Thursday, June 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

Still Not Enough Love for US Dollar

Wake-up Call

We've seen a positive US Dollar bullish, negative equity market reaction in the aftermath of last week's Fed decision. But at the same time, the moves have been quite mild, with many out there not yet ready to give up on trends of selling the Buck in 2017 and buying stocks since 2009.

Technical highlights

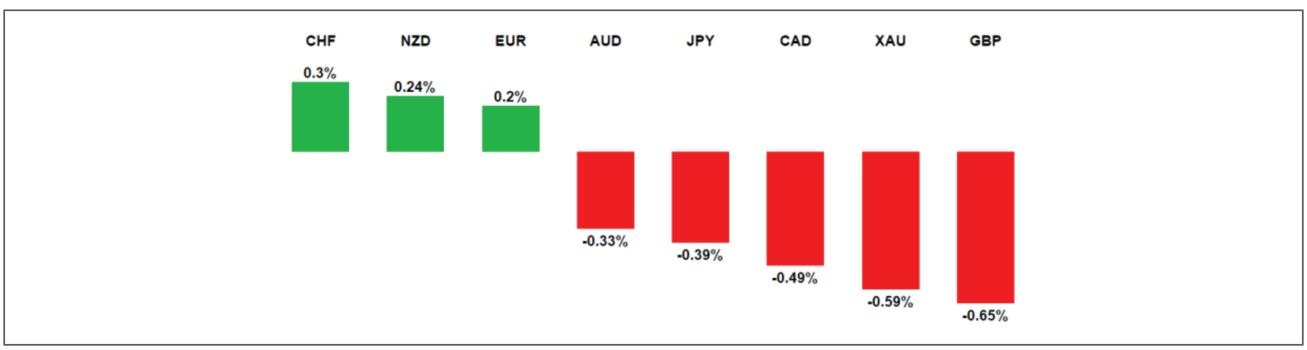
Daily Video

- **EURUSD** Below 1.1110 accelerates
- **GBPUSD** Room for deeper drop
- **USDJPY** Downtrend still intact
- **EURCHF** Capped below psych barrier
- **AUDUSD** Rally starting to stall out
- **USDCAD** Wants to resume uptrend
- **NZDUSD** Into major resistance zone
- **US SPX 500** Bullish above 2400
- **GOLD** (spot) Sights set on 2016 high
- **Feature** – USDZAR Bottoming out

Fundamental highlights

- **EURUSD** Eurozone consumer confidence due
- **GBPUSD** BOE Haldane comments prop Pound
- **USDJPY** Fed Powell slated to speak Thursday
- **EURCHF** SNB job much tougher is stocks slide
- **AUDUSD** Medium-term players happy to sell
- **USDCAD** Canada retail sales comes into focus
- **NZDUSD** RBNZ holds on policy as expected
- **US SPX 500** Normalization over accommodation
- **GOLD** (spot) Metal outlook solid even if USD up
- **Feature** – USDZAR Court ruling to invite volatility

