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Global FX Insights

by LMAX Exchange Research & Analytics

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The US Dollar weakness at the start of 2017 had been attributed mostly to profit taking on Dollar longs. But as the days go by, the continued Dollar weakness has been building momentum, as more legitimate fundamental drivers are assigned to the price action, namely details the market has been getting from the Trump government.

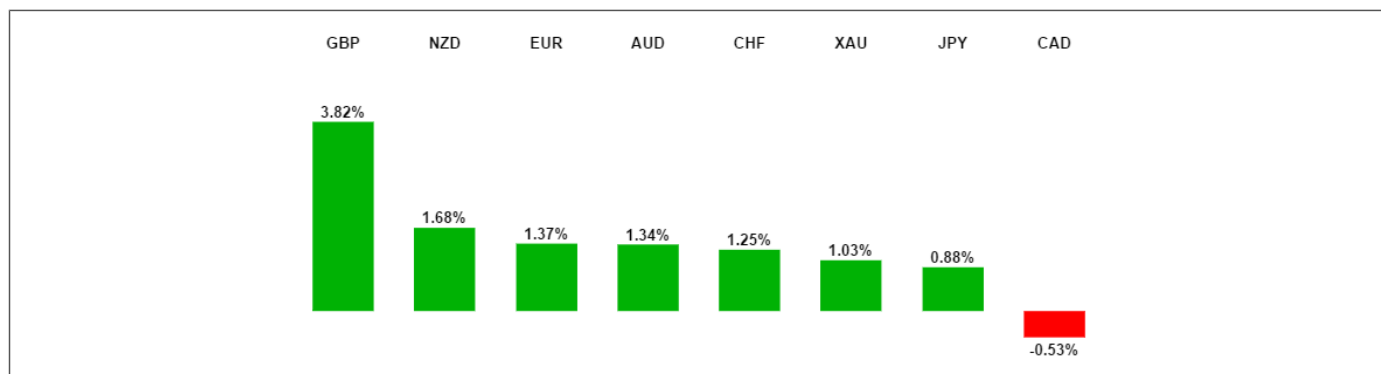
Technical highlights 📺 [Daily Video](#)

- **EURUSD** Approaching key level
- **GBPUSD** Attempting recovery
- **USDJPY** Room for deeper drop
- **EURCHF** Downtrend intact
- **AUDUSD** Upside limited
- **USDCAD** Dips well supported
- **NZDUSD** Running out of room
- **US SPX 500** Waiting for next break
- **GOLD** (spot) Focused on topside
- **Feature** – USDTRY Unwinding

Fundamental highlights

- **EURUSD** Eurozone, Germany manufacturing PMIs
- **GBPUSD** UK court to rule on Article 50 process
- **USDJPY** Mnuchin comments on strong US Dollar
- **EURCHF** SNB activity necessary in risk off market
- **AUDUSD** Surging iron ore futures give added boost
- **USDCAD** Jared Kushner travels to talk with Canada
- **NZDUSD** Solid Kiwi performance of services data
- **US SPX 500** Fading incentive to be long risk
- **GOLD** (spot) Reflation repricing fuels metal
- **Feature** – USDTRY All eyes on CBRT decision

Five day performance v. US dollar



Suggested reading

- **Rising Risk of Central Bank Instability**, M. El-Erian, Bloomberg (January 23, 2017)
- **Rare Signatures**, J. Hussman, Hussman Funds (January 23, 2017)

EURUSD – technical overview

Despite the current push higher, the major pair remains confined to a broader downtrend holding below the 1.0875 December peak, which also coincides with the top of the daily Ichimoku cloud. Look for the topside run to stall out somewhere in the 1.0800 area, with only a clear break back above 1.0875 to compromise the bearish outlook. The key level to watch below is 1.0580, with a daily close below to suggest the market is ready to resume its longer-term decline.



