FXTM

MARKET FORECAST
Q1 2016

It’s time for a healthy dose of expert market analysis! Read on as our Chief Market Analyst and VP of Corporate Development, Jameel Ahmad, forecasts what Q1 2016 has in store for the markets.

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Index

EURUSD

EURUSD: Talk around parity still persists

Gains in the EURUSD are still seen limited to USD weakness, which is a threat to investors because Federal Reserve policymakers appear confident that there are going to be another four US interest rate rises in 2016. This is confusing when taking into account that the recent FOMC release in early January suggested that the decision to finally raise US interest rates in 2015 was a very close call. Something will have to give here because another four rate rises have not been priced into the currency markets and I remain suspicions that the Fed will have to backtrack away from this ambitious statement of commitment at some stage.

Traders should definitely continue to monitor any possible reversal of expectations when it comes to US interest rate adjustments because it will lead to volatility in the Eurodollar. Any anxiety that arises over a possible postponement in further US interest rate rises will probably encourage some unwinding in EURUSD selling positions and this is something to monitor. There are also continued concerns over the global economy and this will likely put further pressure on equity markets with depressed commodity prices and China fears fueling concerns which could also encourage an extended risk-off trading period from investors. Such a move created an extraordinary period of unwinding on EURUSD positions in August last year and can lead to gains in the currency pair.

We do see that the European economic data is once again picking up in momentum, which is a similar trend to what occurred after the Euro commenced its steep fall early last year. A continuation of this trend will slowly build optimism around Europe, but dangerously low inflation will still persist and ECB President Mario Draghi will continue to display caution when discussing the EU economy. Mario Draghi will most likely continue to repeat that the central bank remains willing to do whatever it takes to achieve price stability, which should also prevent traders from pricing in large upside moves into the Euro.

EURUSD Daily

EURUSD Weekly

Technically speaking, the Euro remains firmly bearish in the medium term with major financial institutions continuing to press claims for the single currency to fall towards parity against the USD.

While momentum indicators might suggest that the Euro is clearly oversold, we expect prices to continue trading sideways with this possibly leading to a tight range between 1.0640 and 1.1080. The area slightly above 1.07 is also looking like a possible "double bottom" on the daily chart with this meaning we would need to slip below here before traders get tempted to price in further declines towards the multi-month lows seen late last year slightly above 1.05.

Since the middle way through the second half of last year, it was suggested that the levels between 1.1255-1.1430 were possible zones for investors that are willing to hold positions for the mid-term as possible selling positions and these levels should continue to play as a strong psychological barrier for the currency. Talk around Eurodollar parity might still persist, however, I am unsure we will get to this point with recent EU economic data improving. Severely strong psychological support is seen at 1.0460 and unless we extend below this level, only then will expectations arise that markets will continue pricing in further declines towards parity.

EURUSD Monthly

GBPUSD

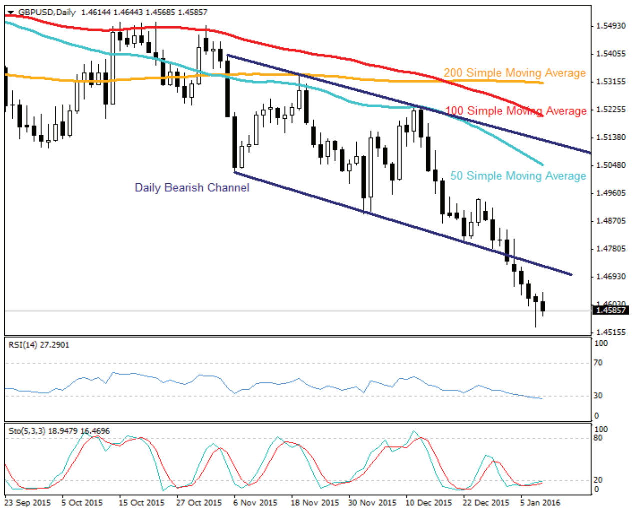
GBPUSD: Recent history repeating itself

Recent history from early last year is returning to haunt the Pound and we are, once again, currently witnessing the currency suffer from a complete lack of investor attraction. There are a number of different reasons as to why the Pound is suffering from low investor attraction with the most recent being pressure on the global equity markets, which, whether being due to continuously depressed commodity markets or increased geo-political tensions, is inviting a risk-off trading environment from investors. We first noticed the Pound suffer from a risk-off trading environment following the historical events of Black Monday in late August 2015, and this is very much a trend that is resuming throughout the early weeks of January.