Five day performance v. US dollar

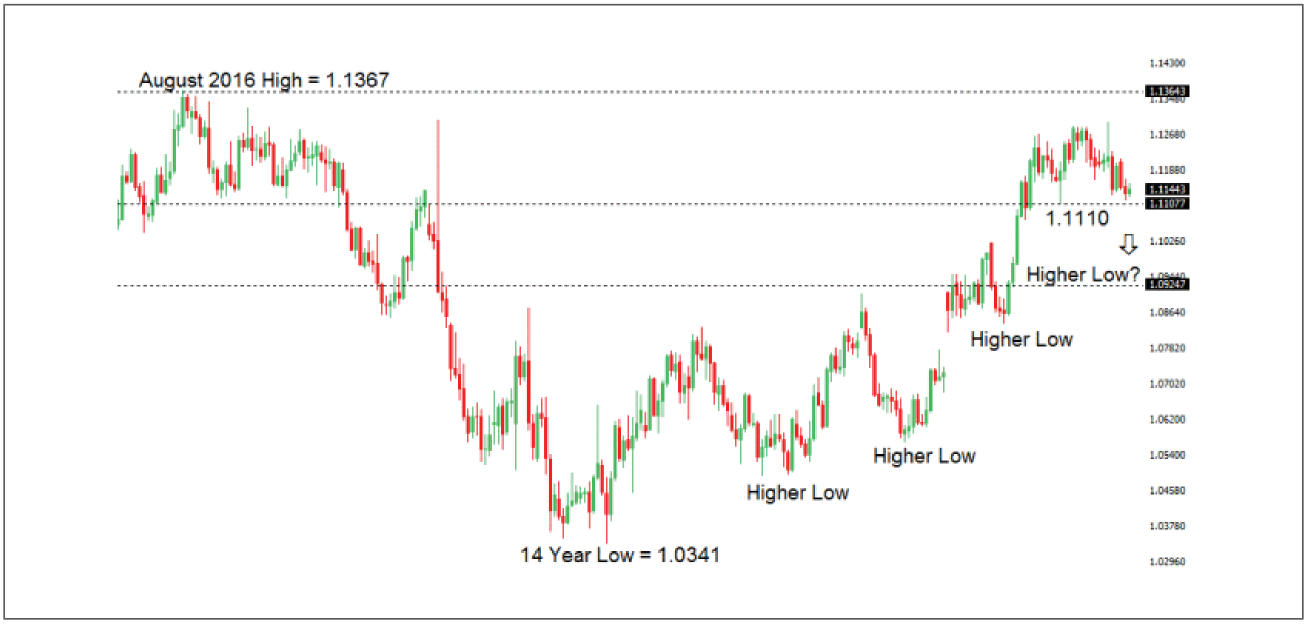


Suggested reading

- **Dutch Speed-Trader Turns to Currencies**, W. Hadfield, **Bloomberg** (June 14, 2017)
- **Engineering Effective Stock Market Models**, J. Felder, **The Felder Report** (June 20, 2017)

EURUSD – technical overview

The market is showing signs of short-term exhaustion after extending its 2017 run. But with the medium-term structure still quite bullish, any setbacks that we do see in the sessions ahead should ideally be well supported in favour of the next higher low and bullish continuation towards key resistance around 1.1365, which represents the August 2016 peak. While above 1.1110 on a daily close basis, the outlook favours a more immediate continuation of gains. However, a daily close below 1.1110 would open the door for a deeper correction targeting a measured move extension at 1.0925.



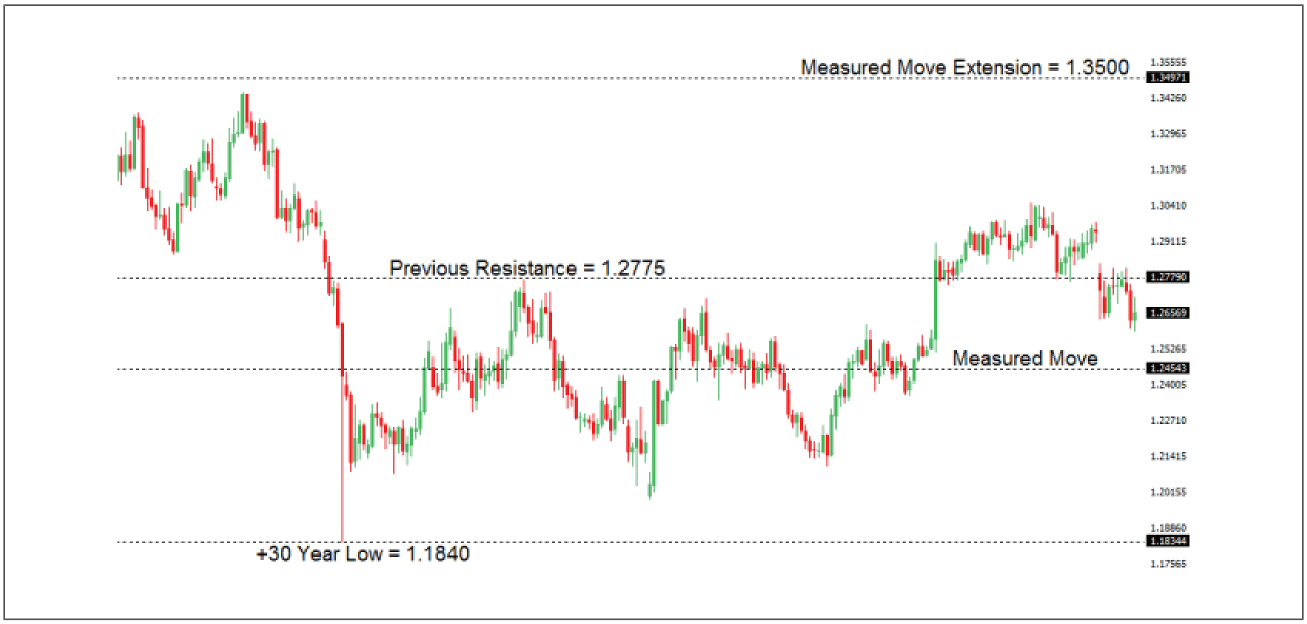
- **R2 1.1296** – 14Jun/**2017 high**– Strong
- **R1 1.1229** – 15Jun high – Medium
- **S1 1.1110** – 30May low – Strong
- **S2 1.1022** – 8May high – Strong

