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Global FX Insights

by LMAX Exchange Research & Analytics

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Euro Upside Limited into Weekend Risk [Wake-up Call](#)

The Pound and Euro have been well bid over the past week, leading the way against the Buck. But both currencies have eased off their respective weekly highs into Friday, with the Pound perhaps not wanting to get ahead of itself and the Euro positioning into the weekend French election risk.

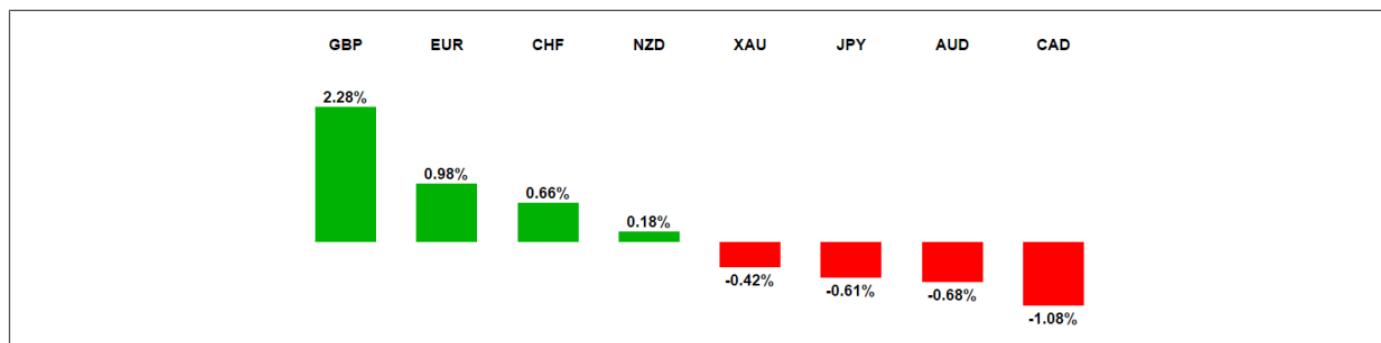
Technical highlights [Daily Video](#)

- **EURUSD** Waiting for next break
- **GBPUSD** Bullish structural shift
- **USDJPY** Looking for lower top
- **EURCHF** Stiff resistance above
- **AUDUSD** Upside seen limited
- **USDCAD** Poised for fresh gains
- **NZDUSD** Deeper setbacks ahead
- **US SPX 500** No reversal yet
- **GOLD** (spot) Fixed on 2016 high
- **Feature** – USDTRY Consolidation

Fundamental highlights

- **EURUSD** Position squaring ahead of French election
- **GBPUSD** UK retail sales stand out in Friday trade
- **USDJPY** Mnuchin expects tax reform by end of year
- **EURCHF** SNB relying heavily on supported equities
- **AUDUSD** Aussie welcomes iron ore recovery rally
- **USDCAD** Canada CPI digested in event risk Friday
- **NZDUSD** Kiwi business confidence comes in soft
- **US SPX 500** Investors bend but not ready to break
- **GOLD** (spot) Global uncertainty fuels metal demand
- **Feature** – USDTRY Political risk v. economic stability