- R2 1.0797 – 5Dec high – Strong
- R1 1.0774 – 24Jan high – Medium
- S1 1.0695 – 23Jan low – Medium
- S2 1.0590 – 19Jan low – Strong

EURUSD – fundamental overview

More gains for the Euro in the early week as the market continues to sell the US Dollar on Trump protectionism talk. Treasury Secretary nominee Steve Mnuchin could also be contributing to negative USD sentiment into Tuesday following his written response to questions from his hearing. In one of his responses, Mnuchin commented on the US Dollar saying “from time to time, an excessively strong dollar may have negative short-term implications on the economy.” As far as the Euro side of the equation goes, there hasn’t been much going on since last week’s ECB decision which came in as expected. Looking ahead, today’s economic calendar features are Eurozone and German manufacturing PMIs and US existing home sales. But the market will likely continue to place its focus on the political, with the UK court ruling on Brexit and more headlines out of Washington taking centre stage.

GBPUSD – technical overview

Inability to establish below 1.2000 followed by this latest intense push back above 1.2300 suggests the market could be in the process of establishing a longer-term base off the +30 year low from October 2016 at 1.1840. Look for a daily close back above 1.2500 to strengthen this outlook. Ultimately however, we would need to see a clear break above 1.2800 to officially signal a more significant shift in the structure.



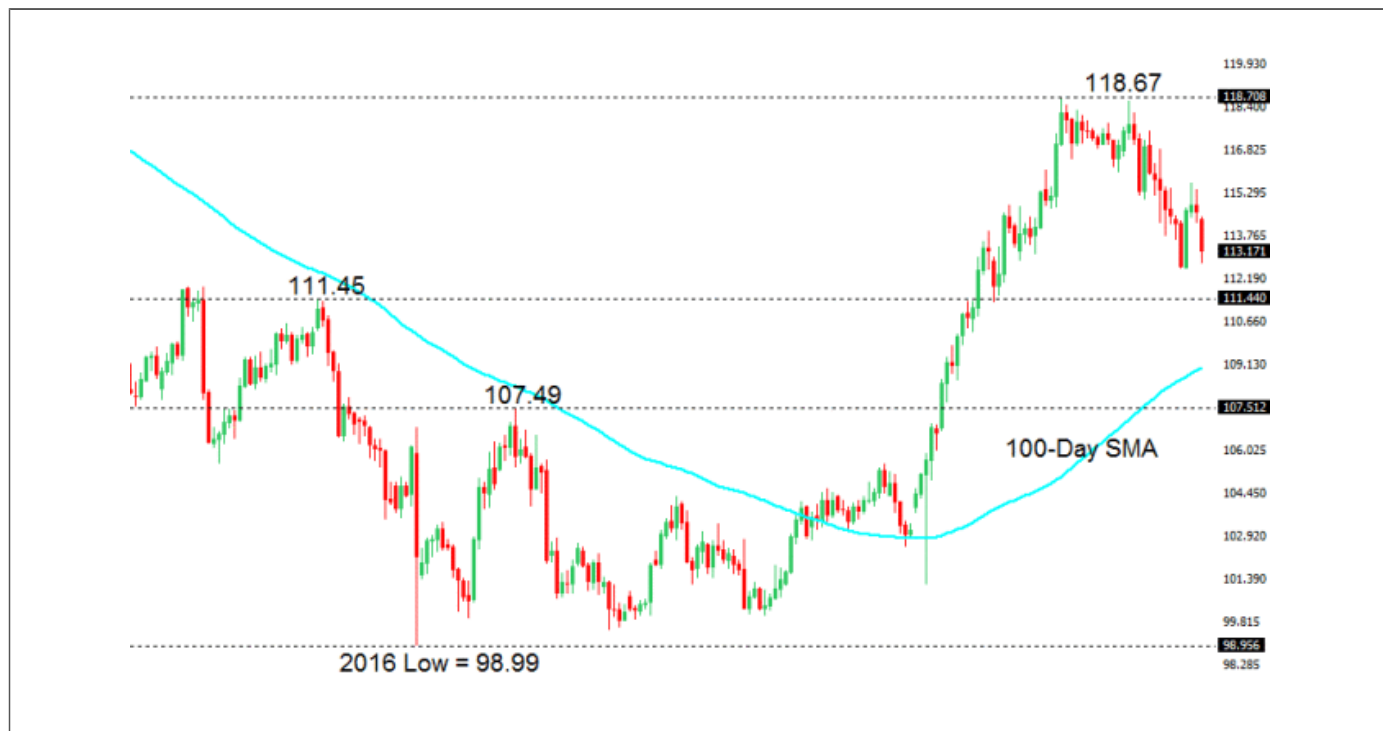
- R2 1.2568 – 15Dec high – Strong
- R1 1.2545 – 24Jan high– Medium
- S1 1.2370 – 23Jan low – Medium
- S2 1.2253 – 19Jan low – Strong

