

# Global FX Insights

by LMAX Exchange Research & Analytics

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

## US Dollar Outflow into Year End [Wake-up Call](#)

The US Dollar is extending a run of declines this week on the back of month end, quarter end, year end rebalancing flow, with even the Yen bid up and getting some more help from another round of solid data and BOJ official comments. The economic calendar is light for the remainder of the day.

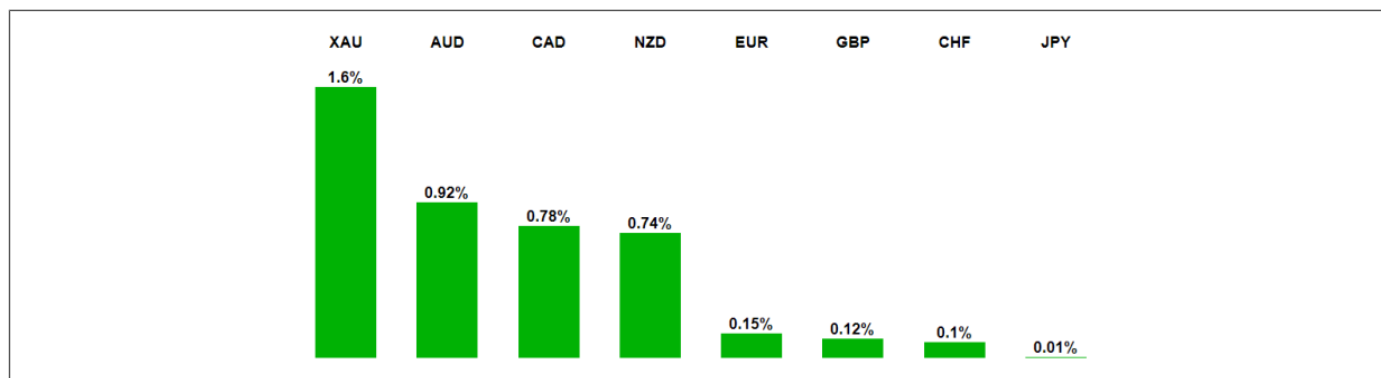
### Technical highlights [Daily Video](#)

- **EURUSD** Consolidation looking bullish
- **GBPUSD** Waiting to confirm higher low
- **USDJPY** Holding up but within range
- **EURCHF** Slow and steady move up
- **AUDUSD** Recovery builds momentum
- **USDCAD** Additional setbacks limited
- **NZDUSD** Retest of 0.7200 on cards
- **US SPX 500** Record run holding up
- **GOLD** (spot) Wants to test 2016 peak
- **Feature** – USDTRY Strong uptrend

### Fundamental highlights

- **EURUSD** ECB publishes latest economic bulletin
- **GBPUSD** USD outflows help to prop up Cable rate
- **USDJPY** Another solid round of Japan data
- **EURCHF** SNB strategy will get more challenging
- **AUDUSD** Commodities surge helps to extend run
- **USDCAD** Loonie still needs to worry about NAFTA
- **NZDUSD** Year end rebalancing flows fuel Kiwi
- **US SPX 500** Investors keep shrugging red flags
- **GOLD** (spot) Macro accounts happy to buy dips
- **Feature** – USDTRY Lira staring at major barrier

## Five day performance v. US dollar



## Suggested reading

- **Have We Seen Peak Liquidity?**, J. Authers, Financial Times (December 27, 2017)
- **This May Be Bitcoin's Moment of Truth**, M. El-Erian, Bloomberg (December 26, 2017)

## EURUSD – technical overview

Despite a prolonged period of sideways trade, the outlook for the major pair remains highly constructive. The door is now open for a more immediate resumption of a well defined uptrend that has taken form in 2017. Look for any setbacks to be well supported ahead of 1.1700, for the next major upside extension beyond the current yearly high of 1.2093 and towards the 1.2500 area further up. But ultimately, only a daily close back below 1.1550 will delay this outlook.



