Friday, December 22, 2017

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Global FX Insights

by LMAX Exchange Research & Analytics

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

US Stopgap and Renewed Tension in Catalonia **Wake-up Call**

In the US, both chambers of congress have voted through a short-term spending bill that will now keep the government funded through January 19th, which means the President should now be able to deliver as promised as sign off on tax reform before this year is out.

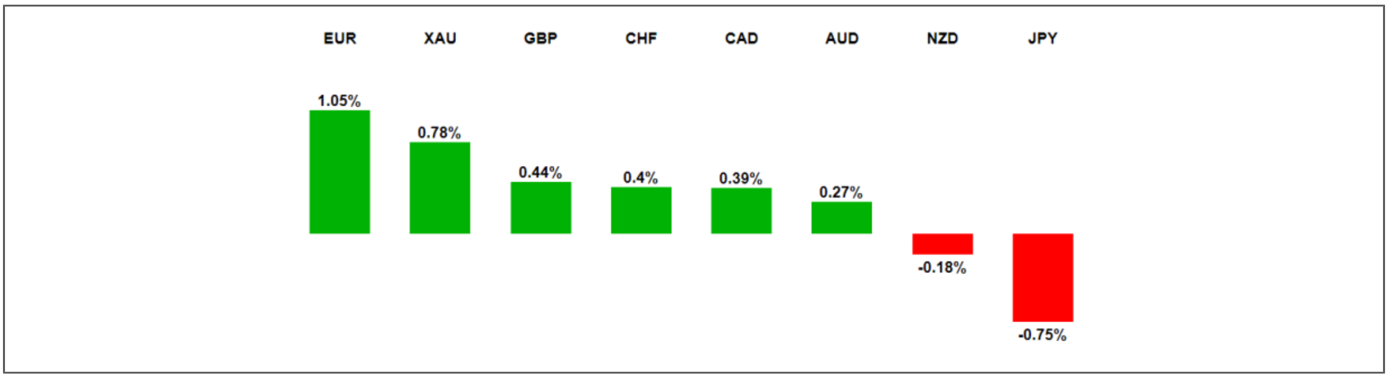
Technical highlights **Daily Video**

- **EURUSD** Bullish consolidation
- **GBPUSD** Wants to confirm higher low
- **USDJPY** Hanging out after stalling out
- **EURCHF** Trying to push back to 1.2000
- **AUDUSD** Extending correction higher
- **USDCAD** Well supported into dips
- **NZDUSD** Room to run back to 0.7200
- **US SPX 500** Unwilling to roll over yet
- **GOLD** (spot) Outlook constructive
- **Feature** – USDTRY Sights set on barrier

Fundamental highlights

- **EURUSD** Separatists emerge in Catalan election
- **GBPUSD** UK final read of Q3 GDP data on tap
- **USDJPY** Yen bid post US economic data misses
- **EURCHF** SNB strategy will get more challenging
- **AUDUSD** Aussie waiting on Friday US docket
- **USDCAD** Loonie rebounds on supportive results
- **NZDUSD** Broad based USD weakness helps Kiwi
- **US SPX 500** Investors keep shrugging red flags
- **GOLD** (spot) Macro accounts happy to buy dips
- **Feature** – USDTRY Lira staring at major barrier

Five day performance v. US dollar



Suggested reading

- **Mark Carney Talks Brexit**, C. Jones, Financial Times (December 21, 2017)
- **When Investors Borrow to Buy Bitcoins**, N. Smith, Bloomberg (December 20, 2017)

EURUSD – technical overview

Despite a prolonged period of sideways trade, the outlook for the major pair remains highly constructive. The door is now open for a more immediate resumption of a well defined uptrend that has taken form in 2017. Look for any setbacks to be well supported ahead of 1.1700, for the next major upside extension beyond the current yearly high of 1.2093 and towards the 1.2500 area further up. But ultimately, only a daily close back below 1.1550 will delay this outlook.

- **R2 1.1962** – 27Nov high – Strong
- **R1 1.1903** – 21Dec high – Medium
- **S1 1.1777** – 19Dec low – Medium
- **S2 1.1718** – 12Dec low – Strong

EURUSD – fundamental overview

The Euro continues to do a good job holding up in the face of bearish headlines including the passage of the US stopgap measure to keep the government open through January 19 and the regional election result in Catalonia, with the separatists coming out on top. It seems the market had already anticipated the US government being able to achieve its goal, while over in Catalonia, despite the separatist victory, it looks like it will be a tough go to make another hardline push for independence. As far as today's docket goes, we get Germany GfK consumer confidence, followed up by a US docket that includes durable goods, Michigan sentiment, new home sales, personal income, personal spending and the personal consumption indicator.