There are also other reasons why the Pound is suffering from minimal investor attraction with this including continued inflation weakness, a recent deterioration of economic data, which is creating downside pressures to GDP prospects and also a regular occurrence or perhaps even prolonged pushed back UK interest rate expectations. These risks to investor sentiment do not even include the negative market implications a Brexit vote would bring, which could be severe regardless of how far the Pound has already dropped. Recent reports in major publications about the Pound being the most overvalued currency in the world and some speculating that it could potentially fall as low as into the 1.20's against the USD will also prevent the potential for a recovery.

Notoriously low inflation is also providing Bank of England (BoE) policy makers with a compounding reason to repeatedly push back UK interest rate expectations. If I am to be honest and if it wasn't for the unexpected inflation risks following the dramatic decline in the price of commodities, UK interest rates would have moved forward by now and most now believe that the ship for UK interest rate rises anytime soon has now sailed.

GBPUSD Daily



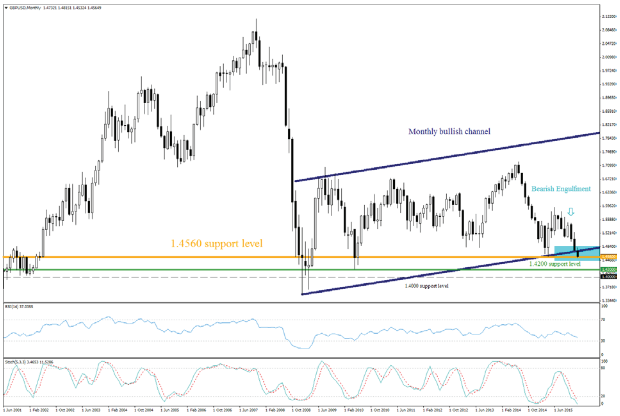
GBPUSD Weekly

One of the most hawkish members of the Monetary Policy Committee (MPC) Martin Weale has now backtracked and publically stated that the case for rate rises is less immediate than before while more recent claims from Chancellor George Osborne that the UK economy could be dragged into the decline by a wide mixture of risks abroad is strong enough ammunition to close the door on any potential increases in UK interest rates.

Traders should also see the potential around a possible Brexit vote as a huge risk, despite the acceleration of Pound losses in recent weeks and even if a potential referendum has yet to be confirmed. The threat to the UK markets and the Pound would be severe if a referendum was announced and that's even if the market expectations over a Brexit outcome were low. There would be all sorts of risks for investors to consider with this including threats of capital outflow and concerns that enterprises would threaten to vacate UK operations. It's also worth remembering that if BoE Governor Carney managed to encourage market anxiety by just expressing that the Grexit concerns last year would have an impact on UK financial stability, you would only have to imagine what his stance would be if a referendum was confirmed.

If it wasn't already enough that the more negative than previously documented fundamental picture is representing risks to the Pound, the current weak technicals are also heavily encouraging traders to push prices even lower. We noted regularly towards the final quarter of last year that traders watching the daily timeframe could see gains in the GBPUSD, strictly limited to some of its main 50,100 and 200 moving averages and we have now moved onto a more depressing picture on both the weekly and monthly charts. The GBPUSD has now even slipped below its bearish channel on the weekly chart and we are focusing on the 1.4560 area being seen as huge psychological support on the monthly chart. Once the GBPUSD cleanly slips below 1.46, market expectations are going to substantially increase that the pair could fall to 1.42 and then possibly 1.40.

