

Global Macro Overview  
Q1/2018

# The Quarterly REPORT

 #lcgquarterlyreport

## Fundamental views

On this page LCG presents a brief synopsis of its outlook for the most popular markets traded on the LCG Trader platform. The markets covered are split between indices, forex and commodities.



### EURUSD

Our bullish views is supported by low valuation on a PPP basis, stronger Eurozone economic growth and expectation the ECB will end its asset purchase program in 2018. Downside risk comes from political uncertainty around elections and dovish forward guidance from the ECB.

### GBPUSD

Our cautiously positive fundamental view comes from a low Sterling valuation on a PPP basis as well as the Bank of England no longer easing policy. Downside risks are a 'no deal Brexit', potential for another snap UK election as well as a 'one and done' outlook for BOE rate hikes.

### USDJPY

Inflation continues to run very low in Japan and the re-election of Shinzo Abe is an endorsement of Abenomics. We expect the Bank of Japan to continue its ultra-loose policy, putting downwards pressure on the yen. One risk to this is that the BOJ's yield-curve targeting fails, causing a spike in the yen.

### German DAX

Earnings growth is rising in Europe, supported by a more durable-looking economic recovery in the Euro-area. Undercapitalised banks and deleveraging in China, a major export market are potential risks to the positive outlook.

### FTSE 100

Based on Robert Shiller's cyclically adjusted Price Earnings (CAPE) ratio, the FTSE 100 is slight under fair value based on earnings over the past ten years. This to us suggests there is more room to the upside.

### Dow Jones

The prospect of Republican market-friendly policies have helped the latest leg-up in stock market prices. The reason for the low volatility ongoing move higher stems is easy policy from the Fed which is going into reverse in 2018. We see 2018 as a 'transition year' before a potential bear market in 2019.

### GOLD

Opposing fundamental forces leave us with a neutral view on gold. Stock markets are being supported by loose central bank policy. Loose policy should be inflationary which is good for gold as an inflation hedge, however inflation remains low. On the other hand, stock markets in a raging bull market meaning there is little demand for havens, except for hedging.

### Crude Oil

The market looks to be recovering from a supply glut after OPEC cut production and big oil companies reduced capex on exploration. There is still considerable uncertainty about how quickly supplies can tighten given the rise of US shale and that OPEC cuts were from record high levels of output.

# Technical Views

**EURUSD**  
Weekly candlestick chart

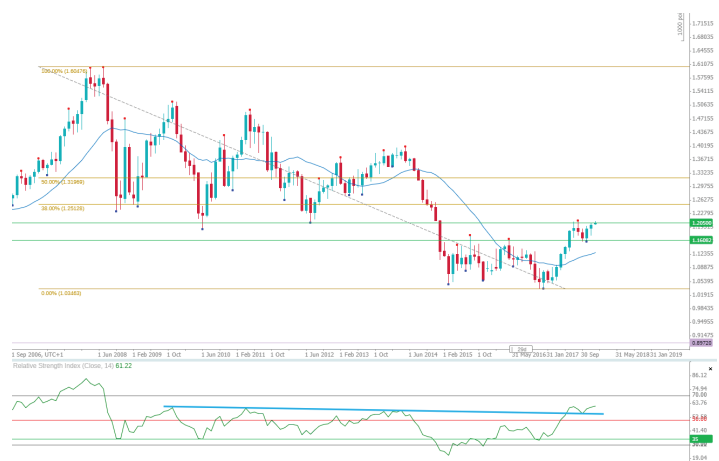


Source: LCG 02/01/2018

## EURUSD Medium term

Our medium term bullish view is supported by the false break of H&S pattern, 20 week moving average pointing higher and the RSI in a bullish range. A break below 1.16 would negate this scenario.

**EURUSD**  
Monthly candlestick chart



Source: LCG 02/01/2018

## EURUSD Long term

Our longer term bullish view is supported by a monthly engulfing candlestick pattern, successful retest of 1.16 as resistance turned support and RSI above the 50 midpoint

**GBPUSD**  
Weekly candlestick chart



Source: LCG 02/01/2018

## GBPUSD Medium term

Our medium term bullish view stems from the rising trendline connecting the June and October lows, 20 week moving average sloping higher and the weekly RSI above 50. Some risk of a double top near 1.365.

**GBPUSD**  
Monthly candlestick chart



Source: LCG 02/01/2018

## GBPUSD Long term

Our longer term bullish view is aided by a move beyond and re-test of the 20 month moving average. The down-slope of the 20 month MA and monthly RSI below 50 means upside could be capped near 1.40.



