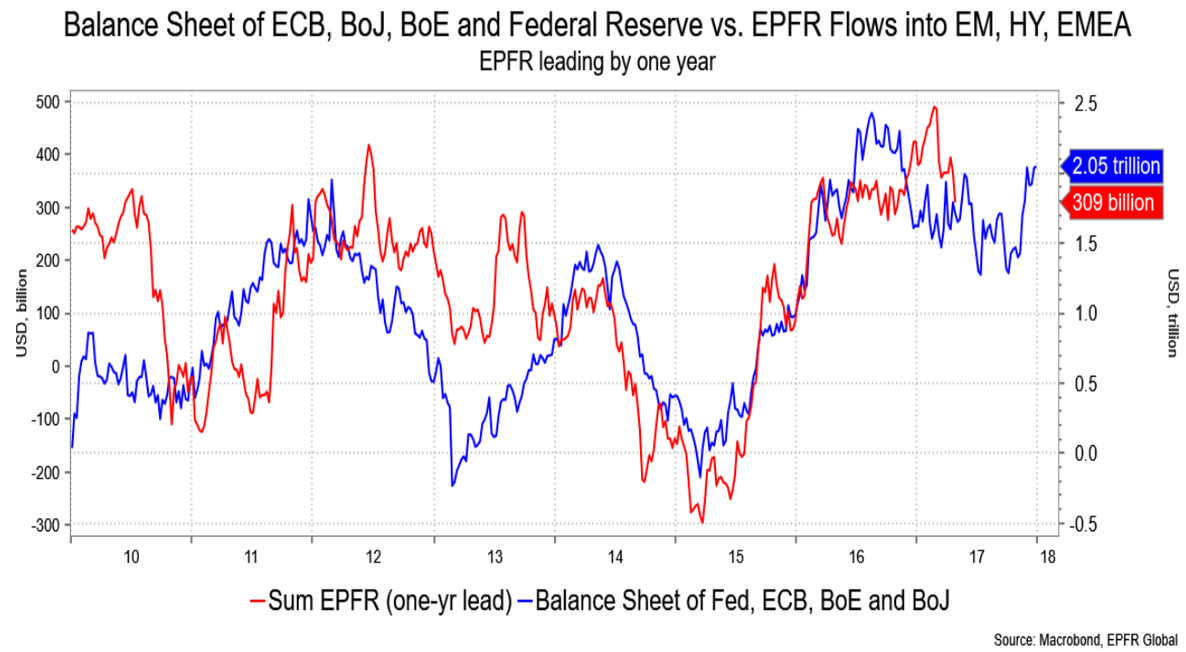
# Is Emerging Market Inflation On The Turn, And Do Investors Need To Worry? … Cont'd

external debt, will continue to beg the question does it make sense to invest in Emerging Markets amid tightening financial conditions?




The next graph suggests not. It shows that as global central banks have expanded their balance sheets that flows into EM, HY and EMEA funds have picked up. It should follow that as central banks unwind their balance sheets, liquidity (logically) is reduced - and what the central banks stop buying, or sell, will have to be absorbed by the market – resulting in outflows.

However, looking at EM flows specifically, this relationship breaks down a touch. The three QE sponsored trades - the Dollar, US stocks and European bonds - actually forced flows out of EM. This is the counter argument to the hunt for yield, which has been presented by Ashmore, where by only since the Fed began increasing rates in 2016 have Emerging Market flows returned, as investors realised these were the only markets to have cheapened outright during the QE years.




In conclusion, even if CPI is turning in Emerging Markets, it is coming off a historically low base, and thus the reaction function of EM central banks is expected to be gradual, even amid Fed tightening. The flows data suggests that rising EM inflation and/or US yields have not in the past forced outflows from Ems, and if the above QE theory is to be believed then the unwinding of the Fed's balance sheet could lead to a continuation of inflows.

# Seasonality In May?

*By Tony Nyman, Head G10 FX*

Very early days, clearly, but the Dollar is up across the board in G10 land from +0.2% CAD +0.6% GBP and +0.9% SEK.


How about May generally? Does this month tend to bring USD outperformance generally or do seasonal trends result in losses? Also, are there any other G10s that perform particularly well or badly in the month of May (similar to how Gbp's strongest month is April apart from this month!).

- Last year, the USD was a near total loser, flat vs GBP and then making -3.0% losses vs both the CHF and EUR. Only USD gains made were vs the AUD +1.3%.

- In 2016, the reverse, the USD won out everywhere, from +1.3% GBP to +4%-plus vs CHF, CAD, NOK and SEK and then +5.7% the RBA weighed AUD.


- In 2015, the USD lost out against GBP -0.9%, but won out everywhere else during the month, from +0.8% CHF to +3.2% JPY and +6.0% vs the RBNZ weighed NZD.

- In 2014, it was a more mixed picture. Light USD losses were seen vs AUD, JPY and CAD (-0.4% to -1.0%), with USD gains elsewhere, from +0.5% NOK to +2.7% SEK.

- In 2013, again USD gains across the board, from +1.4% EUR to +3.0% JPY and the beleaguered Antipodeans +6.5% NZD, +6.9% AUD.

- In 2012, only the YEN won out vs the USD at -2.3%, with between +4.6% gains vs CAD, +6.5% area up vs NOK, CHF and EUR and then approx +7.5% SEK, NZD.

- In 2011, it was another relatively strong USD period. Light losses were incurred vs CHF and NZD (-1.3%, -2.2%). USD victories everywhere else in G10, ie +0.4% JPY, +2.5% area NOK, AUD and SEK, with highest vs EUR at +2.9%.

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# Seasonality In May? … Cont'd

- In 2010, the USD lost out vs the JPY at -3.8%. Elsewhere, all USD gains, from +4.2% CAD to +7.0%-plus NZD and SEK and then +8.5% area NOK and AUD.

- The outlier. The contrarian month. In 2009, a heavy USD reversal, saw the Dollar lose across the board, between -4.0% JPY to -8.0%-plus GBP and CAD, near -10.0% AUD and -12.5% NZD.

