Friday, February 17, 2017

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Global FX Insights

by LMAX Exchange Research & Analytics

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

The Other (Less Known) Side to the US Dollar Story **Wake-up Call**

If I told you before this week's open that you couldn't look at the market until the European open on Friday. And then early Friday, I told you that overall, US data was very impressive, the Fed Chair's testimony was more hawkish and economic data outside the US was soft, how much would you guess the Buck was up?

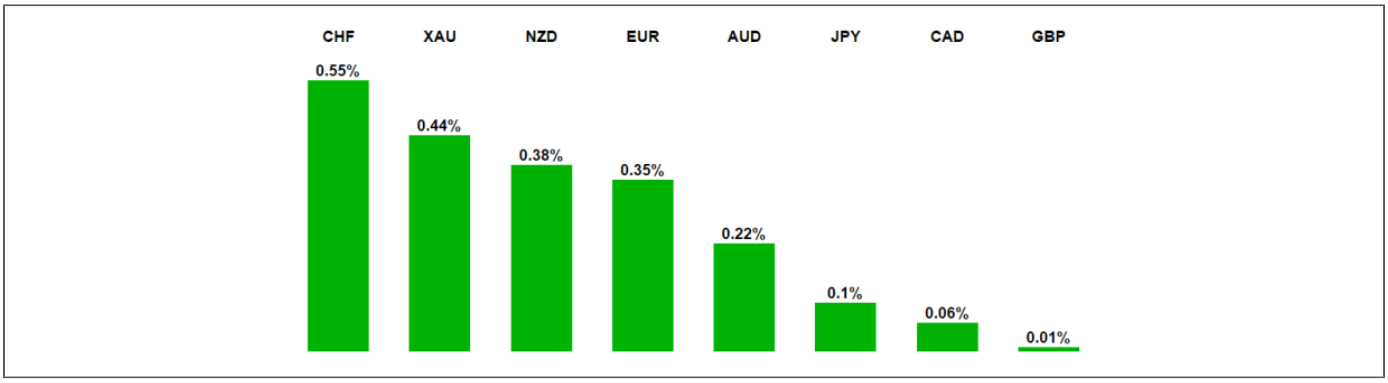
Technical highlights **Daily Video**

- **EURUSD** Risk still to downside
- **GBPUSD** Plenty of choppy trade
- **USDJPY** Room for deeper drop
- **EURCHF** Waiting for break
- **AUDUSD** Upside limited now
- **USDCAD** Psych barrier props
- **NZDUSD** Lower top sought
- **US SPX 500** Well extended
- **GOLD** (spot) Approaching 1260
- **Feature** – USDMXN Supported

Fundamental highlights

- **EURUSD** Euro shrugs dovish ECB Minutes
- **GBPUSD** UK retail sales digested on Friday
- **USDJPY** Yen benefits from traditional flows
- **EURCHF** SNB battle with Franc intensifying
- **AUDUSD** Aussie boosted from multiple sides
- **USDCAD** Lack of vol makes OIL less relevant
- **NZDUSD** More disappointing data from NZ
- **US SPX 500** Huge short unwind misleads bulls
- **GOLD** (spot) Shifting dynamics fuel demand
- **Feature** – USDMXN Banxico needs to do more

Five day performance v. US dollar



Suggested reading

- **Macroeconomic Insights**, L. Blankfein, Goldman Sachs (February 16, 2017)
- **Struggle of Data Nerds at Hedge Funds**, S. Foxman, Bloomberg (February 15, 2017)

EURUSD – technical overview

A recent breakdown below 1.0620 suggests the market could be in the process of rolling back over in favour of a retest in the days ahead of the 14 year low from January at 1.0341. Consider the possibility of a lower top in place at 1.0830 to be confirmed on a break below 1.0341, exposing the next drop through the massive parity barrier. At this point, a daily close back above 1.0715 would be required to take the pressure off the downside.