GBPUSD – fundamental overview

This morning the UK Supreme Court will rule on the government’s appeal as to whether Parliament needs to be involved in the process of triggering Article 50. It is believed that the court will uphold the initial ruling which should be Sterling supportive as it increases odds for a softer Brexit. The Pound continues to outperform over the past week as market participants consider the possibility of a more palatable exit from the EU. But of course, a broad based wave of US Dollar declines on Trump protectionism talk has also contributed to the Pound’s recovery. Meanwhile, UK data has been solid in 2017. Looking ahead, all eyes will be on the court ruling and for any new headlines out of Washington. On the data front, we get UK public finances and US existing home sales.

USDJPY – technical overview

Daily studies have been unwinding from stretched levels which suggests additional upside could still be limited in favour of a more significant healthy corrective pullback. The recent bearish break below 116.00 confirms and could open a deeper drop towards a previous resistance turned support level at 111.45. But ultimately, any setbacks are expected to be well supported ahead of 110.00 in favour of that next higher low and bullish resumption towards 120.00.



- R2 115.62 – 19Jan high – Medium
- R1 114.42 – 23Jan high – Medium
- S1 112.52 – 24Jan low – Medium
- S2 111.45 – Previous Support – Strong

USDJPY – fundamental overview

The Yen has been making a run in recent sessions, with the currency appreciating on the back of Trump protectionism talk and Treasury Secretary nominee Mnuchin comments on the US Dollar. In a written response to questions following his confirmation hearing, Mnuchin said that “from time to time, an excessively strong dollar may have negative short-term implications on the economy.” We’ve also been seeing the emergence of some risk off flow in markets, which is shaking equity markets a little bit, opening another bout of Yen demand on its traditional correlation with flight to safety bids. Bottom line right now is that we are seeing an unwinding of Trump reflationary bets that had been supporting the Dollar in late 2016. At this stage it’s too early to tell exactly what policies we will get from the US administration, but the market has been adjusting its view. Looking ahead, the focus will be on risk associated with the UK court Brexit decision and ongoing headlines out of Washington. On the data front, US existing home sales is the only notable standout.

EURCHF – technical overview

A recent close below 1.0800 which had been defined as the bottom of a multi-week range strengthens the bearish outlook and opens the door for additional declines towards the 2016 low at 1.0624. At this point, a daily close back above 1.0900 would be required to take the immediate pressure off the downside.



- R2 1.0900 – 8Dec high – Strong
- R1 1.0763 – 30Dec high – Strong
- S1 1.0675 – 2Jan low – Strong
- S2 1.0624 – 24Jun/2016 low – Strong

EURCHF – fundamental overview

Though you wouldn't necessarily know it from looking at the EURCHF rate, 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 through monetary policy and intervention tools. Though despite all efforts, the Franc continues to want to appreciate. It seems the central bank's strategy has been to buy Euro 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 is still not depreciating as much as the SNB would like to see. And if global equities begin to falter, it could invite a wave of demand for the Franc that the SNB will have a very hard time offsetting.

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.



- R2 0.7630 – 11Nov high – Medium
- R1 0.7589 – 20Jan high – Medium
- S1 0.7494 – 19Jan low – Medium
- S2 0.7430 – 12Jan low – Strong

AUDUSD – fundamental overview

The Australian Dollar has been holding up thus far in 2017, with the currency trying to establish back above 0.7500 against the US Dollar. The primary driver of Aussie gains is actually US Dollar weakness, with the market selling the Buck on early indications out from the Trump government that its focus will be on protectionism. This translates into a repricing of the reflation trade that had been so supportive of the US Dollar in 2016 on the expectation Trump would prioritise tax cuts and fiscal stimulus. Another prop for Aussie this week has been the +4% surge in iron ore futures. Looking ahead, Brexit risk, headlines from Washington and US existing home sales are the key standouts.