- R2 1.2000 – Psychological – Strong
- R1 1.1962 – 27Dec high – Medium
- S1 1.1818 – 22Dec low – Medium
- S2 1.1718 – 12Dec low – Strong

## EURUSD – fundamental overview

Year end rebalancing flows have been Euro supportive, with the market selling the US Dollar across the board. In today's session, the ECB publishes its economic bulletin, and this is then followed up by second tier US data releases that include initial jobless claims, the advanced goods trade balance and Chicago PMIs.

## GBPUSD – technical overview

The market has been consolidating but ultimately looks poised for a continuation of the 2017 uptrend, with a higher low waiting to be confirmed at 1.3027 on a break of the 2017 high at 1.3658. This will then open the door for a measured move upside extension back above 1.4000 and towards 1.4200 into 2018. Any setbacks should now be well supported into previous range resistance now turned support in the 1.3300 area.



- R2 1.3521– 8Dec high – Strong
- R1 1.3467 – 14Dec high – Medium
- S1 1.3332 – 19Dec low – Medium
- S2 1.3303 – 15Dec low – Strong

## GBPUSD – fundamental overview

Year end rebalancing flows have been Sterling supportive, with the market selling the US Dollar across the board. Absence of first tier UK data (only finance loans for housing data) will leave the focus on the US Dollar outflow and a batch of second tier US data releases later in the day that include initial jobless claims, the advanced goods trade balance and Chicago PMIs.

## USDJPY – technical overview

The major pair has been confined to a range trade for much of 2017, with rallies well capped ahead of 115.00 and dips well supported below 108.00. The latest topside failure off the range high strengthens this outlook, though the market will ideally need to break back down below 112.00 to strengthen this prospect.



- R2 113.76 – 12Dec high – Strong
- R1 113.65 – 21Dec high – Medium
- S1 112.52 – 19Dec low – Medium
- S2 112.04 – 15Dec low – Strong

## USDJPY – fundamental overview

Another round of upbeat data out of Japan and questions out from the latest BOJ Summary of Opinions relating to possible tweaks to policy if economic activity and prices were to continue to trend higher, have helped to inspire a round of Yen demand on Thursday. Of course, we've also been seeing broad based US Dollar selling against the developed currencies on year end rebalancing flow. As far as the economic calendar goes, it's going to be another light one out there, with only the US advanced goods trade balance, US initial jobless claims and Chicago PMIs standing out.

## EURCHF – technical overview

A period of multi-day consolidation has been broken, with the market pushing up to a fresh 2017 high. The bullish break could now get the uptrend thinking about a test of that major barrier at 1.2000 further up. In the interim, look for any setbacks to be very well supported ahead of 1.1400, while only back below 1.1260 would delay the overall constructive tone.



- R2 1.1800 – Figure – Strong
- R1 1.1778 – 27Dec/2017 high – Medium
- S1 1.1586 – 22Nov low – Medium
- S2 1.1543 – 7Nov low – Strong

## EURCHF – fundamental overview

The SNB will need to be careful right now as its strategy to weaken the Franc could face headwinds from the US equity market. The record run in the US stock market has been a big boost to the SNB's strategy with elevated sentiment encouraging Franc weakness. Of course, the SNB is no stranger to this risk, given a balance sheet with massive exposure to the US equity market. But any signs of capitulation on that front into the new year, will likely invite a very large wave of demand for the Franc, which will put the SNB in a more challenging position to weaken the Franc. And so, we speculate the SNB continues to be active buying EURCHF in an attempt to build some cushion ahead of what could be a period of intense Franc demand ahead.

## AUDUSD – technical overview

Technical studies are turning up, with the market in the process of recovering after trading down to a fresh multi-day low around the 0.7500 barrier. Overall however, the pressure remains on the downside and additional upside could be difficult into solid internal resistance in the 0.7800-0.7900 area.



