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Global FX Insights

by LMAX Exchange Research & Analytics

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

US Senate Vote, UK Retail Sales, Weekend Risk [Wake-up Call](#)

The US government shutdown deadline has arrived and Friday's Senate vote hangs in the balance. The calendar for the day is rather light, with German producer prices, UK retail sales, Michigan sentiment and some Fed speak standing out.

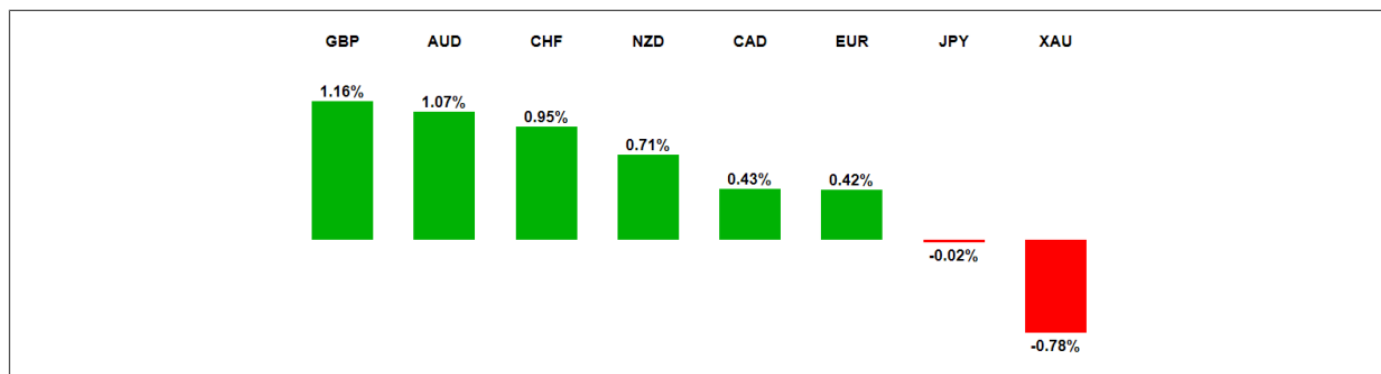
Technical highlights [Daily Video](#)

- **EURUSD** Still room for upside
- **GBPUSD** Trying break 1.4000
- **USDJPY** Sights set on range low
- **EURCHF** Driving towards 1.2000
- **AUDUSD** Up into strong resistance
- **USDCAD** Looking for higher low
- **NZDUSD** Extended studies on daily
- **US SPX 500** Major pullback ahead
- **GOLD** (spot) Eyes 2016 high
- **Feature** – BTCUSD bearish shift

Fundamental highlights

- **EURUSD** Looking ahead to Sunday SPD vote
- **GBPUSD** UK retail sales in focus on Friday
- **USDJPY** Yen demand persists, dealers talk stops
- **EURCHF** SNB strategy will get more challenging
- **AUDUSD** Aussie employment data comes in mixed
- **USDCAD** Loonie underperforms post dovish hike
- **NZDUSD** Run has medium-term players selling
- **US SPX 500** Fed speak from Bostic and Quarles
- **GOLD** (spot) Metal demand reflects uncertainty
- **Feature** – BITCOIN Hard times for crypto assets

Five day performance v. US dollar



Suggested reading

- **Markets and Fed Eye to Eye on Rates**, R. Wigglesworth, Financial Times (January 18, 2018)
- **Fear Stock Market's Exuberance, Not the Economy's**, T. Duy, Bloomberg (January 18, 2018)

EURUSD – technical overview

Though the Euro has seen a nice run of late, 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 1.2324 – 17 Jan/2018 high – Medium
- R1 1.2284 – 16 Jan high – Medium
- S1 1.2166 – 18 Jan low – Medium
- S2 1.2094 – Previous High – Strong