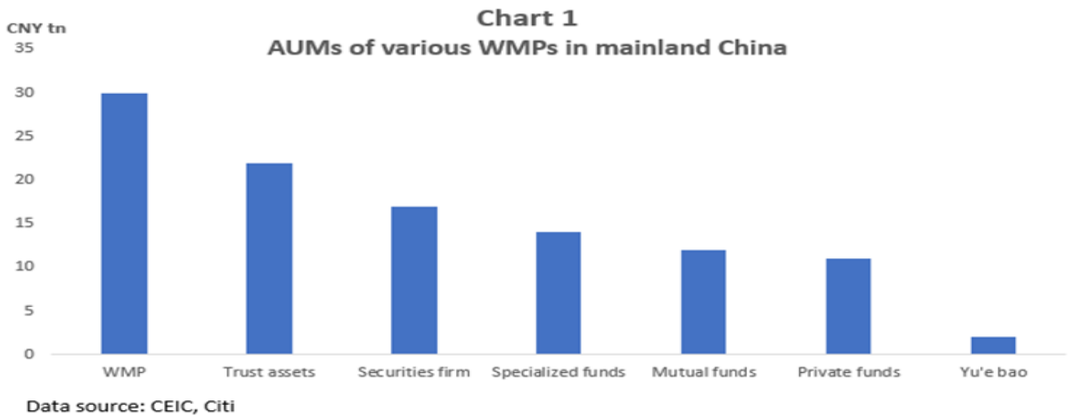

- Ten years ago, more USD losses, -0.4% GBP to -2.4% AUD and-2.7% CAD. Only USD gains made were seen vs JPY at +1.0%.

So, the USD tends to be strong in May, while the Antipodeans, particularly the AUD prone to lose big. See below.

# China Insight: Laying Out China's New Wealth Management Product Rules

*By Tim Cheung Head of China, Riki Zhang EM Analyst*

After a multi-month consultation that started in Nov 2017, Chinese financial regulators on 27 April announced new rules on the CNY100tn wealth management products (WMPs) industry (see chart 1 and chart 2), effective immediately. The new rules cover most WMPs offered by most financial institutions (FIs), including banks, trusts, brokers and asset managers. Different from the past in which different sectors were regulated by different authorities, the whole industry is now placed under the PBOC's supervision. Meanwhile, regulations are structured along the product types, rather than by sectors, with unified standards for each product to reduce regulatory arbitrage.





The new rules, if enforced without reservation, will go a long way to addressing many key industry issues, including:

1. No principal/return guarantee, either explicit or implicit, allowed. NAV-based pricing is now strictly applied. Meanwhile, guarantee on non-standard credit asset (NSCA) or equity asset is also banned.

2. Leverage (asset/net asset) for public and private WMPs are capped at 140%/200%. FIs cannot use WMPs as collateral(s) to further leverage up.

3. Publicly raised funds are banned from investing in NSCA, while privately raised funds are allowed subject to requirements on size, duration and liquidity.

4. Duration mismatch is allowed for investment in standardized assets. For NSCAs, the maturity date cannot be later than maturity date of close-end WMPs or the next subscription date of open-end WMPs.

5. Channel business is banned in the sense that FIs cannot provide any channel services (say lending) to aid other FIs in getting around regulatory constraints.

6. WMPs are only allowed to invest in one layer of other WMP, except for investing in mutual funds.

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# China Insight: Laying Out China's New Wealth Management Product Rules

7. Investment in a single asset by multiple WMPs of the same FI cannot exceed CNY30bn, unless otherwise approved; investment in a single security or fund cannot exceed 10% of a WMP's NAV; investment in a single security or fund by all WMPs of the same FI cannot exceed 30% of its market value; investment in listed company by publicly-offered/open-ended products of the same FI cannot exceed 15% of its free float; investment in listed company by all WMPs of the same FI cannot exceed 30% of its free float.

8. Non-FIs, including internet companies without a financial license, banned from conducting WMP business.

**More specific implications on banks** are as below:

Stricter recognition of NSCA will likely lead to persistent pressure on new financing and take NSCA back to balance sheet, bringing about additional capital charge and excess central bank reserve.

The extension of the transition period should soothe market concerns on potential liquidity impact. The longer transition period will help avoid a potential shock to the market, especially against a complex internal and external environment.

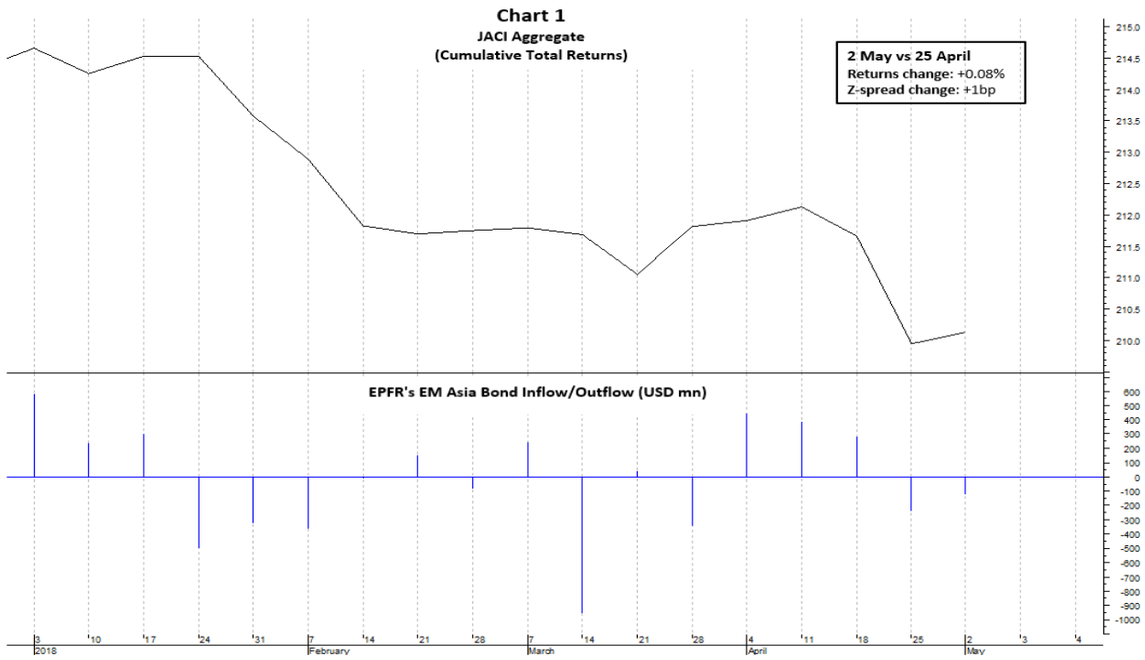
In the long run, this set of new rules will reduce banks' exposure to shadow banking, particularly in their WMP portfolios; in addition, WMP yield is likely to come down and is positive for banks' deposit growth. But in the short run, there is negative impact on fees and capital.

