

Thursday, November 16, 2017

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Lots of Noise, Less Movement [Wake-up Call](#)

It feels like there's been a lot going on out there this week and we've certainly had a nice run of data to take in. But if we're keeping score, the developed currencies are all trading within 1% of where they opened the week. UK retail sales ahead.

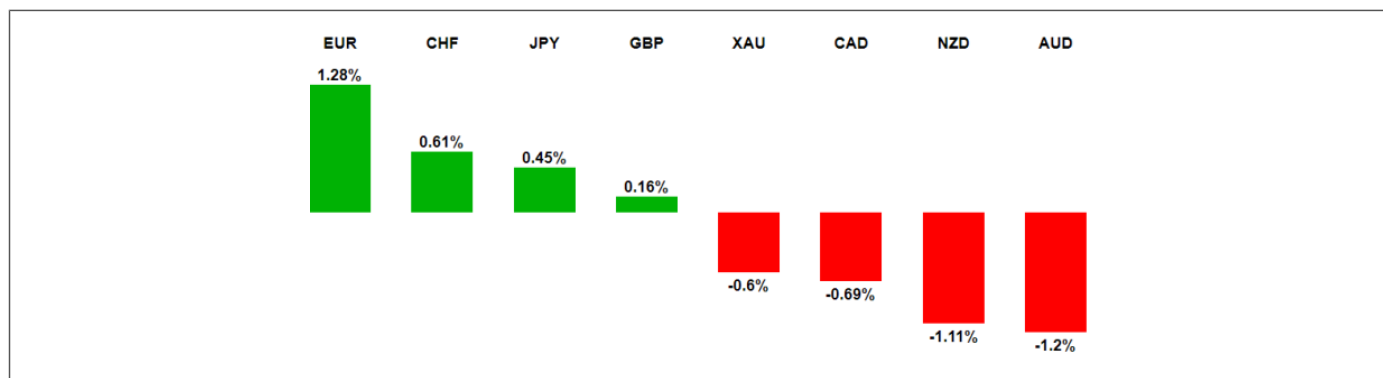
Technical highlights [Daily Video](#)

- **EURUSD** Remains in neutral zone
- **GBPUSD** Confined to consolidation
- **USDJPY** No bearish confirmation
- **EURCHF** Continues to push up
- **AUDUSD** Possible basing ahead
- **USDCAD** Sights set on 1.3000
- **NZDUSD** Deeper setbacks ahead
- **US SPX 500** Setbacks supported
- **GOLD** (spot) Ready for rally
- **Feature** – USDZAR Room to run

Fundamental highlights

- **EURUSD** US CPI readings cool off Euro run
- **GBPUSD** UK retail sales featured on Thursday
- **USDJPY** Yen keeps moving with sentiment flow
- **EURCHF** SNB exposure to US equities is huge
- **AUDUSD** Aussie jobs produces mixed result
- **USDCAD** Loonie trying to regain composure
- **NZDUSD** Kiwi consumer confidence declines
- **US SPX 500** Investors keep shrugging red flags
- **GOLD** (spot) Macro accounts happy to buy dips
- **Feature** – USDZAR SARB and ratings next week

Five day performance v. US dollar



Suggested reading

- **Free Market Failure Greatly Exaggerated**, N. Smith, Bloomberg (November 15, 2017)
- **Five Markets Charts for Investors**, Financial Times (November 15, 2017)

EURUSD – technical overview

The major pair has just pushed back above a consolidation high at 1.1690 and this takes the immediate pressure off the downside, while introducing the prospect for a resumption of the broader uptrend in 2017. At this point, it would be premature however to get too bullish and a break back above the right shoulder of the head and shoulders top at 1.1880 would likely be what is required to really encourage bullish prospects. For now, it's more about going from short-term bearish to neutral.



- R2 1.1861 – 15nOV high – Strong
- R1 1.1805 – 14Nov high – Medium
- S1 1.1700 – Figure – Medium
- S2 1.1662 – 14Nov low – Strong

EURUSD – fundamental overview

Eurozone inflation data will be important to watch today to see if things are as on track as this latest rally has believed them to be. Wednesday's hotter than expected core CPI reading out of the US and a failure to take out a technical level at 1.1880 have resulted in a healthy pullback from the weekly high. As far as things to watch on Thursday go, we get some US data in the form of initial jobless claims, industrial production and the Philly Fed survey. We will also get more updates on US tax reform and a flurry of central bank speak from various ECB and Fed officials.