EURUSD – fundamental overview

The Euro remains well bid as we come to the weekly close. Attempts to downplay the Euro's recent rise earlier in the week, from the likes of ECB's Villeroy and Constancio, were offset by upbeat comments in the other direction from ECB's Hansson and Coeure. German producer prices and Michigan sentiment data are the only standouts on the economic data front today, though the market will be thinking about Sunday's SPD vote for coalition in Germany, along with other risks on the horizon, including next week's ECB meeting, Catalonia drama and the March election in Italy. So far, none of this risk has deterred the Euro from pushing higher, with the wave of broad based US Dollar weakness persisting. We do get some Fed speak today from Bostic and Quarles. Finally, pending a Friday Senate vote, it looks like another stop-gap measure will be put into place to avoid US government shutdown, this time for four weeks.

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 1.3500 area, while only back below 1.3300 delays the constructive outlook.



- R2 1.4000– Psychological– Strong
- R1 1.3943 – 17Jan/2018 high – Medium
- S1 1.3805 – 18Jan low – Medium
- S2 1.3743 – 16Jan low – Strong

GBPUSD – fundamental overview

News of the stop-gap funding bill in the US, which will keep the government funded for another four weeks (pending Senate passage), hasn't had any impact on the market, with the Pound racing higher and looking to clear the major barrier at 1.4000. Today's calendar features UK retail sales, Michigan sentiment and Fed speak from Bostic and Quarles. Broad based US Dollar weakness has been a major driver of Sterling demand, though things have also been quiet on the Brexit front, with many believing the worst is now behind the UK economy.

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 111.49 – 18Jan high – Medium
- S1 110.50 – Mid-Figure – Medium
- S2 110.20 – 17Sep low – Strong

USDJPY – fundamental overview

The Yen has been very well bid in early 2018 despite rocketing US equities, though there are signs of capitulation on that front. This warns of even more Yen strength (USDJPY weakness) over the coming days, with a liquidation in risk correlated assets to inspire a flight back into the funding currency that is the Japanese Yen. Dealers are now talking large sell stops below 110.00, with medium term accounts targeting a drop back down to the 107.00-108.00 area. There were some reports of various BOJ officials downplaying the recent news of the BOJ's mild taper, though this hasn't had any meaningful influence on price action. The US government looks like it will avoid a government shutdown (pending Friday Senate vote), kicking the can down the road another four weeks, but this was expected and also hasn't impacted price. Looking at today's calendar, Michigan sentiment data is the only standout, though we do get Fed speak from Bostic and Quarles.

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

An impressive recovery out from the December low is starting to show signs of exhaustion, with the market looking extended and poised for reversal after stalling out around the major psychological barrier at 0.8000. A daily close back below 0.7900 will strengthen this outlook and open the door for a renewed wave of declines, while at this point, only a daily close back above 0.8000 would suggest the market wants to look to keep pushing higher.



- R2 0.8050 – Mid-Figure – Medium
- R1 0.8024 – 18Jan high – Strong
- S1 0.7938 – 16Jan high – Medium
- S2 0.7906 – 15Jan low – Strong

AUDUSD – fundamental overview

Aussie employment data came in better than expected this week, with the market not bothered by softer underlying components within the data. Overall, the Australian Dollar has benefitted from surging commodities, record high US equities and broad based negative sentiment towards the US Dollar. But there are signs of Dollar demand up above 0.8000, with dealers reporting offers from medium term accounts. The US government will look to put another stopgap in place to avoid shutdown (Senate vote pending), kicking the can down the road another four weeks, but this was expected and also hasn't impacted price. Looking at today's calendar, Michigan sentiment data is the only standout, though we do get Fed speak from Bostic and Quarles.

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. Back above 1.2591 will strengthen the outlook.