The shutdown of channel business is negative news for infrastructure projects that are financed via local government-related entities. Fortunately, the fiscal reform in recent years, especially the revision of budgetary law and the shift to local government bond issuance, has significantly reduced the importance of shadow credit in this sector.

# Asian Credit Barometer: HY Cheapens, While Indonesia Shows Some Shine

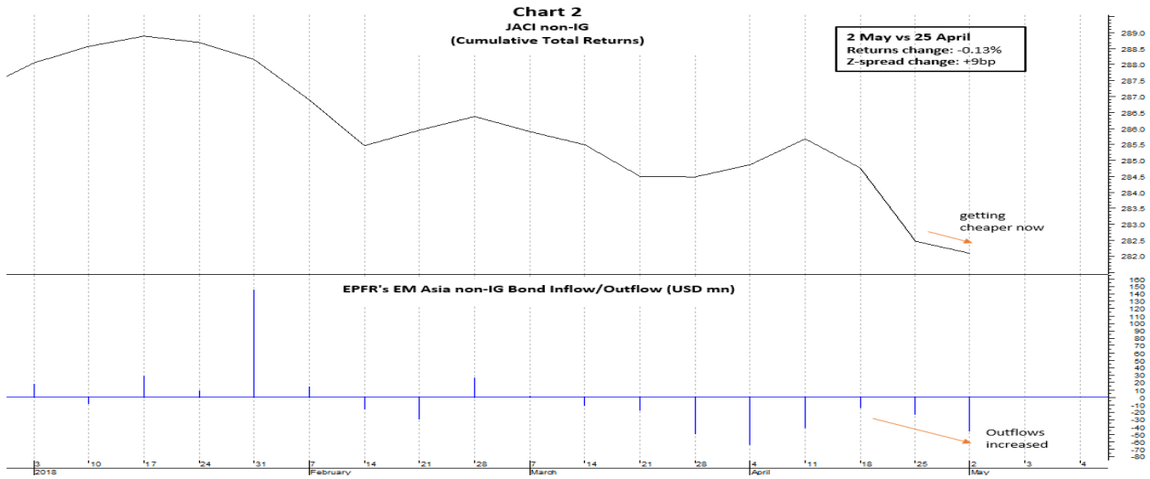
*By Tim Cheung Head of China, Riki Zhang EM Analyst*

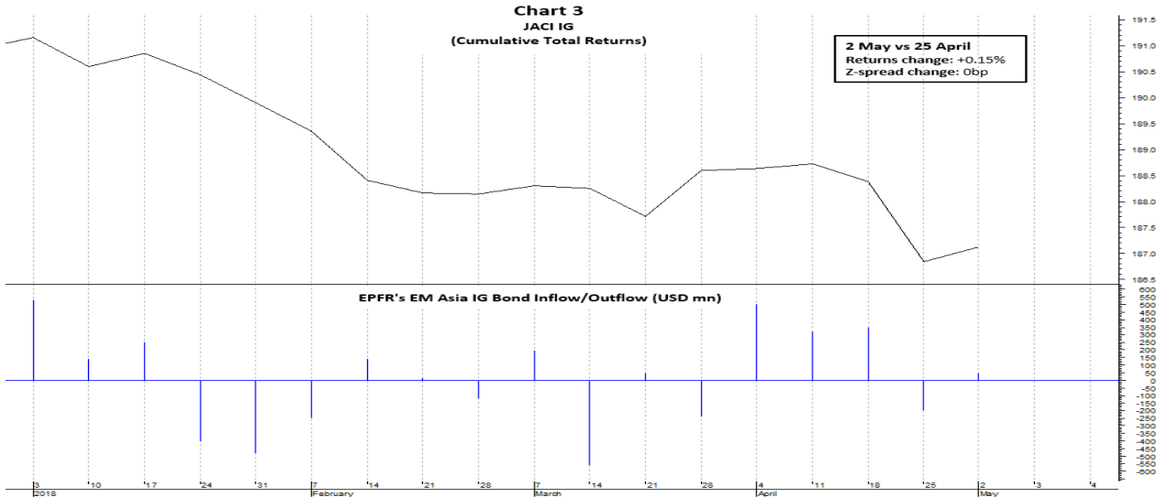
Asian credit outperformed other EM regions during the week to May 2nd, with the JP Morgan Asian Credit Index (JACI) aggregate (chart 1) gaining 0.08% in returns (Z spread +1bp). EM was shaken somewhat when 10-year UST yields surged through the 3% psychological level before pulling back. It seems that bond investors for the time being prefer Asia to other EM regions because of its lower beta.




In the region, the inter-Korea summit was the key event of the week. The outcome of the summit proved positive, offering support to Korea credits. In China, policy makers announced that China will maintain a "proactive" fiscal stance and "neutral" monetary policy. Though the tone was not particularly dovish, people widely believe the latest RRR cut signals the top leaders' growing bias towards a looser monetary stance in light of the escalating US-China trade conflict (note: focus is now on the computer-chip issue).

Along the credit ladder, JACI IG outperformed JACI HY in the week ended 2 May. **Likewise, EPFR data also suggests IG performed better than HY in terms of flows**. While Asian IG credits continue to trade the tightest within EM, Asian HY starts to trade wider than the rest. After the year-to-date supply-driven under-performance, Asia BB is now trading 65bp and 41bp wider than LATAM BB and EMEA BB, while Asia B is trading 150bp and 30bp wider than LATAM B and EMEA B respectively. With a better supply outlook, Asia HY will become a much better bargain than IG if it cheapens further (chart 2 and chart 3).

