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Global FX Insights

by LMAX Exchange Research & Analytics

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

EU Summit, US Tax Bill [Wake-up Call](#)

Friday's economic calendar is rather light, perhaps fitting after all of the central bank risk over the past couple of days. The bigger focus will be on the EU summit and on the final draft of the US tax bill, facing resistance in the final hour.

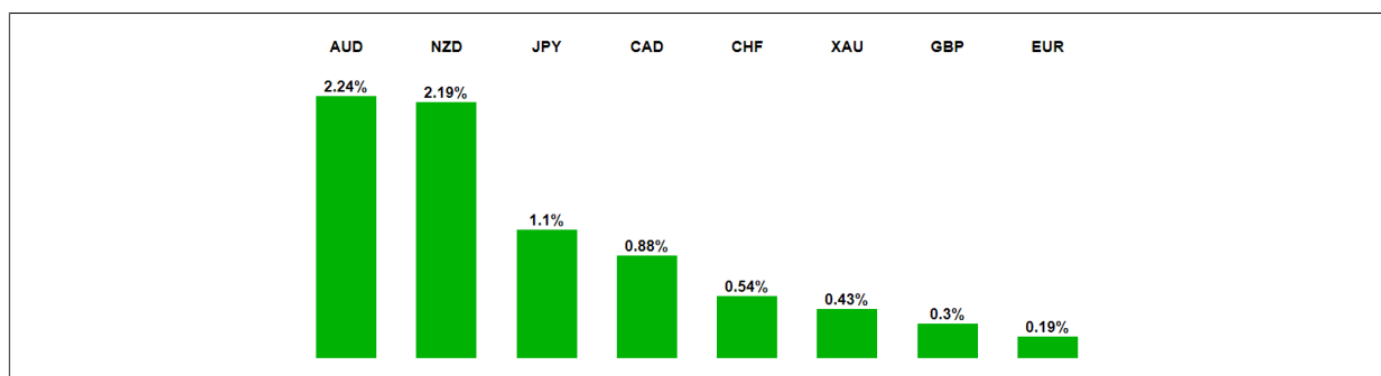
Technical highlights [Daily Video](#)

- **EURUSD** Stuck in middle of range
- **GBPUSD** Well defined uptrend
- **USDJPY** Below 110.85 accelerates
- **EURCHF** Consolidates off 2017 high
- **AUDUSD** Looking to extend recovery
- **USDCAD** Room for additional upside
- **NZDUSD** Attempting to base out
- **US SPX 500** Dips well supported
- **GOLD** (spot) Bounces ahead of barrier
- **Feature** – USDTRY Focused on 4 handle

Fundamental highlights

- **EURUSD** Euro stumbles after dovish ECB meeting
- **GBPUSD** EU summit could produce Brexit cues
- **USDJPY** Yen appreciates on USD selling, risk off
- **EURCHF** SNB strategy will get more challenging
- **AUDUSD** Aussie momentum from impressive data
- **USDCAD** Upbeat Poloz does little to help Loonie
- **NZDUSD** Market reconsiders bets on Kiwi
- **US SPX 500** Investors keep shrugging red flags
- **GOLD** (spot) Macro accounts happy to buy dips
- **Feature** – USDTRY CBRT disappoints investors

Five day performance v. US dollar



Suggested reading

- **2018 Call? Dollar's Gonna Fall**, R. Blitz Financial Times (December 14, 2017)
- **Broker Leaks and Bitcoin Biases**, M. Levine, Bloomberg (December 14, 2017)

EURUSD – technical overview

Despite minor setbacks off a recent recovery high, the outlook for the major pair remains highly constructive. The door is now open for a more immediate resumption of a well defined uptrend that has taken form in 2017. Look for any setbacks to be well supported ahead of 1.1700, for the next major upside extension beyond the current yearly high of 1.2093 and towards the 1.2500 area further up. Only a daily close back below 1.1700 will delay this outlook.