GBPUSD – technical overview

The market has been consolidating but ultimately looks poised for a continuation of the 2017 uptrend, with a higher low waiting to be confirmed at 1.3027 on a break of the 2017 high at 1.3658. This will then open the door for a measured move upside extension back above 1.4000 and towards 1.4200 into 2018. Any setbacks should now be well supported into previous range resistance now turned support in the 1.3300 area.

- **R2 1.3521–** 8Dec high – Strong
- **R1 1.3467 –** 14Dec high – Medium
- **S1 1.3332** – 19Dec low – Medium
- **S2 1.3303** – 15Dec low – Strong

GBPUSD – fundamental overview

All has been relatively quiet in the UK into the Christmas break, though overall, sentiment for the Pound has been strong in 2017 as the market feels more optimistic the worst case Brexit scenarios are out of the way. Looking at today's docket, we get a UK Q3 final GDP read followed up by a US docket that includes durable goods, Michigan sentiment, new home sales, personal income, personal spending and the personal consumption indicator. The news of the passage of the US stopgap measure to keep the government open through January 19 hasn't had any real impact on the major pair.

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 strengthens this outlook, though the market will ideally need to break back down below 112.00 to strengthen this prospect.

- **R2 113.76** – 12Dec high – Strong
- **R1 113.65** – 21Dec high – Medium
- **S1 112.52** – 19Dec low – Medium
- **S2 112.04**– 15Dec low – Strong

USDJPY – fundamental overview

Thursday's US data misses from Q3 GDP, personal consumption and core PCE have put a cap on a recent run in the major pair, with the Yen regaining a little momentum into the final day of the week and ahead of Christmas break. But overall, the Yen has been weaker this week and direction from here will likely come down to the batch of US data later today and overall sentiment. As far as the data goes, we get durable goods, Michigan sentiment, new home sales, personal income, personal spending and the personal consumption indicator. The news of the passage of the US stopgap measure to keep the government open through January 19 hasn't had any real impact on the major pair.

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 1.1751** – 21Dec/**2017 high** – Medium
- **S1 1.1586** – 22Nov low – Medium
- **S2 1.1543** – 7Nov 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

Technical studies are turning up, with the market in the process of recovering after trading down to a fresh multi-day low around the 0.7500 barrier. Overall however, the pressure remains on the downside and additional upside could be difficult into solid internal resistance in the 0.7800-0.7900 area.

- **R2 0.7785** – 25Oct high – Strong
- **R1 0.7731** – 2Nov high – Medium
- **S1 0.7628** – 14Dec low – Medium
- **S2 0.7581** – 12Dec high – Strong

AUDUSD – fundamental overview

Thursday's US data misses from Q3 GDP, personal consumption and core PCE have helped to inspire additional bids, with the Australian Dollar building on a run of renewed momentum into the final day of the week and ahead of Christmas break. Looking ahead, the market will be focused on a batch of US data later today and overall sentiment. As far as the data goes, we get durable goods, Michigan sentiment, new home sales, personal income, personal spending and the personal consumption indicator. The news of the passage of the US stopgap measure to keep the government open through January 19 hasn't had any real impact on the major pair.

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 1.2600.

- **R2 1.2921**– 19Dec high – Strong
- **R1 1.2840** – 21Dec high – Medium
- **S1 1.2700** – 21Dec low – Medium
- **S2 1.2624** – 5Dec low – Strong

USDCAD – fundamental overview

Thursday's run of impressive Canada retail sales and hot CPI data resulted in clear outperformance in the Canadian Dollar. However, looking out to 2018, there could be more downside risk to the Loonie as the fate of NAFTA comes back into the spotlight, with any talk of a breakup to put more pressure on the Loonie. The Canadian Dollar has also not been able to benefit from a recovery in the OIL market in 2017, but has felt the pressure of pullbacks when they happen. Looking ahead, the market will be focused on a Canada GDP reading, along with a batch of US data. As far as the US data goes, we get durable goods, Michigan sentiment, new home sales, personal income, personal spending and the personal consumption indicator. The news of the passage of the US stopgap measure to keep the government open through January 19 hasn't had any real impact on the major pair.

NZDUSD – technical overview

The market is turning up after recently trading down to a fresh 2017 low in November. The price action has taken the form of a kind of inverse H&S pattern, with the break back above 0.6980 strengthening this prospect and opening the door for a more pronounced recovery into the 0.7200 area. For now, setbacks are expected to be supported ahead of 0.6850 to encourage the outlook.