- **R2 1.0715** – 8Feb high – Strong
- **R1 1.0680** – 16Feb high – Medium
- **S1 1.0592** – 16Feb low – Medium
- **S2 1.0522** – 15Feb low – Strong

EURUSD – fundamental overview

Nothing hawkish about Thursday's ECB Minutes, with the ECB maintaining QE and ready to add more stimulus if necessary. On the other side, nothing bad from US data, with initial jobless claims, housing starts and the Philly Fed impressing. And yet, the single currency is extending gains against the Buck into the weekly close. Clearly there are other forces at play beyond US data and Fed policy that are influencing currency traders. The leading candidate is Trump and protectionist policies that warn of a weaker Dollar. There has been a lot of talk of US Dollar selling this week on that account. Looking ahead, we get the Eurozone current account, construction output and US leading indicators. The G20 Summit is also underway and should be monitored.

GBPUSD – technical overview

This latest impressive run to the topside has stalled out ahead of critical resistance in the form of the December peak at 1.2775. While we could still see a test and overshoot beyond 1.2775 in the sessions ahead, the market would need to establish a weekly close above this level to suggest a major base in place and force a bullish structural shift. Until then, expect any moves into or through 1.2775 to stall out. A daily close below 1.2400 will increase bearish prospects.

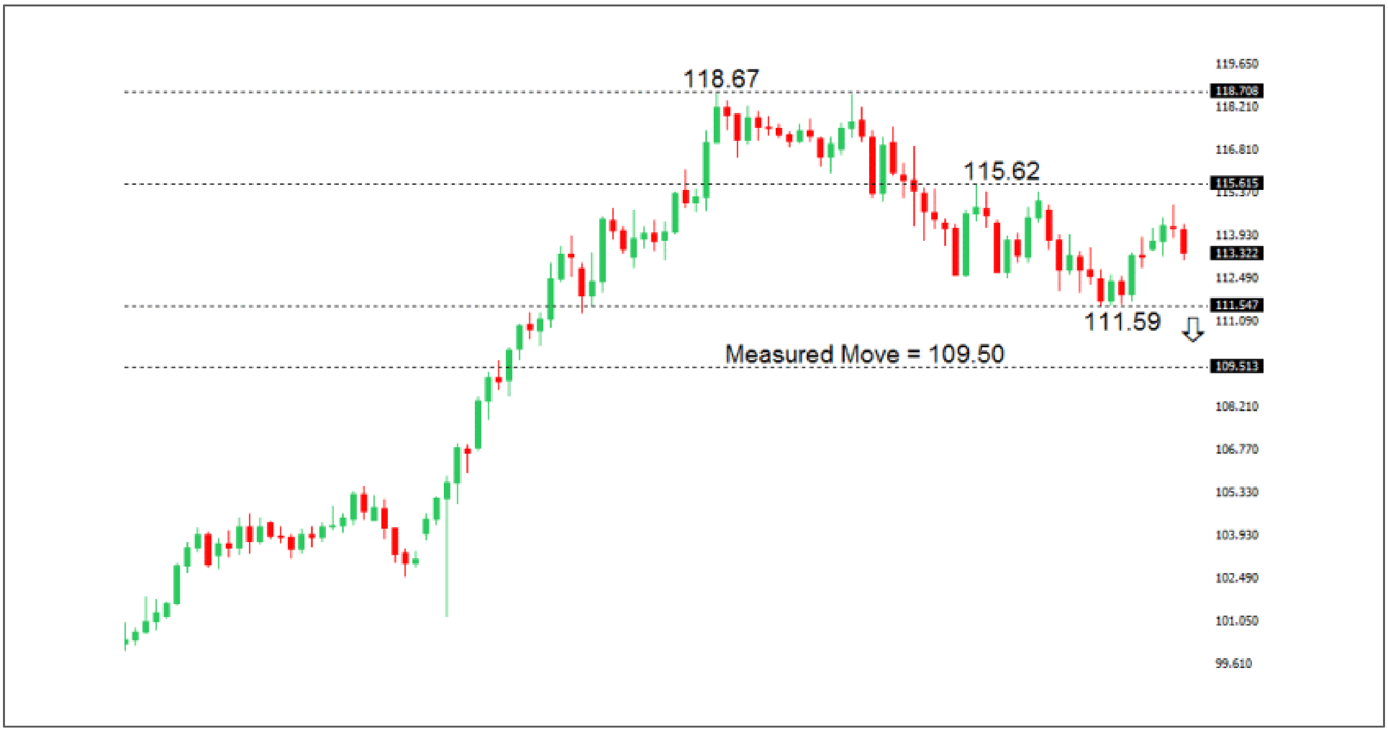
- **R2 1.2583 –** 9Feb high – Strong
- **R1 1.2549 –** 14Feb high– Medium
- **S1 1.2400** – Figure – Medium
- **S2 1.2346** – 7Feb low – Strong

