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Global FX Insights

by LMAX Exchange Research & Analytics

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

A Shift in Mentality for FX Traders [Wake-up Call](#)

When you look at the price action since the weekly open, it might be deceptive, with the Euro having just rallied to a fresh 2017 high, but also tracking lower on the week. Of course, this is because the gap open on Monday, to the tune of about 200 points, which makes the price action much easier to reconcile.

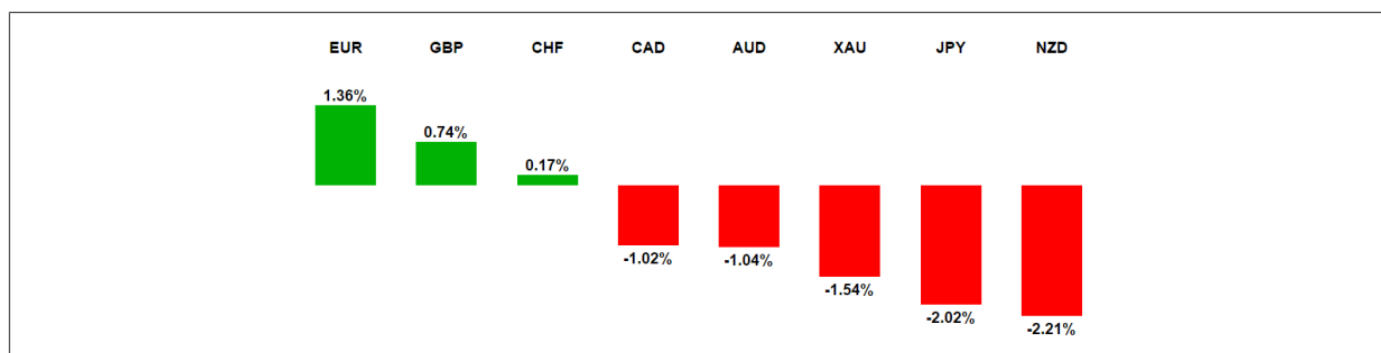
Technical highlights [Daily Video](#)

- **EURUSD** Room to fill the gap
- **GBPUSD** Looking for a higher low
- **USDJPY** Downside pressure remains
- **EURCHF** Stalls ahead of key level
- **AUDUSD** Takes out important support
- **USDCAD** Poised for push to 1.4000
- **NZDUSD** Deeper setbacks ahead
- **US SPX 500** No sign of reversal
- **GOLD** (spot) Dips should be shallow
- **Feature** – USDTRY Into range low

Fundamental highlights

- **EURUSD** Euro retreats on dovish ECB decision
- **GBPUSD** Pound's relative strength turning heads
- **USDJPY** Yen's fate tied to US equity markets
- **EURCHF** All good for SNB unless risk comes off
- **AUDUSD** Mixed data out of Australia on Friday
- **USDCAD** Loonie get no help from NAFTA news
- **NZDUSD** Kiwi clobbered on cross related selling
- **US SPX 500** Cracks show but stocks not bothered
- **GOLD** (spot) Uncertainty welcomes metal demand
- **Feature** – USDTRY Lira benefits from CBRT move

Five day performance v. US dollar



Suggested reading

- **Korea at a Turning Point**, B. Harris, Financial Times (April 27, 2017)
- **ETFs Are 'Weapons of Mass Destruction'**, C. Stein, Bloomberg (April 27, 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. On a short-term basis, there is room for a corrective decline to fill the Monday gap open, with a higher low then sought out in the 1.0700 area.



- 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

In our **special report** previewing the ECB decision, we had warned the central bank would err on the dovish side, unlikely to satisfy the appetite of Euro bulls, despite signs of economic recovery and diminished structural risk from EU positive political developments. And indeed that is how it played out, with the ECB leaving policy on hold with QE set to persist until inflation showed signs of picking up. The overall tone was dovish and while there was some upbeat talk from Draghi, his comment that tapering had not been discussed was what got the Euro moving to the downside, with profit taking kicking in following an impressive run to 2017 highs that was looking vulnerable on a short-term basis heading into the decision. Meanwhile the news that President Trump had agreed with his neighbors north and south of the US border to renegotiate NAFTA, helped to give the Buck a bit of a lift, while investors were also feeling a little more optimistic about the US administration's tax reform proposal, which in turn kept the Euro under pressure. Looking ahead, the market will take in German retail sales, Eurozone CPI, UK GDP, Canada GDP, US GDP, US core PCE and Michigan confidence.

