

# Global FX Insights

by LMAX Exchange Research & Analytics

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

## US Tax Reform and Trade Policy in Spotlight [Wake-up Call](#)

Markets have been moving in many directions this week, with traditional correlations less relevant in the face of various risks, or the mitigation thereof, that have been regional and sector specific. For today, it will probably be the US administration's tax reforms and talk on trade that generate the most buzz.

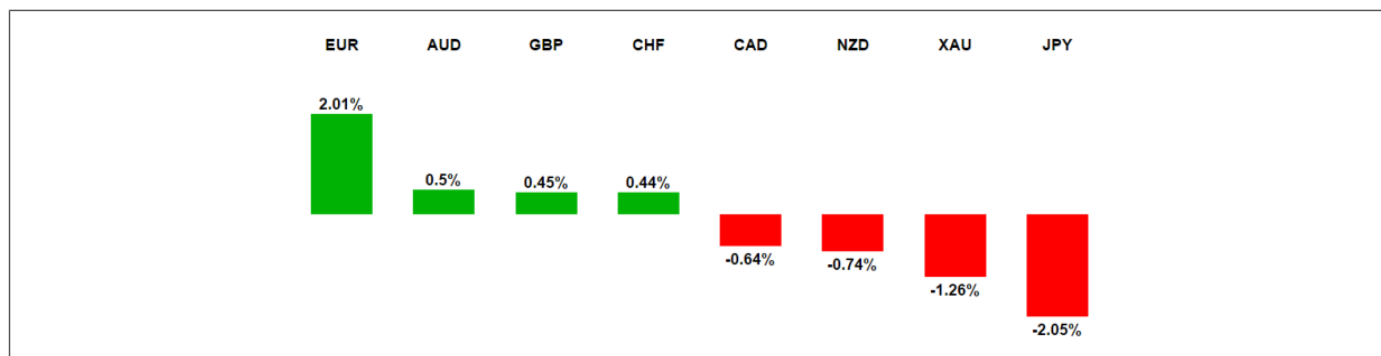
### Technical highlights [Daily Video](#)

- **EURUSD** Making case for bullish break
- **GBPUSD** Sideways for the moment
- **USDJPY** Scope for fresh lower top
- **EURCHF** Rally corrective below 1.0900
- **AUDUSD** Stiff resistance up above
- **USDCAD** Thinking about next big push
- **NZDUSD** Gravitating to major support
- **US SPX 500** Back to record highs
- **GOLD** (spot) Dips to be supported
- **Feature** – USDTRY Sideways for now

### Fundamental highlights

- **EURUSD** ECB positioning to factor into Wednesday
- **GBPUSD** Pound vulnerable after positive risk priced
- **USDJPY** Yen weakness directly tied to US stock surge
- **EURCHF** SNB breathing easier but still in danger
- **AUDUSD** Aussie CPI offset but RBA trimmed mean
- **USDCAD** Conciliatory talks stall sinking Loonie
- **NZDUSD** Kiwi flounders despite supportive themes
- **US SPX 500** Stocks up on global Macron play
- **GOLD** (spot) Metal stumbles but outlook constructive
- **Feature** – USDTRY CBRT policy decision on tap