GBPUSD – fundamental overview

UK data has been unimpressive this week with subdued wage growth and softer CPI standing out. Meanwhile, the US had a strong week, producing impressive data and a more hawkish leaning Fed. And yet, the Pound has held up well, trading higher (albeit marginally) since the Monday open despite all of this. We have seen the emergence of renewed Dollar selling on concerns over Trump protectionist policy and a desire to steer towards a weaker US Dollar to bring more jobs back into the US. This has played a larger role this week and it will be interesting to see if this continues on Friday. Today, we get UK retail sales and US leading indicators as the main standouts on the economic calendar. The G20 Summit is also underway and should be monitored.

USDJPY – technical overview

The market has seen a nice bounce, though the short-term pressure remains on the downside despite this bounce in light of a recent break of multi-session consolidation that projects weakness into the 109.50 area in the days ahead. At this point, it would take a push back above 115.62 to officially alleviate short-term downside pressure and as such, the current rally is expected to stall out ahead of 115.00.



- **R2 114.96** – 15Feb high – Strong
- **R1 114.00**– Figure – Medium
- **S1 112.86** – 10Feb low – Medium
- **S2 111.59** – 7Feb low – Strong

USDJPY – fundamental overview

The market hasn't reacted to the news of the BOJ leaving purchases of super-long JGBs unchanged and the focus has been on broader macro themes. The Yen has regained a bid tone into the latter half of the week on the back of broad based US Dollar selling and some safe haven flows. The US Dollar selling has come from the market's anticipation of a weak US Dollar policy which is taking precedence over strong US data and supportive US Dollar yield differentials. Meanwhile, with the equity market so stretched and the VIX showing signs of wanting to push up, the stress in the market has inspired a traditional flight to safety back into the Yen. Looking ahead, the economic calendar is light with only US leading indicators standing out. The G20 Summit is also underway and should be monitored.

EURCHF – technical overview

A recent close below 1.0800 which had been defined as the bottom of a multi-week range has strengthened the bearish outlook, opening the door for additional declines towards the 2016 low at 1.0624. At this point, a daily close back above 1.0763 would be required to take the immediate pressure off the downside.

- **R2 1.0763** – 30Dec high – Strong
- **R1 1.0708** – 3Feb high – Medium
- **S1 1.0633** – 8Feb low – Medium
- **S2 1.0624** – 24Jun/**2016 low** – Strong

EURCHF – fundamental overview

The SNB is in a quiet battle with the market, forced to contend with an ongoing wave of demand for the Swiss Franc in a less certain global environment, especially with the weapon of monetary policy worn down. The central bank has been committed to its mandate of ensuring the Franc does not appreciate further. But despite all efforts, the Franc continues to want to appreciate. It seems the central bank's strategy has been to sell Francs when risk comes off and to do nothing when risk is back on and natural flows should be CHF bearish. But the trouble is, even with global equities elevated, arguably reflecting global appetite for risk, the Franc barely depreciating, if at all. This is an added concern with the SNB's holding of US equities hitting a fresh record of its own at $63.4 Billion. Of course, the reemergence of Eurozone political risk is only further contributing to SNB stress, with the Franc finding even more demand on the back of these developments.

AUDUSD – technical overview

The market has entered a healthy bullish phase after setbacks stalled shy of key medium-term support at 0.7145 in late December. Still, overall, rallies continue to be very well capped on a medium-term basis, with only a daily close back above 0.7800 to compromise this outlook. Look for a daily close below 0.7600 to officially put the pressure back on the downside.

- **R2 0.7779** – 8Nov high – Strong
- **R1 0.7733 –** 15Feb high– Medium
- **S1 0.7606** – 7Feb low – Medium
- **S2 0.7578** – 2Feb low – Medium

AUDUSD – fundamental overview

The Australian Dollar has benefited of late from stronger local data, broad based selling in the US Dollar on Trump protectionism, rallying base metals and a rotation back into the long side of the AUDNZD trade. But the currency is starting to look overdone after breaking above 0.7700 and could be on the verge of rolling back over. While Thursday's better headline print from Aussie employment opened a fresh 2017 high, the market has since pulled back after a closer glance at the data revealed slumping full time jobs. Looking ahead, the economic calendar is light with only US leading indicators standing out. The G20 Summit is also underway and should be monitored.

