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Global FX Insights

by LMAX Exchange Research & Analytics

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

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Where to from Here? Wake-up Call

The US Dollar enjoyed a decent run in the previous week but was unable to close out strong, following Friday's softer run of US data including CPI and retail sales. But even still, at this stage, it looks like the Fed remains on course to hike in June, which should keep the Buck from falling too far and fast.

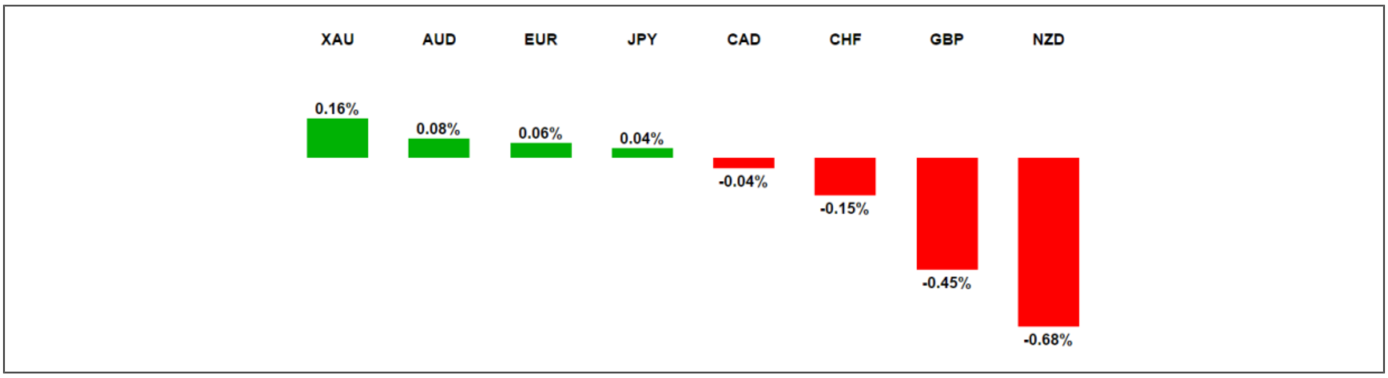
Technical highlights Daily Video

- **EURUSD** Consolidated off yearly high
- **GBPUSD** Well supported on dips
- **USDJPY** Waiting for next big break
- **EURCHF** Testing psychological level
- **AUDUSD** Rallies should be well capped
- **USDCAD** Sights set on test of 1.4000
- **NZDUSD** Upside viewed as corrective
- **US SPX 500** Possible extension to 2480
- **GOLD** (spot) Signs of bottom off 2016 low
- **Feature** – USDSGD Bearish structure

Fundamental highlights

- **EURUSD** Euro recovers post soft run of US data
- **GBPUSD** Pound does Sterling job of holding up
- **USDJPY** Yen continues to track global sentiment
- **EURCHF** Plenty of risk for Franc appreciation
- **AUDUSD** Aussie holds up despite weak China data
- **USDCAD** BoC Poloz gives Canadian Dollar relief
- **NZDUSD** New Zealand retail sales impress
- **US SPX 500** Investors looking for last hurrah
- **GOLD** (spot) Global uncertainty a prop for metal
- **Feature** – USDSGD Healthy data adds to Sing bid

Five day performance v. US dollar



Suggested reading

- **The Big Picture**, R. Dalio, **LinkedIn** (May 12, 2017)
- **Money Manager Interview**, B. Fleckenstein, **BKing World News** (May 12, 2017)

EURUSD – technical overview

The market has recently cleared major resistance at 1.0906, breaking to a fresh 2017 high, while confirming a higher low at 1.0570. The break strengthens the case for a major bottom and opens the next upside extension towards the 1.1400 area. However, additional corrective setbacks should not be ruled out, with the market possibly wanting to fill a gap down to the 1.0730 area in search of its next higher low. Ultimately, only below a previous higher low at 1.0570 negates the newly adopted constructive outlook.

