

# STRATEGY NOTE:

## RAND CORRECTION PHASE UNFOLDING, BUT NOT FOR LONG

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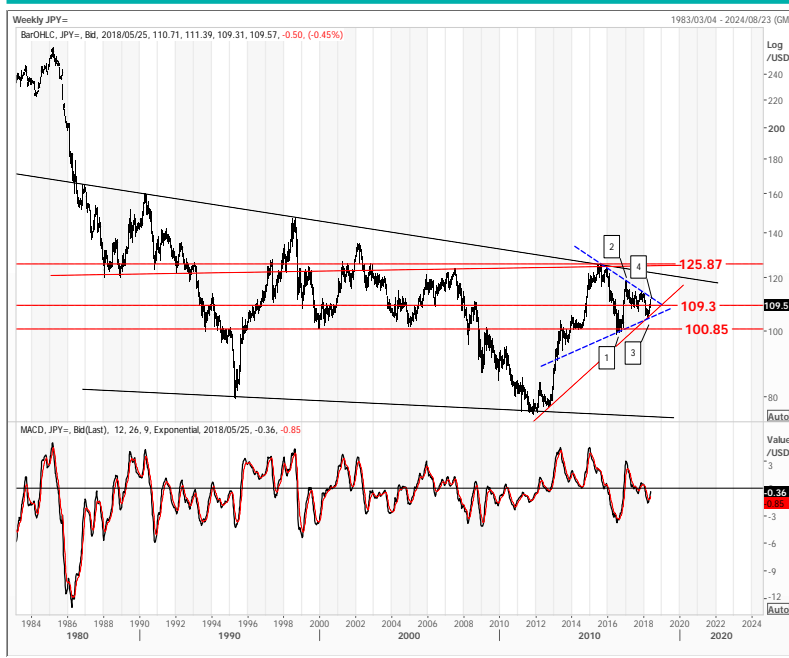
### EURO-\$, WE STILL EXPECT A CORRECTION PHASE



Source: Reuters, Nedbank CIB

- The euro-\$ is forming a falling wedge, which is an end-trending pattern. We remain of the opinion that the current bear wave is in a very mature phase.
- On completion of the falling wedge the corrective rally is likely to retrace the falling wedge pattern, back to 1.20.
- The MACD is not confirming the new lows, and thus demonstrating the loss of bearish momentum.
- We are not calling a major low in the euro. The expected rally should be the correction phase of the bear trend since mid-March.
- The stronger dollar is not just a consequence of interest rate differentials in our view. The US treasury has drained \$400bn from the market to replenish its "call" account at the Fed, and the US tax changes have left the Euro-dollar system short of dollars as profits were repatriated. The Fed's policies of quantitative tightening and higher policy rates are also adding to the pressures in the dollar market.

### YEN, WEDGE PROJECTS A SUBSTANTIALLY WEAKER YEN



Source: Reuters, Nedbank CIB

- There is a symmetrical wedge developing in the yen.
- The 5<sup>th</sup> and final wedge, within the larger wedge, is still outstanding. We are of the opinion that another yen rally can be expected in order to complete the wedge.
- The longer-term picture however points to a much weaker yen in our opinion. The break out of the wedge should be equivalent to the move prior to the wedge (and that was 50 yen). However, before we make this major call, we would like to see a break above the long-term neckline at 120.



## \$-RAND, A CORRECTIVE PATTERN IS UNFOLDING



Source: Reuters, Nedbank CIB

- The \$-rand completed a 5-wave pattern, which we label as wave 1. The market is currently busy with the wave-2 correction phase.
- The most likely target levels, in our opinion, are 12.37 and 12.23.
- Only a break back below the red mid-point line would confirm a reversal; but that is not our expectation.

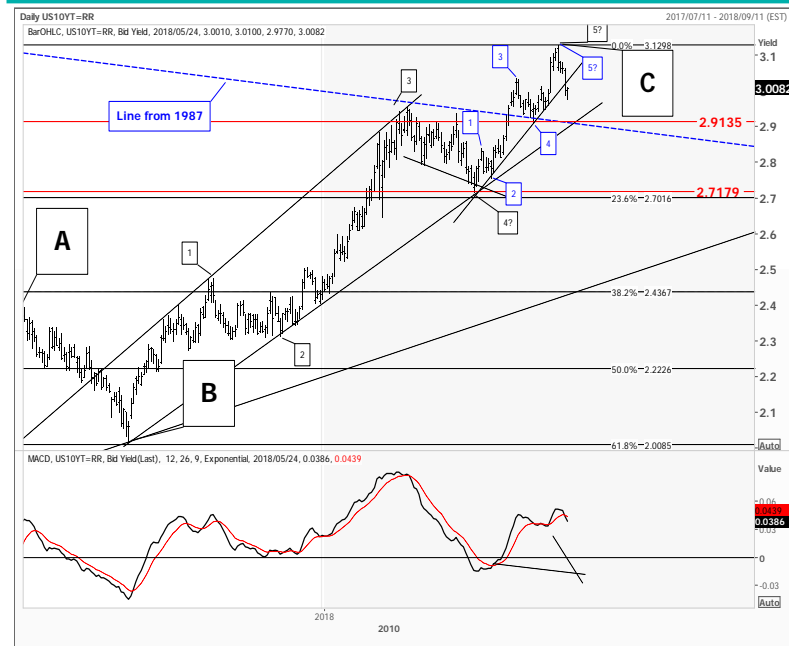
## EURO-RAND, A MAJOR WEDGE IS DEVELOPING



Source: Reuters, Nedbank CIB

- We would expect the euro-rand to correct to 13.94, in order to complete the third wave of a major wedge that is developing.
- This level is also a long-term support line from the early 2000s.