## Five day performance v. US dollar

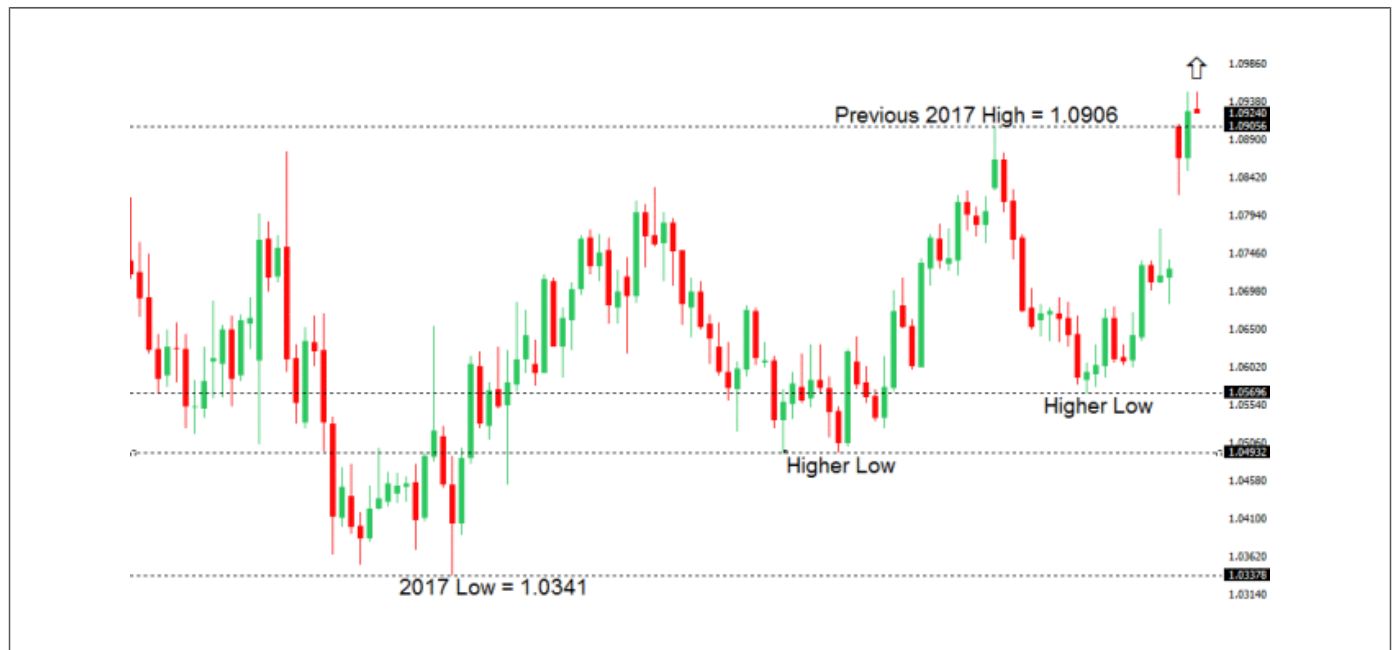


## Suggested reading

- **[The Truth About Earnings and Stock Valuations](#)**, N. Kaissar, Bloomberg (April 24, 2017)
- **['Alt' Data in Emerging Markets](#)**, T. Flanagan, Markets Media (April 18, 2017)

## EURUSD – technical overview

The market has now cleared major resistance at 1.0906, breaking to a fresh 2017 high, while confirming a higher low at 1.0570. The break strengthens the case for a major bottom and opens the next upside extension towards the 1.1400 area. Setbacks should be very well supported, with only a break back below 1.0570 to compromise the constructive outlook.



- R2 1.1000 – Psychological – Strong
- R1 1.0951 – 26Apr/2017 high – Medium
- S1 1.0821 – 24Apr low – Medium
- S2 1.0738 – 21Apr low – Strong

## EURUSD – fundamental overview

The Euro has extended its run in 2017 to fresh yearly highs and this latest push could be the start to an even bigger move with Eurozone political risk out of the way in France, many speculating the ECB could be getting ready to lean more hawkish and the US administration’s soft US Dollar protectionist policy coming into play. The market is however also expecting detail on the US governments tax reform plan today, which would be US Dollar supportive if it delivers as promised, though that remains to be seen. Otherwise, the Euro will monitor risk sentiment while positioning into tomorrow’s ECB decision. There is no first tier data scheduled on either the Eurozone or US calendar today.

## 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

Things have been very quiet with the Pound since last week's rocket in the currency through major barriers at 1.2775 which could now be paving the way for a bigger move as locals start to feel better about the outlook for the economy after the June election which is expected to result in a more cohesive May government that will allow the PM to focus her energies on negotiating Brexit with the EU without needing to be distracted by infighting within her own government. Meanwhile, US protectionism has been a big negative for the US Dollar and the combination of these two themes have been helping out the Pound. Market participants are more inclined to diversify back into the major currency with the Pound having been so beaten up and looking like it could finally be on the mend. Of course, there are many bumps expected going forward. The election has yet to happen, negotiations with the EU won't be easy, and the US administration is also looking to offer more colour on its tax reform plan that would be US Dollar supportive. Last week's dreadful UK retail sales should also not be forgotten, though for today, the economic calendar is empty, both in the UK and US.

## 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 the next major downside extension towards a 400 point measured move that targets 107.60 in the sessions ahead. As such, look for the current rally to be well capped ahead of 112.20 in favour of a lower top and bearish resumption, with only a break back above 112.20 to take the immediate pressure off the downside.



