



# WEEK AHEAD



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## Week ahead: June 11<sup>th</sup> to 15<sup>th</sup>

### Market focus on Fed's and ECB's interest rate decisions

#### Next week's market movers

- On Monday, we get UK's Manufacturing production growth rate and Trade Balance figure for April.
- On Tuesday, UK's employment data for April and Germany's ZEW economic sentiment indicator for June and mainly the US inflation data for May could be the epicenter of discussions.
- On Wednesday, the UK inflation data for May could move the market, but the star of the day could be the Fed's interest rate decision.
- On Thursday, ECB's interest rate decision could keep the markets on their toes, while attention could also be given to Australia's employment data for May, as well as the final release of Germany's and France's final HICP rates for May.
- On Friday, upfront and center stage could be BoJ's interest rate decision while later on Eurozone's final inflation data for May and the US U. Michigan Sentiment preliminary indicator for June could grab the market's attention.

In the next week a plethora of financial data releases could attract the market's attention. Our team handpicked the ones which it considers as the most influential and discusses their possible forecasts and their respective effects on various currencies.

**On Monday**, during the European session we get UK's Manufacturing Output growth rate for April. The rate is forecasted to accelerate and reach +0.3% mom compared to previous reading of -0.1% mom.

Should the actual growth rate meet the forecast, we could see the pound strengthening as such an acceleration could imply that the manufacturing sector is growing again and is out of the negative prints.

Also, at the same time UK's trade balance figure is due out. The figure is forecasted to be a narrowed deficit of -11.25B compared to previous figure of -12.29B.

Should the actual reading meet the forecast, we could see the pound getting more support as the Trade Balance starts getting narrower in these turbulent Brexit times.

**On Tuesday**, from the UK again, we get April's employment data. The average earnings index + bonus growth rate is forecasted to remain unchanged at +2.6% yoy compared to previous rate, the unemployment rate is forecasted also to remain unchanged at 4.2% while the employment change figure's last reading was of 197k.

Should the forecasts meet the actual figures and the employment change figure be greater than 197k, we could see the GBP strengthening. Reasons for such a scenario, are that the unemployment rate remains at rather low levels while the average earnings growth rate remains at rather high levels. Should also the employment change figure be higher than +197k we could be seeing a rather tightening labour market.

Also in the European session we get from Germany the ZEW economic sentiment indicator for June. The indicator is forecasted to drop reaching -12.4 compared to previous reading of -8.4.

Should the actual reading meet the forecast we could see the EUR weakening as such a drop could imply a deepening of the pessimistic view for the following six months in Eurozone's largest economy, by a large number of enterprises.

The US inflation data for May should be the star of the day and they will be released in the American session. The headline CPI rate is forecasted to tick up to +2.6% yoy compared to previous reading of +2.5% yoy, while the core CPI rate is also forecasted to tick up reaching +2.2% yoy compared to previous reading of +2.1% yoy.

Should the actual rates meet the forecast we could see the USD strengthening ahead of the FOMC meeting and interest rate decision on Wednesday, as an accelerated inflation rate could strengthen the argument for a faster rate hike path of the Fed.

**On Wednesday**, during the European morning we get the UK inflation data for May. The headline rate is forecasted to accelerate reaching +2.5% yoy compared to previous reading of +2.4% yoy and the core CPI rate is forecasted to remain unchanged at +2.1% yoy.

Should the actual rate meet the forecast we could see the pound getting some support as the overall inflation picture of the UK could suggest a more hawkish stance for the BoE, at least building some confidence about a rate hike in 2018.