USDCAD – technical overview

Despite recent setbacks, look for the market to continue to be well supported on dips into the 1.3000 area ahead of the next major upside extension back towards the December peak at 1.3600. In the interim, a daily close back above 1.3213 will help take the immediate short-term pressure off the downside.

- **R2 1.3213** – 7Feb high – Strong
- **R1 1.3169** – 9Feb high – Medium
- **S1 1.3010** – 16Feb low – Medium
- **S2 1.3000** – Psychological – Strong

USDCAD – fundamental overview

The Loonie has been trading on US fundamentals and macro flow this week. Ultimately, the Canadian Dollar has been supported on broad based US Dollar weakness despite impressive US readings and a hawkish Fed as market participants worry about getting too aggressive long USD in a world of Trump uncertainty. Looking ahead, we get Canada international securities transactions and US leading indicators, none of which should really have a major impact. Instead, the market will continue to trade on the bigger themes. The G20 Summit is also underway and should be monitored. One additional note here. The absence of volatility in the OIL market of late has made this a non-factor as far as the Canadian Dollar goes.

NZDUSD – technical overview

Despite this latest upside correction in 2017, the overall pressure remains on the downside with the market expected to be very well capped on rallies into the 0.7400 area. The weekly chart is reflective of this fact as it looks like we are seeing the formation of a major top off the 2016 high. As such, expect the market to continue to roll over in favour of that next lower top. A weekly close below 0.7200 will help strengthen this outlook.

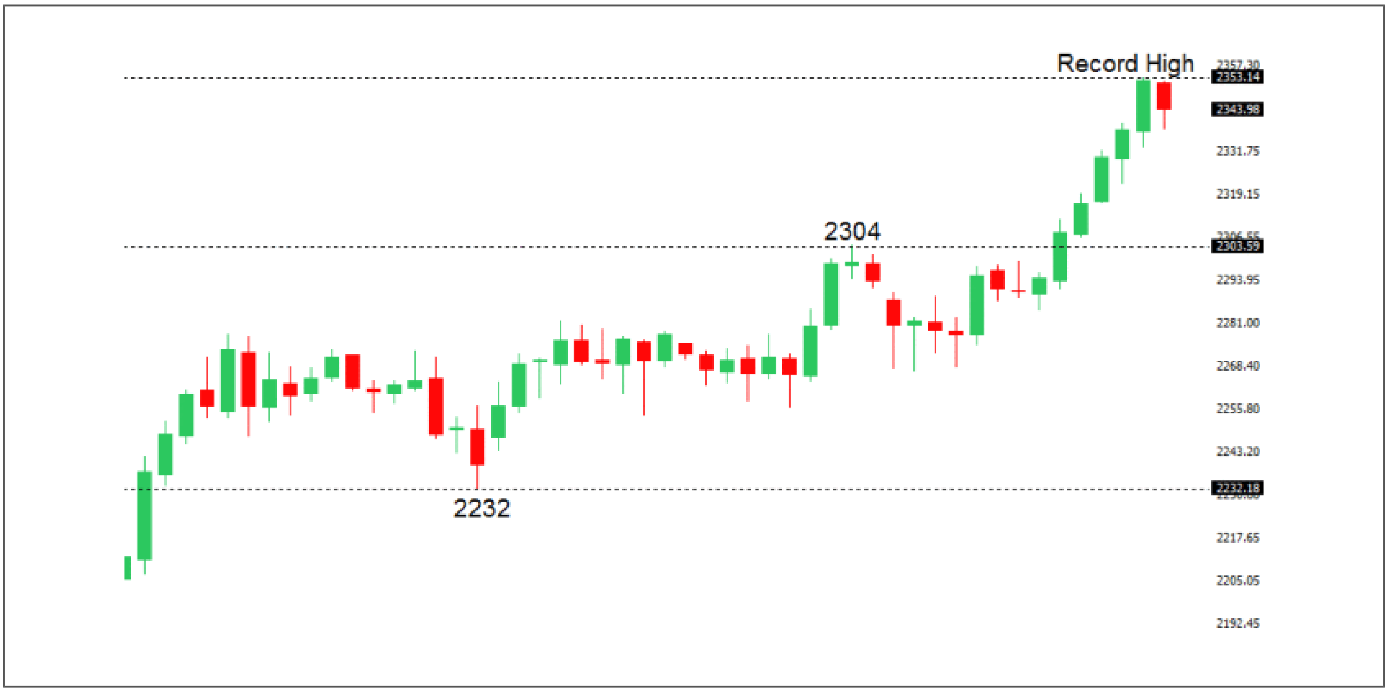
- **R2 0.7265** – 9Feb high – Strong
- **R1 0.7243** – 15Feb high – Medium
- **S1 0.7135** – 14Feb low – Medium
- **S2 0.7130** – 100-Day SMA– Strong

