

Thursday, November 24, 2016

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Global FX Insights

by LMAX Exchange Research & Analytics

Comprehensive daily market research and analytics, with insightful commentary and charts

Will Holiday Trade Be A Friend to the Trend? [Wake-up Call](#)

The Dollar remains in full control into the lighter portion of this US holiday week and the Buck could easily continue to push higher in the thinner trade. Holidays are capable of inviting intense moves in the direction of the prevailing trend, which could make another Dollar surge on Thursday a very real possibility.

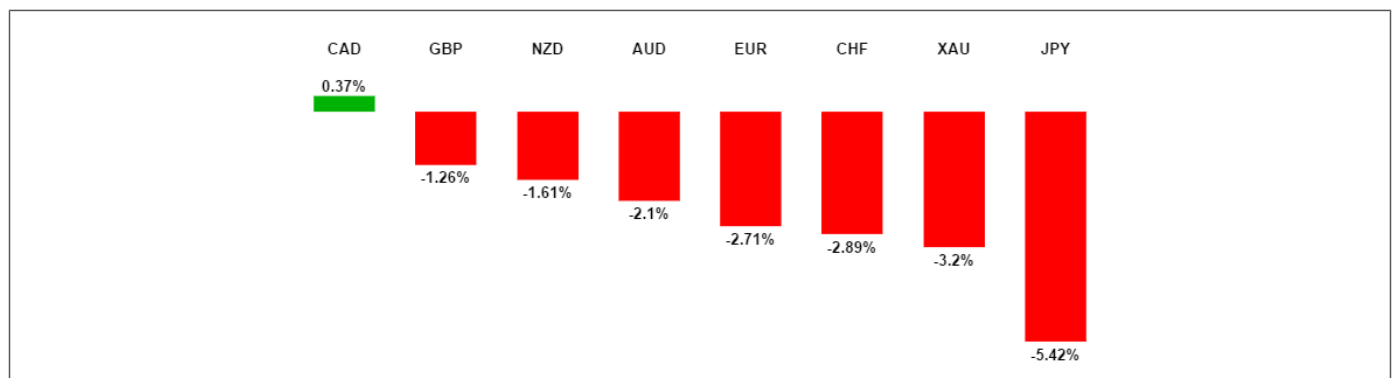
Technical highlights [Daily Video](#)

- **EURUSD** No signs of bottom just yet
- **GBPUSD** Happy with sideways trade
- **USDJPY** Overbought but still on move
- **EURCHF** Consolidates above 2016 low
- **AUDUSD** Additional upside limited
- **USDCAD** Well supported into dips
- **NZDUSD** Ready for next big pullback
- **US SPX 500** Trying to hold above 2200
- **GOLD** (spot) Drops into internal support
- **Feature** – USDMXN Still room to run

Fundamental highlights

- **EURUSD** German data takes backseat to broader flow
- **GBPUSD** Pound benefits from broad currency declines
- **USDJPY** Yield differentials and elevated stocks prop
- **EURCHF** SNB strategy skating on some very thin ice
- **AUDUSD** Hawkish Fed expectations ramp up
- **USDCAD** Loonie emerges as relative outperformer
- **NZDUSD** Kiwi looking ahead to Friday trade balance
- **US SPX 500** Stock market exposed despite record highs
- **GOLD** (spot) Metal suffers from US Dollar surge
- **Feature** – USDMXN Banxico focused on Trump and risk

Five day performance v. US dollar



Suggested reading

- **Hedge Fund Redemptions Widespread and Persistent**, ValueWalk (November 22, 2016)
- **Stronger than Oak**, D. DiMartino Booth, DiMartino Booth (November 23, 2016)

EURUSD – technical overview

The latest break below the 2016 low at 1.0711 now opens the door for a deeper drop into longer-term support in the form of the multi-year base from 2015 at 1.0463. Any rallies should remain well capped below 1.1000, with a only a break above this figure to take the immediate pressure off the downside.