GBPUSD – technical overview

This latest push through 1.2775, 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. The break ends a multi week consolidation mostly ranging between 1.2000-1.2700 with the bullish move paving the way for a measured moved upside extension equal in size back into the 1.3500 area in the days ahead. Still, there is rise for a short-term pullback, though any declines are now classified as corrective and should be well supported ahead of 1.2500 in favour of a higher low and bullish resumption.



- R2 1.3000 – Psychological – Strong
- R1 1.2918 – 27Apr/2017 high – Medium
- S1 1.2775 – Previous Peak – Medium
- S2 1.2616 – 27Mar high – Strong

GBPUSD – fundamental overview

The Pound has done an impressive job holding up, since breaking out above a major barrier the other week that hinted at the possibility of the currency finally ready to bottom out on a longer-term basis. As a testament to the UK currency's new found relative strength, the Cable rate pushed up to a fresh 2017 high on Thursday, even in the face of currency weakness against the US Dollar across the board. Moreover, there was not specific catalyst for the push, with the price action assigned to cross related demand post the dovish ECB decision and on the notable exodus from commodity market currencies. Of course, although the market is feeling better about the outlook with the June election expected to unify the government, the election is not a done deal yet and there will still be a tough Brexit negotiation ahead, which leaves the currency vulnerable to some uncertainty. Meanwhile, the market has been feeling a little better about the US administration's tax reform plan, which has been supporting the Buck a bit. Looking ahead, UK GDP will be the data to watch in the European session, while in the US, we get GDP, core PCE and Michigan confidence.

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 capped below 112.20 on a daily close basis in favour of a lower top and bearish resumption to fresh 2017 lows. Only a daily close above 112.20 will take the immediate pressure off the downside.



- R2 112.20 – 31Mar high– Strong
- R1 111.78 – 26Apr high – Medium
- S1 110.87 – 26Apr low – Medium
- S2 109.60 – 25Apr low – Strong

USDJPY – fundamental overview

The market didn't do much with the BOJ policy decision which came in as expected, offering only some minor tweaks in its quarterly outlook report. 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 this week, the market is once again selling Yen, even in the face of impressive rallies in the other major currencies against the Buck. Looking ahead, if US equities continue to push, expect the Yen to inversely correlate (USDJPY higher), if on the other hand US equities show signs of weakness, the Yen is likely to rally. As far as today's data goes, we get a healthy batch of readings out of the US that include GDP, core PCE and Michigan confidence.

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 last week's election in France, officials at the SNB are 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 0.7500 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. This week's drop below 0.7475 strengthens the bearish outlook and any rallies should be very well capped ahead of that previous support now turned resistance at 0.7600.



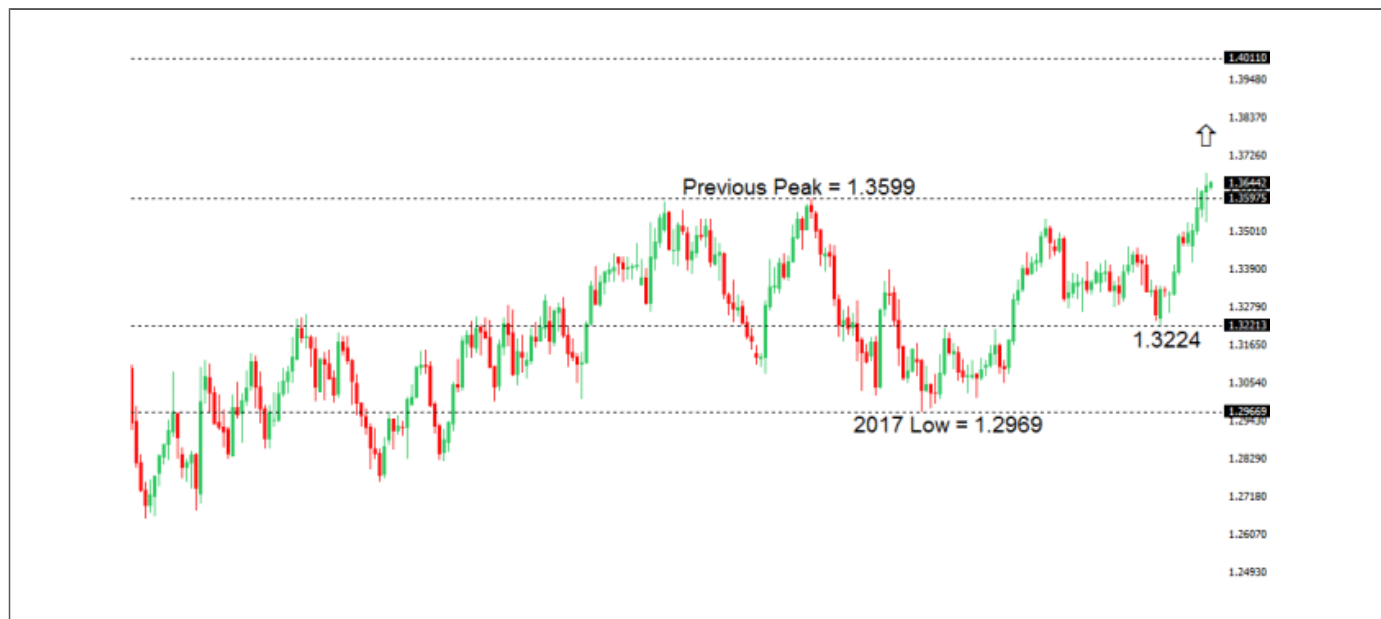
- R2 0.7556 – 26Apr high – Strong
- R1 0.7500 – Psychological – Medium
- S1 0.7441 – 27Apr low – Strong
- S2 0.7430 – 12Jan low – Medium