Five day performance v. US dollar

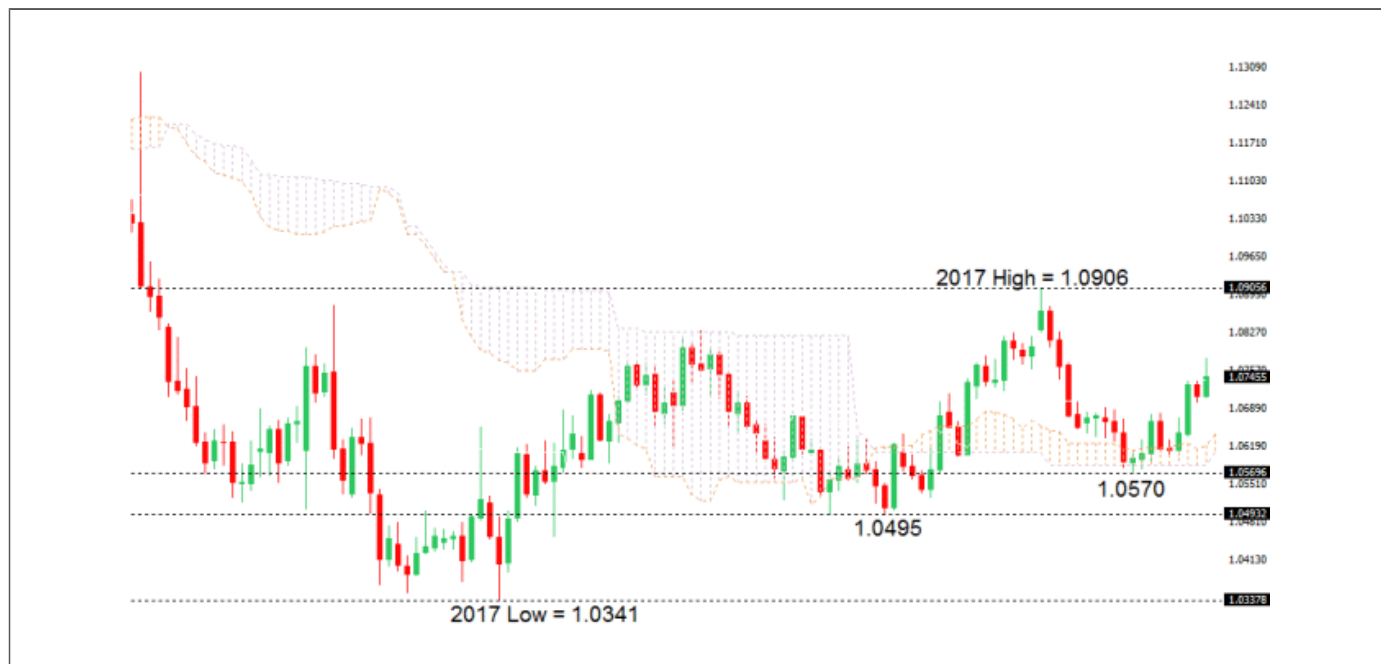


Suggested reading

- **Debt Is Asia's Weak Tail. Watch It Grow**, A. Mukherjee, Bloomberg (April 20, 2017)
- **The Fearless Market Ignores Perils Ahead**, R. Wigglesworth, Financial Times (April 18, 2017)

EURUSD – technical overview

Inability to establish above resistance at 1.0875 several days back has kept the pressure on the downside, with the market stalling out into medium-term range resistance and rolling back over. While this could be a minor setback ahead of the next upside extension, it could also be the start to a resumption of the broader downtrend. At this point, a break back above 1.0900 or below 1.0500 will be required for clearer directional insight.



- R2 1.0827 – 29Mar high – Strong
- R1 1.0778 – 20Apr high – Medium
- S1 1.0678 – 13Apr high – Medium
- S2 1.0570 – 10Apr low – Strong

EURUSD – fundamental overview

The Euro will most likely have a hard time extending this week's impressive run today as it starts to position into the weekend election risk in France. The four way race is tight and because of this, whichever two candidates emerge victorious in the first round (even if it's the base case candidates), will likely inspire a healthy bout of volatility on the Monday open. This has already resulted in some position squaring late Thursday, with the single currency also taking a bit of a hit on comments from the US Treasury Secretary that he expects tax reform to go through by the end of the year. Earlier today there was a terrorist shooting in Paris, though the market hasn't reacted to the event. Looking ahead, the economic calendar features Eurozone and German manufacturing and services PMIs, the Eurozone current account and US existing home sales. But as we continue to highlight, economic data has become far less important right now. Today's primary focus will be on the French election, headlines relating to geopolitical risk and US policy.

GBPUSD – technical overview

This latest break back above the December 2016 peak is a significant development as it potentially ends a period of bearish consolidation, warning of the formation of a more meaningful longer-term base. Still, it will be interesting to see how the market responds above 1.2775 and if it can hold above the level in the sessions ahead. If the market holds above 1.2775 in the sessions ahead, it could pave the way for the next major upside extension into the 1.3500 area. If the market is unable to hold above 1.2775 it will suggest a false break and could open renewed downside. In the interim, key levels to watch above and below come in at 1.3000 and 1.2616 respectively.



