Wednesday, July 26, 2017

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Will the Fed Encourage More USD Declines? Wake-up Call

There has been no sign of any material shift in market momentum ahead of today's anticipated FOMC decision, with the US Dollar sitting at multi-month lows and US equities continuing to push to record highs. UK GDP is also out today and should not be overlooked.

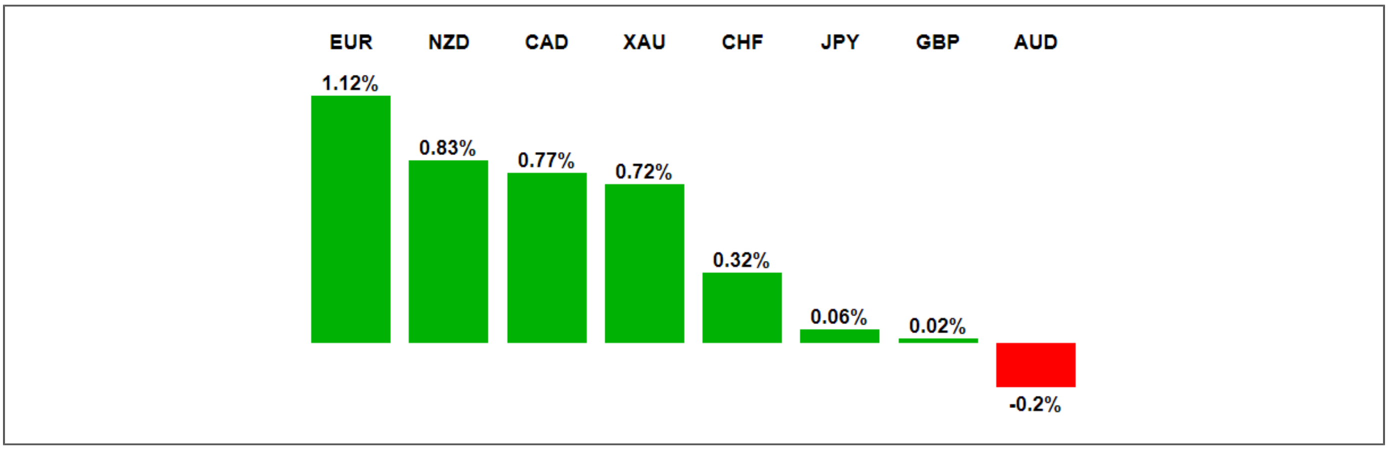
Technical highlights Daily Video

- **EURUSD** Runs up to major range high
- **GBPUSD** Uncomfortable above 1.3000
- **USDJPY** Pressure remains on downside
- **EURCHF** Racing towards 1.1200 barrier
- **AUDUSD** Struggles ahead of 0.8000
- **USDCAD** Daily studies highly oversold
- **NZDUSD** Well capped ahead of 0.7500
- **US SPX 500** Uptrend firmly intact
- **GOLD** (spot) Setbacks well supported
- **Feature** – USDZAR Room to push higher

Fundamental highlights

- **EURUSD** Another record print for German IFO
- **GBPUSD** Pound gets ready to take in UK GDP data
- **USDJPY** Policy divergence back on traders' minds
- **EURCHF** SNB benefiting from market conditions
- **AUDUSD** Aussie CPI and RBA Lowe speak digested
- **USDCAD** Fitch reaffirms Canada's AAA rating
- **NZDUSD** RBNZ McDermott welcomes lower Kiwi
- **US SPX 500** Stocks look for dovish Fed statement
- **GOLD** (spot) Macro drivers continue to prop metal
- **Feature** – USDZAR Rand looking more vulnerable

Five day performance v. US dollar



Suggested reading

- **Deciphering China's Economic Resilience**, S. Roach, **Project Syndicate** (July 25, 2017)
- **Gilts Can Relax**, M. Ashworth, **Bloomberg Gadfly** (July 25, 2017)

EURUSD – technical overview

This run of 2017 highs has finally extended to the top of a longer term range dating back to 2015. This comes at a time when daily studies are looking stretched, suggesting any additional upside could be difficult, at least over the short-term, with the greater risk building for some form of a meaningful bearish reversal. Look for a daily close back under 1.1600 to strengthen short term reversal prospects.