AUDUSD – fundamental overview

The Australian Dollar is down 1.50% into Friday since the weekly open and is the second worst performing currency over that period, just above its Kiwi cousin. Commodity price declines, worry over the impact of US protectionism and softer Aussie CPI have been a bother to the Australian Dollar this week, so much so, that the normally risk correlated currency has failed to benefit from a push in US equities back to record highs. Earlier today, Aussie producer prices came in a little hotter overall, though private sector credit was softer than forecast. Looking ahead, most of the focus will be on headlines out of the White House and price action in equities, though there is also a healthy batch of US data due that features GDP, core PCE and Michigan confidence.

USDCAD – technical overview

The uptrend in this market remains firmly intact, getting added confirmation following this latest break to a fresh 2017 high and through a key peak from December 2016 at 1.3600. Any setbacks should now be very well supported above 1.3224 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 1.3224 would give reason for pause and delay the constructive outlook.



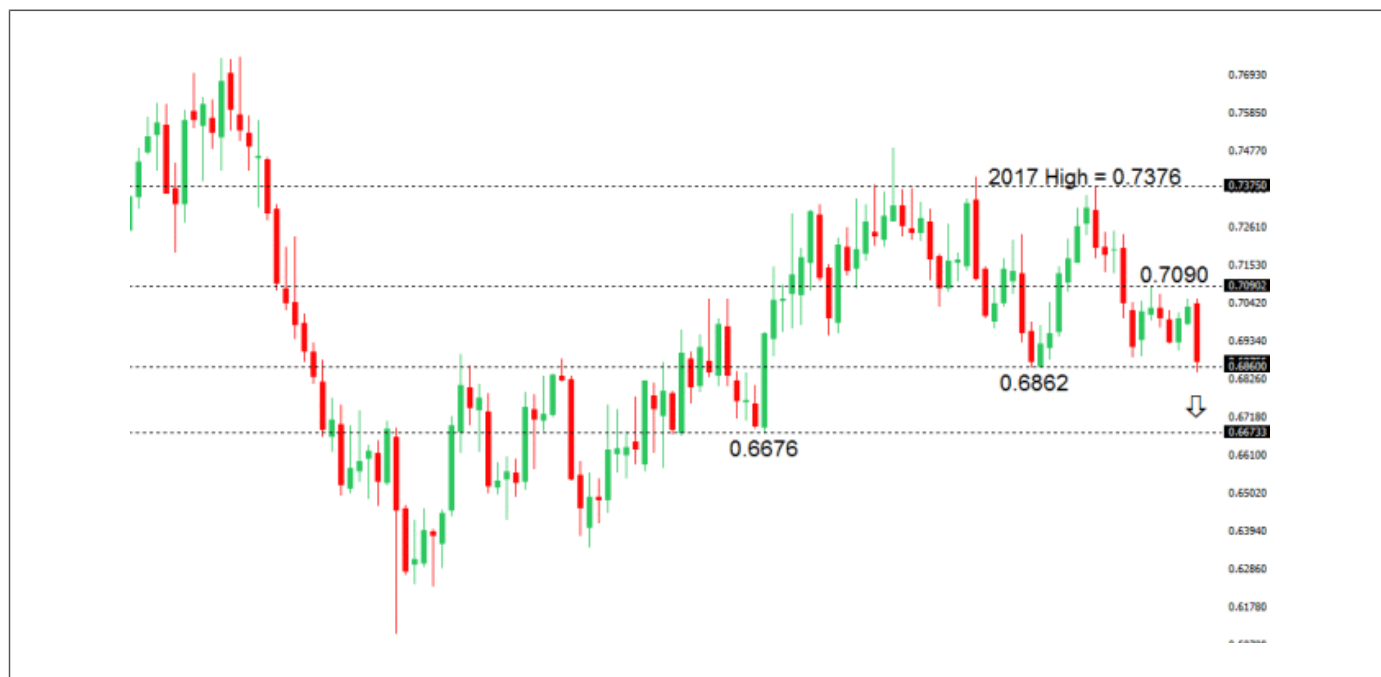
- R2 1.3700 – Figure – Strong
- R1 1.3671 – 27Apr/2017 high – Medium
- S1 1.3530 – 27Apr low – Medium
- S2 1.3493 – 25Apr low – Strong

