

Monday, November 20, 2017

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Light Calendar, Short Week, Plenty of Risk [Wake-up Call](#)

Monday's calendar isn't all that active, with only German producer prices standing out. At the same time, this doesn't mean Monday won't be an interesting day of trade, with plenty of room for volatility amidst broader macro themes packed with volatility risk.

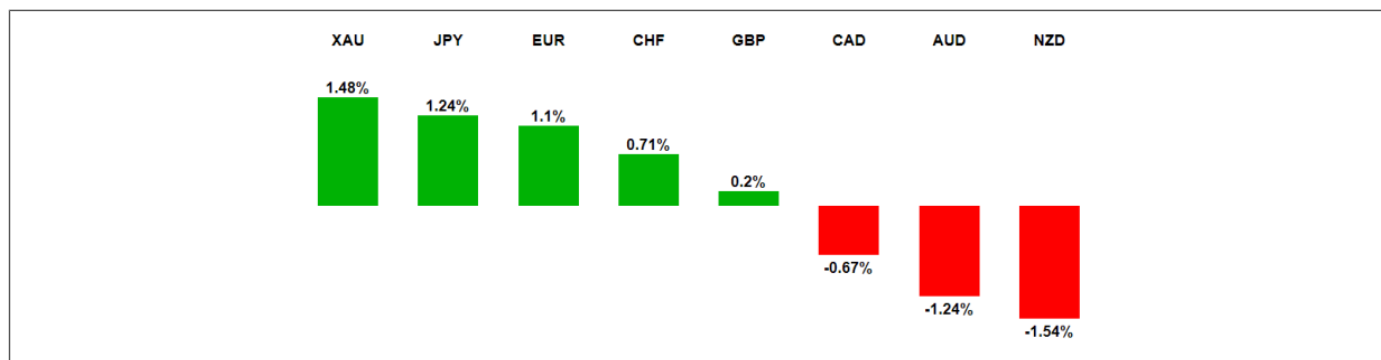
Technical highlights [Daily Video](#)

- **EURUSD** Needs more time
- **GBPUSD** Confined to range
- **USDJPY** Big support tested
- **EURCHF** Locked in uptrend
- **AUDUSD** Key barrier below
- **USDCAD** Setbacks supported
- **NZDUSD** Fresh 2017 low
- **US SPX 500** No reversal yet
- **GOLD** (spot) Eyes 2016 peak
- **Feature** – USDZAR Higher low

Fundamental highlights

- **EURUSD** Germany coalition talks breakdown
- **GBPUSD** Exit fee updates and risk ahead
- **USDJPY** Yen tracking bigger picture themes
- **EURCHF** SNB exposure to US equities is huge
- **AUDUSD** Diverging policy weighing on Aussie
- **USDCAD** Canada inflation readings cool down
- **NZDUSD** Fresh offers reported into rallies
- **US SPX 500** Investors keep shrugging red flags
- **GOLD** (spot) Macro accounts happy to buy dips
- **Feature** – USDZAR SA rating agency review ahead

Five day performance v. US dollar



Suggested reading

- **The Fed Is Back in Its Pre-Recession Pickle**, C. Sen, Bloomberg (November 17, 2017)
- **Carney and BOE Reach Out to Liverpool**, C. Jones, Financial Times (November 18, 2017)

EURUSD – technical overview

The major pair pushed back above a consolidation high at 1.1690 in the previous week, 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 1.1822 – 16Nov high – Medium
- S1 1.1757 – 16Nov low – Medium
- S2 1.1662 – 14Nov low – Strong

EURUSD – fundamental overview

The breakdown of coalition talks over the weekend in Germany has been an early nuisance to the Euro, with the single currency weighed down on the uncertainty around this risk and prospect it will result in a snap election. Looking ahead, the calendar is exceptionally thin on Monday, with only German producer prices getting digested. Dealers are reporting decent demand into dips around the 1.1700 level.

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 major pair 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 1.3338– 13Oct high – Strong
- R1 1.3260 – 17Nov high – Medium
- S1 1.3130 – 15Nov low – Medium
- S2 1.3062 – 13Nov low – Strong

GBPUSD – fundamental overview

Into the new week, the focus will continue to be on progress on the UK exit bill front and whether or not the PM can come up with a deal before the month is up. As far as Monday's docket goes, the calendar is quiet and the market could also be looking ahead to other calendar events later this week which include Wednesday's UK budget and Thursday's UK GDP reading.

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 daily close back below 111.65 will be required to send a message that this could in fact be the case. Rallies should be well capped for now, with only a push back above 114.00 to delay the outlook.



- R2 113.91 – 14Nov high – Strong
- R1 113.14 – 17Nov high – Medium
- S1 111.94 – 17Nov low – Medium
- S2 111.65 – 16Oct low – Strong

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, the economic calendar is light and it’s worth noting the thinner volume expected from late Wednesday into the end of the week on account of the US and Japan holidays. Earlier, Japan trade data missed expectations but this wasn’t expected to factor into price action.