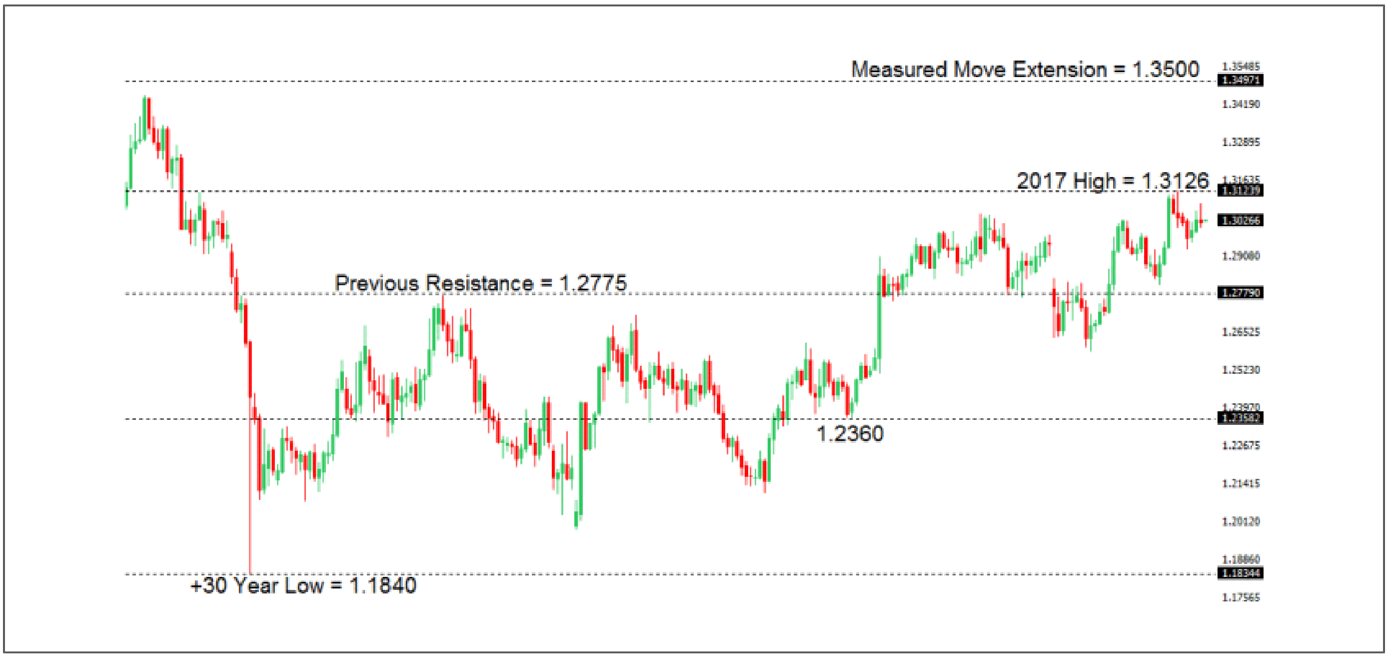
- **R2 1.1715** – **2015 high** – Very Strong
- **R1 1.1713** – 25Jul/**2017 high** – Medium
- **S1 1.1620** – 21Jul low – Medium
- **S2 1.1480** – 20Jul low – Strong

EURUSD – fundamental overview

The Euro extended its 2017 run on Tuesday, finally pushing up through that major barrier at 1.1700 to match the 2015 range high just over the figure. The German IFO print produced another record number, which helped to drive the single currency, though the stretched technicals into longer term technical resistance and positioning ahead of today's FOMC decision proved to be enough of an excuse to open a pullback into the Tuesday close. There is no Eurozone data to speak of today and whatever US data there is will take a backseat to the FOMC. While no changes are expected on policy, the accompanying statement will be what shakes things up.

GBPUSD – technical overview

Although the rate has managed to extend to a fresh 2017 high, the market continues to struggle to sustain gains beyond 1.3000. On a medium to longer-term basis, the breakout in April through 1.2775 does suggest the major pair has put in a meaningful base off the October 2016 +30 year low at 1.1840. But on a short-term basis, there is risk for a period of consolidation before that next big push and bullish continuation towards a measured move extension objective at 1.3500. Setbacks are now expected to be well supported in the 1.2700s, with only a break back below 1.2590 to compromise the constructive outlook.



