Weekly Market Focus

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ASSET CLASS REVIEW

Lithium/Cobalt

- Battery Technology: While the transition to nickel-rich cathodes remains a closely watched development, all signs are for a more modest penetration of 811 chemistry than previously expected. Challenges with stability as well as declining power density with cycling remain significant enough to curb adoption. Solid-state electrolytes continue to see major R&D efforts, but commercialization remains in the future.

- Lithium Market: Lithium demand is on pace to continue to double every five years, as battery costs decline and battery size per vehicle grows. Meanwhile despite announcement of many projects new supplies of lithium chemicals are expected to be at lower volume and quality and higher costs than planned. $10 BB in investment is needed to bring capacity in line with expected demand over the next decade. Pricing is likely to remain high, as marginal cost of new supply that makes its way into batteries is greater than $10,000 / t.

- Cobalt Market: Despite the promise of nickel-rich technology, adoption remains slow because of safety and performance. Meanwhile, new supply from existing miners is not impacting prices, as much of the material is not hitting the metal market as it is an intermediate salt form. The necessary level of incentive pricing for new supply still remains unclear, and financing of new cobalt-dominate resources remains in its infancy. Pricing is expected to remain high.

Battery Technology: On the battery technology front, there are two main themes that are being closely watched, both promising to cut costs of batteries for EV applications significantly as well as reduce the per kWh usage of materials.

Nickel-Rich Cathodes: The outlook for a limited increase in the near term for new supplies of cobalt is driving a push to use the metal more efficiently. As is widely known for those following battery technology closely, the so-called 811 cathode chemistry uses significantly less Co than the older 111 chemistry and additionally boosts the energy density. However, the pace of adoption remains an important question. While using less cobalt is a key driver for the transition to 811, performance declines at a faster rate with cycling than for the older technology where the cobalt acts as a stabilizer. This continues to limit the applications for 811, and raises safety concerns.

Solid-state Electrolytes: R&D is being conducted worldwide within government-funded labs as well as leading battery makers to bring solid state electrolyte technology into broad commercial adoption. Noting how long such development takes, one presenter pointed out that the second generation solid-state technology was introduced as early as 2000, but later generations remain far from commercialization.

Longer Range Battery Packs: Chinese regulations and subsidies aimed to boost range and quality have resulted in automakers installing more kWh of batteries per vehicle. Along with rising EV sales, this is cutting the advantages of a transition to Nickel-rich chemistries, as aggregate demand for both lithium and cobalt continues to grow faster than supply despite an increasingly efficient use of both materials.

FOREX

In geopolitics, Pres. Trump's comments over the weekend that the North Korean nuclear crisis remains unresolved has had a muted impact on risk appetite. Other focus' this week is Thursday's ECB meeting where the GC are expected to be dovish following Draghi's comments last Thursday. The DXY Index found support on its 13 mda at 89.80 and bounced 2% to 91.00, a key pivot area which marks support resistance lines from Sept2017. Key focus for currencies this week is Thursday's ECB meeting. CFTC data confirms massive net long Euro positions still embedded, so further dovish comments from Draghi could see more pain to the downside towards the 2017 high of 1.2090. High beta and commodity currencies suffered most last week in the wake of higher US yields. This move raises concerns for carry trades. MXN and NZD lost over 2%, but the move in the EUR and GBP caught the market's attention. More on this below.

EUR

Focus this week is Thursday's ECB meeting. Much attention will be on Draghi's testimony following his comments last week where he underlined the slowdown in the economy for Q1 2018. We see this as his attempt to prepare markets for a slightly dovish speech on Thursday, tilting risks to the downside. Decisions on the QE programme are still a couple of months off and rate rises remain a distant consideration at this stage. Despite this, focus will be on Thursday's ECB communiqué looking for hints that officials are preparing the ground for an announcement in June, and that stimulus is to come to an end by the end of the year. We do not see the ECB straying too far from the present mantra, despite Q1 weakness. We see the ECB looking through this data, seeing the present slowdown as transitory, and will take comfort in the recent PMI data. This strength signals that EZ growth remains on a solid footing despite an expected sharp slowing in the economy in Q1.