USDCAD – technical overview

The market has done a good job absorbing an intense round of setbacks in early 2017. It continues to look like the pair is in the process of carving out a longer-term base off the 1.2461, 2016 low. Look for any additional weakness to be supported on a daily close basis above 1.3000 in favour of the next major upside extension towards a measured move objective into the 1.4000 area. Ultimately, only a daily close below 1.3000 would delay the constructive outlook.



- R2 1.3388 – 20Jan high – Strong
- R1 1.3335 – 23Jan high – Medium
- S1 1.3213 – 24Jan low – Medium
- S2 1.3190 – 17Jan high – Strong

USDCAD – fundamental overview

The Canadian Dollar has settled down following last week’s intense declines, primarily on the back of a downbeat and cautious Bank of Canada, but also hurt on softer first tier data including CPI and retail sales. But with the focus shifting back to the macro drivers and negative US Dollar sentiment on Trump protectionism talk, the Loonie is once again finding bids. Trump has said he will be looking to negotiate NAFTA, something that will have a direct impact on the US-Canada relationship, though at this stage it’s too early to make any calls. Looking ahead, US existing home sales is the key standout on today’s economic calendar. Still, the market will continue to watch headlines emerging from the political sphere. Trump’s senior advisor is up in Canada today to hold talks.

NZDUSD – technical overview

Despite this latest upside correction, the overall pressure remains on the downside with the market expected to be very well capped on rallies ahead of 0.7300. 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 stall out over the coming sessions in favour of that next lower top. Back below 0.7076 will help strengthen this outlook.



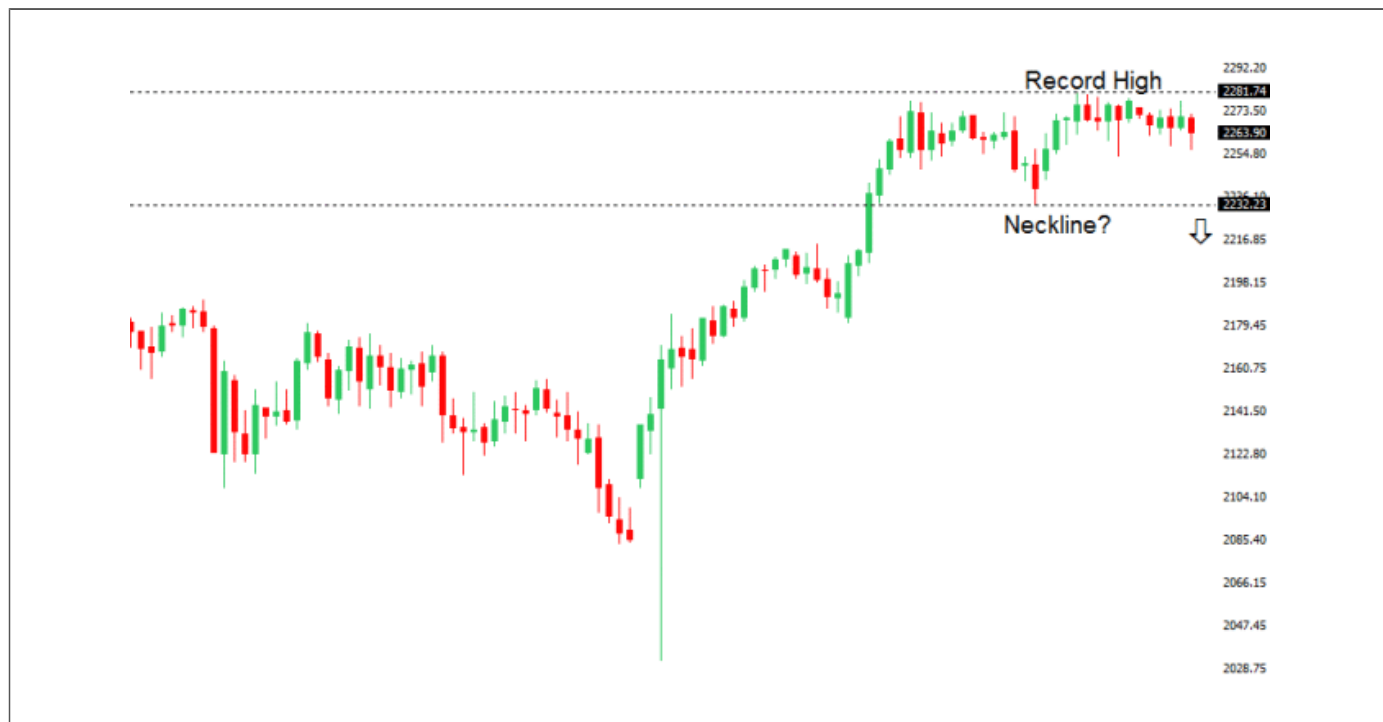
- R2 0.7239 – 14Dec high – Strong
- R1 0.7228 – 23Jan high – Medium
- S1 0.7117 – 19Jan low – Medium
- S2 0.7076 – 16Jan low – Strong