- **R2 1.3126 –** 18Jul/**2017 high** – Medium
- **R1 1.3084 –** 25Jul high – Medium
- **S1 1.3000** – Psychological – Medium
- **S2 1.2933** – 20Jul low – Strong

GBPUSD – fundamental overview

The Pound is tracking a little higher on the week into Wednesday, helped along by some more broad selling in the US Dollar. There hasn't been anything to speak of on the economic data front into today, though there was a burst of intraday demand on Tuesday after President Trump tweeted about a big trade deal in the pipeline with the UK. Still, the market hasn't been feeling great about rallies above 1.3000 given last week's soft UK inflation data and ongoing worry over the Brexit outcome, while positioning into today's data and event risk has also kept the market from making any big moves. Initially, we get UK GDP results, with the highly anticipated FOMC decision following things up later in the day.

USDJPY – technical overview

The market remains confined to a multi-day range. The latest topside failure above 114.00 strengthens this outlook, leaving the door open for a drop back towards range support in the 108.00s, also coinciding with the 2017 low from April. Ultimately, it would take a clear break through 115.50 to negate this outlook and shift the focus back on the topside.

- **R2 112.87** – 17Jul high – Strong
- **R1 112.42** – 20Jul high – Medium
- **S1 111.32** – 24Jul high – Medium
- **S2 110.62** – 24Jul lowl – Strong

USDJPY – fundamental overview

No matter how much it looks like this major pair wants to break down, there appears to be an eternally persistent bid on dips, with yield differentials ultimately determining the longer term direction to continue to favour the topside. The Yen had been well bid for many sessions, but this week's dip below 111.00 had many aggressive USDJPY buyers stepping in to take advantage of the discounted price. While the US Dollar has been hurting of late on expectation for a less hawkish Fed, ultimately, the BOJ isn't going to be looking to anywhere any time soon, as most recently reflected in Tuesday's dovish BOJ Minutes, leaving the policy divergence between the Yen and US Dollar very much alive and well. Throw in the ongoing run in record stocks and the rebound in the major pair because that much easier to reconcile. Looking ahead, all of the focus for the day will be on the fallout from the Fed decision. While no change is expected on rates, the accompanying policy statement will likely offer added hints into the Fed's normalisation trajectory.

EURCHF – technical overview

The market has pushed up to a fresh 2017 high through a critical psychological barrier at 1.1000, opening the door for an extension to retest the major 2016 peak at 1.1200. Only a break back below 1.0980 would take the pressure off the topside.

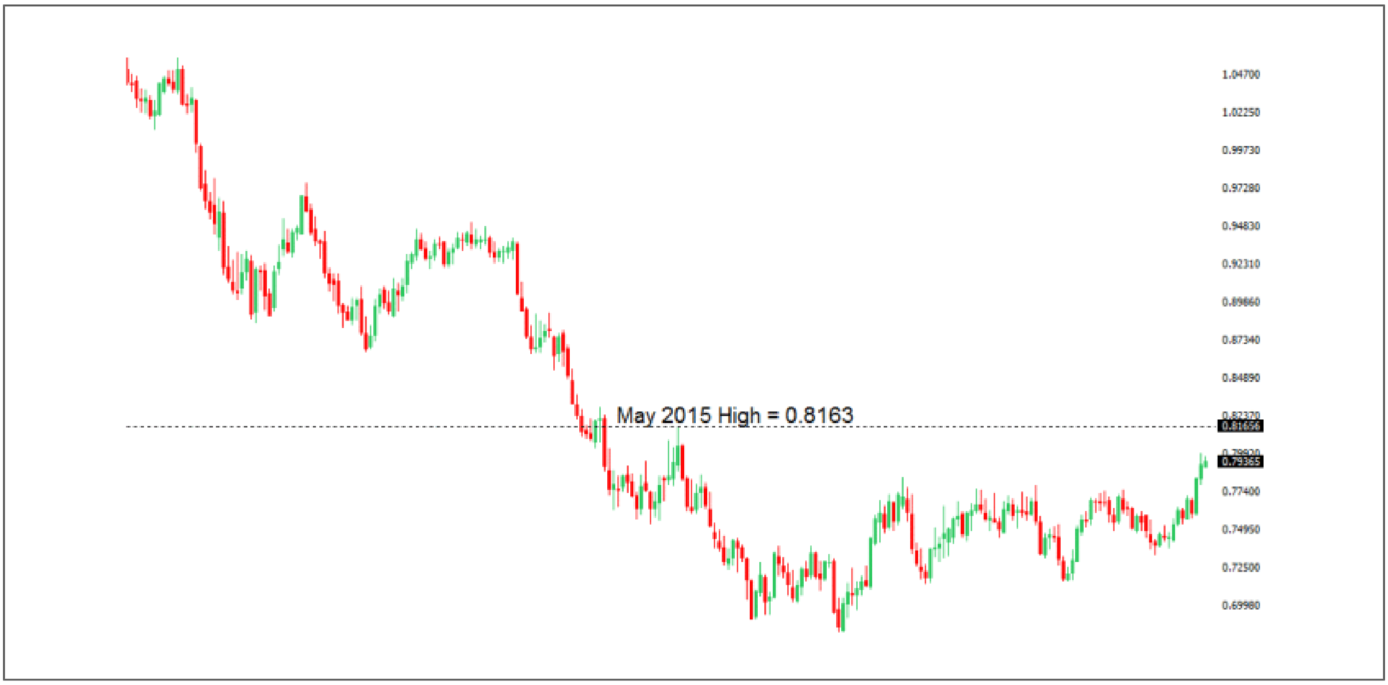
- **R2 1.1130** – May 2016 high – Strong
- **R1 1.1095** – 26Jul/**2017 high** – Medium
- **S1 1.0980** – 10Jul low – Medium
- **S2 1.0925** – 2Jul low – Strong