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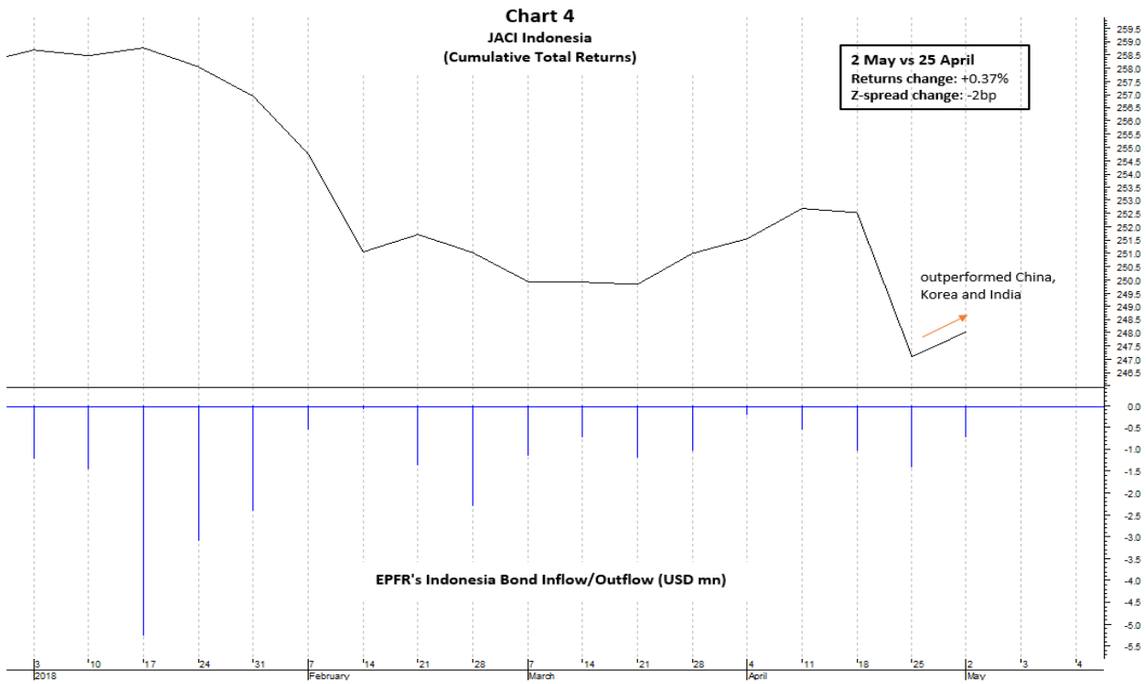
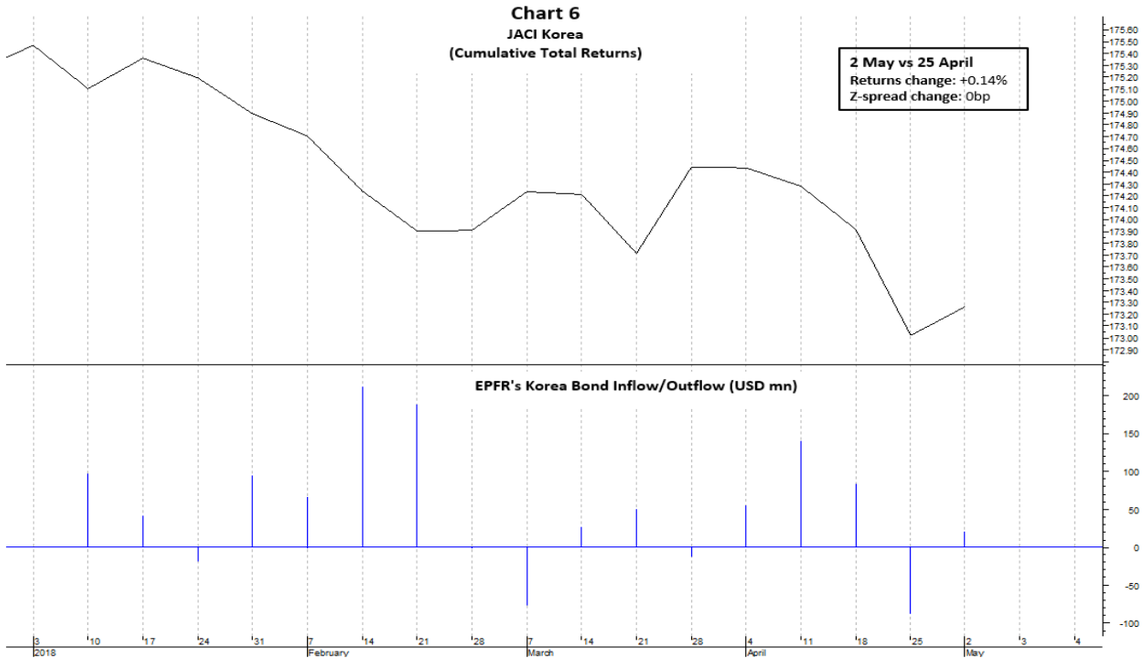
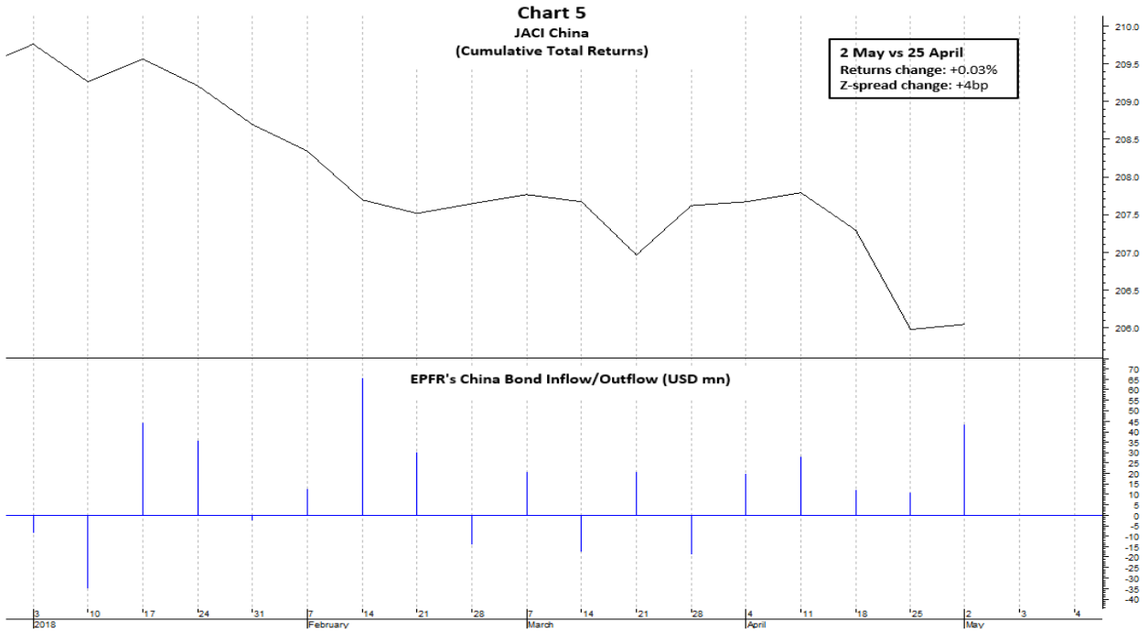
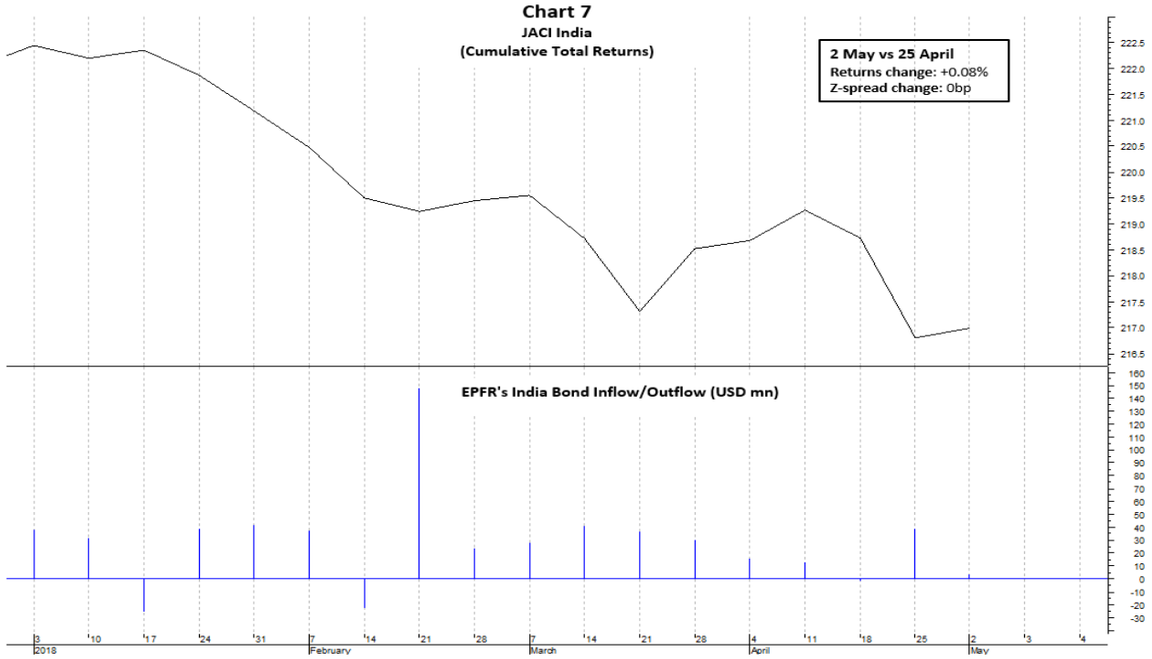
# Asian Credit Barometer: HY Cheapens, While Indonesia Shows Some Shine … Cont'd




