

Tuesday, February 21, 2017

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Euro Worries About Elections and Greek Debt [Wake-up Call](#)

The market got off to a slow start Monday on account of the lighter calendar and US holiday closure, but things are already picking up into Tuesday. The Euro is under pressure early as the prospect for anti-EU candidate victories in France and Italy elections and Greek debt negotiations weigh on the single currency.

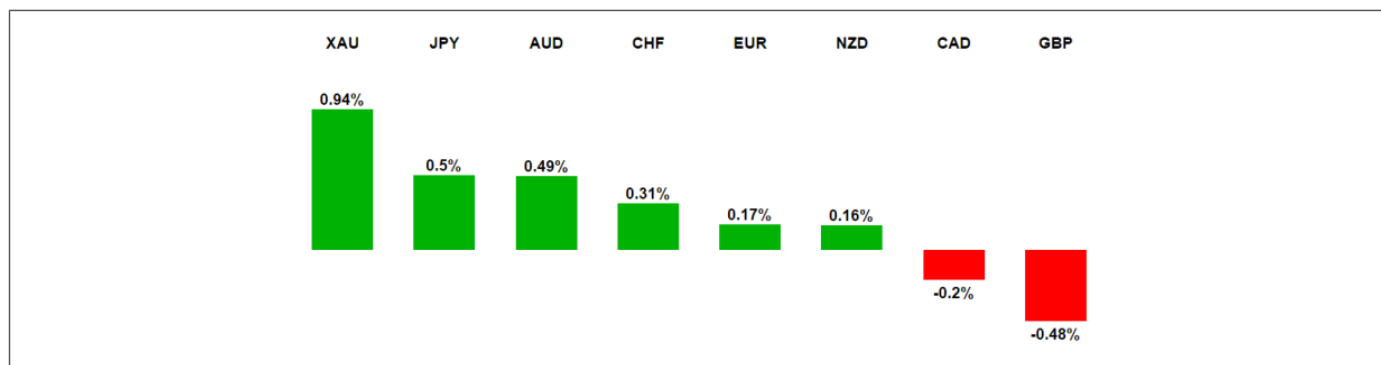
Technical highlights [Daily Video](#)

- **EURUSD** Retains bearish bias
- **GBPUSD** Pressure on downside
- **USDJPY** Not ready to rally yet
- **EURCHF** Waiting for next big drop
- **AUDUSD** Struggles above 0.7700
- **USDCAD** Formidable 1.3000 prop
- **NZDUSD** Reading for pullback
- **US SPX 500** Nearing correction
- **GOLD** (spot) Bullish consolidation
- **Feature** – USDMXN Dips limited

Fundamental highlights

- **EURUSD** Manufacturing PMIs taken in
- **GBPUSD** Eyes on Governor Carney speech
- **USDJPY** Kuroda highlights USD dilemma
- **EURCHF** SNB headache turning into migraine
- **AUDUSD** No surprises from RBA Minutes
- **USDCAD** Fed speak from Kashkari, Harker
- **NZDUSD** GDT auction results to stir volatility
- **US SPX 500** More red flags a worry for investors
- **GOLD** (spot) Macro players keep buying metal
- **Feature** – USDMXN Peso not ready to run yet

Five day performance v. US dollar



Suggested reading

- **The “Anyone But Le Pen” Trade**, L. Laurent, Bloomberg (February 17, 2017)
- **Prospering Through Ignorance**, J. Hussman, Hussman Funds (February 20, 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 1.0680 – 16Feb high – Strong
- R1 1.0633 – 20Feb high – Medium
- S1 1.0561 – 14Feb low – Medium
- S2 1.0522 – 15Feb low – Strong

EURUSD – fundamental overview

The Euro is under pressure into Tuesday on the increasing prospect for anti-EU candidate victories in France and Italy elections and Greek debt worry. Meanwhile on the other side, the Fed continues to lean hawkish, unwilling to rule out the possibility for a March rate hike, also weighing on the single currency. Looking ahead, key standouts on Tuesday’s calendar come in the form of German and Eurozone manufacturing PMIs and speeches from Fed’s Kashkari and Harker.