EURCHF – fundamental overview

Elevated risk sentiment has been a big friend to an SNB committed to doing what it can to discourage appreciation in the Franc. This, along with solid Eurozone data, hawkish ECB expectations and ongoing SNB activity have helped to push the exchange rate comfortably back above the 1.1000 psychological barrier. However, the SNB could have a much tougher battle on its hands in the days ahead if it wishes to keep the Franc from appreciating. Any capitulation in US equities is likely to rattle global sentiment and invite an intense wave of unwanted Swiss Franc demand on the safe haven flow.

AUDUSD – technical overview

The latest surge through major resistance in the 0.7800 area suggests the market could be in the process of carving out a meaningful longer-term base. The next major resistance level comes in at 0.8163, the high from May 2015. A clear break abov would confirm the bullish structural shift. However, shorter-term technicals are extended and risk is building for a healthy bearish reversal in the sessions ahead. A daily close below 0.7876 would set up this anticipated pullback.



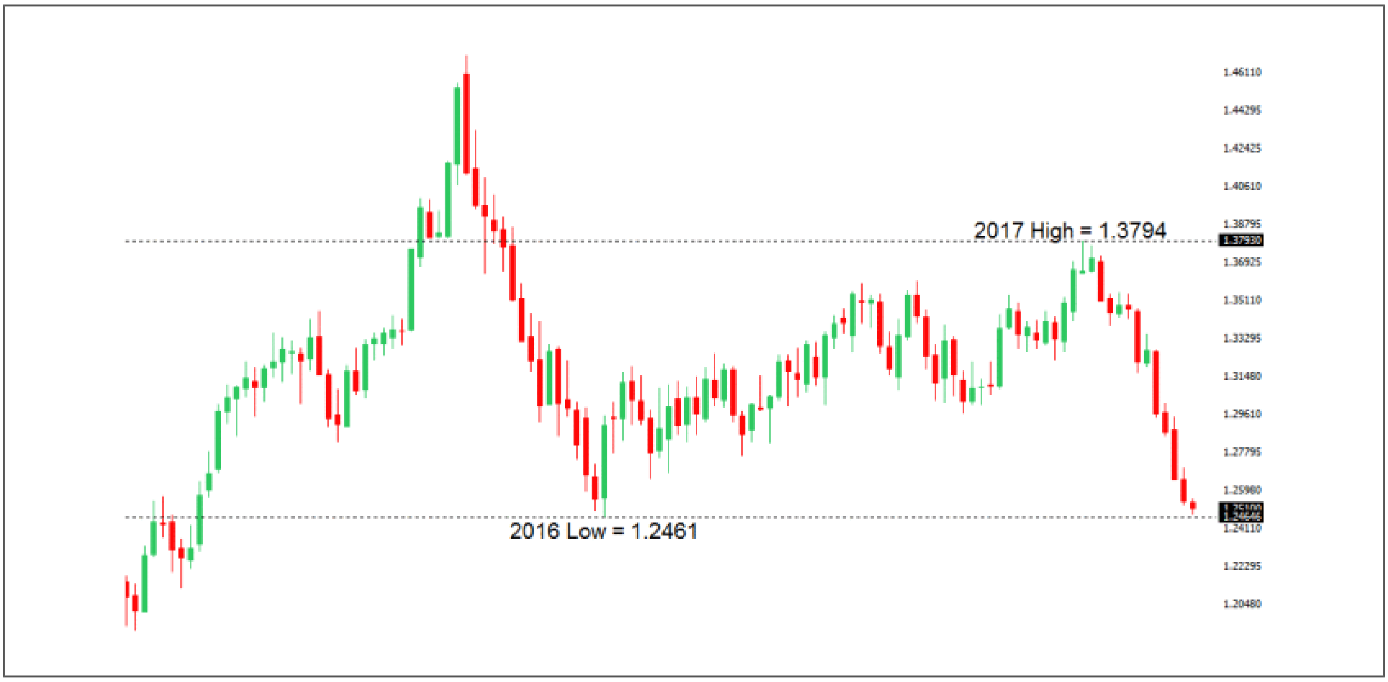
- **R2 0.8163** – May 2015 high – Very Strong
- **R1 0.0.7990 –** 20Jul/**2017 high** – Strong
- **S1 0.7876** – 21Jul low – Medium
- **S2 0.7787** – 18Jul high – Medium

AUDUSD – fundamental overview

The Australian Dollar is trading just off 2017 highs set in the previous week following an impressive run through a major resistance zone at 0.7800. But the rally has been looking tired into the new week, with decent offers emerging ahead of the 0.8000 barrier. Last Friday's dovish RBA Debelle comments have been a source of downside pressure, while the rally in the Australian Dollar itself back above the RBA's fair value level is also a source of concern. Meanwhile, inflation remains subdued, as reflected in today's Aussie CPI, yet another reason for the RBA to lean to the dovish side. The market will be wanting to see if RBA Lowe follows in Debelle's footsteps, reinforcing his deputy governor's comments, which could encourage more profit taking on longs ahead of the highly anticipated FOMC decision later today. While no change is expected on rates, the accompanying policy statement will likely offer added hints into the Fed's normalisation trajectory.