EURUSD – fundamental overview

The economic calendar has been exceptionally quiet this week and the focus continues to be on the shifting outlook over at the Fed, now seemingly less data dependent, with the central bank committed to moving forward with policy normalization despite a data slowdown and subdued inflation. All of this has been backed up by Fed speak this week, while on the other side, a combination of dovish ECB speak and chatter the ECB may not be moving as quickly on tapering, hasn't done anything to help the Euro's cause. Still, with nothing confirmed as of yet, the trend of selling the US Dollar and buying the Euro remains well intact in 2017 and demand continues to emerge into dips. Dealers report stops below 1.1100. As far as today goes, Eurozone consumer confidence and US initial jobless claims stand out. We also get more Fed speak, this time from Fed Powell.

GBPUSD – technical overview

The latest round of setbacks are viewed as corrective with the market expected to be very well supported on dips ahead of 1.2400 in favour of a higher low and bullish continuation towards a measured move extension objective at 1.3500 in the weeks ahead. A breakout above critical resistance at 1.2775 back in April triggered a structural shift in the major pair warning of a longer-term base. Only a break back below 1.2360 would compromise this outlook.



- **R2 1.2831** – 9Jun high – Strong
- **R1 1.2700** – Figure – Medium
- **S1 1.2589** – 21Jun low – Medium
- **S2 1.2515** – 18Apr low – Strong

GBPUSD – fundamental overview

Not a lot of movement this week, but any movement we have seen has mostly been associated with this pair. The Pound had taken a hit earlier this week on dovish BOE Carney comments with setbacks extending into the 1.2500 on Wednesday. But there was good demand to keep the UK currency well supported below 1.2600, with the normally dovish BOE Haldane helping things along after acknowledging he'd be inclined to support a rate hike later this year if economic data continued as forecast. Of course, with the government still scrambling and the Brexit negotiations hanging in the balance, there is plenty of good reason to not be getting overly bullish on the Pound just yet. Throw in renewed interest for the US Dollar on what appears to be a Fed now committed to erring on the side of policy normalization and rallies could be well capped. Dealers are talking fresh sell-stops below 1.2590. As far as today's calendar goes, UK CBI trends data and US initial jobless claims stand out. We also get central bank speak from Fed Powell and BOE Forbes.

USDJPY – technical overview

Despite the latest recovery rally, the overall pressure remains on the downside. In the interim, look for any additional upside to remain capped below 113.00, though only a break back above the recent high at 114.37 will negate the outlook and take the pressure off the downside.

- **R2 112.13** – 24May high – Strong
- **R1 111.79** – 20Jun high – Medium
- **S1 110.65**– 16Jun low – Medium
- **S2 110.34** – 14Jun high – Strong

USDJPY – fundamental overview

Last week's Bank of Japan policy meeting went off without a hitch, with no change to policy and no meaningful changes to the policy statement. And so, the market has been left with the combination of a more hawkish Fed decision and an ongoing bid in US equities, two drivers that have been very supportive of the major pair. Of course, scope exists for renewed Yen demand if risk markets become more sensitive to the reality of the dangers associated with stocks if the Fed actually does follow through with its timeline. Looking ahead, US initial jobless claims and a Fed Powell speech are the key standouts on Thursday.

EURCHF – technical overview

A recent break above 1.0900 has taken the short-term pressure off the downside and could be warning of a more significant structural shift. Next key resistance comes in at 1.1000, with the psychological barrier coinciding with a high from August 2016. The establishment above 1.1000 would force a meaningful shift in the structure and open the door for longer-term upside. At the same time, while the market holds below 1.1000 the overall trend is still bearish and a break back below 1.0800 would renew downside pressure.