- R2 112.20 – 31Mar high– Strong
- R1 111.58 – 10Apr high – Medium
- S1 111.00 – Figure – Medium
- S2 109.60 – 25Apr low – Strong

## USDJPY – fundamental overview

All of the moves in the Yen right now are directly correlating with the market’s risk appetite. And so, with US equities leading the charge back to record highs, the market is once again selling Yen, even in the face of impressive rallies in the other major currencies against the Buck. So looking ahead, if US equities continue to push, expect the Yen to inversely correlated (USDJPY higher). There has been some concern over US protectionism and trade wars following US imposed tariffs on Canada on Tuesday, though this concern hasn’t translated into a stronger Yen on the soft Dollar policy that would come from the protectionism. Instead, it’s all about risk sentiment right now. Later today, we should get more details on US trade along with an update on US tax reform which is widely considered to be US Dollar supportive if delivered as expected. There is no first tier data scheduled for the remainder of the day, leaving the Yen to focus on sentiment and perhaps start thinking about tomorrow’s BOJ decision.

## 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 rallies have stalled above 1.0800 and a fresh medium-term lower top is sought below 1.0900 ahead of the next major downside extension through the 2016 base at 1.0624 and towards 1.0400 further down. Ultimately, only back above 1.0900 would negate the overall bearish outlook.



- R2 1.0900 – 8Dec high– Strong
- R1 1.0870 – 25Apr/2017 high – Medium
- S1 1.0722 – 20Apr high – Medium
- S2 1.0624 – 24Jun/2016 low – Strong

## EURCHF – fundamental overview

There is no doubt that among those who have been celebrating the results of the weekend election in France, officials at the SNB have to be right up there. The SNB has been battling the market for months in an effort to prevent the Franc from appreciating, seemingly drawing an unofficial line in the sand around EURCHF 1.0600. The SNB’s efforts have been met with an aggressive wave of consistent demand for the safe haven Franc, despite the incredible disincentive of negative rates. But the Macron victory has reduced quite a bit of risk in the Eurozone this week, helping to drive the Euro higher as many market participants feel better about moving back into the Euro and using it as a legitimate funding currency. The EURCHF rate has pushed to a fresh 2017 high and will be looking to see if it can overcome a key obstacle at 1.0900. Still, while the SNB can relax a little, it shouldn’t relax too much as the threat of a highly extended global equity market that could be inching closer to a major capitulation, should be keeping the central bank on high alert. If such an event were to occur, it would be difficult to see a scenario where the SNB could fight against such widespread demand for the Franc.

## 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.



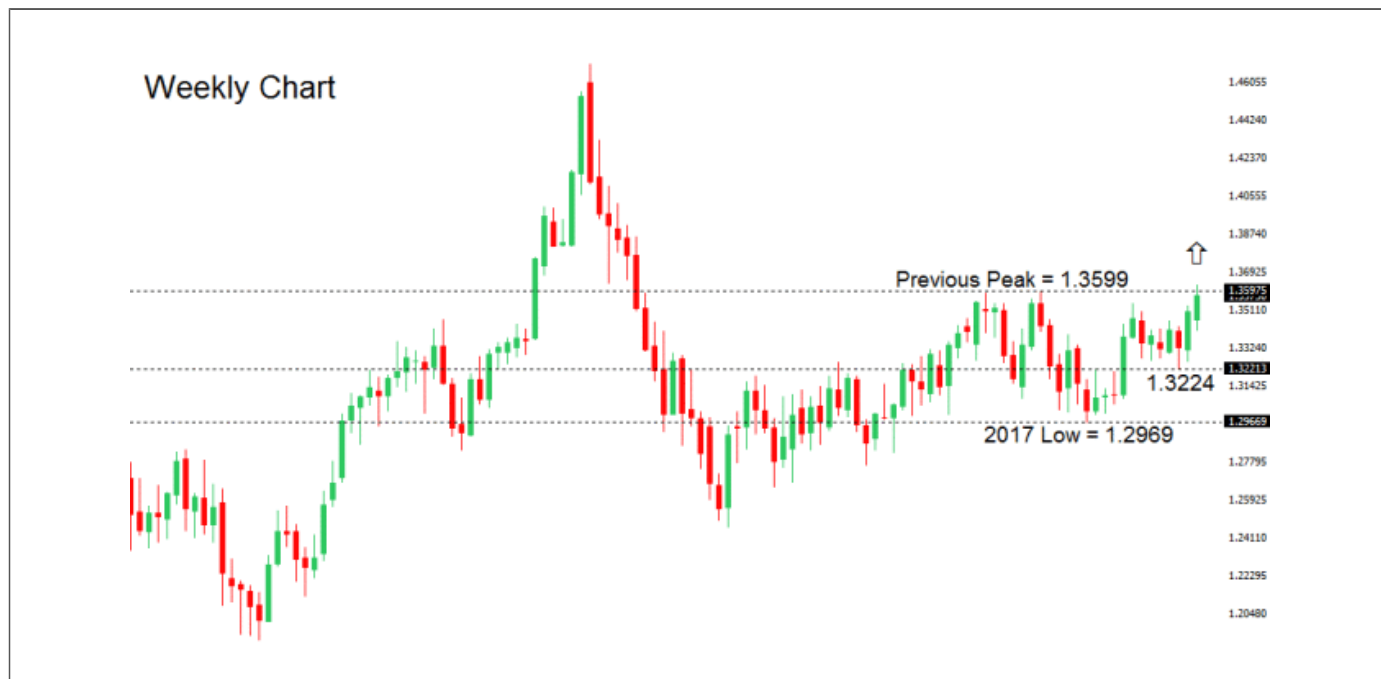
- R2 0.7611 – 17Apr high – Strong
- R1 0.7600 – Figure – Medium
- S1 0.7500 – Figure – Medium
- S2 0.7475 – 11Apr low – Strong