- R2 1.3000 – Psychological – Strong
- R1 1.2907 – 18Apr/2017 high – Medium
- S1 1.2775 – Previous Peak – Medium
- S2 1.2616 – 27Mar high – Strong

GBPUSD – fundamental overview

The Pound has settled down following the impressive breakout seen earlier this week on the news of the UK snap election in June. Overall, the market is feeling much better about the outlook for the UK currency, with the election expected to result in a more cohesive, unified support for the PM, which will alleviate plenty of stress when it comes to Brexit negotiations with the EU. The Pound is the strongest currency over the past week. Still, there is uncertainty associated with the election, while the UK's fate post Brexit is also up in the air, which could be enough to keep Sterling bulls from getting too aggressive. Meanwhile, comments from the US Treasury Secretary that he expects tax reform to pass by year end are US Dollar supportive and could be further contributing to a mild Sterling pullback from the weekly high. Looking ahead, UK retail sales will be important to keep an eye on as the data will be capable of inspiring intraday volatility. Later in the day, we get US existing home sales. Otherwise, the focus will be on headlines relating to the UK election, geopolitical risk and US policy.

USDJPY – technical overview

The recent break of a multi-week range low at 111.60 marked an end to a 400 point bearish consolidation that has now opened this next major downside extension towards a 400 point measured move that targets 107.60 in the sessions ahead. Look for any rallies to be well capped ahead of 110.00, while ultimately, only a daily close back above 112.20 would take the immediate pressure off the downside.



- R2 110.00 – Psychological – Strong
- R1 109.87 – 12Apr high – Medium
- S1 108.13 – 17Apr/2017 low – Medium
- S2 107.60 – Measured Move – Strong

USDJPY – fundamental overview

Thursday's recovery in the US equity market and comments from the US Treasury Secretary that he expects tax reform to go through before the year is out have inspired a round of profit taking on Yen longs, with the USDJPY rate pushing back up off this week's yearly low. Still, there is plenty of risk out there at the moment that could once again invite another round of Yen gains, while there is also risk that this wave of broad based US Dollar selling in 2017 continues, which will only add to Yen demand. Looking ahead, US existing home sales are scheduled for release, though most of the flow in this major pair will drive on broader themes including French election risk, geopolitical risk and US policy risk.

EURCHF – technical overview

Rallies continue to be very well capped, with the market adhering to a broader downtrend of lower tops and lower lows. The most recent rally has stalled at 1.0826 where a fresh lower top is now sought ahead of the next major downside extension below the 2016 base at 1.0624 and towards 1.0400 further down. Only back above 1.0826 delays the bearish outlook.



- R2 1.0826 – 13Mar/2017 high – Strong
- R1 1.0764 – 21Mar high – Medium
- S1 1.0650 – Mid-Figure – 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 appetite for risk, the Franc hasn't been able to weaken all that much. There have been some signs of the SNB perhaps making a little headway on reports of a boost in SNB reserves, but a meaningful pullback in risk markets could easily offset that advantage.

AUDUSD – technical overview

The impressive rally in 2017 has stalled out into significant medium-term resistance ahead of 0.7800. A recent break back below 0.7600 strengthens the prospect for some form of a top and could open the door for a deeper drop back towards the 0.7000 area in the days ahead. However, the market will need to see a daily close below previous support at 0.7475 to strengthen the bearish outlook. In the interim, any rallies should be well capped below 0.7700.



- R2 0.7611 – 17Apr high – Strong
- R1 0.7563 – 19Apr high – Medium
- S1 0.7475 – 11Apr low – Strong
- S2 0.7400 – Figure – Medium

AUDUSD – fundamental overview

It hasn't been the best of weeks for the Australian Dollar, though at one point it was looking a lot worse. The combination of a sharp rebound in the price of iron ore and a fresh wave of risk on flow on the back of Thursday's US equity market recovery have been helping to prop the beaten down commodity currency. But looking ahead, the outlook is far from rosy with risk sentiment still shaky overall and plenty of uncertainty out there that could keep the risk correlated currency from wanting to mount any meaningful rallies. At the same time, the news from the US Treasury Secretary that he expects tax reform to go through by the end of the year is also acting as a cap on this mild Aussie recovery. Looking ahead, US existing home sales are scheduled for release, though most of the flow in this major pair will drive on broader themes including French election risk, geopolitical risk and US policy risk.

USDCAD – technical overview

The market remains very well supported on dips, with this year's bounce out from the 1.3000 area warning of a more significant bullish resumption. Any setbacks should now be very well supported above 1.3200 on a daily close basis in favour of an eventual push back through the multi-day peak at 1.3599 and towards 1.4000 further up. Ultimately, only back below the 2017 low at 1.2969 would force a meaningful shift in the structure.