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 1.2549 – 14Feb high – Strong
- R1 1.2524 – 16Feb high– Medium
- S1 1.2400 – Figure – Medium
- S2 1.2346 – 7Feb low – Strong

GBPUSD – fundamental overview

The Pound has been finding offers into rallies after a Monday jump on no real identifiable catalyst. And with Brexit negotiations underway and the PM inching closer to invoking Article 50, the next big move could very well be lower. Meanwhile, ongoing hawkish Fed speak continues to support the US Dollar. Looking ahead, the key standouts on Tuesday are UK public finances, a speech from BOE Governor Carney and Fed speak from Kashkari and Harker.

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 114.31 – 16Feb high – Strong
- R1 114.00 – Figure – Medium
- S1 112.62 – 17Feb low – Medium
- S2 111.59 – 7Feb low – Strong

USDJPY – fundamental overview

It was interesting to hear an official finally point out the discrepancy between hawkish Fed policy and President Trump’s protectionist talk supportive of a soft Dollar policy, with BOJ Kuroda on the wires highlighting this earlier today. Kuroda also said it was too early for the BOJ to raise the yield target given inflation was still far off the central bank’s 2% inflation target. Overall, the combination of an ongoing bid for risk assets and this latest wave of broad based US Dollar demand have been supporting the major pair. Still, with global equities running into overbought territory, the Yen could still find healthy bids in the event of a capitulation on this front. Looking ahead, second tier US data is unlikely to factor, with the market paying closer attention to broader themes and Fed speak from Kashkari and Harker.

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 below the 2016 low at 1.0624 and towards psychological barriers at 1.0500 further down. A descending triangle formation on the daily chart is strengthening the bearish outlook. 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 as reflected through France elections, Italian elections and renewed Greek debt concerns, are 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

No surprises from Tuesday’s RBA Minutes in which the central bank said that a rising Aussie would complicate the transition process on the one hand but was also seen as a positive for the global economy on the other hand. Perhaps the one standout from the Minutes was the fact that the RBA highlighted downside pressure on inflation could be more persistent than assumed. The Australian Dollar has since come under pressure, finding very strong offers by medium-term resistance up towards the 0.7800 area, with ongoing hawkish Fed speak also contributing to the offered tone. Looking ahead, second tier US data is unlikely to factor, with the market paying closer attention to broader themes and Fed speak from Kashkari and Harker.

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 1.3100 – 21Feb low – Medium
- S2 1.3010 – 16Feb low – Strong

USDCAD – fundamental overview

With the OIL market more comfortable in a range of late, the Loonie has relied more heavily on taking its cues from US fundamentals and macro flow. Ultimately, the Canadian Dollar has been finding renewed offers ahead of USDCAD 1.3000 (ie USDCAD bid) and there is an expectation that with the Fed continuing to talk hawkish, this could open the door for a fresh uptick in USDCAD. This week’s Fed Minutes could be the catalyst for that big push next push. Looking at today’s calendar, absence of Canada data and second tier US data are unlikely to factor, with the market paying closer attention to broader themes and Fed speak from Kashkari and Harker.

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.