- R2 1.0658 – 22Nov high – Strong
- R1 1.0600 – Figure – Medium
- S1 1.0525 – 24Nov/2016 low – Medium
- S2 1.0463 – 13Mar/2015 low – Strong

EURUSD – fundamental overview

Thursday's economic calendar features data out of Germany that includes GDP, IFO readings and GfK consumer confidence. However, it's unlikely the data will have much of a positive impact if it comes out better than expected, given the intensity of this US Dollar run and upcoming headache for the EU in the form of the Italian referendum. The greater risk from here is for a retest of the critical multi-year base from 2015 at 1.0463. Certainly today's thinner holiday trade on account of US Thanksgiving is more than capable of triggering this next downside extension.

GBPUSD – technical overview

The market has broken out of a multi session consolidation off the multi-year low, which could now open the door for a more significant correction higher in the days ahead. Ultimately, there is room to run towards 1.2800 without compromising the intense downtrend, with a lower top sought out in favour of a bearish resumption back towards 1.2000. Only a weekly close above 1.2800 would compromise the structure. A daily close below 1.2300 will put the immediate pressure back on the downside.



- R2 1.2674 – 11Nov high – Strong
- R1 1.2513 – 22Nov high– Medium
- S1 1.2302 – 18Nov low – Medium
- S2 1.2206 – 1Nov low – Strong

GBPUSD – fundamental overview

All things considered, the Pound has done a wonderful job holding up this week in the face of another intense wave of broad based US Dollar buying. On Wednesday we got a downbeat UK OBR, solid US durable goods orders and hawkish leaning Fed Minutes, and yet, the Pound still managed to impressively close higher against the Buck on the day. It would seem that much of this has to do with the fact that in a world where it feels like every other currency is falling apart, the Pound is actually now benefitting from this flow after already taking a beating post EU referendum. Looking ahead, there is no first tier UK data scheduled and with the US out on holiday, expect some very thin, but potentially volatile trade.

USDJPY – technical overview

The major pair has seen an intense bullish shift in recent days, with the most recent break above 107.50 exposing fresh upside towards next meaningful resistance in the 114.00 area. However, daily studies are looking stretched which suggests that additional upside could be limited in favour of a healthy corrective pullback. But ultimately, any setbacks are expected to be well supported above 105.00.



- R2 113.80 – 29Mar high – Strong
- R1 112.97 – 23Nov high – Strong
- S1 112.00 – Figure – Medium
- S2 111.36 – 21Nov high – Strong

USDJPY – fundamental overview

Trade volumes will be thinning out today and into the remainder of the week on account of the US holiday and this could open the door for additional declines in a Yen that has already taken a beating over the past week, down about 6%. The combination of striking yield differentials and ongoing demand for global equities have catapulted USDJPY to multi-month highs with the major pair now thinking about a test of next key barriers at 115.00.

EURCHF – technical overview

The latest daily close below 1.0738 strengthens the bearish outlook and opens the door for an acceleration of declines towards the 2016 low at 1.0624. At this point, a daily close back above 1.0865 would now be required to take the immediate pressure off the downside and suggest the market is once again looking settle back into the previous range.