- **R2 1.1022** – 8May/**2017 high** – Strong
- **R1 1.0950** – Mid-Figure– Medium
- **S1 1.0840** – 11May low – Medium
- **S2 1.0821** – 24Apr low – Strong

EURUSD – fundamental overview

The Euro was mostly weighed down in the previous week, with the single currency pulling back on profit taking post French election and on a more dovish than expected appearance from ECB Draghi. Still, setbacks have been well supported thus far, with the Euro rallying back on Friday after US CPI and retail sales came in softer than forecast and after Fed Evans was out with some dovish remarks. Looking ahead, Monday is a light calendar day, with the only notable standouts coming from US NAHB housing and Empire manufacturing. ECB's Nouy and Praet are scheduled to speak though not much movement is anticipated on the central bankers' comments.

GBPUSD – technical overview

This latest push through 1.2775, the December 2016 peak, is a significant development as it potentially ends a period of bearish consolidation, warning of the formation of a more meaningful longer-term base. The break ends a multi week consolidation mostly ranging between 1.2000-1.2700 with the bullish move paving the way for a measured moved upside extension equal in size back into the 1.3500 area in the days ahead. Still, there is rise for a short-term pullback, though any declines are now classified as corrective and should be well supported ahead of 1.2500 in favour of a higher low and bullish resumption.

- **R2 1.3000 –** Psychological – Strong
- **R1 1.2989 –** 8May/**2017 high** – Medium
- **S1 1.2845** – 12May low – Medium
- **S2 1.2831** – 4May low – Strong

GBPUSD – fundamental overview

The Pound continues to hold up well since breaking out in April on the news of the UK snap election next month. Even setbacks following last Thursday's discouraging industrial and manufacturing production readings and more dovish than expected Bank of England decision were mild considering, with the UK currency seemingly intent on pushing back above that psychological barrier at 1.3000 as the worst case Brexit scenarios are priced out. Certainly this latest run of soft US data in the form of retail sales and CPI have also helped to keep the Pound supported. Looking ahead, Monday is a light calendar day, with the only notable standouts coming from US NAHB housing and Empire manufacturing. The market will also be thinking about tomorrow's UK CPI and Wednesday's UK employment data.

USDJPY – technical overview

The recent break and daily close back above 112.20 takes the immediate pressure off the downside, with the market also pushing through falling trend-line resistance from January. This opens the door for additional upside in the sessions ahead, though ultimately, a push through 115.60 will be required for a more constructive outlook. In the interim, the market is confined to neutral territory. Back below 112.09 would put the pressure back on the downside.

- **R2 114.37** – 11May high – Strong
- **R1 113.95** – 12May high – Medium
- **S1 113.13**– 9May low – Medium
- **S2 112.09** – 5May low – Strong

USDJPY – fundamental overview

The Yen has been trying to make a bit of a comeback over the past few sessions, with most of the gains attributed to renewed selling in the US Dollar after the Buck had made a nice run out from 2017 lows. Friday's softer run of US data, including retail sales and CPI have been major contributors to Yen demand, while dovish comments from Fed Evans have also helped. At the same time, the market continues to monitor broader risk sentiment and while US equities keep pushing to record highs, the Yen will keep running into offers (USDJPY higher). If however, risk appetite wanes and US equities falter, this could intensify Yen demand and invite a USDJPY retest of the yearly low just ahead of 108.00. Looking ahead, Monday is a light calendar day, with the only notable standouts coming from US NAHB housing and Empire manufacturing. An earlier batch of softer China data hasn't factored into price action.

EURCHF – technical overview

The latest break back above 1.0900 takes pressure off the downside and could be warning of a more significant structural shift. Next key resistance comes in at 1.1000, with the psychological barrier coinciding with a high from August 2016. The establishment above 1.1000 would strengthen the bullish outlook and open the door for fresh upside. Back below 1.0780 would now be required to put the pressure on the downside.