- R2 1.3535 – 9Mar high – Strong
- R1 1.3500 – Psychological – Medium
- S1 1.3400 – Figure – Medium
- S2 1.3375 – 19Apr low – Strong

USDCAD – fundamental overview

The combination of weakness in the price of OIL, softer commodities, and recent Governor Poloz comments warning the Bank of Canada could not just follow the US on rates, have resulted in a clear underperformance in the Canadian Dollar over the past week. Other contributing factors to Loonie's weakness include risk abroad associated with uncertainty in the global economy and more US Dollar supportive talk from the US Treasury Secretary this week including his comments that the administration has no strategy to talk down the Buck and that he expects tax reform to go through by the end of the year. Looking ahead, Canada CPI is the key standout on the calendar for this pair, though US existing home sales are also due. Of course, the broader risk in markets associated with geopolitics, the French election risk and headlines out from the US administration will command a good deal of the attention.

NZDUSD – technical overview

The overall pressure remains on the downside with the market expected to be very well capped on rallies. The weekly chart is reflective of this fact as it looks like we're seeing the formation of a major top off the 2016 high. As such, expect the market to continue to roll over in the days ahead, with setbacks projected towards medium-term support in the 0.6600s. Only back above 0.7400 compromises the outlook.



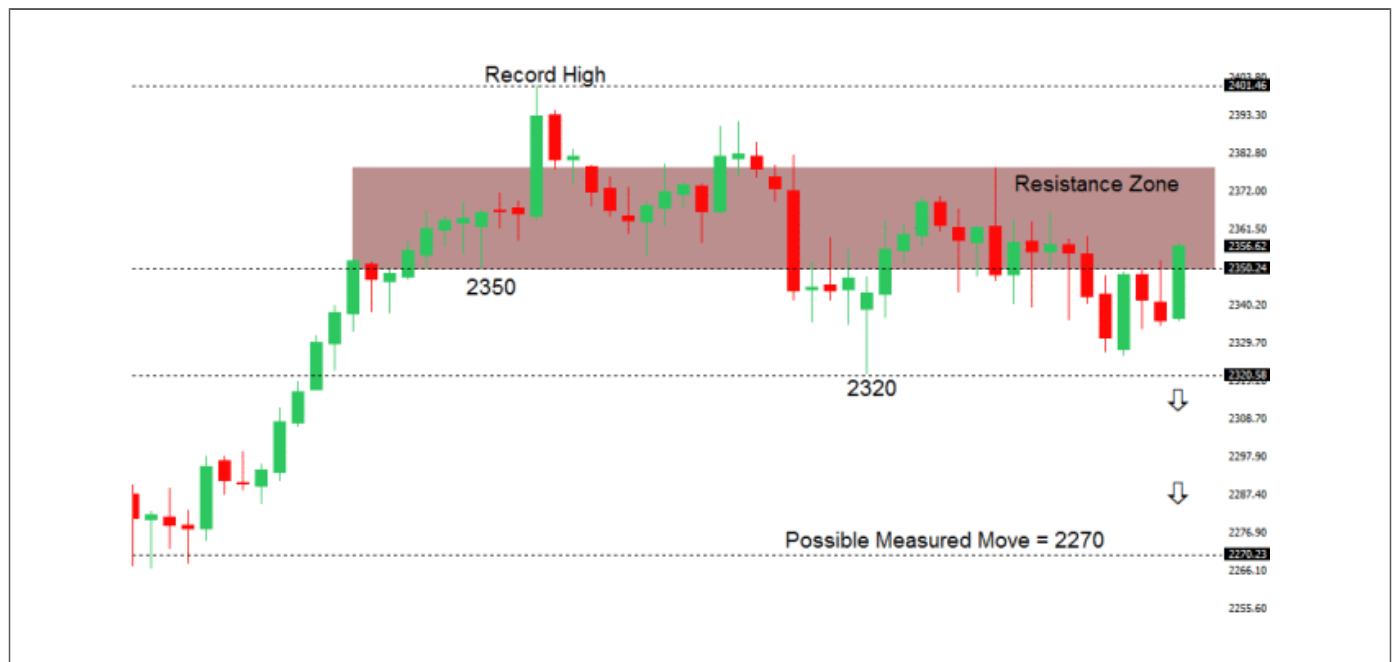
- R2 0.7090 – 21Mar high – Strong
- R1 0.7053 – 19Apr high – Medium
- S1 0.6984 – 17Apr low – Medium
- S2 0.6890 – 9Mar low – Strong