USDCAD – technical overview

There has been a clear shift in the outlook for this market over the past several days, with declines holding below 1.3000 and the market extending to a fresh 2017 low and back towards the 2016 base at 1.2461. However, technical studies are tracking in deep oversold territory, warning of the possibility for an imminent bullish reversal to allow for these studies to unwind. Look for a daily close back above 1.2700 to take the pressure off the downside and trigger such a reversal.



- **R2 1.2609** – 21Jul high – Strong
- **R1 1.2553** – 24Jul high – Medium
- **S1 1.2481** – 25Jul/**2017 low** – Medium
- **S2 1.2461 – 2016 Low– Very Strong**

USDCAD – fundamental overview

The Canadian Dollar has extended its impressive run in 2017, with the currency up nearly 10% since trading at 2017 lows in early May. The Bank of Canada's hawkish policy shift that resulted in its first rate hike in seven years comes at a time when the Fed has been sounding less hawkish, US economic data isn't pretty and the US administration continues to battle intense headwinds. Last Friday's higher core Canada inflation and much better Canada retail sales were followed up with a Canada wholesale sales beat on Monday, surging Tuesday OIL and Fitch's upbeat outlook and reaffirming of Canada's AAA rating. Looking ahead, absence of Canada data will leave the primary focus on the highly anticipated Fed decision. While no change is expected on rates, the accompanying policy statement will likely offer added hints into the Fed's normalisation trajectory.

NZDUSD – technical overview

Despite an impressive rally in recent weeks, the market remains confined to a longer-term range, with strong resistance into the 0.7400-0.7500 area. As such, look for this latest run to stall out in favour of a more pronounced bearish reversal. Only a clear break back above 0.7500 would compromise the outlook, while a daily close back below 0.7394 strengthens the bearish case.