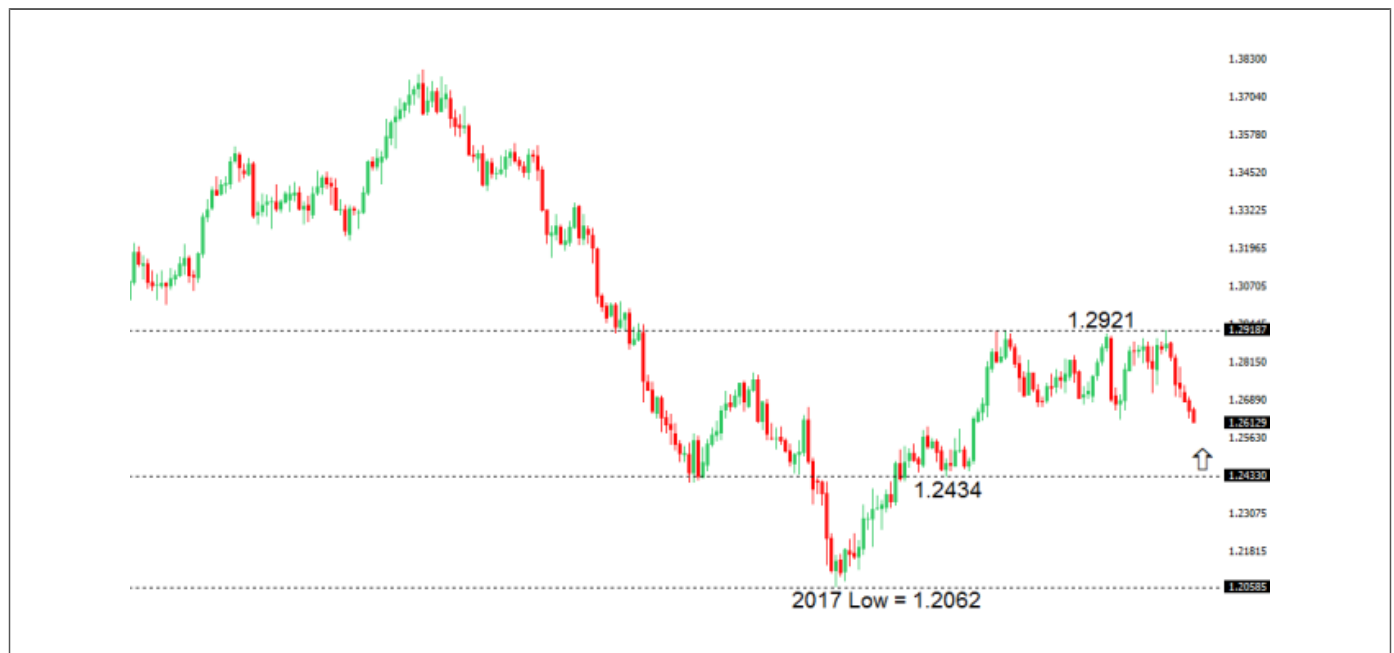
- R2 0.7898 – 13Oct high – Strong
- R1 0.7835 – 23Oct high – Medium
- S1 0.7724 – 27Dec low – Medium
- S2 0.7700 – Figure – Medium

## AUDUSD – fundamental overview

The Australian Dollar has broken up to two month highs, with the currency extending its recovery off multi-week lows. The combination of surging commodities prices, a broad based wave of US Dollar outflow into year end and a more upbeat outlook for the Australian economy into 2018 have been behind this week's accelerated run of gains. As far as the economic calendar for the remainder of the day goes, it's going to be another light one out there, with only the US advanced goods trade balance, US initial jobless claims and Chicago PMIs standing out.

## USDCAD – technical overview

Clear signs of basing in this pair, with the recovery from plus two year lows back in September extending through an important resistance point in the form of the August peak. This sets the stage for additional upside in the days and weeks ahead, with the next focus on a retest of the psychological barrier at 1.3000. In the interim, any setbacks should now be well supported ahead of 1.2500.