NZDUSD – fundamental overview

Any Kiwi positives from this week's well received GDT auction and hot CPI data have been washed out on the combination of this latest disappointing New Zealand consumer confidence showing and US Dollar supportive Thursday comments from the US Treasury Secretary that he expects tax reform to go through by year end. There is also quite a bit of uncertainty and uneasiness out there relating to global risk, particularly into a weekend where the French election is up in the air and could pose as a legitimate systemic threat to the global economy if the extreme candidates comes through into the second round. Looking ahead, US existing home sales are scheduled for release, though most of the flow in this major pair will drive on broader themes including this French election risk, geopolitical risk and US policy risk.

US SPX 500 – technical overview

An extended run to record highs is finally showing signs of exhaustion in 2017, with the market rolling over, taking out critical short-term support at 2350. This now opens the door for a possible acceleration of declines towards 2270 in the sessions ahead, with a daily close below 2320 to strengthen the outlook for a more significant structural shift. In the interim, rallies should be well capped below 2380.



- R2 2402.00 – 1Mar/Record high – Strong
- R1 2382.00 – 21Mar high – Medium
- S1 2321.00 – 27Mar low – Medium
- S2 2305.00 – 26Jan high – Strong

US SPX 500 – fundamental overview

Bulls remain in control overall despite recent setbacks, though there have been legitimate cracks at the surface in the month of April. This month's Fed Minutes citing equity overvaluation and possible balance sheet shrinkage later this year haven't been stock market positive, while the rise in geopolitical tension and this week's sup-par earnings from Goldman Sachs are only adding to the strain. Furthermore, the market is waking up to the fact that the new US administration's alternative take on diplomacy could make for a less predictable path for equity markets. Stocks will continue to monitor these developments going forward. It's worth noting that downside risk associated with Sunday's French election poses a systemic threat to the global economy in that it could pave the way for a breakup of the EU, something that investors may be a little more cautious about into the weekend.

GOLD (SPOT) – technical overview

The market has been very well supported since basing out ahead of 1100 in 2016. This latest break to another yearly high through 1265 strengthens the outlook, confirming the next higher low at 1195, while opening the door for the next major upside extension towards a measured move into the 1335 area. Look for any setbacks to be well supported ahead of 1230, with only a break back below 1195 to compromise the constructive outlook.



- R2 1300.00 – Psychological – Strong
- R1 1295.60 – 17Apr/2017 high – Medium
- S1 1239.75 – 31Mar low – Medium
- S2 1226.95 – 21Mar low – Strong

GOLD (SPOT) – fundamental overview

Solid demand from medium and longer-term players continues to emerge, with these players more concerned about the limitations of exhausted monetary policy, extended global equities, political uncertainty, systemic risk and geopolitical threats. All of this should continue to keep the commodity in demand, 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. Meanwhile, a bout of US Dollar selling (bullish gold on inverse correlation) in 2017 has also kicked in as the market gives more serious consideration to US policies that are likely to direct the US Dollar lower despite comments from Treasury Secretary Mnuchin downplaying this possibility.

Feature – technical overview

USDTRY has been in a period of choppy consolidation since topping out at a fresh record high earlier this year. At this point, the structure continues to favour the topside, with scope still existing for a bullish continuation to yet another record high. At a minimum, a break and close back below 3.5580 would be required to potentially force a shift in the outlook and open the door for a more significant bearish corrective phase.



- R2 3.7880 – 9Mar high – Strong
- R1 3.7510 – 7Apr high – Medium
- S1 3.5580 – 23Feb low – Strong
- S2 3.5000 – Psychological – Strong

Feature – fundamental overview

The currency market is still taking time to digest the latest result in the Turkish referendum which produced a narrow “Yes” victory for President Erdogan. On the one hand, the result can be viewed as Lira supportive as it reduces political uncertainty which should translate into more stable economic policy. On the other hand, the move to grant an unlimited amount of power to the President could pose risk on the global stability front, which would be viewed as Lira bearish. And so, the Lira has been mostly sideways in the aftermath. Of course, geopolitical risk, the US administration’s protectionist policies and possible vulnerability in global equities are other themes that need to be considered with respect to the outlook for the emerging market currency.



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