GBPUSD Monthly



AUDUSD

AUDUSD: Limited potential for a correction anytime soon

The losses in the AUDUSD began to accelerate in the final quarter of 2014 when the Aussie fell below 0.90 and the AUDUSD has been on a clear downtrend since breaking below major support at 0.81 early last year. There are expectations for the currency pair to continue its decline into 2016, however it is possible that the speed of losses will not be as intense as what we encountered over the past year or so.

Part of the reason for this is that the current expectations are for the Reserve Bank of Australia (RBA) to maintain a stable interest rate environment at the beginning of the year, and for the central bank to not verbally intervene and talk down the Australian Dollar as regularly as they have been known to do in the past. There is also some evidence from the recent GDP reading coming in higher than expected that a weaker currency and reduced interest rate environment is having a positive impact on economic growth. Another reason why the RBA are likely to refrain from cutting interest rates once again is because there are wide domestic concerns over what impact low interest rates are having on an already-overblown housing market and whether this could fuel a credit bubble concern.

While the lower interest rate environment might be helping previous concerns over slowing GDP, the major threat to the AUDUSD bulls and why we don't think the pair is going to enter a large correction phase is because the economy will face pressure from depression in the commodity markets and concerns over the China economy. Depression in the commodity markets is negative for the mining sector while all expectations are for the China economy to resume its decline in GDP growth heading into 2016. Fears over the China economy entering an even deeper slowdown are going to continue and become a regular occurrence in 2016, especially if GDP growth does fall to just above 6% and this will have negative implications for the AUD as Australia is widely known as China's main trading partner.

In regards to the technicals, traders who monitor the Daily charts can see that any gains above 0.73 and towards 0.74 have led to selling opportunities over recent months.

AUDUSD Daily

AUDUSD Weekly

Traders should be mindful to also monitor the $75 level on the monthly chart, as this is seen as a possible ceiling and as long as prices keep trading below this significant level, the investor focus will be more geared towards selling the rallies rather than temptation into buying the dips.

Although the AUDUSD has fallen sharply over the previous year and some speculation might persist over a possible future correction, we doubt the potential for this unless the pair can actually break above $75. In the longer-term, it is possible that the combination of prolonged depression in commodity prices and a further elevation of concerns over the China economy can lead to declines towards $60 however we would expect this to be a more gradual depreciation in the pair rather than accelerated losses.

AUDUSD Monthly

USDJPY

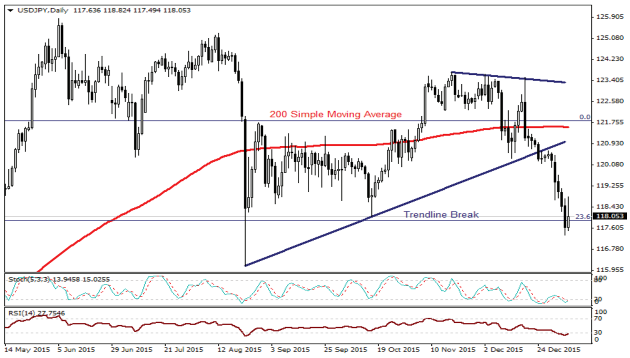
USDJPY: Bullish on the JPY

We are strictly bullish on the Japanese Yen as 2016 commences and this has very little to do with the Japanese economy itself. Despite Japan entering yet another recession late in 2014, we anticipate a substantial increase of safe-haven flows towards the Japanese Yen with this being driven by a risk-adverse trading environment from investors. There are high expectations that the China economy will continue to slow into 2016 and this will encourage further concerns over a decline in global trade while further currency depreciation by the People's Bank of China (PBoC) which will spook investors towards safer assets like the JPY. There is also an ongoing and increased number of geo-political tensions around the globe and this can further increase demand for the Japanese currency.