- **R2 1.0989** – 12May/**2017 high** – Strong
- **R1 1.0910** – 19Jun high– Medium
- **S1 1.0840** – 7Jun low – Medium
- **S2 1.0782** – 24Apr low – Strong

EURCHF – fundamental overview

The combination of artificially supported, record high US equities and rising geopolitical tension should be a worry for the SNB as any capitulation on the equity front is likely to invite massive safe haven Franc demand the central bank will be unable to offset, irrespective of the central bank's commitment to negative rate policy as reflected in this latest policy decision. For now, the SNB is hoping global sentiment will remain artificially elevated and the ECB will take on a more hawkish policy approach in the months ahead. But the key focus for this market going forward will unquestionably be on the performance in US equities given the influence on broader sentiment. Any signs of intensification to the downside will likely invite a pickup in Franc demand and unwanted downside pressure on EURCHF. Certainly the message from the Fed in which it refused to back away from forward guidance will only make the SNB's job that much tougher.

AUDUSD – technical overview

Despite the latest rally,the market continues to be very well capped into medium-term resistance around 0.7800. Ultimately, any moves to the topside are therefore classified as corrective with the market expected to stall out and roll over again. Look for a break back below 0.7500 to strengthen this outlook and accelerate declines.

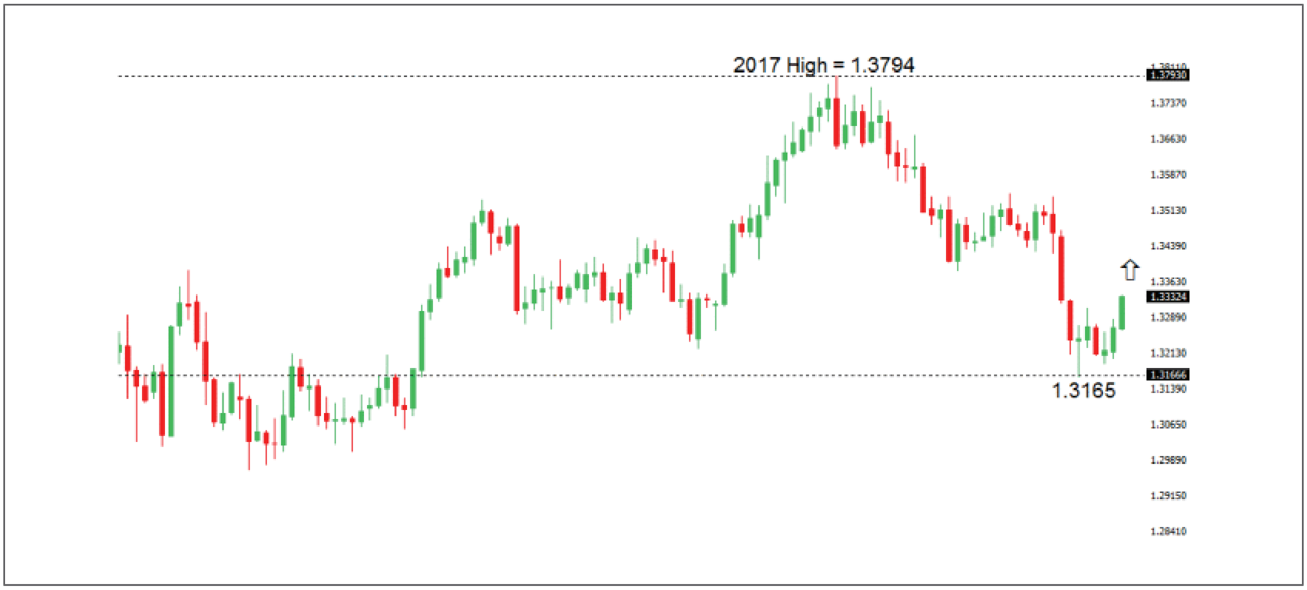
- **R2 0.7680** – 30Mar high – Strong
- **R1 0.7636** – 14Jun high – Medium
- **S1 0.7520** – 10Jun low – Medium
- **S2 0.7458** – 6Jun low – Strong

AUDUSD – fundamental overview

Overall, the Australian Dollar has done a good job holding up, helped along by local developments that include balanced RBA policy (once again reflected in this week's Minutes), better than expected Australia GDP, solid China data and this latest impressive Aussie employment report. However, there are plenty of offers from medium-term players into this rally, with these accounts still feeling quite skeptical about the outlook for China, elevated equities and choppy commodities prices. Moreover, the Fed has just delivered a pivotal decision that could push yields significantly back in favour of the Buck, while also weighing on Aussie if risk comes off as a consequence. Looking ahead, the calendar is light, with only US initial jobless claims and a Fed Powell speech standing out.