- **R2 1.1000** – Psychological – Strong
- **R1 1.0989** – 12May/**2017 high** – Medium
- **S1 1.0875** – 2May high – Medium
- **S2 1.0782** – 24Apr low – Strong

EURCHF – fundamental overview

The SNB has been getting a lot of help from reduced risk in the Eurozone following the France election and has likely been taking advantage of this development through additional efforts to weaken the Franc in the aftermath. But with global risk sentiment highly elevated, as reflected through stock markets, and geopolitical tension on the rise, there should be worry that any capitulation on that front could invite massive safe haven Franc demand the central bank will be unable to offset. For now, the SNB is hoping the ECB will take on a more hawkish policy approach, though Draghi offered no such help on furthering that cause last week.

AUDUSD – technical overview

The impressive rally in 2017 has stalled out into significant medium-term resistance ahead of 0.7800. A recent break back below 0.7500 strengthens the prospect for some form of a top and could open the door for a deeper drop back towards the 0.7000 area in the days ahead. Last week's drop below 0.7475 strengthens the bearish outlook and any rallies should be very well capped ahead of that previous support now turned resistance at 0.7600.

- **R2 0.7500** – Psychological – Strong
- **R1 0.7431** – 4May high – Medium
- **S1 0.7330** – 9May low – Medium
- **S2 0.7273** – 5Jan low – Strong

AUDUSD – fundamental overview

The Australian Dollar has done a good job holding up on a relative basis, despite currencies under broad pressure against the US Dollar in the previous week. What's even more impressive is that Aussie has done this in the face of horrid Aussie retail sales, an Australian Federal Budget showing a wider deficit and this latest soft batch of data out of China (retail sales weaker than previous and industrial production much softer). It seems the currency has been more influenced by a rebound in commodities prices, with OIL recovering nicely and base metals moving up and record high US equities. Meanwhile, the fallout from the surprisingly dovish RBNZ decision has also inspired cross related Aussie demand, while Friday's run of softer US retail sales and CPI further supporting. Still, overall, the commodities recovery remains in question, the Fed is on course with its forward guidance and the rotation from the commodity bloc into the Euro and Pound as risk is reduced in Europe could all continue to weigh on Aussie. Looking ahead, Monday is a light calendar day, with the only notable standouts coming from US NAHB housing and Empire manufacturing.

USDCAD – technical overview

The uptrend in this market remains firmly intact, getting added confirmation following this latest break to a fresh 2017 high and through a key peak from December 2016 at 1.3600. But the market is looking super stretched at the moment which has invited this short-term correction. Still, any setbacks should now be very well supported in the 1.3500 area in favour of an eventual push towards the next measured move upside extension objective in the 1.4000 area. Ultimately, only back below 1.3224 would give reason for pause and delay the constructive outlook.

- **R2 1.3860** – 24Feb 2016 high– Strong
- **R1 1.3794** – 5May/**2017 high** – Medium
- **S1 1.3642** – 5May low – Medium
- **S2 1.3625** – 28Apr low– Strong

USDCAD – fundamental overview

The Canadian Dollar has been doing its best to avoid another drop to fresh 2017 lows, though it hasn't been easy. Last week's news of Moody's downgrades at the Canadian Banks only added to stress relating to the Loonie's outlook, with the Canadian Dollar already contending with US administration protectionism in the form of announced tariffs on Canada. But, a recovery in the price of OIL, soft batch of Friday US data and these latest comments from BOE Governor Poloz that risk associated with mortgage lending giant Home Capital Group has been contained have definitely helped to inspire some profit taking on Canadian Dollar shorts. Looking ahead, Monday is a light calendar day, with the only notable standouts coming from US NAHB housing and Empire manufacturing.

NZDUSD – technical overview

The overall pressure remains on the downside with the market expected to be very well capped on rallies. The weekly chart is reflective of this fact as it looks like we're seeing the formation of a major top off the 2016 high, with outlook strengthened on this week's breakdown to a fresh 2017 low. As such, expect the market to continue to roll over in the days ahead, with setbacks projected towards medium-term support in the 0.6600s. Only back above 0.7100 compromises the outlook.