- R2 1.1962 – 27Nov high – Strong
- R1 1.1877 – 5Dec high – Medium
- S1 1.1731 – 8Dec low – Medium
- S2 1.1714 – 21Nov low – Strong

EURUSD – fundamental overview

The European Central Bank gave the market another little dose of volatility, at least as far as the Euro was concerned, with the single currency pulling back after Draghi failed to satisfy those looking for a definitive end date for QE and after ECB inflation projections still fell well short of the 2% target. US retail sales also came out better than expected, which fueled additional setbacks in the single currency. Still, dealers continue to report good interest on dips from medium and longer term accounts looking to build into existing long exposure. Looking ahead, we get Eurozone trade, US empire manufacturing and US industrial production, though most of the focus will be on the EU summit and expected final draft of the US tax reform bill.

GBPUSD – technical overview

The recent push back above 1.3340 now suggests the market is poised for a continuation of the 2017 uptrend, with a higher low in place at 1.3027, to be confirmed on a break of the 2017 high at 1.3658. This will then open the door for a measured move upside extension back above 1.4000 and towards 1.4200 into 2018. Any setbacks should now be well supported into that previous range resistance now turned support at 1.3340.



- R2 1.3521 – 8Dec high – Strong
- R1 1.3467 – 14Dec high – Medium
- S1 1.3321 – 7Dec low – Medium
- S2 1.3222 – 28Nov low – Strong

GBPUSD – fundamental overview

There were no surprises from the Bank of England on Thursday and the Pound managed to hold up well on the day, finding comfort in the above forecast UK retail sales print. US retail sales were also better than expected, which kept rallies contained, though the market continues to find solid bids on dips and feels like it wants to extend its 2017 run. But a lot of this will depend on how things play out with Brexit negotiations and this will be a focus on Friday, with headlines expected out from the EU summit. In the US session we get empire manufacturing and industrial production along with an anticipated final draft of the US tax reform bill.

USDJPY – technical overview

The major pair has been confined to a range trade for much of 2017, with rallies well capped ahead of 115.00 and dips well supported below 108.00. The latest topside failure off the range high strengthens this outlook, though the market will ideally need to hold below 113.50 on a daily close basis to further encourage the bearish prospect.



- R2 113.76 – 12Dec high – Strong
- R1 113.00 – Figure – Medium
- S1 112.07 – 14Dec low – Medium
- S2 112.00 – 6Dec low – Strong

USDJPY – fundamental overview

The Yen has not been able to escape a broad based wave of US Dollar outflow in the aftermath of this week's Fed decision. Though the Fed went ahead and raised rates another 25 basis points, this was widely expected and left market participants digesting the overall tone of the decision. The takeaway was an on net more dovish read given the two dissents and a still cautious Fed Chair. At the same time, risk markets were turned off for a moment on Thursday after US tax reform was facing resistance in its final hour. Marco Rubio announced he could not support the bill unless changes were made to expand the child tax credit. Looking ahead, the Yen will be paying attention to US equities and risk sentiment, while digesting the fallout from the SNB, BOE and ECB decision, and also taking in US retail sales. Earlier today, there was little reaction to a mixed Japan Tankan survey. Next week, the BOJ will meet for its final time in 2017.

EURCHF – technical overview

A period of multi-day consolidation has been broken, with the market pushing up to a fresh 2017 high. The bullish break could now get the uptrend thinking about a test of that major barrier at 1.2000 further up. In the interim, look for any setbacks to be very well supported ahead of 1.1400, while only back below 1.1260 would delay the overall constructive tone.



- R2 1.1800 – Figure – Strong
- R1 1.1738 – 1Dec/2017 high – Medium
- S1 1.1544 – 5Nov low – Medium
- S2 1.1485 – 17Oct low – Strong

EURCHF – fundamental overview

The SNB will need to be careful right now as its strategy to weaken the Franc could face headwinds from the US equity market. The record run in the US stock market has been a big boost to the SNB's strategy with elevated sentiment encouraging Franc weakness. Of course, the SNB is no stranger to this risk, given a balance sheet with massive exposure to the US equity market. But any signs of capitulation on that front, will likely invite a very large wave of demand for the Franc, which will put the SNB in a more challenging position to weaken the Franc. And so, we speculate the SNB continues to be active buying EURCHF in an attempt to build some cushion ahead of what could be a period of intense Franc demand ahead.