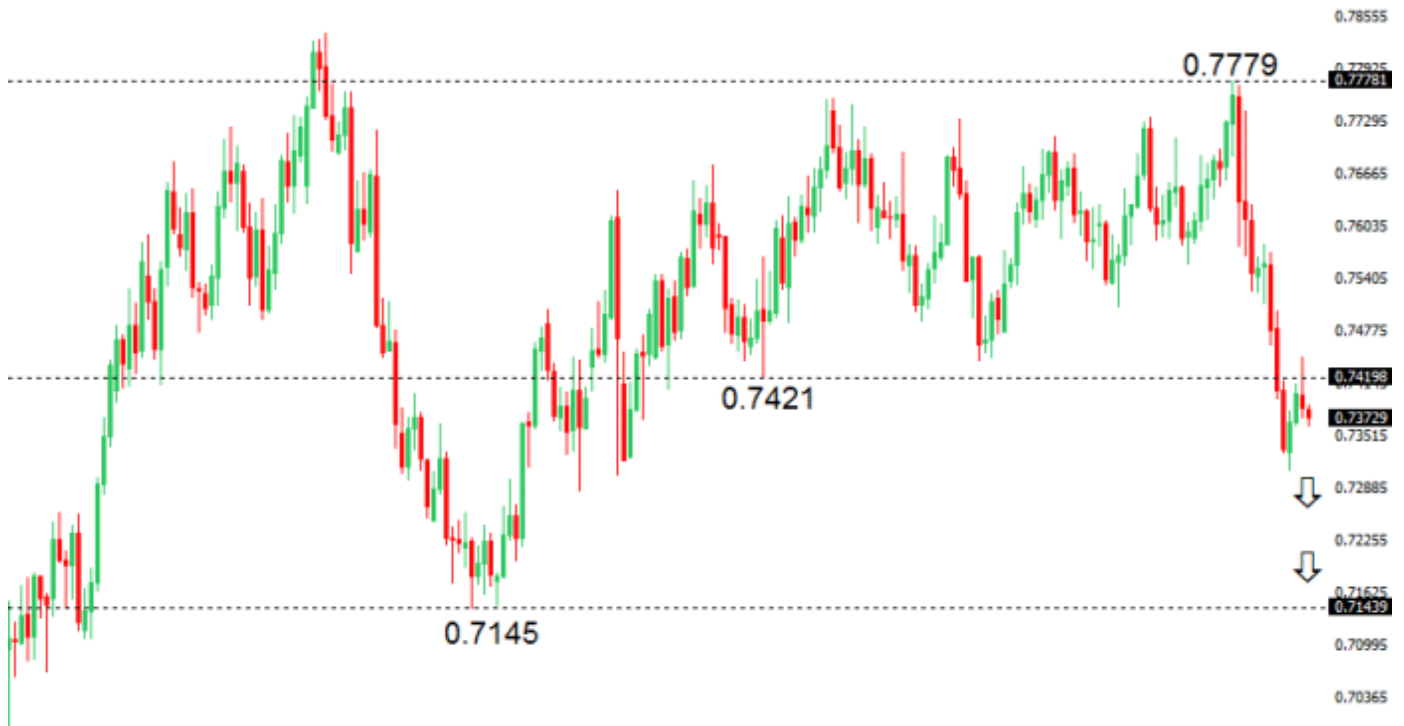
- R2 1.0865 – 28Oct high – Medium
- R1 1.0760 – 15Nov high – Strong
- S1 1.0687 – 18Nov low – Medium
- S2 1.0624 – 24Jun/2016 low – Strong

EURCHF – fundamental overview

The SNB has unquestionably had a difficult time of late, with the central bank forced to contend with an intense wave of demand for the Swiss Franc. The central bank has been committed to its mandate of ensuring the Franc does not appreciate further through monetary policy and intervention tools. Though despite all efforts, the Franc continues to want to appreciate against the Euro. It seems the strategy has been to buy Euro when risk comes off and to do nothing when risk is back on and natural flows should be CHF bearish. But the trouble is, when risk comes back, the Franc is still not depreciating as much as the SNB would probably like to see and if global risk sentiment deteriorates, it could invite a massive wave of demand for the Franc that the SNB will be unable to offset.

AUDUSD – technical overview

The latest break below 0.7400 is a significant development and now opens the door for deeper setbacks towards next key support at 0.7145 in the days ahead. At this point, look for any rallies to be well capped ahead of 0.7600. Only back above 0.7700 delays the bearish outlook.