NZDUSD – fundamental overview

Though Kiwi has recovered off the weekly low on broad based US Dollar weakness from worry over Trump protectionism, there has been a notable shift in sentiment towards the currency. Softer local employment, a more dovish RBNZ, a rotation into AUDNZD, hawkish Fed Chair testimony leaving the door open for a March hike and this latest dissapointing New Zealand retail sales and manufacturing are some of the major drivers behind the Kiwi bearishness. Of course, an ongoing bid for equities and rallying commodities have been helping to slow Kiwi declines. But ultimately, if the US Dollar pushes back to focusing on Trump reflation and hawkish Fed policy, and if US equities falter, we could very well see a more intense liquidation of Kiwi longs. Looking ahead, the economic calendar is light with only US leading indicators standing out. The G20 Summit is also underway and should be monitored.

US SPX 500 – technical overview

The latest break to yet another record high following a healthy period of consolidation, has opened the door for the next big push towards 24000. While technicals are severely stretched and there are definitive signs of exhaustion on the horizon, given the intensity of this uptrend, a break back below 2300 would be required at a minimum to alleviate immediate topside pressure.



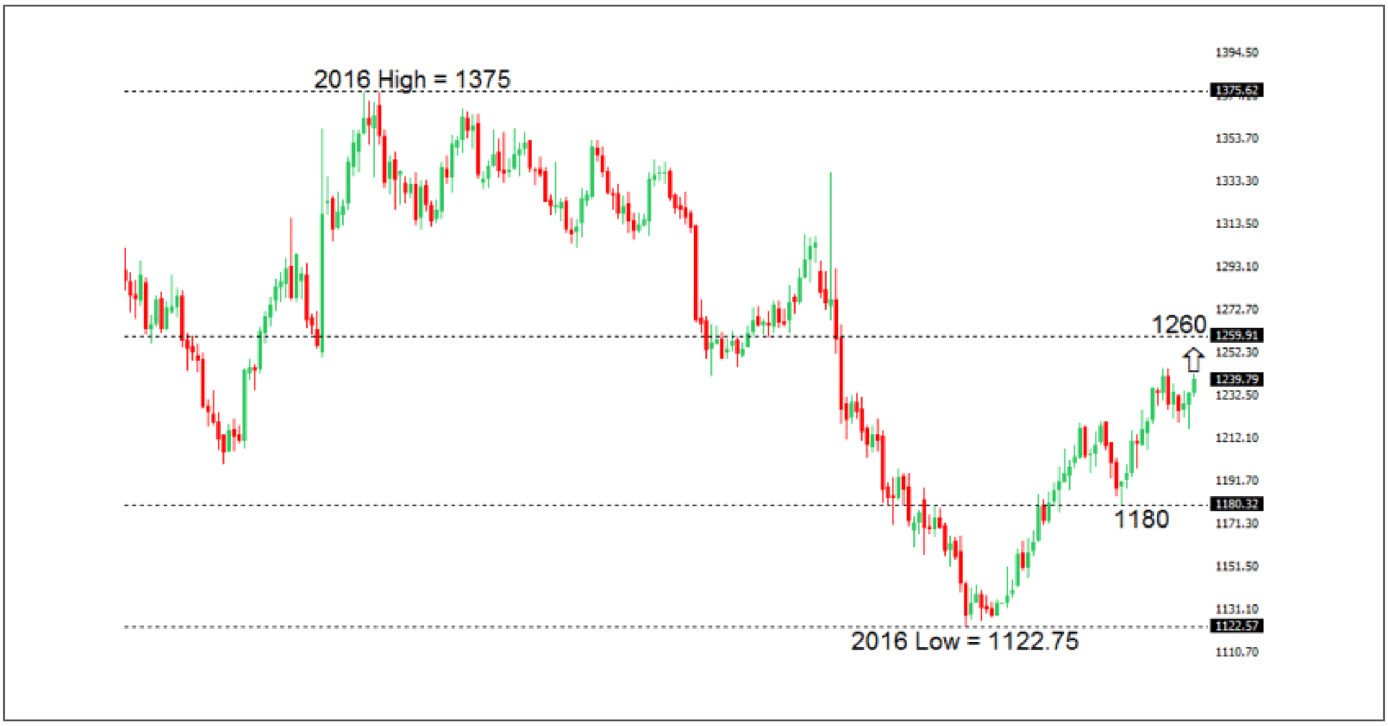
- **R2 2400.00** – Psychological – Strong
- **R1 2354.00** – 15Feb/**Record high** – Medium
- **S1 2300.00** – Psychological – Strong
- **S2 2254.00** – 12Jan low– Medium