GBPUSD – technical overview

The market has eased off quite a bit since topping out at a fresh 2017 high in September, with the price dropping back into the 1.3000 area thus far. However, while there is risk for another drop, setbacks should be limited below the psychological barrier, with the greater risk for the formation of that next meaningful higher low ahead of a continuation of the newly formed uptrend in 2017. Ultimately, only a weekly close back below 1.2775 will delay the constructive outlook. At the same time, the market is capable of chopping around some more and it's going to take a run back above 1.3338 to send a signal the market is ready to start moving back up again.



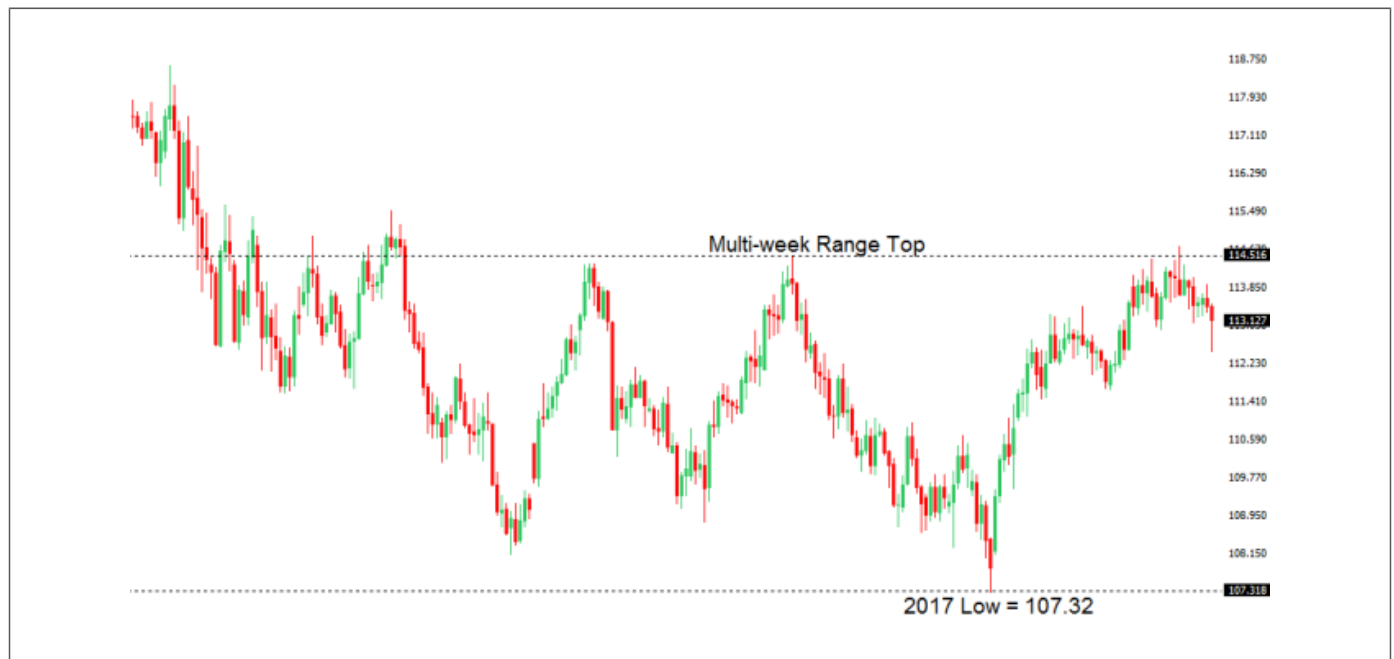
- R2 1.3230– 10Nov high – Strong
- R1 1.3200 – Figure – Medium
- S1 1.3062 – 13Nov low – Medium
- S2 1.3027 – 6Oct low – Strong

GBPUSD – fundamental overview

The rise in UK wage growth has kept the Pound supported this week, though the currency will need to be careful with the Brexit overhang a major concern. Right now, the PM needs to make sure that an agreement on the Brexit bill is reached so negotiations can move forward in 2018. As far as today goes, retail sales will be digested and this is the biggest piece of economic data on the calendar for Thursday. Later on, we get some US data in the form of initial jobless claims, industrial production and the Philly Fed survey. We will also get more updates on US tax reform and a flurry of central bank speak from BOE and Fed officials.