In the American session, we will get the FOMC's interest rate decision. The committee is widely expected to hike rates from the current Fed Funds Target rate of +1.75% by 25 basis points reaching +2.00%. Currently, Fed Funds Futures imply a probability, for the bank to hike rates by 25 basis points, of 85.0%. Should the bank actually hike rates, we could see the USD getting some support. Besides the possible rate hike, the accompanying statement will also be scrutinized for any indications of a faster rate hike path. Also the dot plot will be a point of interest for the market as it could shed more light at the FOMC member's expectations regarding the rate hike path in 2018. Specifically, should the FOMC member's expectations shift towards a 4 rate hike path in 2018 for the FOMC, it should be considered as a hawkish sign. Should there be releases of solid financial data we could witness such a shift, in which case the USD could strengthen substantially, as it might be beyond the market's expectations. On the contrary, should there be a continuation of the three rate hike path in 2018, it could be perceived by the market as a dovish sign and the USD could slip if not drop. Please be advised that the market could start to position itself ahead of the meeting but increased volatility will be expected for USD crosses, which could be extended until the end of the following press conference.

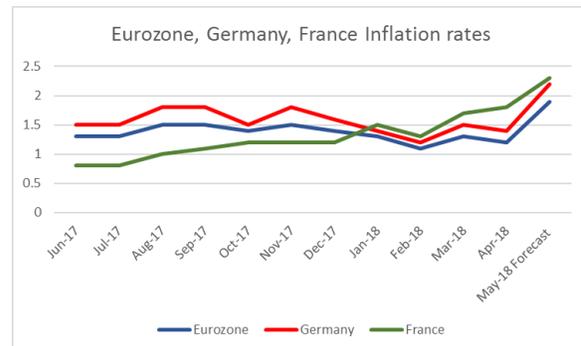
**On Thursday**, during the Asian session we get Australia's employment data for May. The employment change figure is forecasted to drop to 18.0k compared to previous reading of 22.6k, while the unemployment rate is forecasted to also drop to 5.5% compared to previous reading of 5.6%.

Should the actual figures meet the forecast we could get mixed signals from the data, but we could see the drop of the unemployment rate overshadow the drop of the employment change figure and provide some support for the AUD. Arguments for such a case could be provided by

the still positive number of the employment change as well as in the importance that the RBA places on the unemployment rate dropping.

In the European session we get Germany's and France's final versions of the HICP rates for May. The rates are forecasted to remain unchanged at +2.2% yoy and +2.3% yoy respectively, compared to the preliminary readings.

Should the actual rates meet the forecasts we could see the common currency strengthening ahead of the ECB meeting later on, as the rates could verify the banks forecasts that inflation in the Eurozone is heading towards ECB's target of +2.00%.



Later, in the European session, ECB will announce its interest rate decision. The bank is widely expected to remain on hold at 0.00%, as EUR OIS imply a probability for the bank to remain on hold at 97.84%. If the interest rate decision comes out as expected, we could see the market's attention shifting to the accompanying statement and the following press conference. Should there be any signs of the bank starting to unwind its QE program as suggested by ECB officials (ie. Peter Praet) earlier this week, we could see the common currency gaining ground. Please be advised that the interest rate decision and the following press conference may leverage volatility on EUR crosses.

**On Friday**, during the Asian morning we get BoJ's interest rate decision. The bank is widely expected to remain on hold as JPY OIS imply a probability for such a scenario of 96.01%. Should BoJ remain on hold we could see the market shifting its attention to the accompanying statement. Given recent lukewarm financial data released recently, we could see the BoJ keeping a neutral to dovish tone in its accompanying statement. Should that be the case we could see the JPY weakening.

In the European session we get Eurozone's final version of the inflation rates for May. The headline and core CPI rates are forecasted to remain unchanged at +1.9% yoy and +1.1% yoy compared to the respective preliminary releases.

Should the actual rates meet the forecast, we could see the common currency gaining some ground as such inflationary levels could be viewed as in accordance with ECB's plans.

Last but not least, in the US session we get the University of Michigan Consumer Sentiment indicator for June. The indicator is forecasted to rise reaching 98.5 compared to previous reading of 98.0.

Should the actual readings meet the forecast we could see the USD strengthening as the increase of the reading could imply more trust of the consumer for the US market.



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