Note: The Asian Credit Barometer highlights the potential impact of EPFR fund flow data on Asian secondary market credit performance as measured by the JACI or JP Morgan Asian Credit Index. For more information on EPFR fund flow data, please visit EPFR at http://www.epfrglobal.com

# Chart Watch: Time To Revisit Our Strategy On Chinese Equities

*By Jimmy Lee, Technical Research Analyst*

**Chinese equities have been offered as a positive spin to investors of late**, on the back of a spate of news that includes:

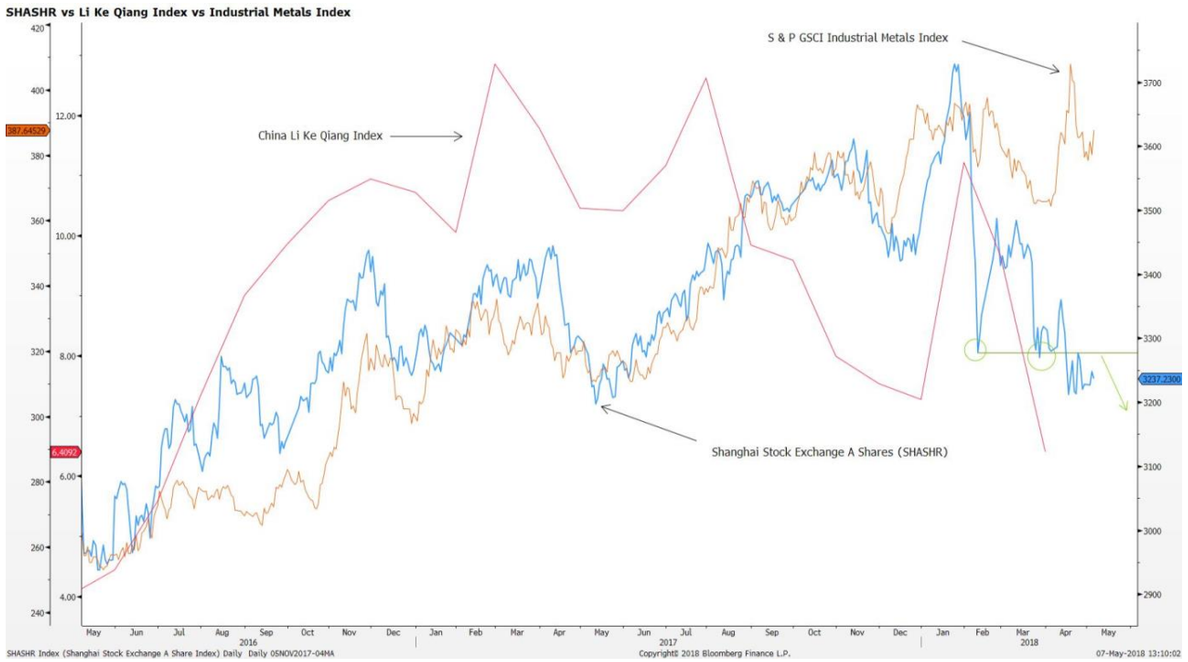
- MSCI's decision last year to include Chinese A shares in its benchmark EM Index will take effect this August, raising the prospect of increased global fund inflows into the Chinese equities market

- China's continued efforts to clamp down on WMPs (Wealth management products) may force Chinese investors with few other investment alternatives to re-look Chinese equities.

There are also those who point to China's GDP growth of 6.8% for the January-March quarter and the recent surge in Industrial metals in April as indicative of continued China growth and added tailwinds for Chinese equities.

That said…
A deeper look at Q1 GDP growth reveals strong exports were offset by **weak infrastructure investment and declining property sales.** (e.g. 7.5% growth in fixed assets investments condominiums/factories compared to 9.2% a year earlier and 3.6% growth in total area of properties sold compared to 19.5% growth a year earlier). We view these as ongoing signs of the Chinese government desires to curb excesses.