There is also probably going to be even further global economic downgrades throughout the opening period of 2016 following the renewed pressure in the equity markets with depressed commodity markets the likely culprit and an overall slow pace of global growth, which represents the potential to put pressure on stocks and increases appetite for the Japanese Yen as a safe-haven. Overall, I still do not think that either economies or equity markets have quite yet digested to a period of such prolonged weakness in the commodity markets and this is another reason why I am positive on the Japanese currency.

The Bank of Japan (BoJ) are also expected to continue leaving monetary policy unchanged with this preventing trader temptation from pricing in further JPY declines, while the USDJPY might also be risking a fall if markets begin to push back expectations for further US interest rate rises. Spectators can see that US economic momentum is beginning to slow and while this was expected at some point, there is confusion that some Federal Reserve policymakers are publically expressing that another four interest rate rises is possible in 2016. This is looking ambitious as the Fed are expected to be monitoring international risks abroad and if economic data continues to slow in the US then the USD will be at risk, meaning further potential for declines in the USDJPY.

USDJPY Daily



USDJPY Weekly

In regards to the technicals, a simple look on any of the charts shows that the momentum is currently in favour of sellers. The daily chart shows that the USDJPY slipped below its 200 MA late in December and this was soon followed a clean extension below its trendline at the end of the year. Since the pair dropped below its trendline losses have accelerated, which can be correlated to a simple combination of both weak technicals and fundamentals collaborating together at the same time.

With it being known that the Japanese economy is struggling and in another recession it is possible that investors could continue to buy in dips and look for a longer-term bounce towards its milestone highs, although I currently do not see the USDJPY returning to that level until at least the end of the current quarter. Potential buyers could be located at the historic lows seen on Black Monday around 116.100, however further pressure on the USDJPY could even lead to the pair declining all the way towards 113.

USDJPY Monthly

GOLD

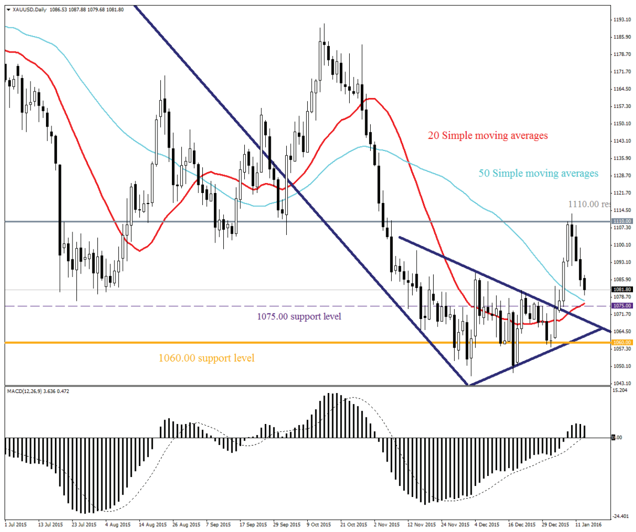
Investor focus still currently geared towards selling the rallies in Gold

With the US Federal Reserve having finally carried out their repeated pledge to raise US interest rates at the end of last year, there are going to be questions asked whether 2016 could see a return in Gold valuation following its third year of consecutive losses. Optimism over a possible recovery for Gold is being helped by a sequence of increased geo-political concerns around the globe, however we still view geo-political tensions as a background risk for investors to monitor and it is important to highlight that despite different geo-political tensions being ongoing for quite some time that there has been no significant bounces in the valuation of the metal so far.