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. There are now signs of the market wanting to adhere to the range trade after stalling out yet again above 114.00. But a break back below 111.65 will be required to send a message that this could in fact be the case. Initial support at 112.96 has been broken and a daily close below will strengthen the bearish prospect. Ultimately, only back above 115.60 would negate the range outlook.



- R2 114.07 – 9Nov high – Strong
- R1 113.50 – 15Nov high – Strong
- S1 112.48 – 15Nov low – Medium
- S2 112.00 – Figure – Medium

USDJPY – fundamental overview

Overall, risk sentiment will likely continue to influence the next big move here. And for now, a lot of that sentiment hinges on what comes of US tax reform. The market is still unsure how effective the reform will be and the more skeptical and disappointed the market is, the more it will weigh on both the US Dollar and equity market, something very supportive of the Yen on traditional correlations. Another big theme into 2018 is the US administration's view of the US Dollar and desire to promote a softer US Dollar policy. This could also be factoring into price action right now. Looking ahead, we get some US data in the form of initial jobless claims, industrial production and the Philly Fed survey. We will also get more updates on US tax reform and a flurry of central bank speak from various Fed officials.

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 1.1713 – 26Oct/2017 high – Strong
- R1 1.1700 – Figure – Medium
- S1 1.1485 – 17Oct low – Medium
- S2 1.1390 – 20Oct 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

Despite rallying to a fresh +2 year high in September, the market has been unable to hold onto gains, quickly reversing course and trading back below 0.8000. Setbacks are however starting to look a little extended and could be limited to 0.7500 before the onset of a corrective bounce. Still, look for rallies to be well capped ahead of 0.7800, with only a close back above the 0.7900 to put the pressure back on the topside.



- R2 0.7730 – 2Nov high – Strong
- R1 0.7666 – 13Nov high – Medium
- S1 0.7569 – 16Nov low – Medium
- S2 0.7550 – Measured Move – Strong

AUDUSD – fundamental overview

Australian employment data came in mixed early Thursday and after a little excitement, the currency settled down. While full time employment and a drop in the unemployment rate were taken as positives, the headline data was less impressive and the participation rate fell off. Overall, the Australian Dollar remains weighed down overall on the back of the recent recovery in the US Dollar and diverging monetary policy, with the Fed on track to follow through with guidance and the RBA moving in the other direction, given the ongoing strain of low inflation and tepid wage growth. Earlier this week, RBA Debelle reminded the market of this divergence after expressing his fear of wages staying lower for longer and higher interest rates strangling households needing to service their debt. This is consistent with the official RBA line and we get some more confirmation on Wednesday, with Aussie wages coming soft. Looking ahead, we get some US data in the form of initial jobless claims, industrial production and the Philly Fed survey. We will also get more updates on US tax reform and a flurry of central bank speak from various Fed officials.

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 1.2500.