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 1.1800 – Figure – Strong
- R1 1.1724 – 17Nov/2017 high – Medium
- S1 1.1544 – 5Nov low – Medium
- S2 1.1485 – 17Oct 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 extending declines into the 0.7500s thus far. It's worth noting technical studies are starting to look overextended and the market could soon look for some support around the 0.7500 barrier. But overall, the pressure is on the downside and rallies are viewed as corrective while below 0.7900.



- R2 0.7696 – 10Nov high – Strong
- R1 0.7633 – 15Nov high – Medium
- S1 0.7536 – 17Nov low – Medium
- S2 0.7500 – Measured Move – Strong

AUDUSD – fundamental overview

A run of softer data and dovish central bank speak has been weighing more heavily on the Australian Dollar, with the currency dropping to a fresh multi-day low this past Friday on declining local yields. Overall, the Australian Dollar remains weighed down 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. Looking ahead, the calendar is light and the week is short, with the US already clearing out late Wednesday for the Thanksgiving holiday. Key risk this week includes the RBA and Fed Minutes and US durable goods.

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 1.2917 – 27Oct high – Strong
- R1 1.2824 – 17Nov high – Medium
- S1 1.2714 – 17Nov low – Medium
- S2 1.2666 – 10Oct high – Strong

USDCAD – fundamental overview

Friday’s Canada inflation data came in as expected but wasn’t all that hot, with the reading cooling off from previous. This ultimately weighed on the Loonie and it looks like the Canadian Dollar has more room to decline in the days ahead. While there has been some improvement in economic data over the past couple of week, 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 doesn’t come as a surprise, as the central banker is going to do his best to justify the recent consecutive rate hikes. Looking ahead, the economic calendar is exceptionally thin and it’s worth reminding the US will be heading off the desks late Wednesday to celebrate a long holiday weekend, which will make for lighter conditions.

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 that has accelerated declines to fresh 2017 lows below 0.6800. This sets the stage for a fresh downside extension to the 0.6500 area, though with daily studies now oversold, there could be a corrective bounce that plays out initially, so the market can carve out a lower top. But while below 0.7200, the structure remains bearish.



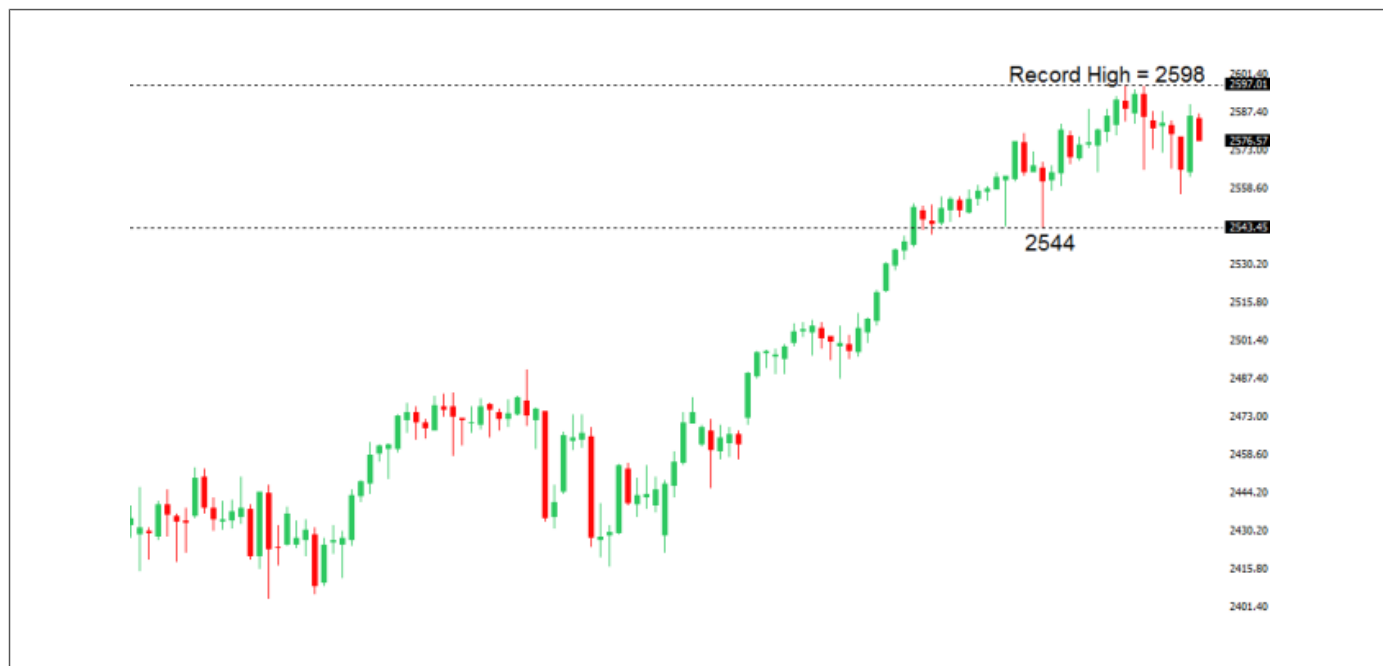
- R2 0.6980 – 5Nov high – Strong
- R1 0.6875 – 5Nov low – Medium
- S1 0.6780 – 17Nov/2017 low – Medium
- S2 0.6700 – Figure – Strong

