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# Global FX Insights

by LMAX Exchange Research & Analytics

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

## Digesting the Dollar Declines [Wake-up Call](#)

The economic calendar is thin to kick off the new week, while volumes could be thinner in the US on account of MLK day, but none of this will really matter, considering all of the movement we're seeing out there.

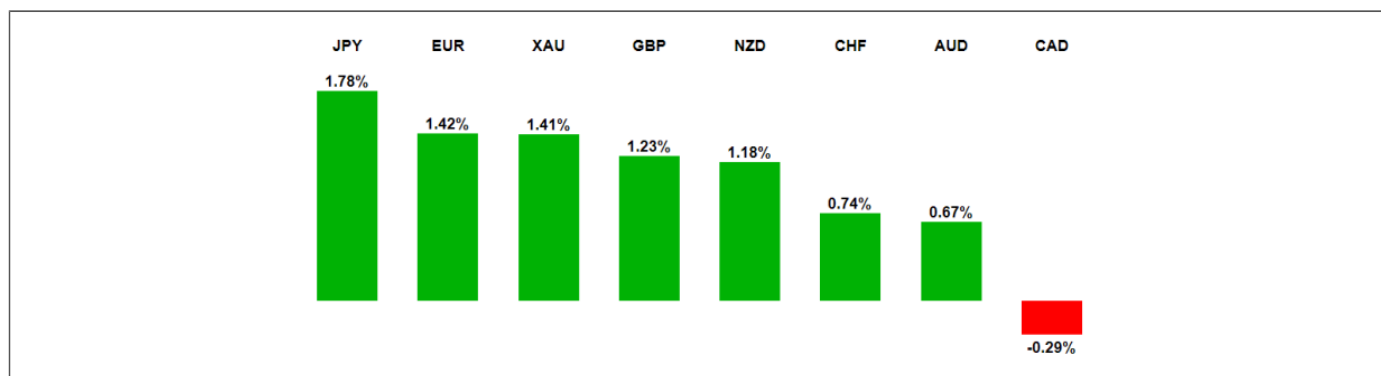
### Technical highlights [Daily Video](#)

- **EURUSD** Fresh upside extension
- **GBPUSD** Door open for +1.4000
- **USDJPY** Deeper setbacks ahead
- **EURCHF** Closing in on 1.2000
- **AUDUSD** Solid psych resistance
- **USDCAD** Setbacks well supported
- **NZDUSD** Poised to roll back over
- **US SPX 500** Reversal imminent
- **GOLD** (spot) Sights on 2016 high
- **Feature** – USDTRY Higher low sought

### Fundamental highlights

- **EURUSD** Eurozone trade featured on light Monday
- **GBPUSD** Soft Brexit talk fuels additional demand
- **USDJPY** Strong Yen could see bigger inflow ahead
- **EURCHF** SNB strategy will get more challenging
- **AUDUSD** Macro fundamentals drive Aussie
- **USDCAD** NAFTA risk a major threat to Loonie
- **NZDUSD** New Zealand food prices slide
- **US SPX 500** US shutdown deadline looms
- **GOLD** (spot) Metal demand reflects uncertainty
- **Feature** – USDTRY CBRT still needs to worry

## Five day performance v. US dollar



## Suggested reading

- **Why the Bothers About Bond?**, J. Authers, Financial Times (January 14, 2018)
- **Hidden Biases Determine Fed Rates**, J. Carson, Bloomberg (January 12, 2018)

## EURUSD – technical overview

Though the Euro has seen a nice run of late and is pushing up into overbought territory on the daily chart, there is still plenty of room to run after the market took out the 2017 high. The break sets up a bullish continuation and the next major measured move upside extension into the 1.2600-1.2700 area, which coincides with monumental resistance in the form of a falling trend-line off the record high from 2008. In the interim, any setbacks should be very well supported ahead of 1.1900.