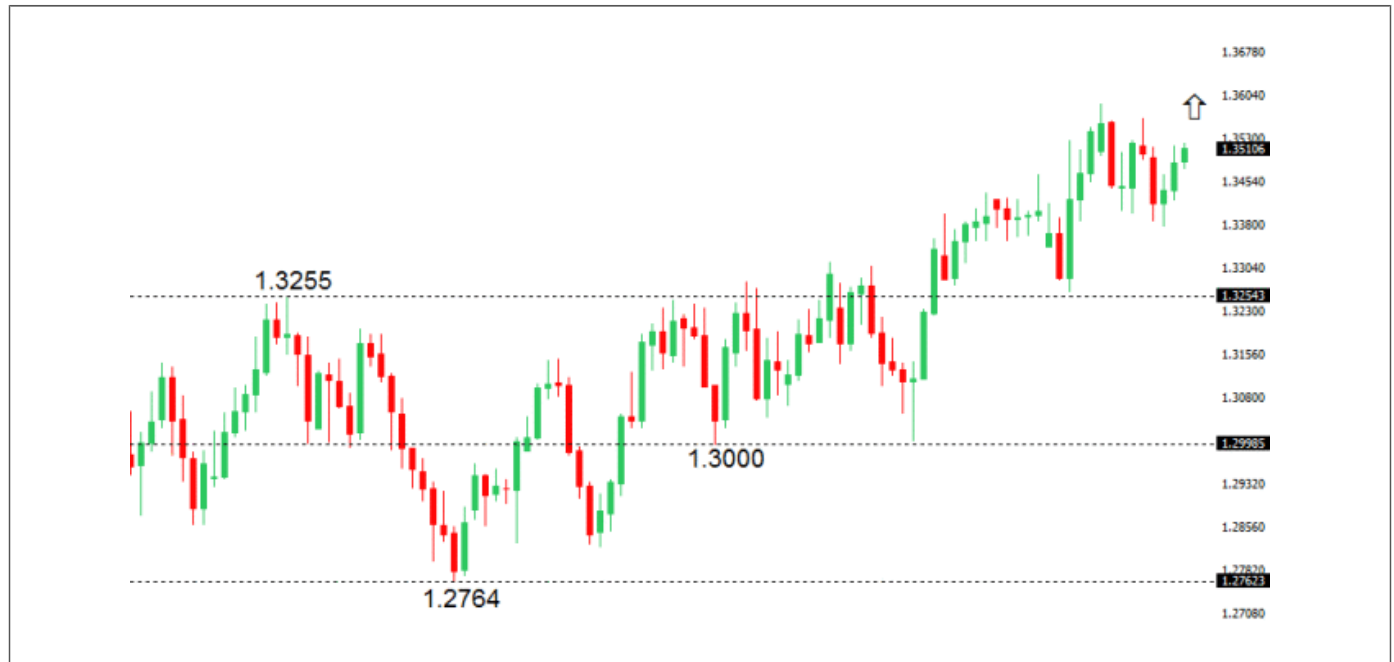
- R2 0.7502 – 17Nov high – Strong
- R1 0.7446 – 23Nov high – Medium
- S1 0.7312 – 21Nov low – Medium
- S2 0.7285 – 16Jun low – Strong

AUDUSD – fundamental overview

More downside pressure is on the cards for the Australian Dollar with the market fixated on buying the US Dollar at the moment as it continues to price in a more hawkish Fed going forward. The economic calendar is exceptionally thin for the remainder of the week and volumes are going to drop off quite a bit with the US market out for the Thanksgiving holiday. Still, thinner trade doesn't mean less volatile trade and we could very well see another healthy drop before the week is out. Whatever the case, dealers cite plenty of fresh offers from medium-term accounts into rallies.

USDCAD – technical overview

This market looks to be in the process of carving out a longer-term base off the 1.2461, 2016 low. Look for any additional weakness to be supported well ahead of 1.3000 in favour of the next major upside extension towards a measured move objective into the 1.4000 area. Ultimately, only back below 1.3000 would delay the constructive outlook.