The Euro has recently displayed a more sensitive reaction to weaker EZ data demonstrated by Monday's price action. Weaker growth data and a dovish ECB would further drive the Euro lower. As noted we see Draghi more likely to temper expectations for the announcement of an end to QE. His comments last week did indeed dent Euro strength, however let's not forget the USD side. Recent renewed strength is having a greater effect on the exchange rate than Euro weakness. Monetary policy comments do little to Euro direction as the market is content in assuming an end to QE is inevitable.

EURUSD has been in a consolidation phase thus far this year, remaining within a 1.2150/1.2550 range. Drawing conclusions from a weekly chart, it can argued that EURUSD is merely within a bull flag pattern awaiting a fresh breakout higher. Support for EURUSD on the flag lines coincides with the 2017 pivot of 1.2085/90. At this juncture the path of least resistance is to the downside. Momentum indicators suggest further weakness is in store. Believing that EURUSD is in a corrective consolidation period, we see support awaiting at 1.2150/60, the YtD low. Below that ultimate support is found at 1.2090, the 2017 high and crucial pivot for the common currency. The topside is capped by the convergence of the 13 and 55 mda lines and above that, 1.2360, the underside of the multi-year trend line. Picking direction from here is difficult as prices are mid-range. Bulls can draw some small comfort in the three day morning star candle pattern suggesting intraday consolidation.

We still prefer to buy on dips and will join market demand to buy on probes towards 1.2150. Failure here opens to door to 1.2090, also the 200mda line.

GBP

BoE's Mark Carney executed a 'volte face' with regards the MPC's current view on future rate hikes. Carney last week attempted to calm the market's expectations of a May rate hike, which was, and had been pricing a 85% probability of a 25 bps move for some time. His comments have pared expectations to a 50% chance of a hike. This clearly sends a signal that a May hike is now not a foregone conclusion. Why would Carney reverse the consensus trade if the BoE was not content to move rates next month.

Carney described recent UK data as "mixed", and said there could be differences of opinion among policymakers at their next meeting. This puts into doubt widespread expectations of an interest rate hike. His comments in March suggested that rate hikes would be needed, as spare capacity is eroded. Perhaps Carney believes that the market is too optimistic on future path of interest rates and he merely just wants to dampen this expectation. This week's GDP figure may be the final nail in the coffin.

BoE Mark Saunders' comments following Carney's rhetoric may support this argument and he sticks to his call for a May hike. Just to note, economic data has been mixed in the UK, Inflation has fallen back to 2.5% YoY having touch 3% late 2017. Unemployment is at lows not seen since 1977, however the BoE expect growth to remain between 1.5% and 2% this year. It was only recently that the BoE were preparing the interest rate curve for future hikes. This supported Sterling considerably over the past quarter, overshadowing the Brexit tail risk.

Technically Sterling is unlikely to move much ahead of the May10th MPC meeting. Cable may come under further pressure from the USD side of the trade if US rates continue to edge higher.

The pound has seen a 3% correction from the Apr highs of 1.4377 to 1.3910. I do not see reason for concern here. The move lower seems corrective in nature. The weekly and monthly charts still express prices that sit comfortably within the bull trend channel, strong support at 1.3710/30. Daily charts reflect a decent clear out of fast money longs. Cable at 1.3860 sits just above the 76% level of 1.3870 of the Feb/Apr upswing that discounted the potential May hike. This area should see some light demand and is a good entry point for those looking to capitalise on a quick bounce back to 1.3960. Momentum on the 240min chart suggest the sell-off is looking tired with recent candles indicating an interim bottom in place just above 1.3900/10. For longer term investors looking to build on bullish positions, patience is warranted until prices extend lower back to the trend at 1.3730/50.

Risk errs towards a further leg lower should 1.3860 fail to provide support. Stronger support rests at 1.3720/40. This area draws on clear support of the Mar2017 trendline and the March'18 low. Support below this area is at 1.3712, the Feb low. A close below here would signal caution and would bring fresh bears into the market as this level confirms the potential Jan/Apr double top. Measuring this pattern sets a medium term downside objective of 1.3100. We attach a low probability to this scenario. Resistance to the topside intraday is 1.3965/70. Above that, stronger resistance is at 1.4010, the 55 mda. Should we see a reversal higher 1.4230/40 will cap any intraday advance.

In summary, the pound may continue lower on the near term. I see little advantage buying here, (1.3945) preferring to wait for 1.3860 (76% fibo) with tight stops towards the figure.

