Friday, March 16, 2018

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Global FX Insights

by LMAX Exchange Research & Analytics

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

White House Drama Weighs on Sentiment **Wake-up Call**

We're into the final day of trade for the week and looking at the scorecard, price action has been mostly mixed and rather mild since the weekly open, with only relative weakness in the Canadian Dollar standing out. Eurozone CPI data and a batch of US readings ahead.

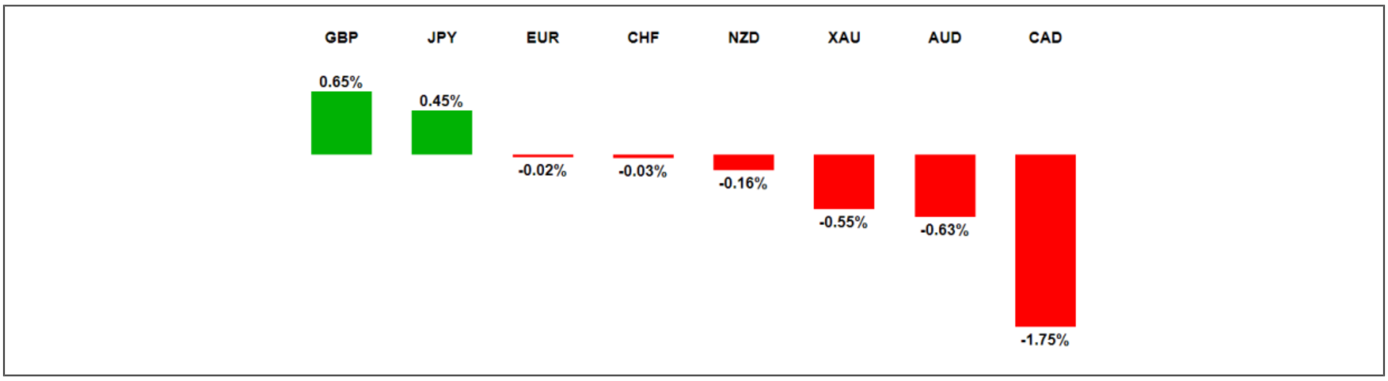
Technical highlights **Daily Video**

- **EURUSD** Waiting for the next break
- **GBPUSD** Still room for deeper drop
- **USDJPY** Bearish while below 107.90
- **EURCHF** Continues to hold up on dips
- **AUDUSD** Looking for lower top
- **USDCAD** Fresh upside extension ahead
- **NZDUSD** Readying to to roll over
- **US SPX 500** Monthly chart warns of reversal
- **GOLD** (spot) Waiting for push through 1375
- **Feature** – BTCUSD Capped for now on rallies

Fundamental highlights

- **EURUSD** Eurozone CPI print stands out Friday
- **GBPUSD** Brexit transition keeps UK traders on toes
- **USDJPY** Yen tracking traditional correlations
- **EURCHF** No surprises from SNB decision to hold
- **AUDUSD** Aussie strained by macro pressures
- **USDCAD** BoC Poloz dovishness knocks Loonie
- **NZDUSD** Kiwi tracking broader risk sentiment
- **US SPX 500** Red flags warn of big capitulation
- **GOLD** (spot) Metal demand reflects uncertainty
- **Feature** – BITCOIN Harder times for crypto assets

Five day performance v. US dollar



Suggested reading

- **Discussing the Succession at Goldman Sachs**, P. Jenkins, **FT** (March 13, 2018)
- **Japan's Hopeless Inflation Target**, M. Schuman, **Bloomberg** (March 14, 2018)

EURUSD – technical overview

The major pair has stalled out after trading up to a +3 year high above 1.2500. Daily studies have been in the process of consolidating off stretched readings, though setbacks continue to be exceptionally well supported into dips. A daily close back above 1.2400 will suggest the market wants to extend the run up through the 2018 high and towards a massive falling trend-line off the record high, which comes in around 1.2650. But if the market can't hold above 1.2400 and rolls back over, look out for a drop below 1.2155 to accelerate setbacks towards a retest of the 2018 low around 1.1915.