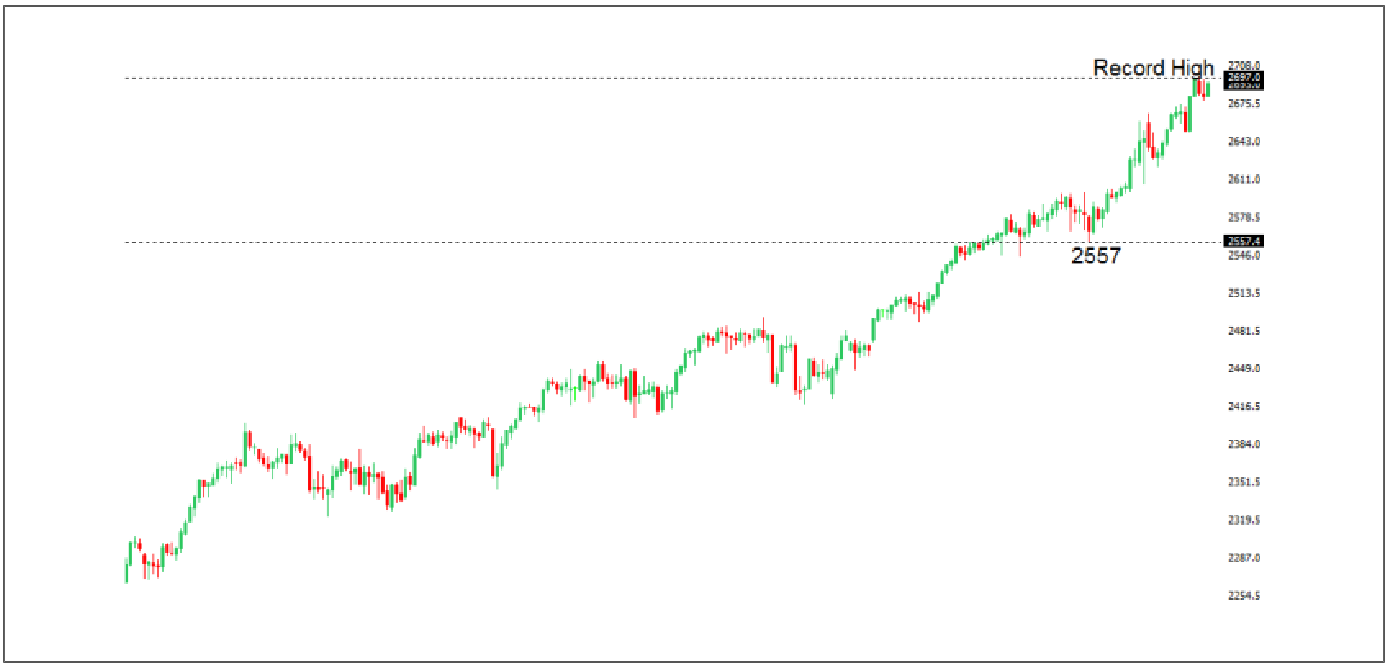
- **R2 0.7100** – Figure – Medium
- **R1 0.7035 –** 15Dec high – Strong
- **S1 0.6955** – 20Dec low – Medium
- **S2 0.6902** – 12Dec low – Strong

NZDUSD – fundamental overview

Thursday's US data misses from Q3 GDP, personal consumption and core PCE have helped to inspire additional bids, with the New Zealand Dollar building on a run of renewed momentum into the final day of the week and ahead of Christmas break. Looking ahead, the market will be focused on a batch of US data later today and overall sentiment. As far as the data goes, we get durable goods, Michigan sentiment, new home sales, personal income, personal spending and the personal consumption indicator. The news of the passage of the US stopgap measure to keep the government open through January 19 hasn't had any real impact on the major pair.

US SPX 500 – technical overview

The market continues to shrug off 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 2557 at a minimum to alleviate immediate topside pressure.