- R2 1.2300 – Figure– Medium
- R1 1.2241 – 15Jan/2018 high – Medium
- S1 1.2150 – Mid-Figure – Medium
- S2 1.2094 – Previous High – Strong

## EURUSD – fundamental overview

The Euro's run has extended into the new week after the single currency finally managed to break up through the 2017 high. Solid economic data, upbeat talk out of the Eurozone and news of the German coalition deal, have come in contrast with softer US readings, dovish Fed speak and a worry about this week's government shutdown deadline in the US, helping to fuel this latest run. Meanwhile, the US administration's soft Dollar policy outlook has only reinforced the bearish US Dollar position and there is now scope for the Euro to run up some more in the days ahead. Eurozone trade data will be taken in today, but isn't likely to have any major influence. Instead, the market will be watching for any updates relating to the German coalition, US government shutdown deadline and surging US equities. Desks in the US will be lighter on account of the MLK Day holiday.

## GBPUSD – technical overview

The market has been consolidating but ultimately looks poised for a continuation of the 2017 uptrend, with a higher low waiting to be confirmed at 1.3027 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 previous range resistance now turned support in the 1.3300 area.



- R2 1.3800– Figure– Medium
- R1 1.3771 – 15Jan/2018 high – Medium
- S1 1.3658 – Previous high – Medium
- S2 1.3613 – 3Jan high – Medium

## GBPUSD – fundamental overview

The Pound rocketed up this past Friday, clearing major technical resistance in the form of the 2017 high, with the move driven on broad based US Dollar selling and then accelerated on reports of Spanish and Dutch economic ministers agreeing to seek a soft Brexit deal. Looking ahead, there is no economic data to speak of and the US market will be thinner on account of the MLK Day holiday. The big focus for the Pound this week will be Tuesday’s UK inflation readings and Friday’s UK retail sales.

## 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 encourages this outlook, with the break back below 110.85 opening the door for an acceleration towards the 107.00-108.00 area range base in the days ahead. Look for any bounces to now be well capped ahead of 113.00.



- R2 111.88 – 11Jan high – Strong
- R1 111.70 – 12Jan high – Medium
- S1 110.58 – 15Jan low – Medium
- S2 109.56 – 15Sep low – Strong

## USDJPY – fundamental overview

Last week's news of the BOJ slashing JGB purchases of longer term maturities was a big source of Yen demand, while the fresh wave of broad based US Dollar outflow contributed as well. Interestingly, the Yen has been very well bid despite the continued performance in US equities, which have rocketed to yet another record high. This could warn of even more Yen strength (USDJPY weakness) over the coming days, with any sign of capitulation in overextended equities to inspire a flight back into funding currencies, with the Yen a primary beneficiary of such flow in risk off settings. Looking at today's calendar, there isn't much going on with the US market expected to be quite thin on account of the MLK Day holiday.

## EURCHF – technical overview

A period of multi-day consolidation has been broken, with the market pushing up to a fresh multi-month 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 1.1900 – Figure – Strong
- R1 1.1820 – 15Jan/2018 high – Medium
- S1 1.1672 – 29Dec low – Medium
- S2 1.1609 – 19Dec 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 in 2018. 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 US equities. But any signs of capitulation on that front into this new year, 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 have turned back up over the past several days, with the market in the process of recovering after trading down to a fresh multi-day low around the 0.7500 barrier in December. Overall however, there is still plenty of resistance into current levels and additional upside could be difficult ahead of 0.8000.



- R2 0.8000 – Psychological – Strong
- R1 0.7962 – 15Jan high – Medium
- S1 0.7876 – 5Jan high – Medium
- S2 0.7838 – 11Jan low – Strong

## AUDUSD – fundamental overview

The Australian Dollar has continued to extend an impressive run, with the currency benefitting from surging commodities, record high US equities and broad based negative sentiment towards the US Dollar. Looking ahead, Monday's calendar is quiet, though Aussie will have some things to think about this week, with Aussie employment data and a round of first tier China readings due up on Thursday. In the interim, price action in the US Dollar, commodities and stocks will likely dictate direction.

## USDCAD – technical overview

Despite the latest round of setbacks, there are signs of basing in this pair, after the recovery from plus two year lows back in September extended through an important resistance point in the form of the August peak. This sets the stage for additional upside, with the next focus on a retest of the psychological barrier at 1.3000. In the interim, any setbacks should now be well supported ahead of 1.2300.