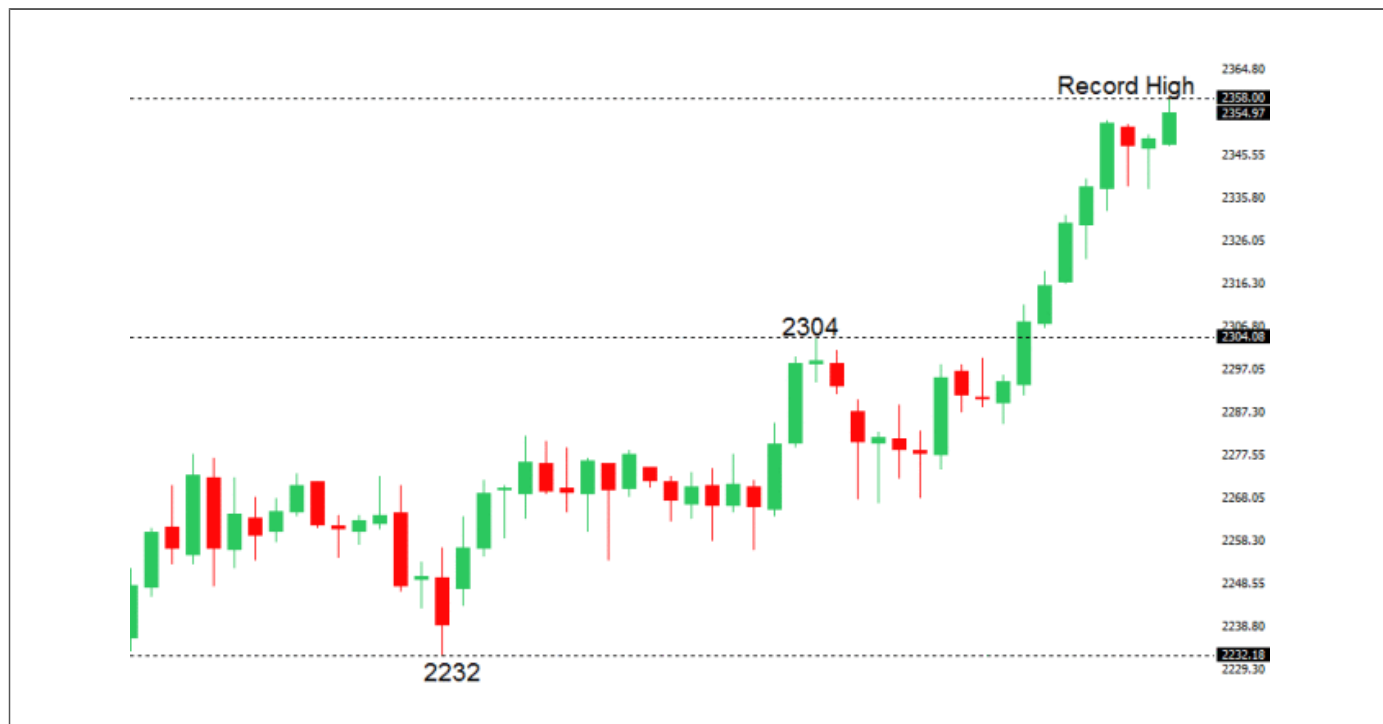
- R2 0.7243 – 15Feb high – Strong
- R1 0.7200 – Figure – Medium
- S1 0.7135 – 14Feb low – Medium
- S2 0.7130 – 100-Day SMA– Strong

NZDUSD – fundamental overview

There has been a notable shift in sentiment towards the New Zealand Dollar in recent days. Softer local employment, a more dovish RBNZ, a rotation into AUDNZD, hawkish Fed speak leaving the door open for a March hike and this latest disappointing 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, more volatility is expected with the GDT auction due. Second tier US data is unlikely to factor and the market will instead look to Fed speak from Fed’s Kashkari and Harker.

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 2359.00 – 20Feb/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, expectation of fresh 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.

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

The Peso has managed to stabilise in the aftermath of the latest Banxico decision in which the central bank raised rates by 50bps. A fresh wave of risk on flow as Trump turns away, at least for a moment from focusing on policies attacking prospects for the Mexican economy and CFTC positioning showing a reduction in Peso shorts have also helped to stall Peso declines. Still, the Peso is far from out of the woods, with Trump uncertainty running high and Fed speak leaving the door open for a March hike. 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 and emerging market FX. Looking out, the market is pricing another 100bps of Banxico hikes in 2017.



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