- **R2 1.2447** – 8Mar high – Strong
- **R1 1.2413** – 14Mar high – Medium
- **S1 1.2274** – 1Mar low – Medium
- **S2 1.2252** – 2Mar low – Strong

EURUSD – fundamental overview

The Euro continues to chop around, waiting for that next push. Friday's calendar features some Eurozone CPI data, followed up by a batch of US readings including housing starts, industrial production, capacity utilisation and Michigan sentiment. Of course, economic data has mostly taken a backseat to all of the drama out of the White House, including a revolving door of personnel, US protectionism, tariffs and soft Dollar policy. The market will also be thinking about next week's FOMC decision.

GBPUSD – technical overview

The market has entered a corrective phase since pushing to a 2018 high at around 1.4350 and rallies should be well capped ahead of the 2018 high for additional corrective activity. There is still scope for additional declines into the 1.3400-1.3600 area, though setbacks should then be very well supported in favour of that next meaningful higher low and bullish continuation.

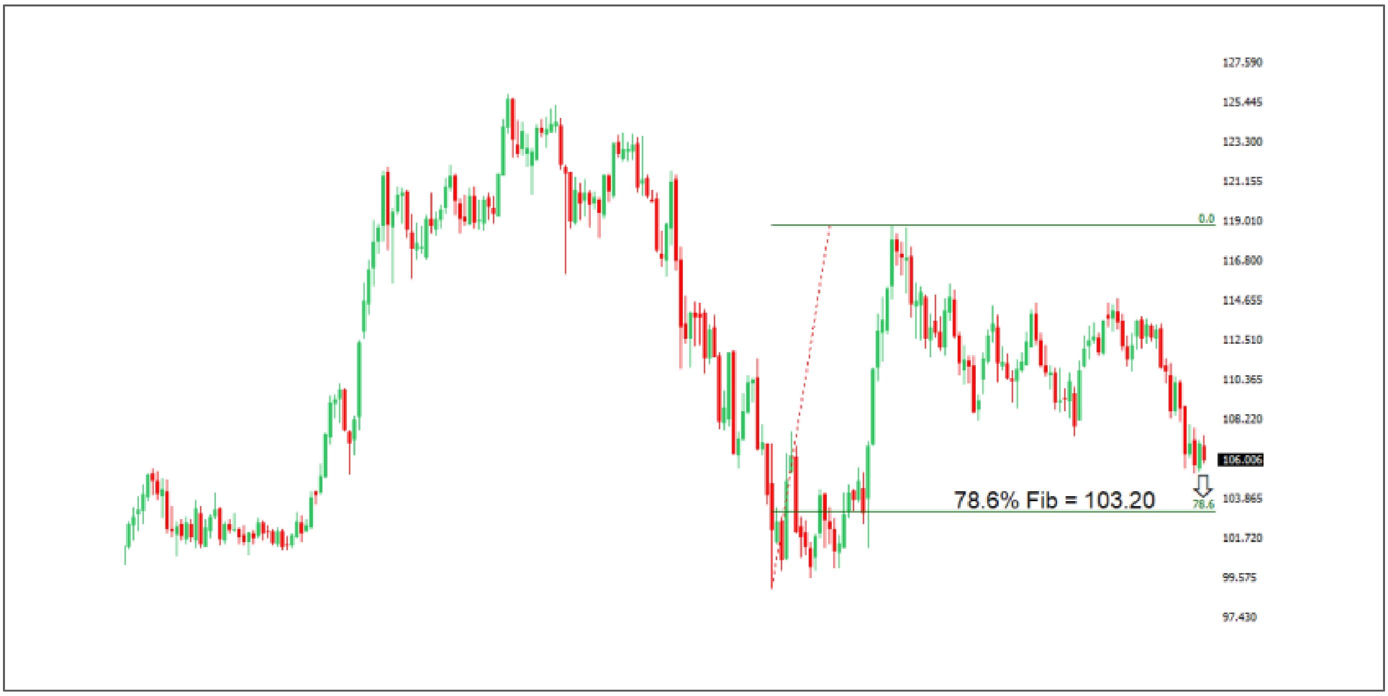
- **R2 1.3997–** 14Mar high – Strong
- **R1 1.3950 –** Mid-Figure – Medium
- **S1 1.3875** – 13Mar low – Medium
- **S2 1.3782** – 8Mar low – Strong