- **R2 0.7486 – 2016 high** – Strong
- **R1 0.7459 –** 21Jul/**2017 high** – Medium
- **S1 0.7394** – 21Jul low – Medium
- **S2 0.7334** – 20Jul low– Strong

NZDUSD – fundamental overview

As much as the New Zealand Dollar has tried to extend its impressive run of 2017 highs, rallies have been well capped ahead of 0.7500. It's hard to ignore extended technicals, last week's soft Kiwi inflation data and the early Tuesday RBNZ McDermott speak in which the central banker welcomed a lower Kiwi rate to help rebalancing. Of course, the US Dollar getting hit hard across the board, US equities at record highs, commodities in recovery mode, and the US administration continuing to battle intense headwinds, have all helped to mitigate any Kiwi weakness from local developments, at least into Wednesday. New Zealand trade data did come in better than expected though there wasn't much of a reaction to the data. Looking ahead, we get the FOMC decision. While no change is expected on rates, the accompanying policy statement will likely offer added hints into the Fed's normalisation trajectory.

US SPX 500 – technical overview

The market has extended its record run, trading into a key measured move extension objective at 2480. Though this trend is quite extended, setbacks continue to be well supported on the smallest of dips and only a daily close back below 2400 would suggest the market is contemplating a possible reversal.

- **R2 2500.00** – Psychological – Strong
- **R1 2481.00** – 25Jul/**Record high** – Medium
- **S1 2450.00** – 18Jul low – Medium
- **S2 2403.00** – 31May low – Strong

US SPX 500 – fundamental overview

The US equity market has done a good job proving it can hold up into any dip and can keep pushing to record highs as it focuses on rates staying lower for longer and the Fed continuing to underdeliver on forward guidance. Janet Yellen played right into the market's hand earlier this month, when the Fed Chair's overall tone was quite a departure from the hawkish June Fed meeting message. Yellen was decidedly less hawkish in her July testimony, expressing renewed concerns about low inflation, while also adding rates would only need to go a little higher before policy was at a neutral level. Meanwhile, the market continues to shrug off a downturn in US economic data and never ending string of turbulence out of the White House. Looking ahead, today's Fed meeting is sure to have an impact, with anything that confirms a move back to the dovish side encouraging more gains to fresh record highs, while anything pushing back to the hawkish side will likely inspire an intense round of profit taking.

GOLD (SPOT) – technical overview

Setbacks have been well supported ahead of 1200, with the latest push back above 1230 setting the stage for a bullish resumption towards 1300. Only below 1200 would compromise the constructive outlook.

- **R2 1281.20** – 14Jun high – Strong
- **R1 1258.90** – 24Jul high – Medium
- **S1 1232.85** – 18Jul low – Medium
- **S2 1204.90** – 10Jul 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 exhausted monetary policy, extended global equities, political uncertainty, systemic risk and geopolitical threats. All of this should continue to keep the commodity supported around 1200, 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 will hold up on risk off macro implications.

Feature – technical overview

USDZAR is showing signs of the formation of a meaningful base since bottoming out around 12.30 earlier this year. A recent push back above 13.00 strengthens this outlook and sets the stage for a continuation of gains towards next key resistance at 13.71 further up. Any setbacks should ideally be well supported ahead of 12.55, with only a break back below this level to negate the constructive outlook.

- **R2 13.63** – 11Jul high – Strong
- **R1 13.28** – 13Jul high – Medium
- **S1 12.80** – 27Jun low – Medium
- **S2 12.55** – 14Jun low – Strong

Feature – fundamental overview

The Rand has held up exceptionally well despite last week's surprise SARB move to cut rates for the first time in 5 years. The deteriorating growth outlook had the central bank wanting to lean in this direction and an improving inflation outlook allowed the central bank to make the move. And yet, with broad US Dollar selling continuing to be a major theme and with US equities sitting at record highs, the Rand has been able to hang on, even with the lower rates. But overall, there is risk for renewed Rand downside when considering South Africa political instability including a never ending string of Zuma corruption charges, recessionary forces, yield differentials shifting in favor of the major central banks and the looming prospect for a material reversal in elevated global equities. Looking ahead, the key risk for Wednesday will come from the Fed decision.