One also needs to look ahead at the ongoing trade frictions with the US and factor in whether exports will be derailed in subsequent quarters. We have postulated in the past that this is more than just a trade dispute. Economic leadership in advanced technologies has always been the US domain and a core of 'Made in China 2025 plan' pits China directly against the US in this technological arena. This is a battle of global dominance with plenty of twists and turns ahead and as such, any positive spin from media outlets that says the trade dispute has been settled has to be taken with a pinch of salt.




Per the Chart above, the Li Keqiang index, which measures China's economic health by compiling electricity consumption, rail cargo volume and loan growth, and which some view as a better indicator than official Chinese GDP figures, also remains in a downwards trajectory whilst the GSCI Industrial Metals Index, which spiked in April have also since rolled over.

As such we continue to view the dominant macro theme for 2018/2019 to be a China which will be serious in curbing economic excesses. As the Chinese Government prizes stability above all else, do not be surprised if you start to see Chinese data whipsaw back and forth as they adjust to avoid any full blown crisis from their managed slowdown. By and large though, we expect a heavily managed growth decline to be a strong cap for equities to stage any meaningful rally.

*Continued p17*

# Chart Watch: Time To Revisit Our Strategy On Chinese Equities … Cont'd

On the **SHASHR (Shanghai Stock Exchange A Shares)**, we had prior advocated selling any bounce into the gap down area from 3396.26 – 3339.08. A short trade should have been initiated when the market bounced to 3373.25 on 11 April. However given that the prior mentioned positive forces may indeed act as tailwinds for Chinese equities in the shorter term, we now suggest moving stops just above 3373.25.

That said, our longer term technical picture ties in with our dominant macro viewpoint and remains tilted on the bearish side.


- Attempted recovery left a lower high at 3373.25 (gap down area)
- Price action remains capped under the 50DMA, and the bearish crossover of the 50/200DMAs remain very much intact
- RSI well capped under the bear range ceiling at 60 and MACD still remains under the '0' line
- It will take a break above 3373.25 to ease the bearish sentiment
- Even then, key cluster resistances lie above at 3491.38-3494.08. Only above that cluster suggest a basing picture and cause us to reassess our bearish views

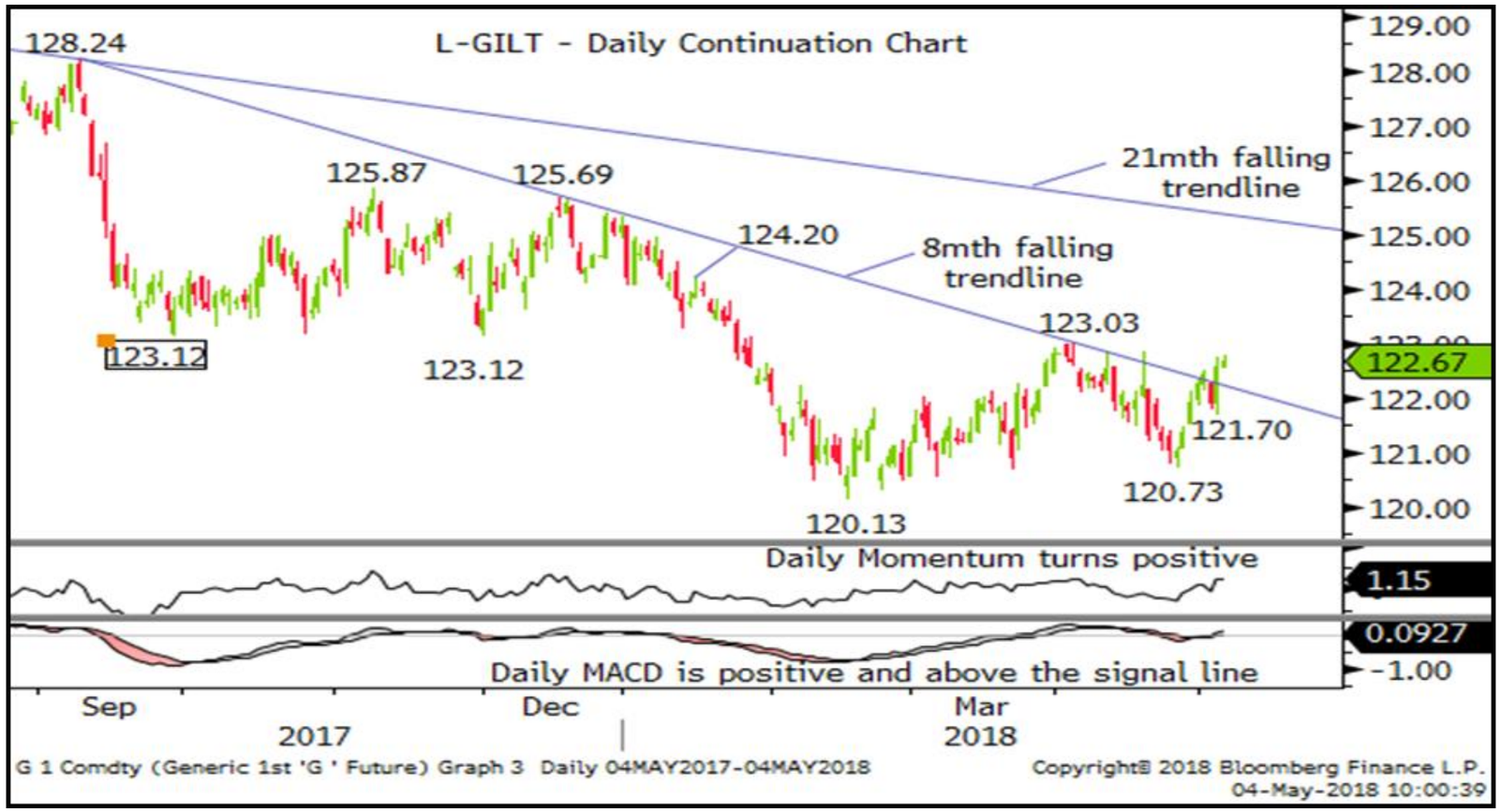
# Gilt Futures – Short To Medium Term Direction Hinges On 123.03

*Technical Analysis by Ed Blake*

- Recovered from 120.13 (15 Feb YTD low) via 120.73 (25 Apr higher low) to breach an 8mth falling trendline.