AUDUSD – technical overview

Technical studies are in the process of unwinding from stretched readings, resulting in this latest consolidation, which could be well supported for the time being in the 0.7500 area. But overall, the pressure is on the downside and rallies are viewed as corrective while below 0.7900, with the possibility for another downside extension towards 0.7000 not to be ruled out.



- R2 0.7731 – 2Nov high – Strong
- R1 0.7700 – Figure – Medium
- S1 0.7600 – Figure – Medium
- S2 0.7581 – 12Dec high – Strong

AUDUSD – fundamental overview

It's been a good week for the Australian Dollar, with the currency benefitting from solid local data and some broad based US Dollar declines. On the local front, Aussie has been feeling better about some consumer confidence data and an impressive jobs report, while on the US Dollar side, softer core CPI, a more dovish read of the Fed decision and hiccups that threaten tax reform passage, are all hurting the Buck. Looking ahead, we get US empire manufacturing and industrial production, along with an expected final draft of the US tax reform bill.

USDCAD – technical overview

Clear signs of basing in this pair, with the recovery from plus two year lows back in September extending through an important resistance point in the form of the August peak. This sets the stage for additional upside in the days and weeks ahead, with the immediate focus now on a retest of the psychological barrier at 1.3000. In the interim, any setbacks should now be well supported ahead of 1.2600.



- R2 1.2917 – 27Oct high – Strong
- R1 1.2881 – 8Dec high – Medium
- S1 1.2714 – 14Dec low – Medium
- S2 1.2624 – 5Dec low – Strong

USDCAD – fundamental overview

The Canadian Dollar has been under consistent pressure since topping out at a plus 2 year high against the Buck in September, with the market reconsidering bets after the BoC's move to hike rates consecutively this year was followed up by a run of softer economic data. Looking out to 2018, there could be more downside risk to the Loonie as the fate of NAFTA comes back into the spotlight, with any talk of a breakup to put more pressure on the Loonie. The Canadian Dollar has also not been able to benefit from a recovery in the OIL market in 2017, but has felt the pressure of pullbacks when they happen, as reflected in this week's price action. And when considering the performance post the dovish Fed decision and broad based US Dollar outflows, it's clear just how much the market isn't feeling too great about the Loonie. Even Thursday's more upbeat Poloz comments in which the central banker said the BoC was 'increasingly confident' less monetary stimulus was needed, failed to do much to prop the Loonie. Looking ahead, most of the focus will be on the expected final draft of the US tax reform bill, though we also get Canada manufacturing sales, Canada existing home sales, US empire manufacturing and US industrial production.

NZDUSD – technical overview

The market is turning up after recently trading down to a fresh 2017 low in November. The price action has taken the form of a kind of inverse H&S pattern, with the break back above 0.6980 strengthening this prospect and opening the door for a more pronounced recovery into the 0.7200 area. For now, setbacks are expected to be supported ahead of 0.6850 to encourage the outlook.



- R2 0.7100 – Figure – Medium
- R1 0.7037 – 20Oct high – Strong
- S1 0.6932 – 13Dec low – Medium
- S2 0.6902 – 12Dec low – Strong

NZDUSD – fundamental overview

Kiwi has done a good job holding up off recent 2017 lows, and is getting more help from US Dollar selling on the back of further indications of ongoing subdued inflation in the US and a Fed decision which produced a more dovish leaning read. It seems the market may have been too aggressive selling the New Zealand Dollar in recent weeks, after the currency fell to a fresh 2017 low in the aftermath of the New Zealand election and this is also inspiring some of the outperformance as traders exit short positions. This week's news of the appointment of Adrian Orr as the next RBNZ Governor is one of those things that has helped to restore some confidence. Still, the combination of an overall softer run of local data, downside pressure on commodities prices and worry about external factors associated with global risk appetite could continue to keep the risk correlated currency offered into rallies. Looking ahead, we get US empire manufacturing and industrial production, along with an expected final draft of the US tax reform bill.