NZDUSD – fundamental overview

The New Zealand Dollar has been riding the wave of US Dollar weakness as Trump focuses more on protectionism in his early days, triggering an unwinding of the USD bullish reflation trade. Meanwhile, a better than expected New Zealand performance of services print has also contributed to some of Kiwi demand in early Tuesday trade. Still, overall, medium-term players continue to look for opportunities to sell Kiwi into rallies. Concerns over the impact of the Trump presidency on the commodity bloc currencies, fear of a slower China, worry over a potential bubble in equity markets, systemic risk associated with a hard Brexit, a hawkish Fed policy trajectory, and RBNZ unlikely to be pleased with this run of Kiwi strength are all negatives for the local currency. Another Kiwi negative driver in 2017 has been talk of AUDNZD related interest with this market showing signs of recovery off longer-term cyclical lows. Looking ahead, Kiwi traders will want to focus on risk associated with the UK court ruling on the triggering of Article 50, headlines out of Washington and US existing home sales.

US SPX 500 – technical overview

Although the market has been consolidating just off its recent record peak and risk remains for a fresh upside break through 2300, signs of trend exhaustion have also emerged. But ultimately, any topside failure will need to be met with a break back below what could be a double top neckline at 2232, to officially alleviate topside pressure and encourage the possibility for a bearish structural shift.



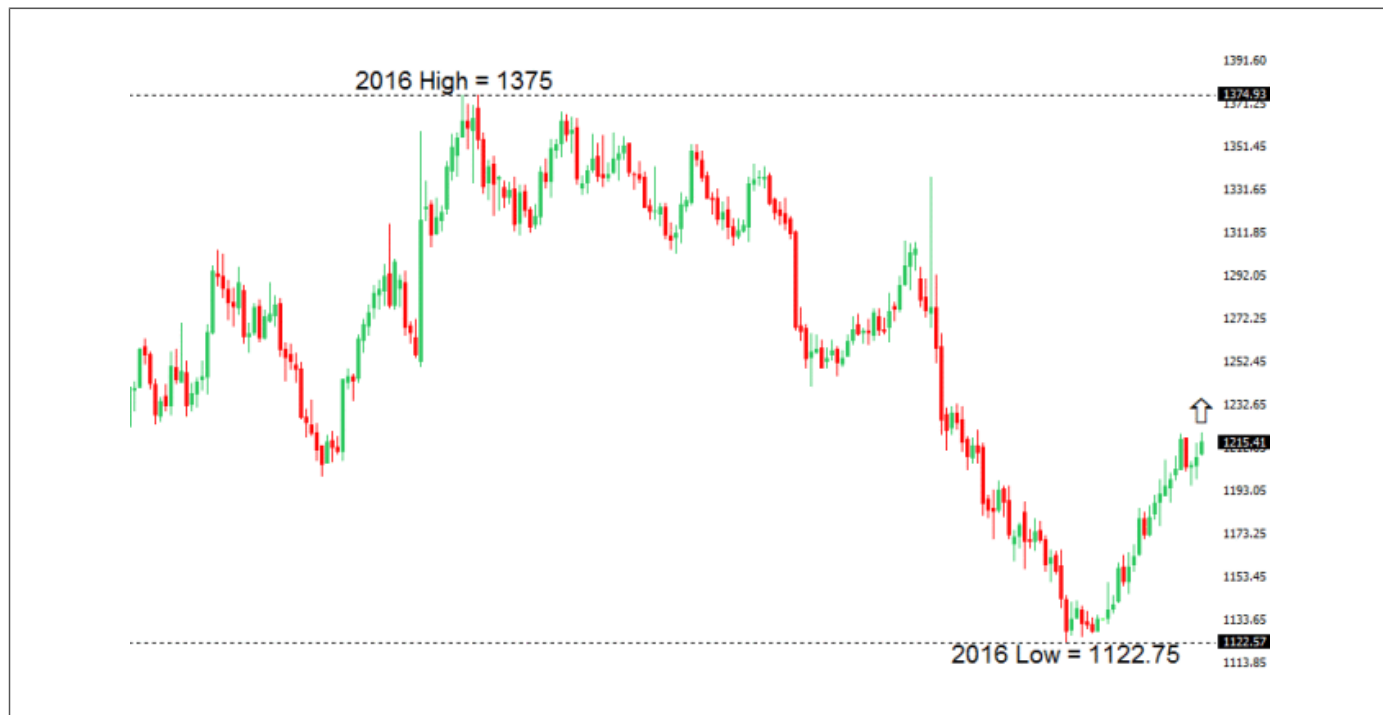
- R2 2300.00 – Psychological – Strong
- R1 2282.00 – 6Jan/Record high – Medium
- S1 2232.00 – 30Dec low – Strong
- S2 2180.00 – 5Dec low – Strong