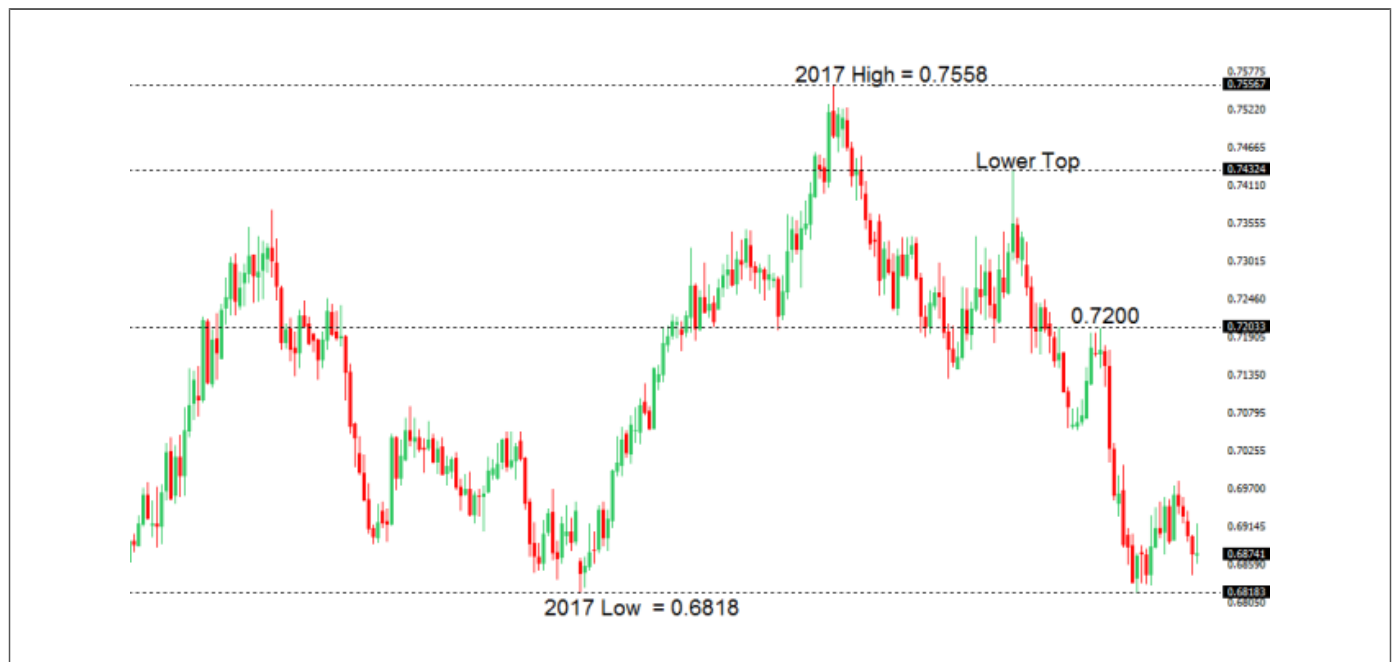
- R2 1.2820 – 7Nov high – Strong
- R1 1.2790 – 15Nov high – Medium
- S1 1.2701 – 14Nov low – Medium
- S2 1.2666 – 10Oct high – Strong

USDCAD – fundamental overview

Canada data over the past couple of weeks has been better, while doubts over the effectiveness of US tax reform and a perceived weak US Dollar policy have helped to invite renewed demand for the Loonie after it had been under quite a bit of pressure. Still, we believe the Canadian Dollar has more room to decline. While recent data has improved, data overall has deteriorated in the aftermath of the central bank's aggressive move of consecutive rate hikes in 2017. Moreover, while Poloz appearances post BoC have been less dovish than the tone from the latest BoC meeting, this is to be expected, as the central banker is going to do his best to justify the recent consecutive rate hikes. Looking ahead, we get Canada manufacturing data and some US data in the form of initial jobless claims, industrial production and the Philly Fed survey. We will also get more updates on US tax reform and a flurry of central bank speak from various Fed officials.

NZDUSD – technical overview

Medium term studies have turned down sharply after the market pushed up to a plus two year high through 0.7500 in late July. A recent break below 0.7000 has opened a more meaningful reversal to retest the 2017 low at 0.6818. Any rallies should now be very well capped ahead of 0.7200 ahead of the next downside extension below 0.6818 that would target 0.6500.