US SPX 500 – technical overview

The market continues to shrug off overextended technical readings, with any setbacks quickly supported for fresh record highs. Still, technical readings are tracking well overbought and are in desperate need for a period of healthy corrective action. Ultimately however, it will take a break back below 2557 at a minimum to alleviate immediate topside pressure.



- R2 2700.00 – Extension Target – Strong
- R1 2675.00 – 14Dec/Record high – Medium
- S1 2599.00 – 28Nov low – Strong
- S2 2557.00 – 15Nov low – Strong

US SPX 500 – fundamental overview

The US equity market continues to be well supported on dips, pushing further into record high territory. It seems, on a macro level, the combination of blind momentum, expectation US tax reform will ultimately work out well and a belief the Fed will remain super accommodative under Jerome Powell are all factoring into the relentless bid. Nevertheless, investor immunity to downside risk is not looking as strong these days and there's a clear tension out there as the VIX sits at unnervingly depressed levels. The fact that Fed policy is normalising, however slow, could start to resonate a little more, with stimulus efforts exhausted, balance sheet reduction coming into play and the Fed finally following through with forward guidance erring on the side of policy normalisation. But for now, it's more of the same, with the market shrugging off any red flags. At this point, it will take a breakdown in this market back below 2500 to turn heads.

GOLD (SPOT) – technical overview

Setbacks have been well supported over the past several months, with the market continuing to put in higher lows and higher highs, opening a recent push to a fresh 2017 high up around 1357. And so, look for this most recent dip to round out that next higher low in favour of a bullish continuation towards a retest of the 2016 peak at 1375 further up. This latest round of weakness below 1250 is a setback but ultimately, only a drop back below 1200 would negate the outlook.



- R2 1289.30 – 1Dec high – Strong
- R1 1264.50 – 7Dec high – Medium
- S1 1236.70 – 12Dec low – Medium
- S2 1229.20 – 6Jul high – Strong

GOLD (SPOT) – fundamental overview

Solid demand from medium and longer-term players continues to emerge on dips, with these players more concerned about exhausted monetary policy, extended global equities, political uncertainty, systemic risk and geopolitical threats. All of this should continue to keep the commodity well supported, with many market participants also fleeing to the hard asset as the grand dichotomy of record high equities and record low yields comes to an unnerving climax. Certainly the US Dollar under pressure in 2017 has added to the metal's bid tone as well, but there is a growing sense that even in a scenario where the US Dollar is bid for an extended period, GOLD will hold up on risk off macro implications. Dealers are now reporting demand in size ahead of 1200.

Feature – technical overview

USDTRY has extended its record run, with the market contemplating the establishment above major psychological resistance at 4.0000. At the same time, with medium technical studies looking extended, risk is building for a healthy corrective reversal in the sessions ahead. Ultimately, any setbacks should be well supported ahead of 3.6500, with only a break back below this level to force a shift in the structure.



- R2 4.0000 – Psychological – Strong
- R1 3.9820 – 22Nov/Record – Medium
- S1 3.7870 – Previous Resistance (March) – Medium
- S2 3.7660 – 30Oct low – Strong

Feature – fundamental overview

The CBRT did a fabulous job disappointing investor expectation for what was believed to be a much bigger adjustment to rates than the one the market got on Thursday. The Turkish central bank opted to only raise by a modest 50bps in the LLW. This is viewed as a knock on CBRT credibility, with the central bank clearly influenced by the ongoing pressure from the Erdogan government to keep policy as loose as possible. The Lira could be poised for a fresh record low in the days ahead, with USDTRY considering a break of the massive psychological barrier at 4.00. The emergence of new stress in the global economy could add to the Lira strain if we see a global reduction in risk appetite that ultimately drags the entire emerging market space.



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