the technical analyst
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FINALIST

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Multi-Asset Market Update:

UPDATE
Technical
Fundamental

The growing strength of Sterling

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SEVEN DAYS AHEAD

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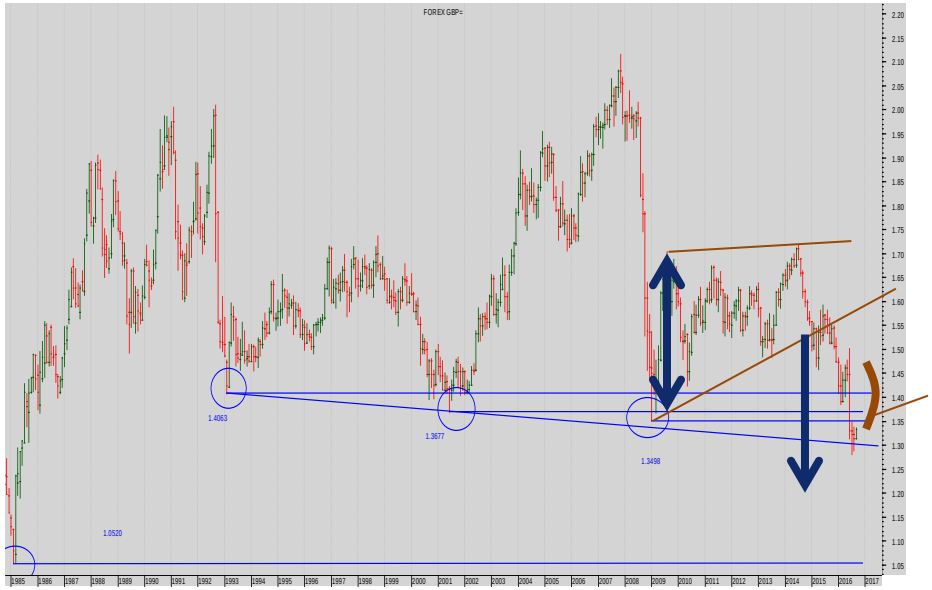
The growing strength of Sterling



MONTHLY Dollar Sterling FX chart

The break beneath 1.35 remains very problematic for Sterling.

The push beneath the successive Prior Lows of 1.4063, 1.3677 and 1.3498 suggests that those will be massive resistance on any rally from current levels.

Note too, that the measured move implied by the Continuation Triangle has yet to be achieved.

DAILY Dollar Sterling FX chart

The short-term forces acting on the market suggest that the important trading range is 1.28-1.35.

And if that range was broken (establishing some sort of small bottom formation) by a push on the upside, then important resistance still lies above at 1.3833.

<u>There's a lot for the bulls to overcome short and long-term.</u>

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FUNDAMENTALS:

In the immediate aftermath of the "BREXIT" vote Sterling sold off against all the other major currencies, especially the Dollar. The received wisdom was that the vote to leave the EU would leave the UK financially and economically worse off than if she had voted to remain a member. Add in the surprise factor of the result: expectations were the UK would vote to remain, and forecasters and policy makers, were falling over themselves to forecast a recession of varying severity.

Indeed, the initial data releases seen after the vote, especially the three PMI surveys, indicated the UK was indeed heading into recession, prompting the Bank of England to ease monetary policy further.

But in recent weeks that script hasn't quite played out. The most recent release of retail sales was much stronger than expected, the housing market is holding up and the two PMI's so far released this month have been stronger than expected.

The PMI Manufacturing survey released yesterday, September 1st , came in at 53.3 against a consensus of 49.0 and the previous month's reading of 48.3. Today's PMI Construction survey at 49.2 was also much stronger than the expected at 46.5 and stronger than the previous months reading of 45.9. If the PMI Services survey due out on Monday shows a similar recovery, forecasts of recession will start to look questionable.

The impact on Cable has been swift with a further recovery away from the lows and towards the top of the post-BREXIT trading range. But where does Cable go from here? Could we be seeing the start of a more sustained recovery or is the move no more than a correction?

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FUNDAMENTALS: CONTINUED

First, we must ask the question: is all the bad news in the market, or is there more to come?

We think that the bad news is already in the market:

- The UK has voted to leave the EU,
- Various EU politicians have stated their views on how the UK exit should be handled ranging from hostility from some leaders, to accommodation (mainly the Germans) from others.

In October the release of Q3 GDP is due, if data continues the current improvement it may well be stronger than forecasters had expected. If by the end of 2016 data is still holding up, fears of a recession could well prove to have been exaggerated.

We judge the Pound, especially Dollar Sterling, is likely to react positively to any new good news because there are probably still many more short positions than long. That means if data continues to improve, the shorts will be squeezed sending Cable higher.

But the real test for Sterling is yet to come. When the Government finally invokes Article 50 and negotiations get underway, traders/investors and analysts will finally get to see how the UK's relationship with the EU is likely to evolve. This structural uncertainty remains. What of that?

Again we think that the resolution of that structural uncertainty will play out in Sterling's favour at current levels.

We suspect future arrangements will be driven by hard-nosed economics. The UK is a major trading partner and export market for the EU (especially Germany) and as much as the UK seeks to retain access to the single market, the EU will not want to loose access to the UK which in recent years has been something of a consumer of last resort for the weak Euro zone economy.

In summary, the out-look for Cable is becoming steadily more Bullish.

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