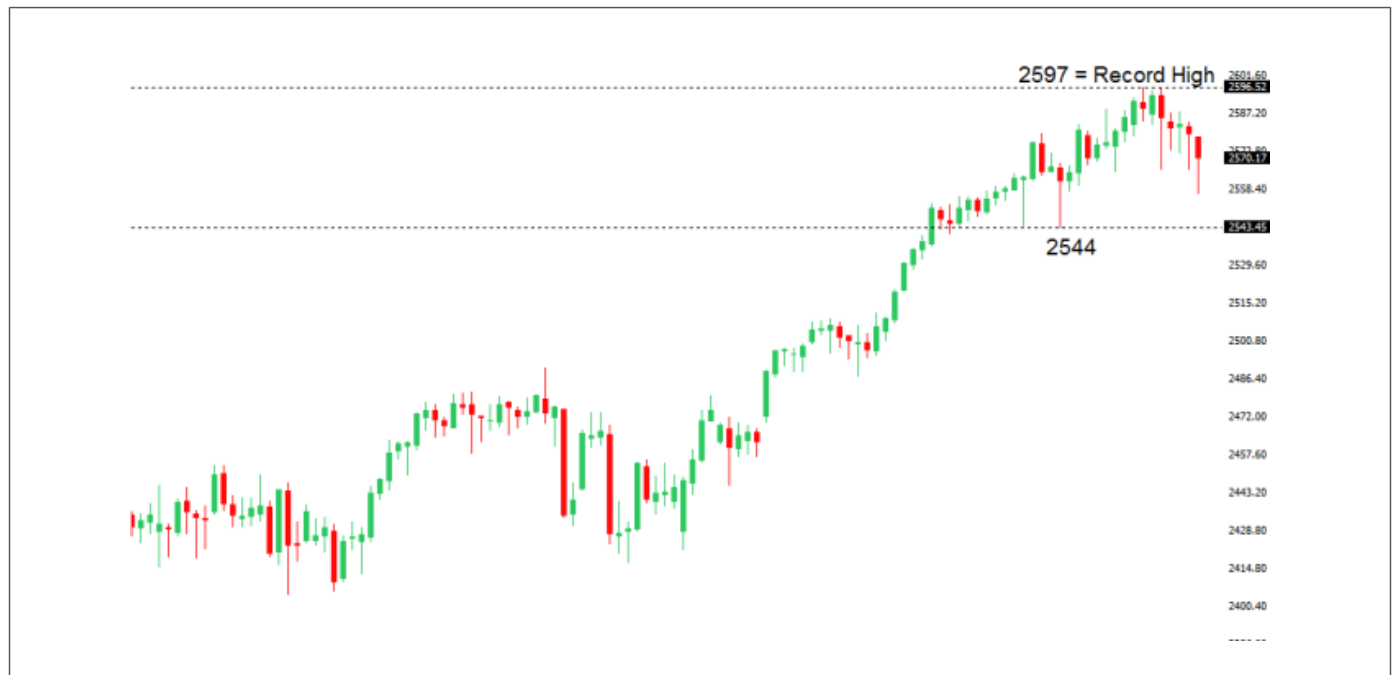
- R2 0.6980 – 9Nov high – Strong
- R1 0.6919 – 15Nov high – Medium
- S1 0.6845 – 14Nov low – Medium
- S2 0.6818 – 21May/27Oct/2017 low – Strong

NZDUSD – fundamental overview

A slide in ANZ consumer confidence earlier today could be weighing on the Kiwi rate, with the commodity currency already back under pressure near recent 2017 lows after US core CPI readings came in hot. Overall, the New Zealand Dollar hasn't been able to recover since last Thursday's RBNZ meeting which revealed a bump up in the rate hike path to Q2 2019, a quarter earlier than previous estimates. It seems the market isn't too excited about the prospect for an accelerated rate hike timeline in 2019 when it is contending right now with a less than impressive run of data, and a new government that the market is still trying to figure out. Last week's FinMin comments that the RBNZ's dual mandate could result in looser policy and that the central bank's 2% inflation target would be up for discussion, were not Kiwi supportive. Looking ahead, we get some US data in the form of initial jobless claims, industrial production and the Philly Fed survey. We will also get more updates on US tax reform and a flurry of central bank speak from various Fed officials.

US SPX 500 – technical overview

The market continues to shrug off overextended technical readings, with any setbacks quickly supported for fresh record highs. At the same time, it's worth noting that the market broke out in August after a 75 point consolidation, which projected a measured move to 2565. And now that this 2565 measured move objective has been met and exceeded, it could warn of some form of a reversal to come, though we would need to see a daily close back below 2544 at a minimum to take the immediate pressure off the topside. Until then, the record run continues into uncharted territory, with the focus on establishing above the next major barrier at 2600.