GBPUSD – fundamental overview

Economic data has taken a backseat here, with most of the price action getting dictated by Brexit transition updates and White House drama. There has been a lot of talk about a transition deal nearby, though there hasn't been any substance to back this up, which has kept the Pound tentative into rallies. Meanwhile, the market has been consumed with the revolving door of personnel in Washington, US protectionism, tariffs and soft Dollar policy. The major pair will also be thinking about next week's FOMC decision. As far as today's today goes, absence of first tier releases in the UK, will leave the focus on US housing starts, industrial production, capacity utilisation and Michigan sentiment.

USDJPY – technical overview

A multi-month range trade was broken in February after the market sunk below 107.30. This has opened the door for deeper setbacks in the days ahead, possibly down towards the 102-103.00 area, an area that coincides with a measured move extension target and the 78.6% fib retrace off the 2016 low to high move. At this point, a daily close back above 107.91 would be required to take the immediate pressure off the downside.



- **R2 106.75** – 13Mar high – Strong
- **R1 106.42** – 15Mar high – Medium
- **S1 105.79** – 15Mar low – Medium
- **S2 105.25** – 2Mar/**2018 low** – Strong

USDJPY – fundamental overview

Most of the direction in the Yen has been on the bigger, traditional macro drivers that are US yield differentials and safe haven flow. With risk sentiment fading this week as tension out of the White House heats up, it's been no surprise to see the Yen tracking higher. Looking ahead, key standouts on Friday's calendar come in the form of US readings that include housing starts, industrial production, capacity utilisation and Michigan sentiment.

EURCHF – technical overview

Despite this latest round of setbacks, overall, the market continues to trend higher, recently extending gains to a fresh multi-month high. The bullish price action has the market thinking about a retest of that major barrier at 1.2000 further up. In the interim, look for the current round setbacks to be very well supported, while only back below 1.1448 would delay the overall constructive tone.

- **R2 1.1834** – 15Jan/**2018 high** – Strong
- **R1 1.1750** – Mid-Figure – Medium
- **S1 1.1632** – 7Mar low – Medium
- **S2 1.1448** – 8Feb/**2018 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. There were no surprises from Thursday's SNB decision.

AUDUSD – technical overview

The market has been in the process of rolling over after failing to sustain a break above the 2017 high. The recent daily close below 0.8000 strengthens this outlook and opens the door for a renewed wave of declines towards 0.7500. At this point, only a daily close back above 0.8000 would delay.

- **R2 0.7917** – 14Mar high – Strong
- **R1 0.7886 –** 15Mar high – Medium
- **S1 0.7771** – 16Mar low – Medium
- **S2 0.7713** – 1Mar low – Strong

AUDUSD – fundamental overview

The Australian Dollar has been very well offered into rallies, with the currency weighed back down this week on an escalation in tension as White drama heats up. US protectionism, tariffs and soft Dollar policy are additional variables in the equation and ultimately, any signs of capitulation in risk assets, will be what drives this market, with the Australian Dollar at risk for additional declines. RBA policy has also been cautious of late, something that lends itself to limited Aussie gains. As far as today's calendar goes, we get US housing starts, industrial production, capacity utilisation and Michigan sentiment.

USDCAD – technical overview

There are signs of basing after months of downside pressure, with the market racing back above critical resistance at 1.2921. A fresh higher low has been confirmed, with the market extending its 2018 run and now open for a push into a measured move extension objective around 1.3200. At this point, setbacks should be well supported above 1.2800.