USDCAD – fundamental overview

The Canadian Dollar has been one of the harder hit of late, with a good deal of that weakness coming from the new US administration's protectionist policies that will make trading with the US more difficult for its partners. Earlier this week we heard about the US imposing tariffs on Canada, and despite the more conciliatory talk between the two nations since, with the President agreeing to renegotiate NAFTA, the Loonie hasn't been able to catch a bid. Weakness in the commodity sector has already been a major drag, with the price of OIL dropping back below \$50, only adding to the strain. Looking ahead, headlines out of the White House will continue to be monitored, while the market will also need to be focused on the data, with Canada GDP capable of moving the Loonie some more. Remember, earlier this week, Canada retail sales did nothing to help, after coming in softer overall. Also out later on is first tier US data that includes GDP, core PCE and Michigan confidence.

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, with outlook strengthened on this week's breakdown to a fresh 2017 low. 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.



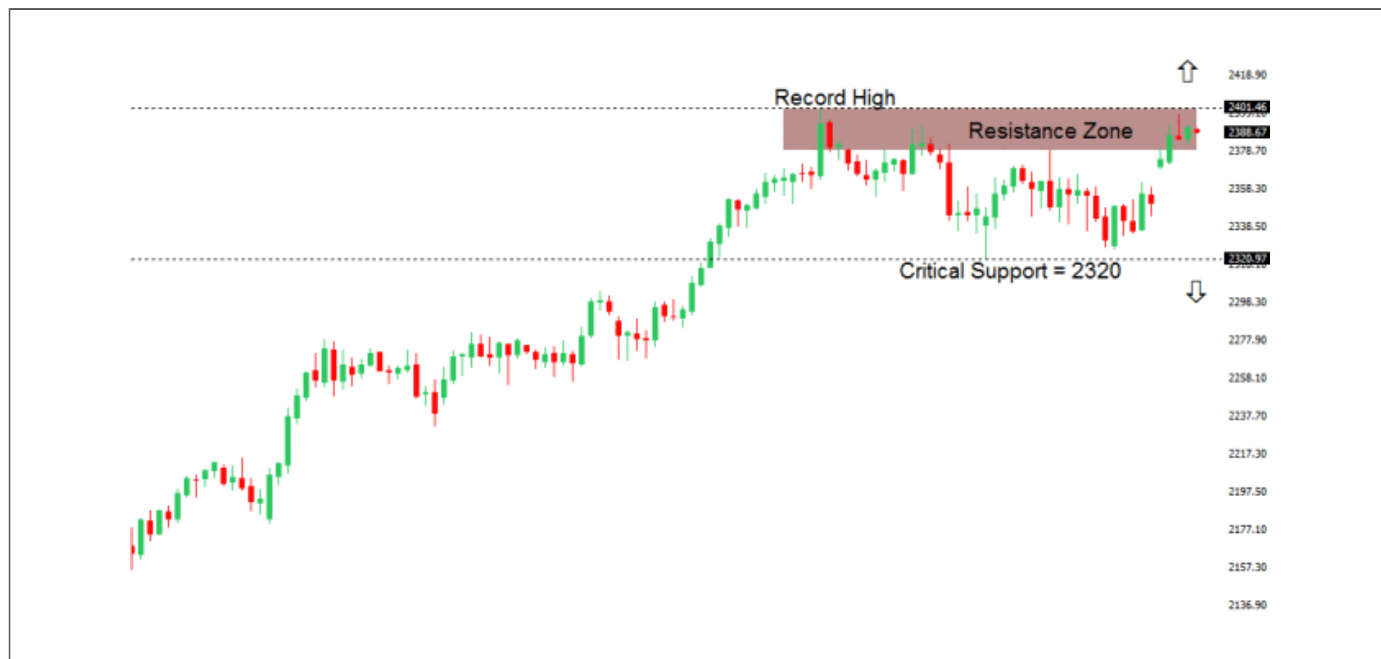
- R2 0.7000 – Psychological – Strong
- R1 0.6956 – 26Apr high – Medium
- S1 0.6848 – 27Apr/2017 low – Medium
- S2 0.6800 – Figure – Medium

NZDUSD – fundamental overview

The New Zealand Dollar has come under quite a bit of pressure this week, sinking to fresh 2017 lows, with setbacks in commodities and worry over the implications of protectionist US policy weighing on the commodity currency. 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, most of the focus will be on headlines out of the White House and price action in equities, though there is also a healthy batch of US data due that features GDP, core PCE and Michigan confidence.