- R2 1.2591 – 11Jan high – Strong
- R1 1.2500 – Psychological – Medium
- S1 1.2399 – 9Jan low – Medium
- S2 1.2356 – 6Jan low – Strong

## USDCAD – fundamental overview

Last week, Canada’s foreign minister tried to cool concerns over any fears of a NAFTA crumble after stressing the government had come up with creative ideas to settle the toughest NAFTA sticking points. Unfortunately for Canada, the leverage isn’t in its hands, and how President Trump proceeds, will continue to hang over the Loonie’s head as a major risk in 2018, something that should keep the Canadian Dollar from wanting to materially extend gains, despite broad based US Dollar weakness. Looking ahead, Canada existing home sales are due, while the US market will be thinner on account of the MLK Day holiday. Later this week, we get the Bank of Canada policy decision.

## NZDUSD – technical overview

The market has done a good job recovering off the 2017 low from November, though additional upside could now be limited after overshooting a measured move objective in the 0.7200 area off an inverse head and shoulders formation. Overall, there is still medium term risk tilted to the downside and it will take a clear establishment back above 0.7400 to delay the bearish outlook and risk for another reversal.



- R2 0.7300 – Figure – Strong
- R1 0.7283 – 15Jan high – Medium
- S1 0.7183 – 11Jan low – Medium
- S2 0.7141 – 10Jan low – Strong

## NZDUSD – fundamental overview

The New Zealand Dollar has broken up to multi-week highs, with the currency extending its recovery off the 2017 low from November. The combination of surging commodities prices, record high US equities and a broad based wave of US Dollar outflow have been behind this accelerated run of gains. Still, technical traders cite solid resistance up around current levels, with dealers talking heavy sell orders around the 0.7300 figure as well. This could limit gains from here, especially if a runs in commodities and overextended equities start to roll over. Earlier, Kiwi food prices came in softer and although the Kiwi rate hasn't suffered all that much in the aftermath, it has resulted in some underperformance against Aussie. Looking ahead, the calendar is quiet and the focus will be on the US Dollar, commodities and stocks. US markets will be thinner for the MLK Day holiday.



## 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 2670 at a minimum to alleviate immediate topside pressure.



- R2 2850.00 – Extension Target – Strong
- R1 2800.00 – 15Jan/Record high – Medium
- S1 2740.00 – 10Jan low – Medium
- S2 2700.00 – Psychological – Strong

## US SPX 500 – fundamental overview

The US equity market continues to push 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, excitement around infrastructure plans and a belief the Fed will remain super accommodative under Jerome Powell are all factoring into the relentless bid. Ongoing subdued inflation readings have only made investors that much more confident in the slow Fed path, which has helped to fuel the latest run, despite some more hawkish leaning comments from Fed Rosengren, who was worried about inflation. 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 in 2017. But for now, it's more of the same, with the market shrugging off any red flags as it extends into meltup mode. At this point, it will take a breakdown in this market back below 2670 to turn heads. As far as risk goes, the market will be watching developments relating to Friday's US government shutdown deadline.

## 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. Look for this most recent dip to round out that next meaningful base in favour of a bullish continuation towards a retest of the 2016 peak at 1375 further up. Ultimately, only a drop back below 1200 would negate the outlook.



- R2 1357.75 – 8Sep/2017 high – Strong
- R1 1350.00 – Psychological – Medium
- S1 1281.50 – 27Dec low – Medium
- S2 1236.70 – 12Dec low – 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 is in the process of correcting off the record highs in November to allow for extended studies to unwind. However, the uptrend remains firmly intact and a fresh higher low is now sought out ahead of the next big push through the massive psychological barrier in the form of the 4 handle. Ultimately, any setbacks should be well supported ahead of 3.6500, with only a break back below this level to delay the outlook.



- R2 3.9820 – 22Nov/Record – Strong
- R1 3.8980 – 14Dec high – Medium
- S1 3.7330 – 5Jan low low – Medium
- S2 3.7000 – Psychological – Strong

## Feature – fundamental overview

The CBRT did a fabulous job disappointing investor expectation for what the market thought would be a much bigger adjustment to rates than what the CBRT delivered back in December. 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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