- R2 1.2797 – 22Dec high – Strong
- R1 1.2696 – 27Dec high – Medium
- S1 1.2550 – Mid-Figure – Medium
- S2 1.2500 – Psychological – Strong

## USDCAD – fundamental overview

The Canadian Dollar has been better bid of late on the back of some solid retail sales and hot CPI data in the previous week, this latest surge in the price of OIL, better bid commodities across the board and some broad based US Dollar outflows into year end. Nevertheless, looking out to 2018, we see more downside risk to the Loonie as the fate of NAFTA comes back into the spotlight, with any talk of a breakup to put more pressure on the Canadian Dollar. As far as the economic calendar for the remainder of the day goes, there’s nothing first tier out of Canada and it's going to be another light one. The US advanced goods trade balance, US initial jobless claims and Chicago PMIs are the only notable stand outs.

## NZDUSD – technical overview

The market is turning up after recently trading down to a fresh 2017 low in November. The price action has taken the form of a kind of inverse H&S pattern, with the break back above 0.6980 strengthening this prospect and opening the door for a more pronounced recovery into the 0.7200 area. For now, setbacks are expected to be supported ahead of 0.6850 to encourage the outlook.



- R2 0.7203 – 17Oct high – Strong
- R1 0.7100 – Figure – Medium
- S1 0.7029 – 27Dec low – Medium
- S2 0.6955 – 20Dec low – Strong

## NZDUSD – fundamental overview

The New Zealand Dollar has broken up to two month highs, with the currency extending its recovery off the 2017 low from November. The combination of surging commodities prices and a broad based wave of US Dollar outflow into year end have been behind this week's accelerated run of gains. As far as the economic calendar for the remainder of the day goes, it's going to be another light one out there, with only the US advanced goods trade balance, US initial jobless claims and Chicago PMIs standing out.



## US SPX 500 – technical overview

The market continues to shrug off overextended technical readings, with any setbacks quickly supported for fresh record highs. Still, technical readings are tracking well overbought and are in desperate need for a period of healthy corrective action. Ultimately however, it will take a break back below 2557 at a minimum to alleviate immediate topside pressure.



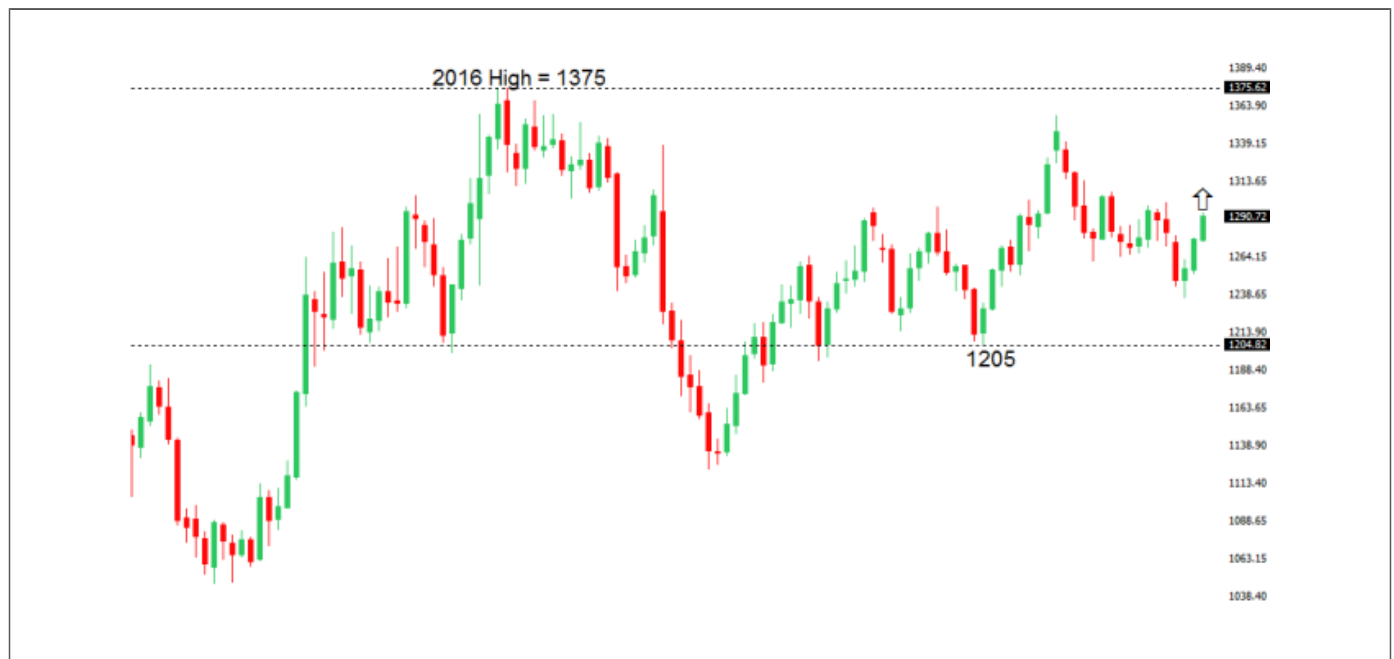
- R2 2700.00 – Extension Target – Strong
- R1 2698.00 – 18Dec/Record high – Medium
- S1 2652.00 – 14Nov low – Strong
- S2 2599.00 – 28Nov low – Strong

