

## THE CORRECTION PHASE THAT STARTED IN 3Q18 IN SA BONDS AND FX IS NOT OVER

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### EURUSD: SUPPORT AT 1.1335 NEEDS TO BE MONITORED



Source: Reuters, Nedbank CIB

- As discussed in our global macro insight, [“Incoming tide of Global \\$-Liquidity : Use to de-risk”](#), published yesterday, our view for 1H19 remains that the euro must complete the C-wave of the correction phase that started during 3Q18. Risk assets will also remain range bound as long as the EURUSD consolidates.
- Our target level for this corrective rally is somewhere in the 1.16s.
- The overlapping nature of the price action since November 2018, however, indicates a weak trend, and a break below 1.1335 will signal that wave B down is not complete.
- A break below 1.1335 will project a move to 1.1147. We expect this move to be quite sharp, something similar to the sell-off during 3Q18, which completed wave 1.
- We expect 1.1147 to remain intact. A break below this level will force us to change our view that risk assets will remain range bound. A stronger dollar below 1.1147 will indicate that the next major risk-off phase is unfolding.

### USDZAR: THE CORRECTION PHASE THAT STARTED IN 3Q18 IS NOT COMPLETE



Source: Reuters, Nedbank CIB

- We expect the USDZAR to correct as long as the EURUSD remains in the correction phase that started last year.
- If wave C is equal to wave A, it projects a correction to 12.58. We, however, believe that wave C will only be 61.8% of wave A, targeting 13.38. This level is also the trend line from early 2016, following the Nene incident. A break below 13.38 will project a move to the wave 4 low at 13.12.
- If the euro breaks below 1.1335, it will project a rally in the USDZAR targeting 14.12 and 14.32.

## US10YR: TESTING THE BREAKOUT LEVEL



Source: Reuters. Nedbank CIB

- There is a consensus that the global economy is slowing down, but the major debate is when and if a recession will materialise.
- The blow-off in the US10yr late in 2018 completed a correction phase that started in May 2013 with the taper statement. The proverbial sun of the financial universe is, however, sending a bearish signal by breaking out of the bear trend since July 2016.
- Currently, the US10yr is testing the breakout level from below at 2.80%. If this turns out to be a goodbye kiss and bonds start to rally again, it will project a move to 2.50%, with an extended target of 2.07% and resistance at 2.33%.
- If a rally from this 2.80% materialises, it will be a bearish signal for equity investors.

## R186: EXPECT FURTHER DOWNSIDE, BUT THIS REMAINS A CORRECTION



**Source: Reuters, Nedbank CIB**

- As with the USDZAR, we believe the correction phase that started in October 2018 is not complete.
- A text book corrective rally targets a move to 8.62%. This level is the midpoint danger line of price action since January 2016 and is also the point where wave C will be equal in length to wave A.
- If the euro breaks below 1.1335 and the rand weakens, we can expect the R186 to sell-off to test the top of the channel at 8.98%.