USD

Interest rate differentials seem to be driving the dollar. The FOMC is tightening monetary policy waving adieu to the years of expansionary monetary policy as well as zero percent interest rates. Small signs of normalisation are here. Inflation expectations are beginning to be anchored again so that fluctuations in the key rate determine real interest rates. Hence, rising commodity prices are impacting long term rates, and consequently a stronger dollar.

Looking to the price, the dollar rallied over the past few sessions, catalysts being supportive economic data, new debt supply, and yields on US 10 Yr Treasury flirting with 3%. Equities, as noted have been mixed. Tensions over a potential trade war between the US and China appears to diminish. Also supporting a stronger dollar was North Korea, who pledged to curb its nuclear ambitions.

The USD index has finally broken higher, through the 90.50 resistance we had been telegraphing for some time. Prices now need to remain above the consolidation triangle that has housed the dollar range in 2018. Resistance higher is at the current level of 90.95, the 2017 low, and above that at 92.50/51, the Nov/Feb pivot line.

Looking at the broader picture, DXY has traded higher through the multi-year sloping trend line from 2016, (The Trump Dump). Supporting the case for a stronger dollar are the momentum indicators, MACD and RSI.

JPY

Dark clouds continue to gather over the head of Japanese Prime Minister Shinzo Abe. His approval rating have dropped to levels not seen since 2012. Questions will be asked about BOJ Kuroda's future should Abe be forced out. Meanwhile Kuroda remains confident that the 2% inflation target will be met. He cites the central bank must continue very strong accommodative monetary policy. "Sometime within the next five years, we will reach [our] 2 percent inflation target," (Don't hold your breath) USDJPY remains supported by US rates direction. We were unlucky last week suggesting to buy USDJPY at 106.80, the low been 106.88. Since then the pair has rallied 220 pips on lessened geopolitical risk from Nrth Korea and a sharp move higher in US10Yr yields. USDJPY having moved higher from the 106.60, the April base, now sits higher on the 50% Fibonacci level of the Year to Date sell off at 109.15. This area also is mildly capped by the 100mda. Some intraday consolidation may occur here, as this chimes with a 3% yield on the US10Yr.

Bigger picture, now that 107.90 resistance is behind us I see further room to the upside from here. Monday's move was strong on good volume, suggesting new longs entering the market. Furthermore, prices exploded through the 107.90 resistance that has capped USDJPY since Feb. Last week we highlighted a potential inverse H&S pattern on USDJPY with 106.29, 104.56 and 105.66 marking the head and shoulders. Measuring the distance from the head to the shoulders and breakout point at 107.81, I see prices extending upward by 2.80% to an eventual upside target of 110.00. This level also is the 68% Fibo of the year to date downmove. See Chart. Stronger resistance awaits just above here at 110.30, the 200 mda.

Using Ichi-Moku analysis, we can see that USDJPY has cut easily through the cloud resistance indicating near term resistance at 109.35/40. Momentum indicators cements further upside bias. A close above 109.00 will confirm the upside move, and should result in a further wash out of stale short positions. Those who missed the breakout will need to wait for potential pullbacks to support lines of 108.00/107.80, the 38% Fibo. Next near term support is found at the 55 mda and base at 106.85/90.

AUD

CPI Inflation data came in lower than expected at 1.9% YoY. The data underpins recent RBA concerns and dampens hopes of a 2018 rate hike. Inflation in Q1 2018 remains stuck at the lower end of the target range. Other risks for the Australian economy is the possible trade conflict between China and the US. Growth has been less driven by private consumption and more by foreign trade, in particular China. As a result the AUD is suffering due to the uncertainty surrounding this risk. Considering this the RBA will continue to try and prevent strong AUD appreciation as it might cause renewed downside pressure on inflation and dampen the pickup in the economy.

Recent comments from Governor Philip Lowe show that he “expects inflation will only gradually return to the midpoint of the Reserve Bank of Australia’s 2% to 3% target as the economy grapples with weak price growth that’s affecting much of the developed world.The interest rate curve now only discounts a 28% chance of a 25 bps move in 2018.