## AUDUSD – fundamental overview

Australia CPI readings came in on the softer side early Wednesday, adding some more to downside pressure that we've been seeing on the commodity currency despite gains in the Euro and Pound and despite another charge in US equities to record highs. Commodity price declines and worry over the impact of US protectionism and trade wars, which could also be Aussie supportive have been offsetting any such flow reflecting quite a bit of distress. On the brighter side, the RBA's trimmed mean came in at 1.9%, above the 1.8% expected. However, the trimmed mean was still shy of the important 2% handle. On a relative basis, it is worth noting that despite recent weakness, Aussie has managed to outperform its commodity currency cousins, up a good amount over the past week against both Kiwi and Cad. Looking ahead, absence of first tier data will leave the focus will be on US tax reform and US trade.

## USDCAD – technical overview

The uptrend in this market remains firmly intact, getting added confirmation following this latest break to fresh 2017 highs and also through a key peak from December 2016 at 1.3600. Any setbacks should now be very well supported above 1.3200 on a daily close basis in favour of an eventual push towards the next measured move upside extension objective in the 1.4000 area. Ultimately, only back below 1.3200 would give reason for pause and delay the constructive outlook.



- R2 1.3700 – Figure – Strong
- R1 1.3621 – 25Apr/2017 high – Medium
- S1 1.3493 – 25Apr low – Medium
- S2 1.3411 – 24Apr low – Strong

## USDCAD – fundamental overview

There has been some conciliatory talk between the US and Canada following Tuesday’s news of the US imposing tariffs on its neighbor to the north, though ultimately, it hasn’t been a fun time for the Loonie, dealing with this stress along with falling commodities prices, highlighted by the recent decline in the price of OIL. Even the US Dollar weakness against the Euro and Pound and a push back to record highs in US stocks have failed to inspire Loonie demand from the USD bearish, risk positive flow. Looking ahead, absence of first tier data will put all of the attention on US policy updates with tax reform and trade in the spotlight. Of course, OIL price action will also be monitored closely.

## 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 0.7100 compromises the outlook.



- R2 0.7000 – Psychological – Strong
- R1 0.6956 – 26Apr high – Medium
- S1 0.6900 – Figure – Medium
- S2 0.6862 – 23Dec low – Strong