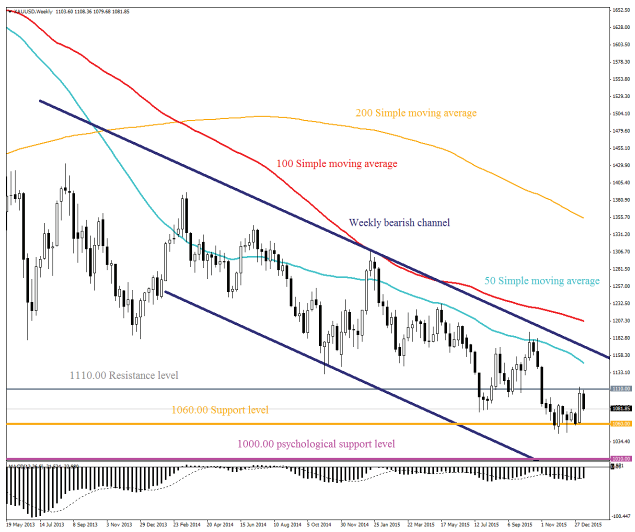
What investors will be watching out for when taking into account their opinions on Gold is if the precious metal restores some of its safe-haven appeal during 2016. Many were left stunned that despite the high uncertainties seen in the financial markets last year, with this including increased geo-political tensions, intense concerns over the China economic downturn and the extreme uncertainty in Greece that Gold suffered from very low buying interest and it was only the shock from the Swiss National Bank (SNB) in early 2015 that increased safe-haven appetite. Looking at the recent bounce in early January following the global equity sell-off there is some potential for an improvement in safe-haven appeal, but public confidence from the Federal Reserve that it intends to raise interest rates on around another four occasions this year is going to repeatedly limit to what extent Gold can recover losses. We now see the area just above $1110 as major resistance and until we close above this level, the investor focus will still be geared towards selling the rallies rather than buying the dips.

In reality, the intentions of the Federal Reserve still hold the key behind Gold trading. While there is evidence of US economic momentum slowing down, job creation remains as the star performer of the US economy and consistent performances in the jobs market will increase confidence that the Federal Reserve will continue to move forward with their intentions to further increase US interest rates.

Gold Daily



Gold Weekly



This is disappointing news for anyone expecting a significant correction in the price of Gold, and will basically limit the potential of any meaningful correction occurring at all. Another impressive NFP report to begin the year from the United States is going to raise expectations that there will be another US interest rate increase around the time that Q1 comes to an end.

Bearing in mind how hesitant and resistant the Federal Reserve was towards raising interest rates just once in 2015, we believe that the public declaration of an intention to raise interest rates another four times in 2016 will be questioned later in the year. However this is something for investors to consider in Q2 and likely towards the second half of the year, and for now Gold will still face pressure as expectations increase that the Fed will move once more in the coming months.

Looking at the technicals, we can see on all the daily, weekly and monthly charts that prices have found resistance at $1110 and a break below the 20 Simple Moving Average (SMA) on the daily timeframe should signal the potential for a further decline. If prices manage to break below $1075, sellers might find additional encouragement to send prices towards $1060. The weekly timeframe also shows that the sellers are still in control with consistent lower lows and lower highs taking place. Prices once again seem to have found firm resistance around $1110 while also trading below the 50,100 and 200 SMA's. A weekly close below $1060 might be the encouragement sellers are waiting for before potentially looking for a further decline towards $1000, while the technical pattern taking place on the monthly chart does suggest that there is some further movement for Gold to move to the downside.

Gold Monthly

WTI OIL

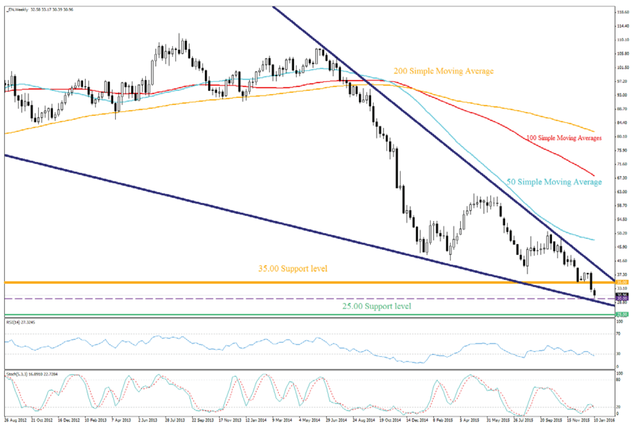
WTI Oil: Further depression in the oil markets