- R2 1.3589 – 14Nov high – Strong
- R1 1.3565 – 18Nov high – Medium
- S1 1.3378 – 22Nov low – Medium
- S2 1.3354 – 1Nov low – Strong

USDCAD – fundamental overview

The Canadian Dollar hasn't exactly performed well in recent months, but it is worth noting the Loonie has outperformed over the past week and is the only developed currency to be tracking higher against the Buck over that time. It would seem that most of this outperformance is a function of a healthy recovery in the price of OIL, though others contend that the improving growth prospects in the US are a positive for the Canadian economy given the fact that the US is Canada's largest export market. Looking ahead, all is quiet on the calendar and the market will see some very thin, but potentially volatile trade on account of the US Thanksgiving Day holiday.

NZDUSD – technical overview

The pressure has shifted back to the downside with the market now expected to be very well capped on rallies. Look for a fresh lower top at 0.7403 in favour of the next major downside extension below 0.6952 and towards medium-term support at 0.6675 further down.



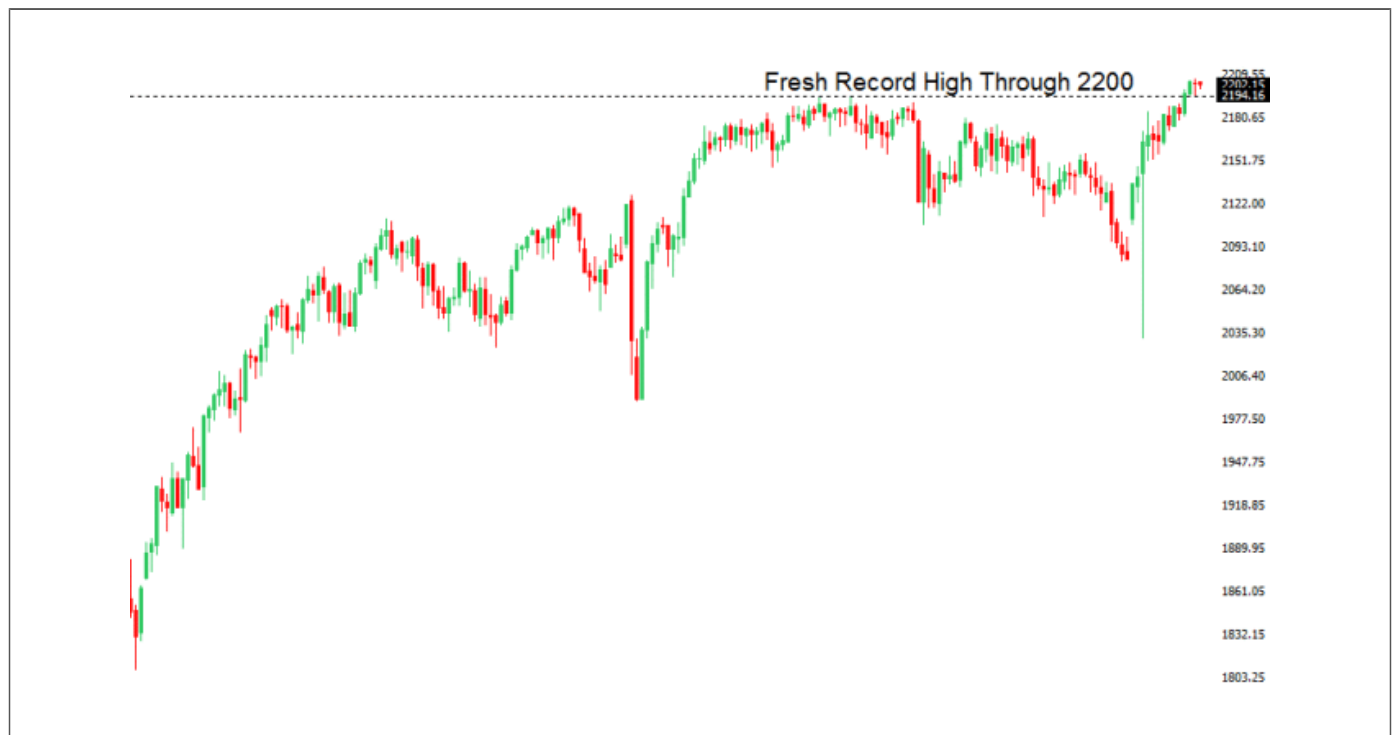
- R2 0.7114 – 16Nov high – Strong
- R1 0.7086 – 22Nov high – Medium
- S1 0.6952 – 21Jul low – Strong
- S2 0.6900 – Figure – Medium