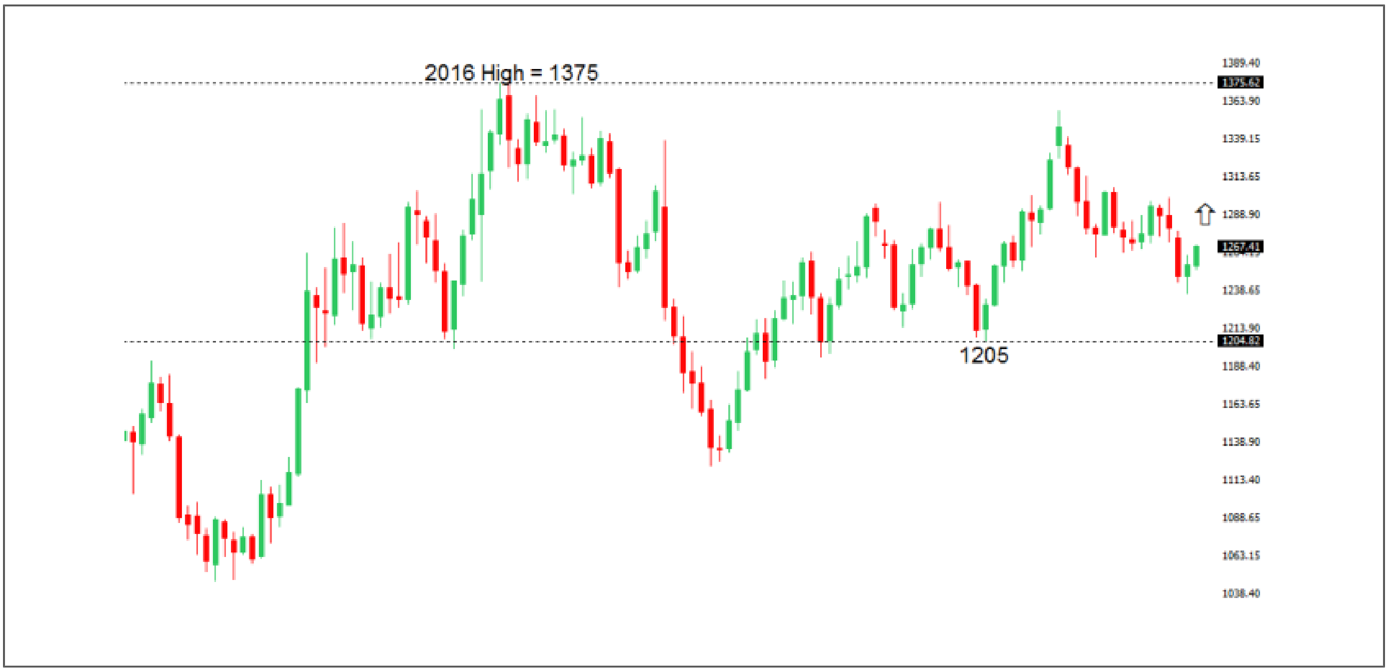
- **R2 2700.00** – Extension Target – Strong
- **R1 2675.00** – 14Dec/**Record high** – Medium
- **S1 2599.00** – 28Nov low – Strong
- **S2 2557.00** – 15Nov low – Strong

US SPX 500 – fundamental overview

The US equity market continues to be well supported on dips, pushing further into record high territory. It seems, on a macro level, the combination of blind momentum, expectation US tax reform will ultimately work out well and a belief the Fed will remain super accommodative under Jerome Powell 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 erring on the side of policy normalisation. But for now, it's more of the same, with the market shrugging off any red flags. 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 in favour of a bullish continuation towards a retest of the 2016 peak at 1375 further up. Utimately, only a drop back below 1200 would negate the outlook.



- **R2 1289.30** – 1Dec high – Strong
- **R1 1277.40** – 4Dec high – Medium
- **S1 1236.70** – 12Dec low – Medium
- **S2 1229.20** – 6Jul high – 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 1200.

Feature – technical overview

USDTRY has extended its record run, with the market contemplating the establishment above major psychological resistance at 4.0000. At the same time, with medium technical studies looking extended, risk is building for a healthy corrective reversal in the sessions ahead. Ultimately, any setbacks should be well supported ahead of 3.6500, with only a break back below this level to force a shift in the structure.

- **R2 4.0000** – Psychological – Strong
- **R1 3.9820** – 22Nov/**Record** – Medium
- **S1 3.7870** – Previous Resistance (March) – Medium
- **S2 3.7660** – 30Oct low – Strong

Feature – fundamental overview

The CBRT did a fabulous job disappointing investor expectation for what was believed to be a much bigger adjustment to rates than the one the market got last week. The Turkish central bank opted to only raise by a modest 50bps in the LLW. This is viewed as a knock on CBRT credibility, with the central bank clearly influenced by the ongoing pressure from the Erdogan government to keep policy as loose as possible. The Lira could be poised for a fresh record low in the days ahead, with USDTRY considering a break of the massive psychological barrier at 4.00. The emergence of new stress in the global economy could add to the Lira strain if we see a global reduction in risk appetite that ultimately drags the entire emerging market space.