The early trading weeks of 2016 have seen the return of brutal punishment in the oil markets with WTI oil being repeatedly crushed and having found itself falling to its lowest level in over a decade below $30.50. The value of the commodity has already extended its decline by around a further 20% this year and although this is another astonishing drop following continual selling throughout last year that has ultimately led to prices falling nearly 80% from its peaks just eighteen months ago, the dismal outlook is still favored towards additional declines. The overwhelming supply and demand equation that has encouraged dramatic selling is going nowhere anytime soon with a persistent aggressive oversupply in the markets consistently haunting investor attraction, while weaker forecasts around global growth weighs on demand and it is likely that more global economic downgrades from major institutions are to follow early this year.

It has not only become incredibly difficult to argue for a case to purchase oil, but also to simply structure a viewpoint from where prices can rebound and maintain themselves without entering yet another round of selling. The economic conditions are quite simply so overwhelmingly and aggressively against the commodity that there is still no visible floor for oil weakness. Another reason why it is difficult to find a floor despite further aggressive declines that are putting us within touching distance of entering the $20 range is also because Iran has not yet began to unleash its own production potential, which would even further squash the already aggressive supply and demand equation towards the momentum of sellers. Both equity markets and central banks have still not digested to such prolonged weakness in the oil markets, and it wouldn't surprise me in the slightest if central banks or other policymakers resume to change policy taking into account prolonged weakness in commodities that are vital to their exports.

WTI Oil Daily

WTI Oil Weekly



Many are wondering how producers can handle such depressed prices and were eagerly awaiting to see if this impacts the United States, but traders are now losing patience with no correlation yet to be seen between declining US oil rigs and the weekly inventory reports released from the United States. Comments late last year from Saudi Arabia that it would be willing to collaborate with others to achieve stability in the markets provided some promise to those hoping for a rebound in sentiment, but there are concerns that the recent escalation in political tensions between Saudi Arabia and Iran will make any combined production cut from major producers difficult. It should also be taken into account how difficult it would be to bring leaders from so many different economies around the globe together to collectively agree on production levels.

Although the situations are entirely different, we are only a few months past the headlines in Greece and these were collective discussions between very senior figures in the same European Union. You would just have to imagine how difficult it would be to find an agreement on a production ceiling for members of the OPEC committee group, let alone finding producers outside of OPEC to join and cut production also.

In regards to the technicals, all of the charts paint a depressing picture and showcase how sellers are clearly in control of this market. Starting with the daily timeframe, prices are clearly trading inside a steep bearish channel with $30 acting as a major support level. Bears are clearly in control and as long as prices can continue to trade below $35, a breakdown below $30 invites a further potential selloff towards $25. The monthly timeframe also suggests that $35 is now a heavy resistance level and was previously seen as major support. Previous support at $35 is now going to be seen as major resistance and any failure to close above this level will likely invite opportunities for investors to enter another sell-on rally opportunity.

The weekly timeframe also shows that prices are compressing heavily to the downside. Last week's bearish engulfment combined with the fact that prices are below the weekly 50,100 and 200 SMA should encourage a further selloff towards $30. A weekly close below $30 may suggest another buildup in bearish momentum which can invite sellers to attack prices now seen since April 2003 at $25.

WTI Oil Monthly

CHINA

Further signs of a slowdown in China

Since the second half of last year and some could even say even earlier, headlines have been regularly dominated by concerns over the China economy slowing down. We do not expect that to change and there will be a large quantity of trading sessions which are dominated by concerns over the China economy and either actions from the PBoC or the Shanghai Composite taking punishment. However and although the headlines might focus on China, the trading opportunities are elsewhere in my opinion. We have been repeating for months that an economically slowing down China is no problem for China itself (and will only be a domestic concern when it impacts local employment) but it is a major issue for all those economies that were reliant on trade with China. This is exactly why we still hold very negative views on the emerging market currencies, and also the currencies that belong to economies that rely on commodity exports.