# Technical Views

**USDJPY**  
Weekly candlestick chart



Source: LCG 02/01/2018

## USDJPY Medium term

Our medium term outlook for USDJPY is neutral with a bullish tilt. The 108-114 range is still in place but we expect an upward break following a bullish engulfing candle on the weekly chart off the 20 week moving average. A move below 109 would negate this view.

**USDJPY**  
Monthly candlestick chart



Source: LCG 02/01/2018

## USDJPY Long term

Signs of strong demand near the 108 level would imply an eventual continuation of the strong upwards impulse during November 2016.

**German DAX**  
Weekly candlestick chart



Source: LCG 02/01/2018

## German DAX Medium term

German stocks are undergoing a pullback within a bullish trend, supported by a rising 20-week moving average and the successful re-test of the old highs at 12,900 which is now support. A break of 12,900 would open up a drop back towards 12k.

**German DAX**  
Monthly candlestick chart



Source: LCG 02/01/2018

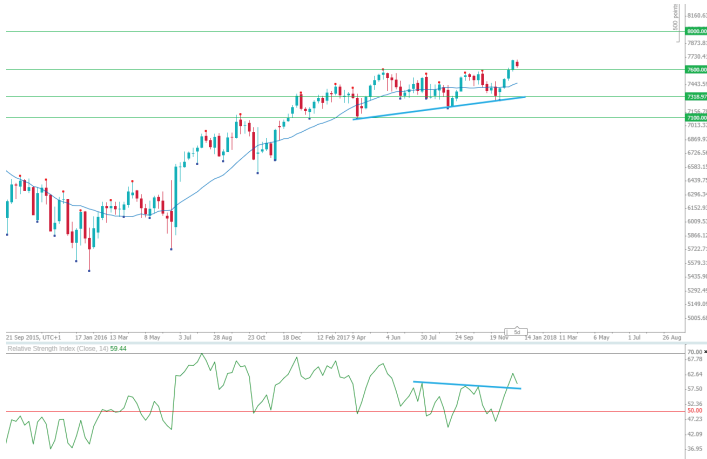
## German DAX Long term

The trend on the DAX monthly chart is higher but it has been over a year since the price fell below the 20-month moving average, which increases the chances of near-term mean reversion.



# Technical Views

**FTSE 100**  
Weekly candlestick chart



Source: LCG 02/01/2018

**FTSE 100**  
Monthly candlestick chart



Source: LCG 02/01/2018

## FTSE 100 Medium term

We see the breakout above the 7600 level as a significant sign the UK index is headed higher. A weekly close back below 7600 would imply a 'fakeout' and lower prices.

## FTSE 100 Long term

The longer term outlook for the FTSE still looks positive with a rising 20-month moving average and price making higher highs and lows.

**Dow Jones**  
Weekly candlestick chart



Source: LCG 02/01/2018

**Dow Jones**  
Monthly candlestick chart



Source: LCG 02/01/2018

## Dow Jones Medium term

The trend is higher but overbought conditions bring risk. A weekly RSI over 85 (while on the S&P 500 it reached 80 for the 1st time since 1995) clearly shows that Wall Street is overbought.

## Dow Jones Long term

Monthly conditions are more overbought than on the weekly chart. A monthly close below the low of the previous month will be a warning sign the overbought condition is reversing.

# Technical Views

## GOLD Weekly candlestick chart



Source: LCG 02/01/2018

### Gold Medium term

A three-week surge in December took gold prices back above \$1300 per oz to resume its choppy uptrend, which has been in place for over a year. This cautiously optimistic view would be negated by a break below \$1240.

## GOLD Monthly candlestick chart



Source: LCG 02/01/2018

### Gold Long term

Resistance from \$1375-1400 per oz keeps gold in a longer term range trading environment, leaving us with a neutral outlook.

## Crude Oil Weekly candlestick chart



Source: LCG 02/01/2018

### Crude oil Medium term

Crude oil broke out of a flag pattern between \$61 and \$65 per barrel to resume its uptrend. We expect the uptrend to test \$69 per barrel and the 2015 peak. Any larger correction could find support at \$58.50, the high from January 2017.

## Crude Oil Monthly candlestick chart




Source: LCG 02/01/2018

### Crude oil Long term

On a monthly basis, Brent crude appears to have bottomed after having broken out from an inverted head and shoulders pattern.

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