NZDUSD – fundamental overview

The New Zealand Dollar has not been immune to this wave of US Dollar buying over the past several weeks and has come under increased pressure in recent days as hawkish Fed bets ramp up. Kiwi has also taken some hits against its Aussie cousin as local players look to pick up the AUDNZD cross. Looking ahead, more downside is expected below 0.7000, though trade will thin out quite a bit later today with the US out for the Thanksgiving holiday. Then, early Friday we get some important New Zealand trade data.

US SPX 500 – technical overview

While this latest surge back to a fresh record high could compromise what has been the possibility for a toppish structure, the risk is still tilted to the downside if the market fails to establish above 2200 on a weekly close basis. But ultimately, at this point, any topside failure will also need to be met with a break back below 2100 to once again encourage the possibility for a bearish structural shift.



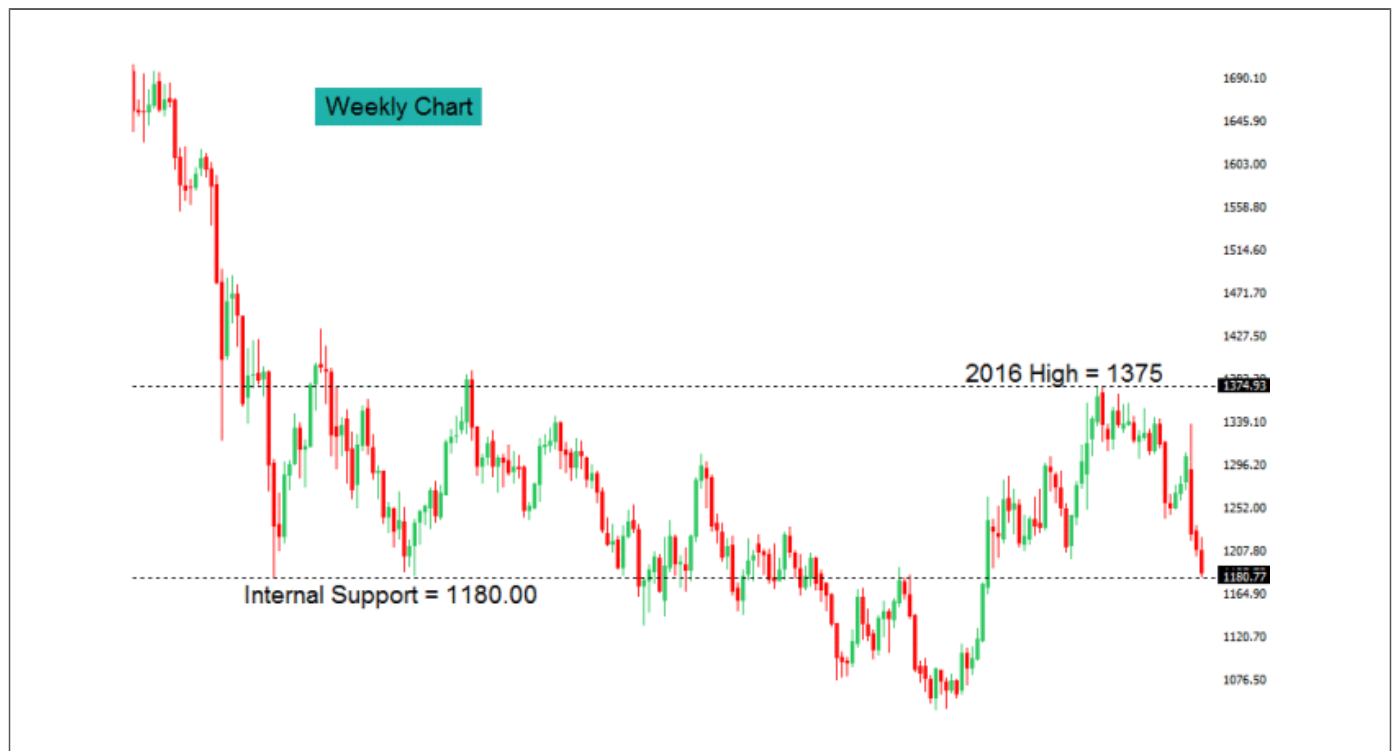
- R2 2250.00 – Psychological – Strong
- R1 2206.00 – 23Nov/Record high – Medium
- S1 2148.00 – 8Nov high – Medium
- S2 2100.00 – Psychological – Strong