When mentioning both trading opportunities and commodities, the combined fears over both depressed commodity prices and the China economy slowing down are exactly why I am highly positive on the Japanese Yen as we enter 2016. We are still vulnerable to dropping below $30 in the oil markets for a sustained period of time, which will weigh on equities around the globe and as the concerns over China slowing down continue to dominate headlines this means that the Japanese Yen has serious potential in 2016.

Moving back to China and although the PBoC have been extremely active when it comes to increasing stimulus to reinvigorate economic momentum, no improvements have been noted in the data and GDP growth is still on the decline. This means the markets should not be surprised if the PBoC eases monetary policy further, and I personally believe likely actions will include further interest rate cuts and depreciation of the currency.

USDCNH Daily

If I am being honest, the only real positive highlight for China last year was the introduction to the Special Drawing Rights (SDR) basket from the IMF. While this was a very symbolic move and signifies how important China has become to the global economy and its future as a superpower, it does nothing to change the short-term fact that the economy itself is slowing down and will not change this in anyway. Investors should see the decision to include the Chinese Yuan into the SDR as nothing other than a novelty and feel-good factor for now and see how it develops in the future, because in the short-term all focus should be directed on economic growth slowing.

When it comes to the currency, the trend of the RMB will remain weak and we do expect to see further gradual currency depreciation from the PBoC. Although it might not be a popular measure, further gradual weakness of the Chinese currency does have some benefits to the economy. By weakening the currency, consumers are having to pay more for importing products with this also benefiting China because the economy was previously encountering inflation risks. While at the same time, one of the benefits to weakening the currency is enhancing export competiveness and making Chinese products more attractive from a cost standpoint for overseas buyers.

It is quite clear that those who are higher up in the China government or central bank are strategically planning for China to transform away from being an economy that relies on importing from everyone else, and transitioning towards an economy that has both a domestic reliance and can also export products to others. It might not be a popular measure because it will spook the markets at times, but a weaker currency does help achieve these strategic objectives and this is exactly why the trend of the Chinese currency will remain weak.

Regarding the technicals, it is clear for everyone to see that the USDCNH is on an uptrend and the daily timeframe also shows that there have been consistent higher highs and higher lows. Not only is the USDCNH trading above both the 20 and 50 SMA, but with the MACD pointing heavily into the upside a breakout above 6.63 should increase the probability of a move towards 6.75. A bearish move back below the previous 6.56 lower high signals bullish weakness and would invalidate the bullish outlook.

EMERGING MARKETS

No road back for the emerging market currencies

The current outlook for the emerging market currencies is extremely weak and the chances are very limited for a meaningful, sustained comeback anytime soon. These currencies are finding themselves under repeated pressure from a variety of different directions with this including Dollar strength, extensive losses throughout the commodity markets, and continual concerns over the global economy with most headlines being dominated by slowing growth in China, a market which is well-known for importing from the emerging markets. Relentless pressure in the commodity markets where so many of these economies rely on exports, additional concerns over global growth that is encouraging a risk averse attitude from investors and an acceptance that these economies are also entering their own period of weaker growth are all reasons why the emerging market currencies can't expect to recover losses, and still face the risk of falling towards further milestone lows.

Others might highlight US interest rate policy from the Federal Reserve as another reason to be negative on emerging market currencies, but the Federal Reserve being confident enough in their own economy to raise interest rates, despite everything else that is going on elsewhere, is a welcome boost to the global economic sentiment. We pointed out that the emerging market currencies wouldn't weaken following the first US interest rate hike in December, and they actually showed signs of strengthening in the days following the decision. I would say that the divergence that begins to appear when the Fed raises rates, and as we approach the potential third time, could be a risk but for now, but the major focus for the emerging markets should be on both the concerns over China entering a deep downturn and the resumed selling in the commodity markets with the risk being how this impacts the general sentiment towards the emerging markets.

