Trade Idea – Foreign Exchange

Misplaced hopes creates opportunity

26th August 2016

**Joint production limit unlikely**

- After suffering a two month 20% decline, oil prices have managed to stage a strong recovery in August, with the price of Brent oil returning to the $50/bbl level last witnessed in June (see Figure 1). The rebound has largely been driven by speculation, with participants hoping that a meeting next month between OPEC and non-OPEC ministers will result in a coordinated response to support the oil market. The rally has benefitted currencies of key oil exporting nations, like the CAD and NOK, which have strengthened in recent weeks to multi-month highs. In our view, the aforementioned meeting will likely echo the failures of OPEC gatherings earlier in the year, creating potential for oil prices to retrace recent gains. This creates a tactical opportunity for investors over the next month to establish short positions in the CAD and NOK against the EUR and USD, particularly as these currency pairs trade near recent lows.

![Figure 1: Crude prices rebound sharply](image)

**Source:** Bloomberg, ETF Securities

- The heavily anticipated meeting on September 22-26 in Algeria has gained increasing focus as key figures from Saudi Arabia and Russia have voiced a willingness to take coordinated action to support oil market stability. The key obstacle to securing a deal in the past has been Iran, which has taken aggressive steps to ramp up production since sanctions were lifted in January to regain lost market share. We still see Iran being a barrier to negotiations next month, despite it recently confirming its attendance at the September meeting. Therefore, while we remain structurally bullish on oil in the longer run, we doubt equilibrium will be achieved in the oil market through an OPEC led supply response. The failure of talks will likely be a strong catalyst in the near term for a downward movement in price of oil.

**Central banks to remain on the sideline**

- As a result of supportive fiscal measures outlined in recent government budgets, both the Norges Bank and the Bank of Canada (BoC) are unlikely to implement further monetary easing at upcoming meetings in September. Fiscal measures have been aimed at supporting growth and employment as both countries transition away from oil related activity, meaning that oil prices will likely be the key driver behind currency movements in the near term.

*All figures quoted are sourced from Bloomberg unless stated otherwise.*
Support levels present entry points

- Weakness in the CAD and NOK will most likely be reflected against the EUR and USD. The EUR/NOK and USD/NOK pairs both remain in close proximity to multi-month lows reached in early August when oil prices peaked, and therefore present attractive entry points to establish short NOK positions (long the pairs). Meanwhile, CAD crosses are trading at their 100 daily moving averages (DMA) of 1.451 and 1.292 for the EUR/CAD and USD/CAD respectively, levels which should emerge as points of support and see the pairs climb (CAD weakening).

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  - ETFS Short NOK Long EUR (NOEU)

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  - ETFS Short CAD Long GBP (CAGB)
  - ETFS Long NOK Short GBP (GBNO)
  - ETFS Short NOK Long GBP (NOGB)

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  - ETFS Short NOK Long USD (SNOK)

**3x**
- ETFS 3x Long CAD Short EUR (ECA3)
- ETFS 3x Short CAD Long EUR (CAE3)

**5x**
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- ETFS 5x Short CAD Long EUR (CAE5)

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- ETFS Bearish USD vs Commodity Currency Basket Securities (LCOM)

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