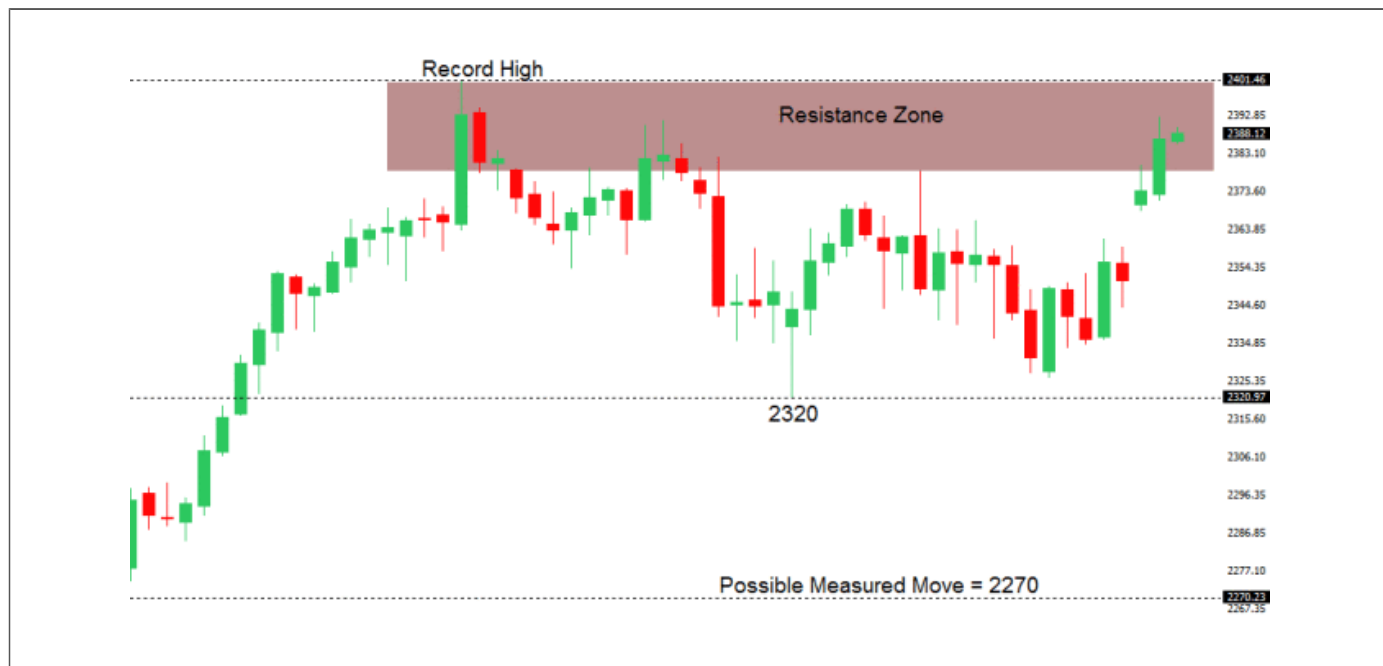
## NZDUSD – fundamental overview

The New Zealand Dollar has come under quite a bit of pressure this week, with setbacks in commodities and worry over the implications of protectionist US policy more than offsetting any demand from the soft USD implication of such policy. The setbacks have also come at a time when Kiwi would normally be supported on drivers like a rally in the major currencies against the Buck ex-Yen) and perhaps more importantly, a rally in US equities back to fresh record highs. Meanwhile, there has been strong cross related selling against the Australian Dollar this week, with the pop in the AUDNZD rate further contributing to Kiwi declines. Looking ahead, absence of first tier data will put all of the attention on US policy updates with tax reform and trade in the spotlight. Of course, OIL price action will also be monitored closely.



## US SPX 500 – technical overview

The market was unable to break down below major support at 2320, leaving the pressure on the topside and opening the door for this latest run back to record highs. At this point, a push through 2400 will open the door for the next major upside extension towards 2500, while at a minimum, a break back below 2368 would be required to alleviate immediate topside pressure.



- R2 2402.00 – 1Mar/Record high – Strong
- R1 2393.00 – 25Apr high – Medium
- S1 2368.00 – 24Apr low – Medium
- S2 2321.00 – 27Mar low – Strong

## US SPX 500 – fundamental overview

Bulls remain in firm control despite the emergence of 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 sup-par Goldman Sachs earnings are only increasing stress. 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. But again, for now, only tiny cracks, with investors still comfortable playing the game of trading sideways (not down) on stress and then rallying to fresh record highs on any signs of an elimination of the stress given the artificial rate environment. Macron’s victory in the first round of the French election has significantly reduced systemic risk associated with the election and has been primarily responsible for this latest surge.

## 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 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. 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.

## 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

EM traders will be watching the Lira with interest today as the CBRT gets set for its latest policy decision. The central bank is expected to keep liquidity tight, which will add to upside pressure on short term rates and help to support the Lira. It will also be interesting to see if there is a further increase in the LLW funding rate which could inspire additional Lira demand. But overall, 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. Of course, going forward, 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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