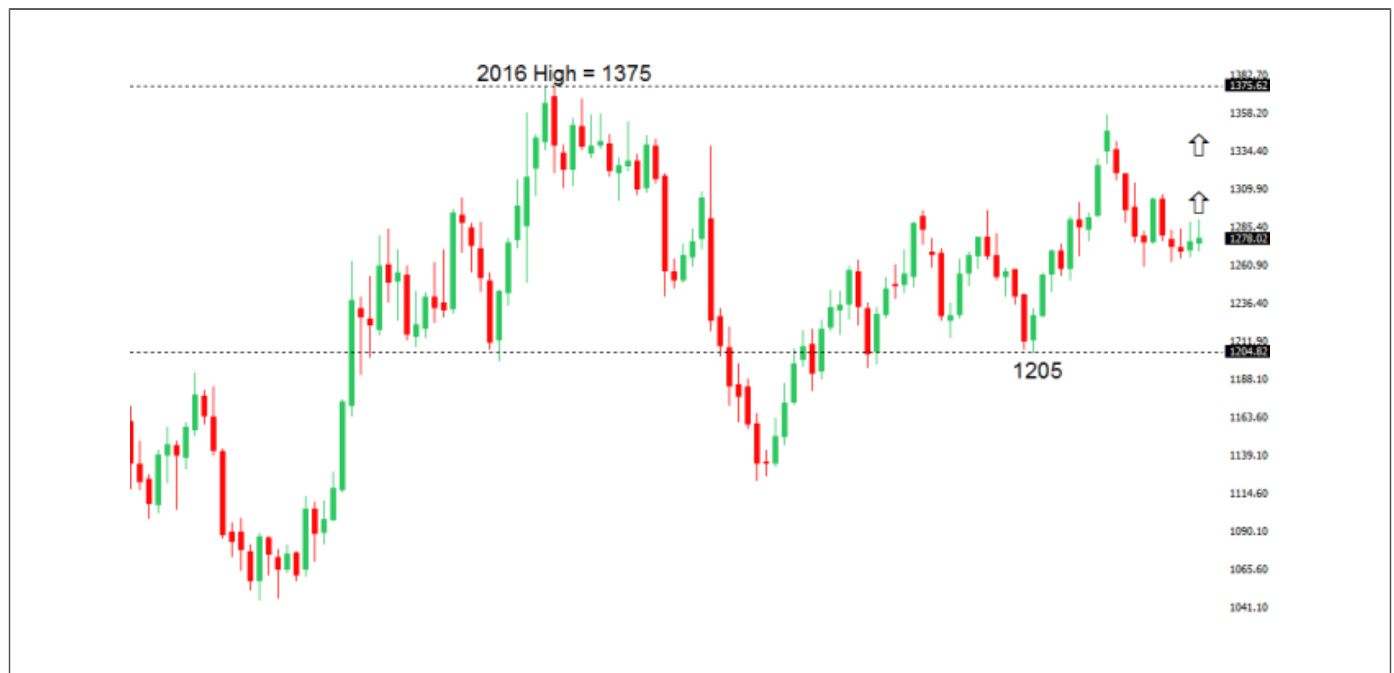
- R2 2600.00 – Psychological – Strong
- R1 2597.00 – 7Nov/Record high – Medium
- S1 2544.00 – 25Oct low – Medium
- S2 2487.00 – 25Sep low – Strong

US SPX 500 – fundamental overview

The US equity market continues to be well supported on dips, pushing further into record high territory. It seems the combination of blind momentum, expectation US tax reform will ultimately work out well and the appointment of Jerome Powell as the next Fed Chair are helping to keep the move going. But at the same time, 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 another rate hike still on the cards this year. But for now, it's more of the same. At this point, it will take a breakdown in this market back below 2500 to turn heads. Looking at today's docket, the market will continue to focus on tax updates, while also monitoring President Trump headlines and taking in first tier data releases that include CPI and retail sales.

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 around 1260 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.