US SPX 500 – fundamental overview

The ongoing bid for US equities has been more than impressive, particularly at a time when the Fed is about to embark on a more steady path to policy normalisation. But the market will need to once again think about the bigger, more worrying issue at hand, which is an exhaustion of global monetary policy tools globally and an inability for central banks to continue to support and stimulate growth. This leaves financial markets vulnerable to any shocks and exposed to intense periods of additional risk liquidation going forward, especially at a time when the Fed is moving further away from accommodation.

GOLD (SPOT) – technical overview

Despite a major setback, the overall structure remains constructive with the market in the process of carving out a longer-term base. Look for any weakness to be very well supported above 1130, with only a close back below this level to negate the basing outlook and give reason for pause. Back above 1233.10 strengthens the outlook and should accelerate gains towards a retest of the 2016 peak at 1375.



- R2 1265.50 – 11Nov high – Strong
- R1 1233.10 – 18Nov high – Medium
- S1 1180.00 – Internal Support – Strong
- S2 1150.00 – Psychological – Strong

GOLD (SPOT) – fundamental overview

GOLD has suffered quite a blow over the past several days, with the yellow metal unable to ignore the intense rotation into the US Dollar. However, solid demand from medium and longer-term players continues to emerge on dips despite the setbacks, with these players more concerned about the limitations of exhausted monetary policy, extended global equities, systemic risk and a bet that record low inflation will turn up even faster in a Trump presidency. All of this will almost certainly continue to keep the commodity in demand, even if the Buck is propped, with many market participants fleeing to the hard asset as the grand dichotomy of record high equities and record low yields comes to an unnerving climax.

Feature – technical overview

USDMXN has raced to a fresh record high with the market surging through critical psychological barriers at 20.000. The break to new highs now opens the door for a measured move upside extension towards 22.0000 in the sessions ahead, following a period of consolidation roughly between 18.0000 and 20.0000. At this point, only back below 18.0000 would compromise the highly constructive outlook.



- R2 22.0000 – Measured Move – Strong
- R1 21.3950 – 11Nov/Record High – Medium
- S1 20.1285 – 17Nov low – Medium
- S2 19.5490 – 3Nov high – Strong

Feature – fundamental overview

The danger of a Trump Presidency to the Mexican economy has become a reality. This has opened a dramatic collapse in the Peso, with the currency sinking to a fresh record low against the Buck and down as much as 10% post election. It has also forced the Banxico into the uncomfortable position of having to raise rates another 50bps to offset the rapid Peso depreciation at a time when such a hike will only act as a major strain on the local economy and Mexico's growth prospects. The only help to the Peso at the moment is the ongoing bid for US equities, but with this market in desperate need of a major correction, things could really get ugly for the Banxico if risk comes off.



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