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.



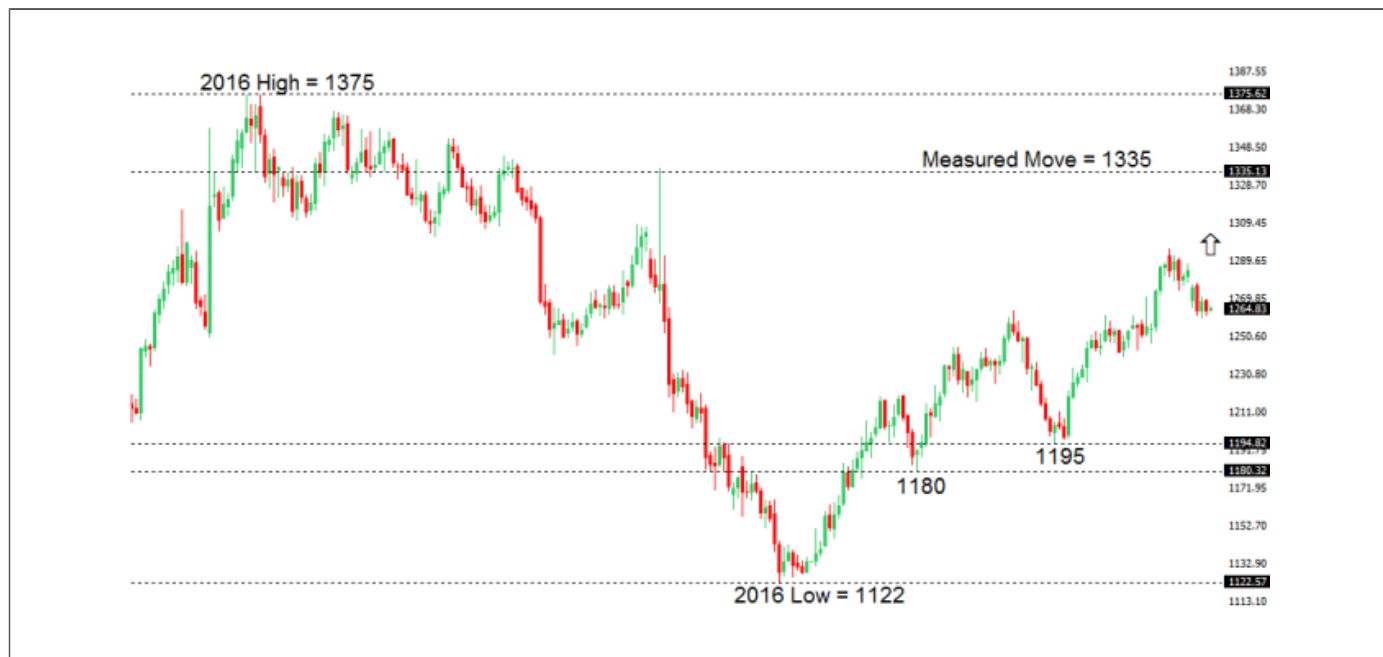
- R2 2402.00 – 1Mar/Record high – Strong
- R1 2399.00 – 26Apr high – Medium
- S1 2368.00 – 24Apr low – Medium
- S2 2321.00 – 27Mar low – Strong

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 significantly reduced systemic risk associated with the election and has been primarily responsible for this month end surge. The anticipated Trump tax plan announcement seemed to be well telegraphed and underwhelming but not enough to dissuade investors. As far as economic data goes, we round out the month with GDP, core PCE and Michigan confidence..

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 daily 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

The Lira got another boost this week after the CBRT surprised the market with another tightening move by way of “late liquidity window” (LLW), the highest of the four rates the central bank uses. The CBRT raised the LLW by 50bps, this after analysts were split on no change or a possible 25bp bump. The move suggests the central bank may be more serious about tackling inflation, which could make the Lira a little more attractive going forward. 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, 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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