

Tuesday, January 16, 2018

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Global FX Insights

by LMAX Exchange Research & Analytics

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GBP Volatility to Pick Up As CPI Digested [Wake-up Call](#)

The US Dollar is trying to regain some composure after already taking quite a hit in 2018. But there hasn't been much going the Dollar's way and something will need to change to inspire a more meaningful recovery. UK CPI data stands out today.

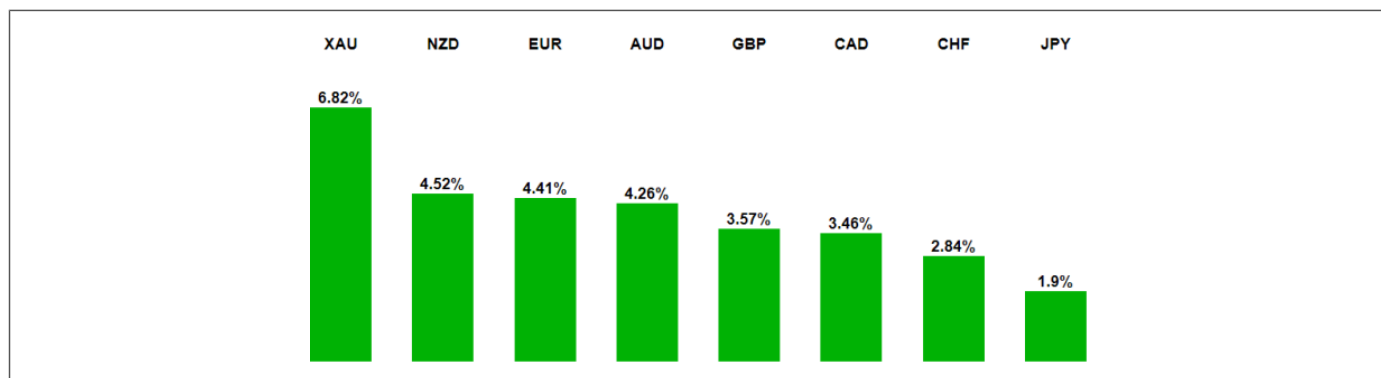
Technical highlights [Daily Video](#)

- **EURUSD** Corrections limited
- **GBPUSD** Dips to be supported
- **USDJPY** Looking for lower top
- **EURCHF** Closing in on 1.2000
- **AUDUSD** Approaching psych barrier
- **USDCAD** Risk tilted to upside
- **NZDUSD** Signs of topping out
- **US SPX 500** Reversal imminent
- **GOLD** (spot) Sights on 2016 high
- **Feature** – USDTRY Turning up

Fundamental highlights

- **EURUSD** Germany inflation readings taken in
- **GBPUSD** UK CPI release front and centre Tuesday
- **USDJPY** Yen could see bigger upside in risk off
- **EURCHF** SNB strategy will get more challenging
- **AUDUSD** Macro fundamentals drive Aussie
- **USDCAD** NAFTA risk a major threat to Loonie
- **NZDUSD** Sell interest from medium term players
- **US SPX 500** US shutdown deadline looms
- **GOLD** (spot) Metal demand reflects uncertainty
- **Feature** – USDTRY Erdogan threats rattle Lira

Five day performance v. US dollar



Suggested reading

- **BOJ Buying Spree Still Going Strong**, L. Lewis, Financial Times (January 15, 2018)
- **The People's Currency**, X. Pi, Bloomberg (January 15, 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 1.2350 – Mid-Figure– Medium
- R1 1.2298 – 15Jan/2018 high – Medium
- S1 1.2188 – 15Jan low – Medium
- S2 1.2094 – Previous High – Strong

EURUSD – fundamental overview

The Euro has just broken up to a three year high and while there could be some profit taking from shorter term accounts, the outlook continues to suggest additional upside on the cards. For today, the calendar is fairly mild, with the market digesting German CPI and then taking in US empire manufacturing. Bigger picture stories that should also be monitored are any headlines relating to the the US government shutdown deadline on Friday, or Germany's SPD coalition vote on Sunday.

GBPUSD – technical overview

The latest breakout above the 2017 high has confirmed the next higher low at 1.3025 and now opens the door for the next major extension, targeting the 1.4200-1.4300 area. Look for any setbacks to now be very well supported into the 1.3300 area, while ultimately, only back below 1.3025 would force a shift in the outlook.



- R2 1.3850– Mid-Figure– Medium
- R1 1.3821 – 15Jan/2018 high – Medium
- S1 1.3726 – 15Jan low – Medium
- S2 1.3658 – Previous high – Strong

GBPUSD – fundamental overview

Broad based US Dollar weakness and headlines of a soft Brexit deal have helped to accelerate recent gains in the Pound to its highest levels since the EU referendum. There is risk the market could run into some profit taking from shorter term accounts, though medium term players will be looking to buy into dips. For today, the big focus will be on the latest UK CPI readings and whether or not they still show the data trending up. US empire manufacturing is out later in the day. A bigger picture story that should also be monitored is the news around the US government shutdown deadline on Friday.

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 110.34 – 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, US empire manufacturing is the only notable standout, though the market will be watching stocks and any updates relating to the US government shutdown deadline.

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 1.1834 – 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 0.7980 – 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, Tuesday’s calendar is quiet for the remainder of the day, with only US empire manufacturing data standing out. Otherwise, the focus will be on price action in stocks and commodities and any headlines relating to the Friday US government shutdown deadline.

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, absence of data out of Canada will leave the focus on US empire manufacturing. 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 0.7350 – Mid-Figure – Medium
- R1 0.7315 – 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. Looking ahead, Tuesday’s calendar is quiet for the remainder of the day, with only US empire manufacturing data standing out. Otherwise, the focus will be on price action in stocks and commodities and any headlines relating to the Friday US government shutdown deadline.

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. 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 Lira has come under renewed pressure following a period of corrective strength, with geopolitical risk factoring into the latest slide in the EM currency. President Erdogan threatened and imminent offensive against Kurdish territory in North Syria, which is escalating tensions with the US. Meanwhile, the CBRT will meet on Thursday and the market will be looking to see if the central bank leans more to the accommodative side, as it did last time. This would fuel more declines and likely get the Lira threatening a drop to fresh record lows below a major psychological barrier (USDTRY breaking 4.0000). 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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