US SPX 500 – fundamental overview

The record run in US equities has been more than impressive, particularly at a time when the Fed is embarking on a hawkish path to policy normalisation and the Trump administration is lacking the type of stability that would inspire confidence. This leaves financial markets vulnerable to any shocks and exposed to intense periods of risk liquidation going forward. The fact that monetary policy around the rest of the globe is exhausted with very little left in the tank to artificially support risk assets is yet another major concern. Of course, last week's Trump's comments relating to tax reform and the revival of the Trump reflation play have contributed to this latest record high push, but overall, there are plenty of red flags out there, warning of a major capitulation ahead. Some have also been talking of the **unwinding of a massive short bet** on the stock market that has been misleading the market into thinking fresh longs are in play.

GOLD (SPOT) – technical overview

The market has been very well supported since basing out around 1120 in 2016. This latest break through 1220 confirms a fresh higher low at 1180 and opens the next major upside extension towards a measured move into the 1260 area. Only back below 1180 would delay the constructive outlook, while ultimately, below 1120 would be required to negate.



- **R2 1260.00** – Measured Move – Strong
- **R1 1244.80** – 8Feb high – Medium
- **S1 1200.00** – Psychological – Medium
- **S2 1180.60** – 27Jan 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 the limitations of exhausted monetary policy, extended global equities, political uncertainty and systemic risk. All of this should continue to keep the commodity in demand, with many market participants 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

USDMXN has been in the process of correcting out from recent record highs earlier this year. The market is now coming back into critical psychological support in the 20.00 area and is expected to be well supported around the barrier in favour of a resumption of the uptrend and push back through the record high just over 22.00. Only a daily close below 20.00 would give reason for pause and open the possibility for a more meaningful structural shift.

- **R2 22.0380** – 11Jan/**Record** – Strong
- **R1 21.3900** – 11Nov high – Medium
- **S1 20.1290** – 17Nov low – Medium
- **S2 20.0000** – Psychological – Strong

Feature – fundamental overview

Lat week, in an effort to avoid consumer price contagion following a jump in gasoline prices and to anchor inflation expectations, the Banxico went ahead and hiked rates 50bps to 6.25%. The market was expecting this move and was clearly pleased with the action in light of the intense downward pressure on the Peso in the world of Trump. The Peso has managed to strengthen moderately in the aftermath of the decision, also benefiting from a wave of risk on flow as Trump turns away, at least for a moment, from focusing on policies attacking prospects for the Mexican economy. CFTC positioning has also been Peso supportive, showing a trimming down of Peso shorts. Still, the Peso is far from out of the woods, with Trump uncertainty running high and the Fed Chair leaving the door open for a March hike in her Tuesday testimony. Of course, the fact that global equities look like they could come off the rails is yet another serious variable that could undermine any recovery in the Peso or emerging market FX. Looking out, the market is pricing another 100bps of Banxico hikes in 2017.