- Improving daily/weekly studies suggest fresh tests of key resistance at 123.03 (4 Apr high).
- If bulls can sustain a break it would signal completion of a 3mth asymmetric double bottom over 120.13/120.73.
- Short-term corrective upside is then seen to 123.59, perhaps 124.20/66, before the wider downtrend resumes.

- Only a failure over 123.03 and/or loss of 120.73 would avert the current corrective recovery and refresh the broader 21-month downtrend for 120.13 and below




| Resistance Levels | | |
|---|---|---|
| **R5** | 125.42 | 27 December 2017 high, near a 21-month falling trendline at 125.38 |
| **R4** | 124.66 | 50% retrace of 129.19-120.13 fall |
| **R3** | 124.20 | 16 January 2018 high |
| **R2** | 123.59 | 38.2% retrace of 129.19-120.13 fall, nr equality of 120.13/123.03 from 120.73 at 123.63 |
| **R1** | 123.03 | 4 April 2018 high, near 28 September/30 November 2017 lows at 123.12 |
| **Support Levels** | | |
| **S1** | 121.70 | 3 May 2018 low |
| **S2** | 120.73 | 25 April 2018 low, near 21 March 2018 low at 120.69 |
| **S3** | 120.13 | 2018 low - 15 February |
| **S4** | 119.49 | 50% retracement of 106.00-132.97 (2013-2016 rally) |
| **S5** | 118.93 | 26 April 2016 higher low |

**STRATEGY SUMMARY**

Buy into any near-term dips as bulls seek 123.03, perhaps 124.20/124.66. Stop and reverse under 120.73.

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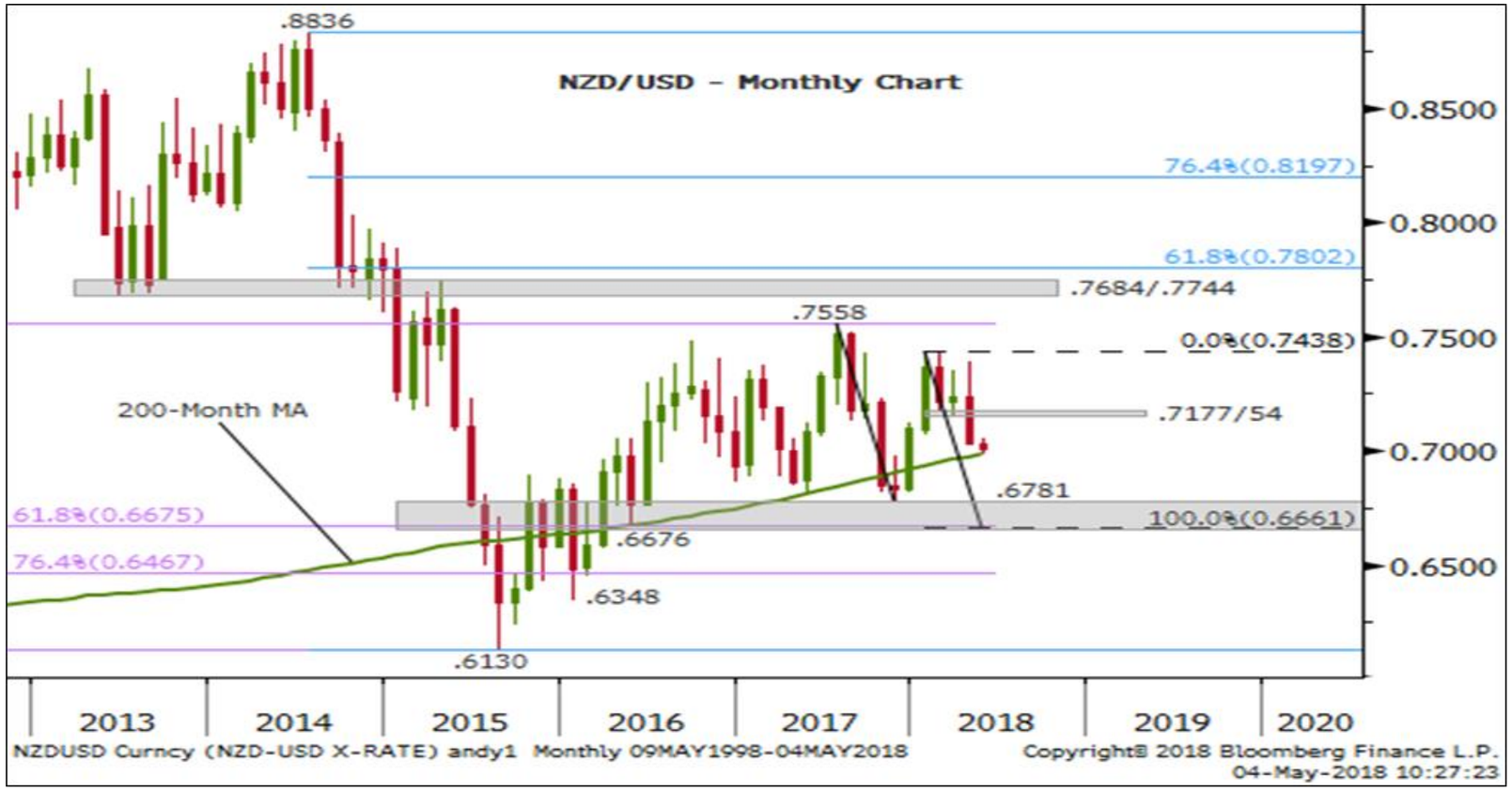
# NZD/USD – A Longer-Term Perspective

*Technical Analysis by Andy Dowdell*

- Continues to trade within a choppy sideways range.
- Wider structure remains skewed to the upside despite recent sharp losses.
- Buyers may attempt to re-group near the 200-Month MA (.6990), which is currently being probed.
- Above .7154/77 turns more constructive, re-opening .7438/.7558 ahead of .7684/.7802.
- A strong support confluence at .6781/.6661 underpins the current price action.