USDCAD – technical overview

The latest round of setbacks has taken the pressure off the topside for now, with the market trading back into the middle of a longer-term range. The recent break below 1.3200 opens the door for the possibility of a more pronounced decline in the days ahead towards 1.3000. Ultimately however, the longer-term uptrend remains intact and setbacks should be well supported around the 1.3000 psychological barrier. Look for a break back above 1.3325 to strengthen the constructive outlook.



- **R2 1.3423** – 9Jun low – Strong
- **R1 1.3348** – 23Jun high – Medium
- **S1 1.3263** – 21Jun low– Medium
- **S2 1.3165** – 14Jun low– Strong

USDCAD – fundamental overview

The Canadian Dollar has put in an impressive recovery in 2017, helped along by surprisingly hawkish comments from Bank of Canada's Wilkins and Poloz in the previous week. The central bankers have been flagging a reconsideration of current policy stimulus and the prospect for a rate hike in the 2017 pipeline. Odds for a 2017 rate hike have jumped well above 50%, reflecting this shift in BoC sentiment, clearly benefiting the Loonie as a result. However, the Loonie has been finding renewed offers in light of last week's Fed hawkishness and ongoing setbacks in the price of OIL, to 7 month lows on worry over a never ending global supply glut. Looking ahead, we get Canada retail sales, US initial jobless claims and a speech from Fed Powell.

NZDUSD – technical overview

Despite the intense surge over the past several days, the overall pressure remains on the downside with the market expected to be very well capped around 0.7300. 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, with the outlook strengthened on the May breakdown to fresh 2017 lows. Only a clear break back above 0.7300 would compromise the outlook, while back below 0.7170 strengthens the bearish case.

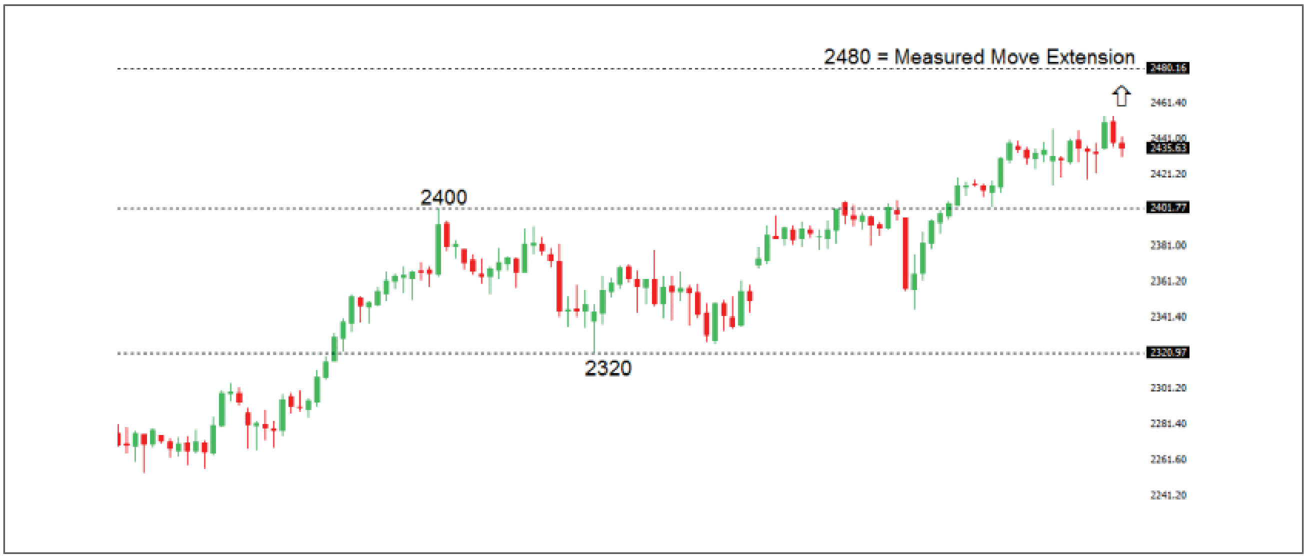
- **R2 0.7320** – 14Jun high – Strong
- **R1 0.7298** – 19Jun high – Strong
- **S1 0.7186** – 15Jun low – Medium
- **S2 0.7170** – 7Jun low– Strong