Looking to the charts, AUDUSD has reversed the March gains only to trade lower by 3% down to ultimate support at 0.7600. The 76% Fibo support of the Dec upswing, failed to hold raising concerns about the AUD ability to recover from here. 0.7575/0.7600 marks strong support lines drawn from the Jan2016/2017 trend. It also chimes with some cross section technical pivots from 2016/2018, see chart. The move has been compounded for reasons noted above but it was the breach of the year to date low that resulted in a clearing out of old longs.

We expect some distortion in the price, and see the probes towards 0.7550 offering decent risk reward to build fresh long positions.

Over the past week, we have seen three bold bearish candles signaling a strong warning to bulls and breaking the asset out of the recent consolidation phase. Tuesday saw a pause in this move as seen by the doji pattern. What followed is another bearish candle lower signaling fresh shorts. Support below 0.7575 awaits at the Dec2017 low at 0.7502, which also is the 50% Fibo of the entire 2015/2018 trend channel. Interestingly we can draw some technical parallels between the late 2017 down move and the Feb/Apr weakness. A close back through 0.7643 is required for renewed upside momentum.

Now that all known downside risks are discounted in the price, we recommend buying at 0.7550/65 risking a close below 0.7490, just below this week’s low. Initial targets are a return to the yearly trend line at 0.7640, then the 13 mda at 0.7725 and above that at 0.7775, then sloping trend line from late Jan this year. Ultimate targets are 0.7800/20.

VIEWS FROM THE TRADING FLOOR

Equity

European stocks continue in their April upswing but are running into some headwinds on Monday's close as prices head towards the 3525 resistance area. These gains ensured that European markets closed at their best levels in roughly ten weeks, bolstered by a rally in financial stocks.

The economic data continues to support stock prices. Better than anticipated preliminary PMI readings for Germany, France and the Eurozone possibly underpinned the market. That said, the main risk event for European stocks this week will be the ECB policy decision on Thursday, where markets are speculating about prospects for the Bank to offer a slightly more dovish policy stance after Pres. Draghi late last week indicated that Europe's growth cycle may have already peaked.

Looking to the US, Wall Street enjoyed a less robust session as the S&P 500 ended virtually unchanged while the Dow Jones softened 0.06% on the session. Tech stocks weighed on major indices while investors retained caution amidst the US 10yr Treasury yield pushing up against the 3.0% level. Note that US stocks are losing its lustre as bond yields rally as this erodes the value proposition of stocks.

In terms of risk sentiment, the VIX pulled back to 16.6% after 3 days of gains. It is worth noting that the Credit Suisse Fear Barometer, which tracks the cost of bearish to bullish three-month options on the S&P 500 Index, kicked significantly higher last week, marking the second weekly increase and the largest weekly rally in a year. This suggests that investors will take a more cautious approach in US equity investing going forward. Ahead of the European open, most Asian markets are trading in the green, with the Hang Seng up more than 2.0% at writing.

Technically US stocks remain under pressure. While the S&P remains under 2700, risk to the downside remain with 2600 as the near term support target.

EQUITY

Developed countries

		Total return - 1 Week
SMI	↓	-1.3%
Euro Stoxx 50	↓	-0.5%
DAX	↓	-2.1%
FTSE 100	↑	0.6%
S&P 500	↓	-3.4%
Dow Jones	↓	-3.1%
Nikkei 225	↑	0.3%

Developing countries

Russia/Micex	↑	0.9%
India/Nifty 50	↑	0.4%
China (HK)	↑	0.1%

↑ - Upward move ↓ - Downward move

FIXED INCOME

Developed countries

	2-year Yield	10-year Yield
USA	2.5%	3.0%
UK	0.9%	1.5%
Germany	-0.6%	0.6%
France	-0.5%	0.9%
Italy	-0.3%	1.8%
Spain	-0.3%	1.3%
Switzerland	-0.8%	0.1%

Developing countries

	2-year Yield	10-year Yield
Russia	3.8%	4.8%

COMMODITIES

		Total return - 1 Week
Crude Oil	↑	2.9%
Gold	↓	-2.0%

CALENDARS

Economic Events

Date of release	Domicile	Event	Period	Actual	Estimated
26 April 2018	US	Initial Jobless Claims	April	232k	230k
26 April 2018	US	Wholesale Inventories	March	1.0%	0.7%
25 April 2018	France	Consumer Confidence	April	100	100
27 April 2018	France	CPI YoY	April	1.6%	1.6%

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