NZDUSD – fundamental overview

Overall, the New Zealand Dollar has been under a good amount of pressure, dropping to fresh 2017 lows, even after this month's RBNZ meeting, which revealed a bump 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's contending with the more immediate concerns of a less than impressive run of data, and new government it's still trying to figure out. There have been some bids early Monday, though the price action is being attributed to profit taking from shorter term accounts. Dealers report healthy offers into rallies.

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.



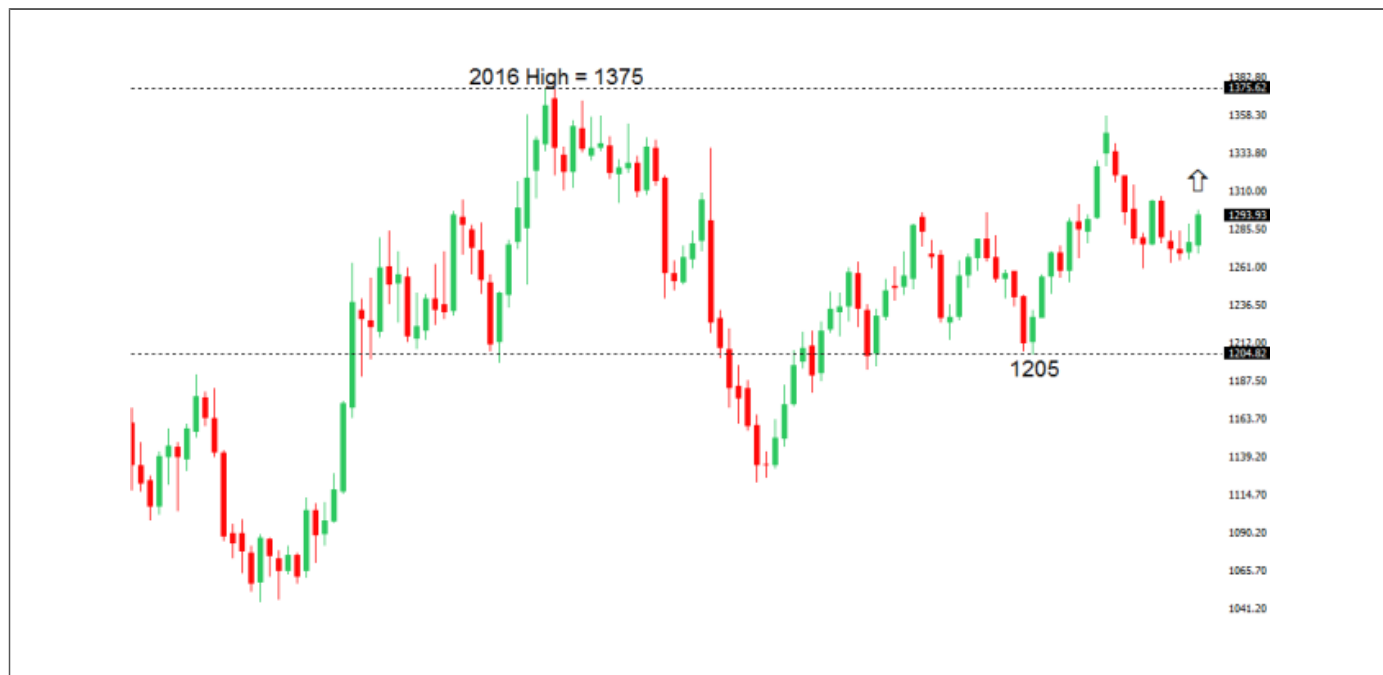
- R2 2600.00 – Psychological – Strong
- R1 2597.00 – 7Nov/Record high – Medium
- S1 2544.00 – 25Oct low – Medium
- S2 2487.00 – 25Sep low – Strong

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. There has been a little more in the headlines relating to the Russia probe fallout and possibility for more stress ahead for the US administration, 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.

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 13.90 – Figure – 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 this Thursday's SARB decision where the central bank should probably steer clear of rocking the boat ahead of 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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