- **R2 1.3199**– 28Jun high – Strong
- **R1 1.3073** – 16Mar/**2018 high** – Medium
- **S1 1.3000** – Psychological – Medium
- **S2 1.2946** – 15Mar low – Strong

USDCAD – fundamental overview

The Canadian Dollar continues with its run of relative underperformance in 2018, with the currency extending decline this week on the back of dovish comments from Bank of Canada Governor Poloz. Throw in a softer run of recent data and NAFTA uncertainty, and all of this will keep the Loonie from wanting to move higher. As far as today's calendar goes, absence of first tier data out of Canada, will leave the focus on US housing starts, industrial production, capacity utilisation and Michigan sentiment.

NZDUSD – technical overview

The market looks to be in the process of rolling over, with the daily chart showing a possible topping formation. Right now, it will take a clear break above 0.7400 to take the pressure off the downside. Until then, there is risk for continued weakness back towards 0.6900, with a break below 0.7178 to trigger the bearish formation and strengthen the outlook.

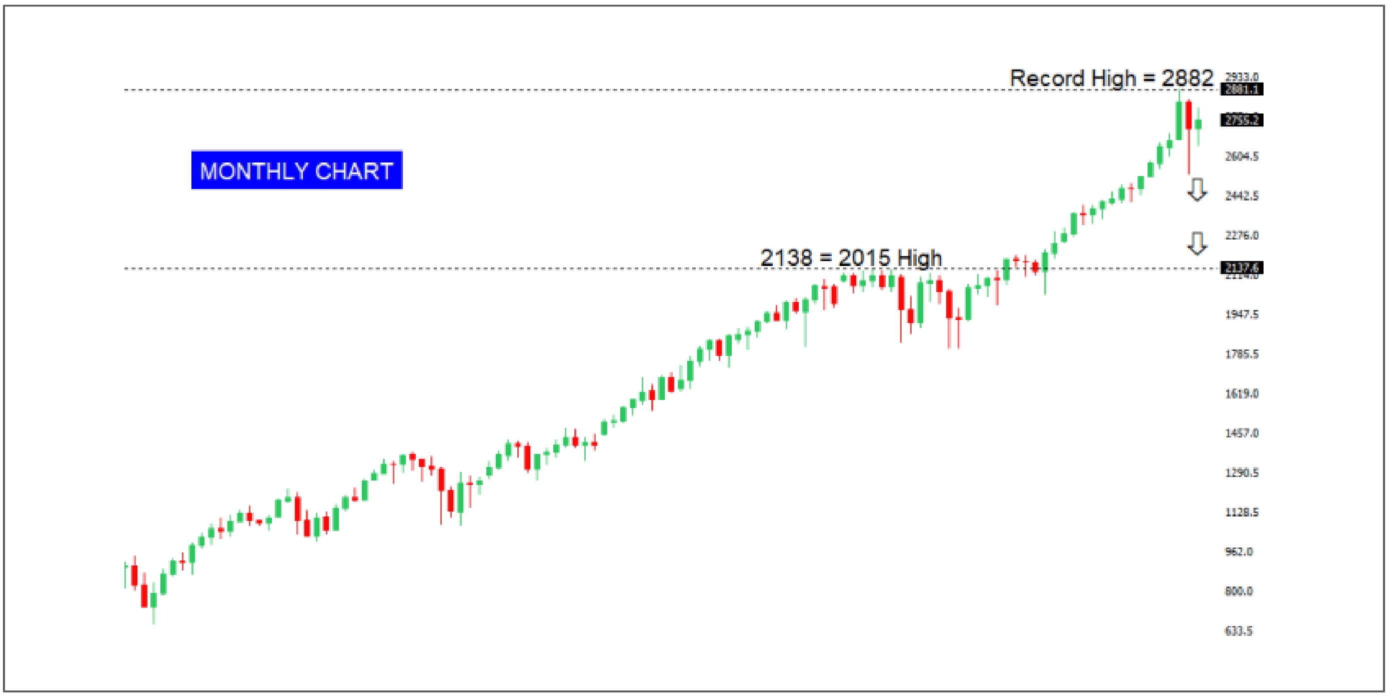
- **R2 0.7355** – 13Mar high – Strong
- **R1 0.7300** – Figure – Medium
- **S1 0.7200** – Figure – Medium
- **S2 0.7178** – 8Feb low – Strong