- R2 1.2591– 11Jan high – Strong
- R1 1.2500 – Psychological – Medium
- S1 1.2398 – 16Jan low – Medium
- S2 1.2356 – 6Jan low – Strong

USDCAD – fundamental overview

The Canadian Dollar seemed to have done a good job pricing in this week's Bank of Canada hike, with the Loonie underperforming since, seemingly on the back of the more cautious message that accompanied the decision. Overall, Canada's recovery is still somewhat fragile, and this coupled with an unstable macro picture and plenty of uncertainty around the fate of NAFTA, should be keeping the Canadian Dollar from wanting to run much higher. In the US, the government looks like it will avoid another shutdown (Senate vote pending), kicking the can down the road another four weeks, but this was expected and also hasn't impacted price. Looking at today's calendar, Canada manufacturing, Canada international securities transactions and Michigan sentiment are due, along with Fed speak from Bostic and Quarles.

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. Look for a daily close back below 0.7200 to strengthen this outlook.



- R2 0.7350 – Mid-Figure – Medium
- R1 0.7332 – 17Jan high – Medium
- S1 0.7235 – 17Jan low – Medium
- S2 0.7183 – 11Jan low – Strong

NZDUSD – fundamental overview

The New Zealand Dollar looks like it finally could be running out of gas after an impressive recovery out from the 2017 low that was set in November. This week's impressive GDT auction helped to support the market, though subsequent slides in ANZ commodity prices and home sales didn't helping. Overall, Kiwi strength has been in reaction to the broader flow of Dollar weakness, record stocks and recovering commodities prices. But with US equities capable of rolling over at any moment and sentiment at risk of deteriorating, the market could be getting ready to sell into this rally. The US government will look to put another stopgap in place to avoid shutdown (Senate vote pending), kicking the can down the road another four weeks, but this was expected and also hasn't impacted price. Looking at today's calendar, Michigan sentiment data is the only standout, though we do get Fed speak from Bostic and Quarles.

US SPX 500 – technical overview

The market continues to shrug off severely 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 2740 at a minimum to alleviate immediate topside pressure.



- R2 2850.00 – Extension Target – Strong
- R1 2811.00 – 16Jan/Record high – Medium
- S1 2740.00 – 10Jan low – Medium
- S2 2700.00 – Psychological – Strong

US SPX 500 – fundamental overview

The US equity market pushed further into record high territory this week in a move that can only be described as a meltup at this point. It seems, 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 in light of a more dovish leaning Fed Chair and ongoing subdued inflation, are all factoring into the relentless bid. 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. At this point, it will take a breakdown in this market back below 2670 to turn heads. The news of the government likely to avoid another shutdown (Senate vote pending), kicking the can down the road yet again, hasn't done anything for the market into Friday. US Michigan sentiment and Fed speak from Bostic and Quarles ahead.

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 hold up above 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 1357.75 – 8Sep/2017 high – Strong
- R1 1344.95 – 15Jan high – Medium
- S1 1306.10 – 4Jan low – Strong
- S2 1294.10 – 29Dec low – Medium

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 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

Bitcoin has come under intense pressure since topping out at a record high just shy of 20,000 in December. The market had been in a period of consolidation in the aftermath of the record run, with most of that consolidation playing out between 12,000 and 17,000. The recent break below the consolidation low opens the door for an accelerated decline towards the next measured move extension target around November levels, in the 7,000 area.



- R2 14,500 – 13Jan high – Strong
- R1 12,000 – Previous Support – Medium
- S1 9,200 – 17Jan low – Medium
- S2 7,000 – Measured Move – Strong

Feature – fundamental overview

The crypto asset has come under intense pressure in early 2018, with ramped up regulatory oversight and potential government crackdowns forcing many holders to exit positions. The market has also been on a euphoric ride, with the run gaining too much momentum as latecomers look to get in on the action, often a sign of a bubbling asset. 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 is expected to ramp up transaction speed as it is integrated, which could be a big help to Bitcoin, though it seems the combination of a massive bubble, more regulatory oversight and a market that is still trying to convince of its proof of concept, could be at risk for deeper setbacks. Throw in an extended global equities market at risk for its own capitulation and the picture looks even gloomier.



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