## US10YR, THE ELLIOTT WAVE COUNT IS COMPLETE TARGETING 2.70%



Source: Reuters, Nedbank CIB

- The US10yr has completed a major ABC corrective pattern at 3.13%.
- The latest bear trend has been broken, but the yield must break below the trendline from 1987 at 2.91% to confirm a major reversal. A break below this level would also confirm that the break above this long-term line was false (which is in itself a buy signal). A break below 2.91% targets 2.70%.
- As we have reported in previous reports, many analysts are still concerned about inflation. We believe that the seeds for the next disinflationary cycle are already being sowed, as dollar liquidity contracts.

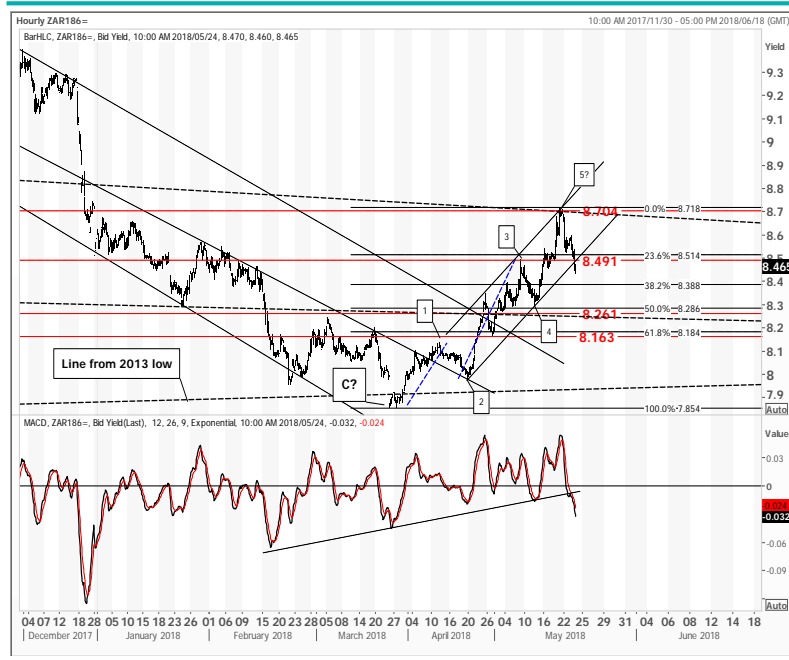
## RSA 10YR YIELD, LONG-TERM CHARTS TURNING UP



Source: Reuters, Nedbank CIB

- The risk-on phase that started globally in 2016 is also very evident in the SA 10yr yield.
- The recent stronger dollar triggered the start of the unwinding of the carry trade, and the SA market was not spared.
- As mentioned above, a false break is in itself a sell signal. Unfortunately the SA market could not hold onto the gains below the 14-year old linear regression line (below 8.38% and the blue neckline at 8.07%).
- It is all about the dollar. If the dollar again rallies strongly after the expected correction, the RSA 10Yr would target the upper reaches of the area between the blue lines (as the EM carry trade unwinds).
- EMs are very vulnerable to a stronger dollar, seeing as EMs have more dollar-debt now than ever before. In the late 1990s SE-Asia had fixed exchange rates, now the region has dollar debt.

## R186, A CORRECTIVE RALLY IS UNFOLDING



Source: Reuters, Nedbank CIB

- The R186 has completed a 5-wave pattern and the correction phase has started.
- In Elliott wave theory, a 5-wave pattern indicates a trend. Therefore we believe that there will be further upside potential post the correction phase. As we have pointed out this should be driven by global forces and not local forces.
- The short-term outlook is however bullish as the correction plays out. The two target levels for this corrective rally are 8.38% and 8.28%.
- Only a sustained break below the latter would force us to negate our bearish view.

## R2048, FOUND SUPPORT AT THE MID-POINT LINE



Source: Reuters, Nedbank CIB

- The R2048 found support against the mid-point line and a corrective rally is to be expected in our view.
- The likely target levels for this rally are 9.25% and 9.15%.
- The bottom panel is the R2048-R186 spread. The spread is working into a falling wedge which is a trend-ending pattern. However, the wedge is not counting complete.
- We expect the curve to flatten more, to 80bps from the current 89.5bps (to test the resistance line).