NZDUSD – fundamental overview

Overall, rallies are still expected to be well capped, particularly in light of the RBNZ's adoption of a more dovish leaning outlook. This coupled with signs of rising inflation in the US and increased tension around fallout from White House exits and US administration protectionist measures, could easily offset any demand from alternative flows that might otherwise be supportive of the Kiwi rate. As far as today's calendar goes, we get US housing starts, industrial production, capacity utilisation and Michigan sentiment.

US SPX 500 – technical overview

A severely overbought market is finally showing signs of relenting, allowing for stretched readings to unwind. There's plenty of room for these setbacks to extend following the break back below the 2675 area January low, with the market at risk for a further intensification of declines. Any rallies should now be very well capped ahead of 2800.



- **R2 2882** – 29Jan/**Record high** – Strong
- **R1 2805** – 78.6% of Jan-Feb move – Strong
- **S1 2662** – 1Mar low – Medium
- **S2 2624** – 12Feb low – Strong

US SPX 500 – fundamental overview

Investor immunity to downside risk is not looking as strong these days and there's a clear tension out there as the VIX starts to rise from 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. Certainly, the Fed's more hawkish tone and subsequent jumps in hourly earnings, CPI, and core PCE are the types of things that could weigh more heavily on sentiment in the sessions ahead, if there is more evidence confirming this bias. Of course, the added wrench of White House drama including a revolving door of personnel and ramped up US protectionism, should only intensify the negative sentiment if things continue along this path.

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 some more chop followed by an eventual push above massive resistance in the form of the 2016 high at 1375. This will then open the door for a much larger recovery in the months ahead. In the interim, setbacks are expected to be well supported around 1300.

- **R2 1375 – 2016 high** – Very Strong
- **R1 1341** – 26Feb high – Medium
- **S1 1303** – 2Mar low – Strong
- **S2 1300** – Psychological – Strong

GOLD (SPOT) – fundamental overview

Solid demand from medium and longer-term players persists, 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 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. The 2016 high at 1375 is a massive level that if broken and closed above, could be something that triggers a widespread panic and rush to accumulate more of the hard asset.

Feature – technical overview

Bitcoin has come under intense pressure since topping out at a record high just shy of 20,000 in December. The market has exceeded a measured move downside objective that had targeted a drop to $7,000, with deeper setbacks now on the cards for a move to retest the September 2017 peak around $5,000. At this point, it will take a daily close back above $13,000 at a minimum, to take the pressure off the downside.

- **R2 13,000** – 20Jan high – Strong
- **R1 9,900** – 12Mar high – Medium
- **S1 7,000** – Figure – Strong
- **S2 6,000** – 6Feb/**2018 low** – Strong

Feature – fundamental overview

The crypto asset has come under pressure in 2018, with ramped up regulatory oversight and potential government crackdowns forcing many holders to exit positions. The market is also coming back to earth after a euphoric 2017 run that had bubble written all over. Bitcoin has struggled on the transaction side as well, with transactions per second a major drawback, along with a mining community that has been less willing to process transactions due to the lower fees. The Lightning network has been a welcome development and will ramp up transaction speed, which has been behind some of the recovery off the 2018 low, though it seems the combination of a massive bubble, more regulatory oversight, a market that is still trying to convince of its proof of concept, and the threat of a reduction in global risk appetite, could all suggest even deeper setbacks ahead.