**STRATEGY SUMMARY**

Ranging expected to persist. Dips to strong .6781/.6661 support may present a good long-term buying opportunity. Above .7154/77 firms for .7438/.7558 followed by the tough .7684/.7802 barrier.

| Resistance Levels | | |
|---|---|---|
| **R5** | **.7802** | 61.8% of .8836-.6130 fall |
| **R4** | **.7744** | 29 April 2015 high, near the 24 June 2013 low at .7684 |
| **R3** | **.7558** | 27 July 2017 high |
| **R2** | **.7438** | 24 January 2018 high |
| **R1** | **.7177** | 8 February 2018 low, near the 21 March 2018 low at .7154 |
| **Support Levels** | | |
| **S1** | **.6781** | 17 November 2017 low |
| **S2** | **.6661** | 1x .7558-.6781 from .7438, near 30 May 2016 low/61.8 of .6130-.7558 rally at .6676/75 |
| **S3** | **.6467** | 76.4% of .6130-.7558 rally |
| **S4** | **.6348** | 20 January 2016 low |
| **S5** | **.6130** | 24 August 2015 low |

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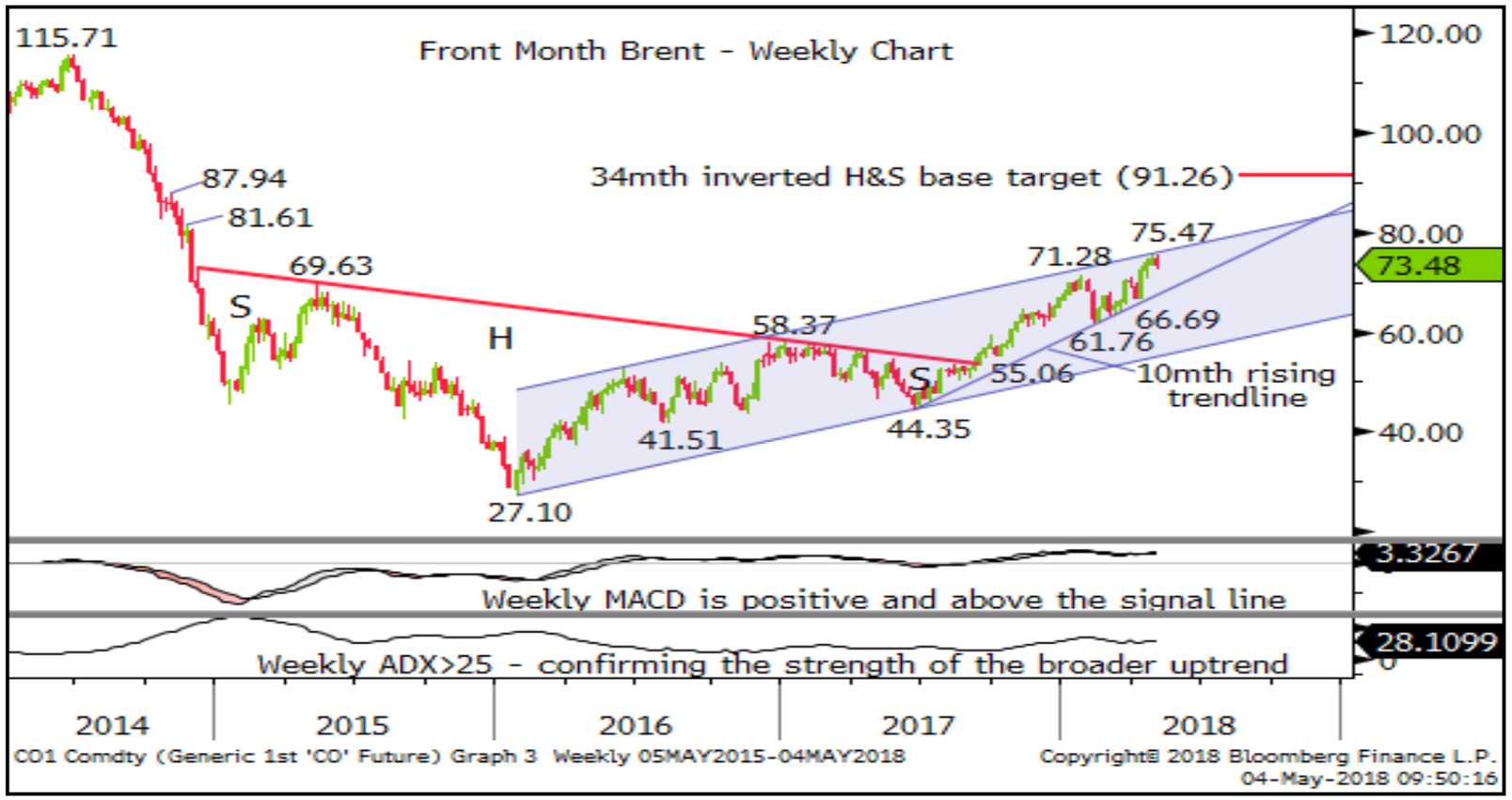
# Front Month Brent – Short Term Pause Before The Uptrend Resumes

*Technical Analysis by Ed Blake*

- Extends strength within a 2¼yr rising channel following the Sep 2017 completion of a 34mth inverted H&S base.
- The market recently peaked at 75.47 (near channel top and a major equality target), allowing corrective easing.
- Daily-monthly techs remain constructive and while near-term dips hold 66.69, watch for the uptrend to resume.
- A decisive clearance of clustered resis by 75.47 would then expose Fibonacci levels at 78.40 then 81.86-83.00 .
- Only the loss of 66.69 would delay and risk a deeper correction to the 61.76-63.19 zone – which should hold.




| Resistance Levels | | |
|---|---|---|
| **R5** | 88.69 | Equality of 44.35/71.28 off 61.76, nr 29 Oct 14 high/1.382 proj'n off 44.35 (87.94/87.57) |
| **R4** | 83.00 | 1.236x 27.10/58.37 off 44.35, near .764x 44.35/71.28 off 61.76 at 82.33 |
| **R3** | 81.86 | 61.8% retrace of 115.71/2710, near 21 November 2014 lower high |
| **R2** | 78.40 | .618 projection of 44.35/71.28 off 61.76 |
| **R1** | 75.47 | 24 April 2018 peak, nr 1x 27.10/58.37 off 44.35 (75.62) and 2¼yr rising channel top (75.89) |
| **Support Levels** | | |
| **S1** | 70.83 | 17 April 2018 low, near 25 January 2018 former high at 71.28 |
| **S2** | 66.69 | 4 April 2018 higher low, near a ten-month rising trendline at 67.37 |
| **S3** | 63.19 | 1 March 2018 higher low |
| **S4** | 61.76 | 2018 low – 13 February, just over 17 November/6 December 2017 lows at 61.08/61.13 |
| **S5** | 59.49 | 26 September 2017 former high |

**STRATEGY SUMMARY**

Buy into near term corrective easing towards 66.69 for an uptrend resumption targeting 81.86/83.00. Stop under 61.76.

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