- **R2 0.6969** – 3May high– Strong
- **R1 0.6900 –** Figure – Medium
- **S1 0.6818** – 11May/**2017 low** – Medium
- **S2 0.6800** – Figure– Strong

NZDUSD – fundamental overview

The New Zealand Dollar has been finding some support off recent 2017 lows, with the risk correlated commodity currency benefiting from ongoing demand for US equities, a recovery in commodities, softer Friday US data and this latest impressive New Zealand retail sales showing. Still, overall, the commodities recovery remains in question, the Fed is on course with its forward guidance and the rotation from the commodity bloc into the Euro and Pound as risk is reduced in Europe could all continue to weigh on Kiwi into rallies. But for now, the currency is bid, even after China data came in soft and RBNZ McDermott reminded that uncertainty remains high. Looking ahead, Monday is a light calendar day, with the only notable standouts coming from US NAHB housing and Empire manufacturing.

US SPX 500 – technical overview

The market was unable to break down below major support at 2320, leaving the pressure on the topside and opening the door for this latest run to a fresh record high. The push back above 2400 opens a measured move extension to 2480. At this point, a break back below 2368 would be required at a minimum to alleviate immediate topside pressure.

- **R2 2480.00** – Measured Move – Strong
- **R1 2406.00** – 8May/**Record high** – Medium
- **S1 2368.00** – 24Apr low – Medium
- **S2 2321.00** – 27Mar low – Strong

US SPX 500 – fundamental overview

The US equity market has done a good job proving it doesn't care about anything accept interest rates. There have been many risks thrown at the market in recent years and each time, investors are able to easily shrug off these risks, content to build long exposure with rates exceptionally low and nowhere else to put capital to work. The fact that the Fed has begun the reversal of policy is of no consequence at this point, with negligible rate increases to date, doing nothing to dissuade the market, with valuations remaining attractive. Of course, the market has also grown accustomed to relying on Fed misguidance that has only emboldened the bullish case. Still, with asset prices where they are right now and with the Fed showing it may actually follow through with guidance in 2017, there is risk it could all come crashing down, with upside possibly limited to 2500 before a major capitulation. It's worth highlighting the rise in geopolitical risk, something that should be another red flag, particularly when one considers the new US administration's alternative take on diplomacy.

GOLD (SPOT) – technical overview

The market has been very well supported since basing out ahead of 1100 in 2016. This latest break to another yearly high through 1265 strengthens the outlook, confirming the next higher low at 1195, while opening the door for the next major upside extension towards a measured move into the 1335 area. As such, look for the latest round of setbacks to be well supported above the previous higher low at 1195, with only a break back below 1195 to compromise the constructive outlook.

- **R2 1295.60** – 17Apr/**2017 high** – Strong
- **R1 1257.80** – 2May high – Medium
- **S1 1214.30** – 9May low – Medium
- **S2 1195.95** – 10Mar low – Strong

GOLD (SPOT) – fundamental overview

The US Dollar recovery in recent sessions has contributed to this latest decline, with setbacks accelerating after the Fed downplayed a recent run of softer data, giving the Buck an added boost. Meanwhile, a broad based capitulation in commodities markets is adding to downside pressure. Still, solid demand from medium and longer-term players continues to emerge on dips, with these players more concerned about the limitations of exhausted monetary policy, extended global equities, political uncertainty, systemic risk and geopolitical threats. All of this should continue to keep the commodity in demand, 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.

Feature – technical overview

USDSGD has been trending lower in 2017, making a series of lower highs and lower lows. The most recent lower top comes in at 1.4220 and a fresh lower top is now sought out ahead of this level, possibly around 1.4130 in favor of the next major measured move downside extension into the 1.3700 area. At this point, only back above 1.4220 negates the bearish outlook.

- **R2 1.4220** – 10Mar high – Strong
- **R1 1.4130** – 11May high – Medium
- **S1 1.4000** – Psychological – Strong
- **S2 1.3905** – 25Apr/**2017 low** – Strong

Feature – fundamental overview

The Singapore Dollar will be looking to extend its run in 2017, with the currency easily absorbing a period of US Dollar strength. Last week's solid Singapore retail sales combined with a softer run of US retail sales and US CPI and dovish Fed Evans comments have been driving this latest run in the emerging market currency. This week in Singapore, key standouts are NODX and trade. Disappointing China data and renewed provocation from North Korea haven't done anything to negatively impact the emerging market currency in the early hours of the week.