Commodities hold the key to emerging markets

Speaking of commodities, we do believe that these markets hold the key towards where the emerging markets trade for a sustained period. With a high number of the emerging markets not yet being fully developed and diversified, a wide variety of these economies are highly reliant on commodity exports and that is exactly why we have witnessed widespread weakness across the emerging market currencies following the downfall of commodity prices. A consistent recovery in the commodities markets is required for the emerging market currencies to recover significant losses, but we are looking at the elevated concerns over global growth and it is doubtful that a recovery will occur anytime soon. When looking at the current price of oil, the close below $30 at the end of last week was a huge psychological move and risks further rounds of punishment for the emerging market currencies.

While some policymakers and senior figures have been stressing that it is external factors that have been behind the rout which the currencies across the emerging markets have stumbled upon over the past year and this is in many ways accurate, the stance has to now change towards what potential problems a weaker currency can cause to their domestic economy. For example, is a weaker currency going to lead to fears over an increase in the cost of living? Are corporations going to find it difficult to make payments and will need to dismiss employees? Is there going to be a period of exceptionally high inflation, or is the opposite going to happen and there will be no inflation because consumers can no longer spend? These are all questions that need answering and this is why it is essential that policymakers in the emerging markets stop focusing on the external factors behind their currency declines, because this in its own right is going to transition towards more internal and domestic risks at some stage.

One thing that is for certain is that the emerging markets in general are going to enter a period of weaker growth. This will be mostly be led by a period of adjusting to weak commodity prices for those emerging markets that are reliant in some way or another on commodity exports, but also the fallout from China because the emerging markets are more vulnerable than anywhere else to a China slowdown.

This is simply because they were the most reliant on trade demand from China and the emerging markets in general did enjoy a high period of growth at the same time that economic momentum in China accelerated.

What are the options for central banks?

With a period of weaker growth looking all but confirmed as of now, what the central banks can look towards focusing on is whether such a weaker currency will be detrimental towards GDP potential. Some of the emerging markets and perhaps even highly developed economies are reliant on exports in one way or another, which is why a weaker currency can be beneficial. The problem with the weaker currency is that if you are one of those economies that is not fortunate enough to possess domestic resources then you will be forced to continue buying products from abroad or could quite simply no longer be able to afford the products.

What are the options that a central bank could take at this time? We still don't think that intervening in the FX markets is a wise move because it only leads to a short-term improvement in the currency value and can deplete reserves fast. Additionally, what we encountered during the first trading week of January was a clear example of external risks returning and intensifying. In order to defend their currencies central banks will require FX reserves and if they were intervening in the markets before, they may have already risked burning their reserves. Now that the price of WTI has dropped below $30 and the markets are accepting towards the fact that depressed commodity prices are here to stay, sellers could be tempted to drive commodities to milestone lows that were unimaginable before and this is when reserves would be useful. Banning or at least reducing USD deposits is one measure that could be considered, but it would not be popular at all and could risk spooking possible investors.

However, I don't think that the run of extraordinary monetary easing from central banks has come to an end and I do think that there can be changes of direction when it comes to central bank policy in the emerging markets. If we take for example Indonesia, this is an example of an emerging market that has high interest rates, but which also now has the scope to reduce the benchmark rate with the economy entering both a period of weaker growth and some signs of a low inflation risk. On the other hand looking at Malaysia, this is an example of an economy that already has low interest rates in comparison to other emerging markets and might need to increase the benchmark rate. This is quite simply because I do not think that Bank Negara has the scope to reduce rates with inflation pressures gradually building towards the area where interest rates are being kept. A further decrease in interest rates would further risk the woes for a currency that has exploded into weakness over the past year.

Basically, if a central bank is truly worried about the acceleration of weakness seen in their currency over the past year, then an option that they could take would be to consider an interest rate increase. This might sound a little strange to do this in a period where economies are expected to enter a period of weaker economic growth, but it can encourage inflows back towards an economy and protect a currency from further losses.