NZDUSD – fundamental overview

As expected, the RBNZ came out leaving rates on hold, with no new material insights on the policy outlook. Still, the market tried to but Kiwi in the aftermath, perhaps on the optimistic growth outlook and the absence of what could have been stronger language about Kiwi strength. Overall, it's possible an impressive run for the New Zealand over the past several days off 2017 lows could be fizzling out as the combination of last week's more hawkish Fed decision, and recent local data that includes softer Kiwi GDP and a negative print from the latest GDT auction invite medium-term players to look to sell into what might be an overdone rally. Looking ahead, US initial jobless claims and a Fed Powell speech are the only notable standouts.

US SPX 500 – technical overview

The record run continues with the intense bullish momentum intact and the door open for that next push towards a measured move extension at 2480. At a minimum, a break back below 2400 would be required to take the immediate pressure off the topside, while only a break below 2320 would signal a meaningful shift in the structure.



- **R2 2480.00** – Measured Move – Strong
- **R1 2454.00** – 20Jun/**Record high** – Medium
- **S1 2403.00** – 31May low – Medium
- **S2 2346.00** – 18May low – Strong

US SPX 500 – fundamental overview

There has been a lot of talk about a potential top in the US equity market, with the rally pushing to record highs at an unnerving pace in the face of some disturbing fundamentals including exhausted (and reversing) Fed policy and rising geopolitical risk. And certainly this ongoing turmoil surrounding the US administration has made things even more tense. But overall, the US equity market has done a good job proving it can easily buy back into any dip and keep pushing to record highs as it focuses on rates staying lower for longer and the Fed continuing to underdeliver on forward guidance. This bet will be put to the test in an even bigger way going forward, after the Fed surprisingly held to its forward guidance last week, still calling for another rate hike in 2017 despite a slowdown in data, something that could start to weigh more heavily on investor sentiment, especially with this week's Fed speak remaining consistent with the decision. The major takeaway is that the Fed is shifting from a strategy that errs on the side of accommodation to a strategy now erring on the side of policy normalization.

GOLD (SPOT) – technical overview

The market has been very well supported since basing out ahead of 1100 in 2016, putting in a series of higher lows and higher highs. This latest break to a fresh 2017 high confirms that next higher low in the 1215 area and opens an upside extension towards the 2016 peak at 1375 further up. At this point, only a break back below 1215 would compromise the constructive outlook with setbacks ideally seen well supported in the 1230s.

- **R2 1300.00** – Psychological – Strong
- **R1 1296.20** – 6Jun/**2017 high** – Strong
- **S1 1240.85** – 21Jun low – Medium
- **S2 1236.50** – 17May 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, 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. Certainly the US Dollar under pressure in 2017 is adding 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, gold may continue to find bids on risk off macro implications.

Feature – technical overview

USDZAR has been under pressure in recent weeks, though setbacks have managed to stall ahead of the 2017 low thus far. Look for a break back above 13.21 to negate the bearish outlook and open the door for a bullish resumption.

- **R2 13.21** – 31May high – Strong
- **R1 12.96** – 9Jun high – Medium
- **S1 12.55** – 14Jun low – Medium
- **S2 12.31** – 27Mar/**2017 low** – Strong

Feature – fundamental overview

The local market is waiting for today's South African Constitutional Court ruling on whether or not there can be a secret no confidence vote against Zuma. The last time this came up, the Rand rallied on hopes the vote would result in new leadership steering the economy in a better direction. Overall, the South African Rand has done a good job holding up when considering ongoing domestic woes including a prosecutor report critical of the SARB, regulatory dispute between miners and the government, and a Moody's downgrade. But it seems these troubling fundamentals coupled with last week's more hawkish Fed decision are starting to get the better of the Rand, with the greater risk from here for renewed weakness. Remember, US equities are also exceptionally elevated and at risk for capitulation, yet another risk that could expose the emerging market currency to additional pressure.