US SPX 500 – fundamental overview

The ongoing support for 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 likely to bring in protectionist policies that threaten prospects for global growth. This leaves financial markets vulnerable to any shocks and exposed to intense periods of additional risk liquidation going forward, especially at a time when monetary policy around the rest of the globe is exhausted with very little left in the tank to artificially support risk assets.

GOLD (SPOT) – technical overview

The market has bounced out from critical 1120 area support in the form of a 78.6% fib retracement off of the 2015-2016 low-high move, with the hold above this level keeping the longer-term basing outlook intact. Daily studies are confirming, looking increasingly constructive. The recent daily close above 1200 strengthens the bullish shift in structure and opens the door for a push back towards the 2016 peak at 1375 in the weeks ahead. Any dips from here should be well supported ahead of 1160, with only a break back below 1120 to negate.



- R2 1233.10 – 16Nov high – Strong
- R1 1221.10 – 22Nov high – Medium
- S1 1187.95 – 13Jan low – Medium
- S2 1177.20 – 11Jan low – Strong

GOLD (SPOT) – fundamental overview

Solid demand from medium and longer-term players continues to emerge despite an intense round of setbacks in late 2016, with these players more concerned about the limitations of exhausted monetary policy, extended global equities 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. Certainly this latest wave of broad based US Dollar selling in reaction to fear of US protectionist policy has also been helping to drive the metal higher in 2017 as the market reprices reflation trade bets.

Feature – technical overview

USDTRY has exploded to the topside in 2017, with the market extending its violent run of fresh record highs, closing in on critical psychological barriers at 4.0000. The parabolic price action has however inspired the onset of a necessary corrective pullback to allow for severely stretched studies to unwind. The market is super extended across the major time frames, with the weekly and monthly charts severely overbought. A break and close back below 3.7000 will likely trigger a more significant correction.



- R2 4.0000 – Psychological – Strong
- R1 3.9410 – 11Jan/Record High – Medium
- S1 3.7200 – 13Jan low – Medium
- S2 3.7000 – Psychological – Strong

Feature – fundamental overview

A Turkish government and central bank that were more cavalier with the +20% collapse in the Lira in 2016 have been reconsidering their stance in 2017 after the currency fell by as much as another 10% this month. It started with Erdogan’s attack on US Dollar bulls, aliking them to terrorists and has been followed up by a series of CBRT actions to counter Lira depreciation. Latest efforts to defend the Lira include comments from FinMin Simsek that the government is not indifferent to the Lira’s moves, and cancellations of the 1-week repo funding window. All of this certainly suggests the CBRT could be aggressive at today’s meeting, which would appear to be the next necessary step for the Lira to have any chance of avoiding another major slide, particularly with the Fed maintaining a hawkish policy trajectory. Fifteen out of 18 economists polled by Reuters are looking for a CBRT hike today, with 9 of those calling for a 50bp hike. However, these calls take into account the fact that Erdogan has not been supportive of such tightenings given the strain on the economy, which means the market thinks the CBRT should be doing something a lot more aggressive, probably to the tune of 100-150bps of hikes.



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