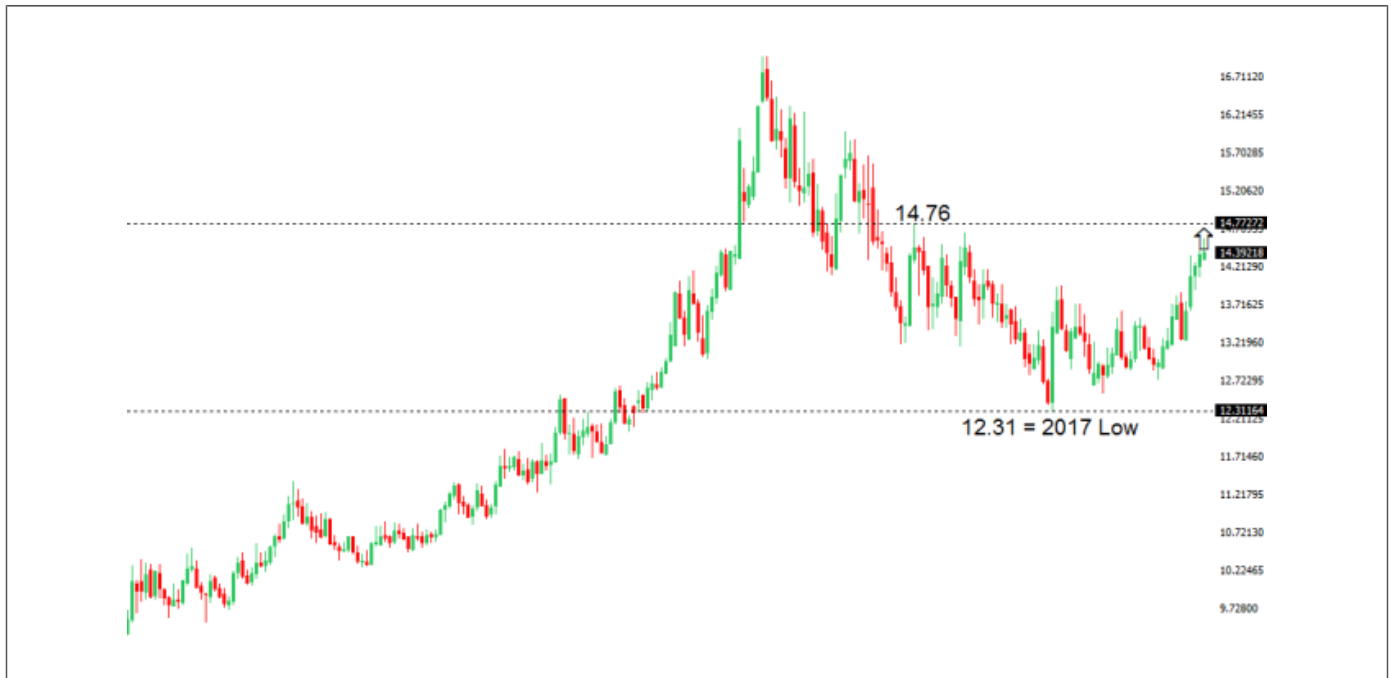
- R2 1334.35 – 15Sep high – Strong
- R1 1316.10 – 20Sep high – Medium
- S1 1260.70 – 6Oct low – Medium
- S2 1251.45 – 8Aug low – Strong

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 1260.

Feature – technical overview

USDZAR has been breaking out of a period of multi-month consolidation, with the price surging to fresh 2017 highs beyond 14.00, suggesting the run could have a lot more to go. The next major level of resistance comes in at 14.76, the high from August 2016. Setbacks should be well supported from here ahead of 13.65.



- R2 14.76 – August 2016 high – Strong
- R1 14.58 – 14Nov high – Medium
- S1 14.00 – Psychological – Medium
- S2 13.65 – 23Oct low – Strong

Feature – fundamental overview

The South African economy is in greater need for flexibility on rates on the basis of a near zero growth and a negative output gap, though rising inflation is forcing the SARB to think about going in the opposite direction. Last week, SARB Gov Kganyago said there was scope for counter-cyclical accommodative monetary policy to support the economy. Meanwhile, the Rand remains exposed to ongoing tension on the political front which will persist into year-end on account of the upcoming ANC leadership election. October's Budget Statement dealt the emerging market currency another big blow, with the Rand sinking to a fresh 2017 low on the revelation of sharp revisions to debt and deficit projections, highlighting risk for further downgrade. The key focus will be on next Thursday's SARB decision where the central bank should probably steer clear of rocking the boat ahead of next Friday's rating agency determinations. The only supportive Rand driver at the moment has come from the record run in US equities, which is a positive for risk correlated emerging market currencies. However even here the Rand should be sitting uneasy as the prospect for a capitulation is looking increasingly realistic on overbought technicals and an unstable backdrop around the globe.



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