## US SPX 500 – fundamental overview

The US equity market continues to be well supported on dips, pushing further into record high territory. It seems, on a macro level, the combination of blind momentum, expectation US tax reform will ultimately work out well in 2018, excitement around infrastructure plans and a belief the Fed will remain super accommodative under Jerome Powell are all factoring into the relentless bid. Nevertheless, investor immunity to downside risk is not looking as strong these days and there's a clear tension out there as the VIX sits at unnervingly depressed levels. The fact that Fed policy is normalising, however slow, could start to resonate a little more, with stimulus efforts exhausted, balance sheet reduction coming into play and the Fed finally following through with forward guidance erring on the side of policy normalisation. But for now, it's more of the same, with the market shrugging off any red flags. At this point, it will take a breakdown in this market back below 2500 to turn heads.

## GOLD (SPOT) – technical overview

Setbacks have been well supported over the past several months, with the market continuing to put in higher lows and higher highs, opening a recent push to a fresh 2017 high up around 1357. And so, look for this most recent dip to round out that next higher low in favour of a bullish continuation towards a retest of the 2016 peak at 1375 further up. Ultimately, only a drop back below 1200 would negate the outlook.



- R2 1306.30 – 16Oct high – Strong
- R1 1299.45 – 27Nov high – Medium
- S1 1236.70 – 12Dec low – Medium
- S2 1229.20 – 6Jul high – 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 well supported, 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 has added 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 for an extended period, GOLD will hold up on risk off macro implications. Dealers are now reporting demand in size ahead of 1200.

## Feature – technical overview

USDTRY has extended its record run, with the market contemplating the establishment above major psychological resistance at 4.0000. At the same time, with medium technical studies looking extended, risk is building for a healthy corrective reversal in the sessions ahead. Ultimately, any setbacks should be well supported ahead of 3.6500, with only a break back below this level to force a shift in the structure.



- R2 4.0000 – Psychological – Strong
- R1 3.9820 – 22Nov/Record – Medium
- S1 3.7870 – Previous Resistance (March) – Medium
- S2 3.7660 – 30Oct low – Strong

## Feature – fundamental overview

The CBRT did a fabulous job disappointing investor expectation for what was believed to be a much bigger adjustment to rates than the one the market got earlier this month. The Turkish central bank opted to only raise by a modest 50bps in the LLW. This is viewed as a knock on CBRT credibility, with the central bank clearly influenced by the ongoing pressure from the Erdogan government to keep policy as loose as possible. The Lira could be poised for a fresh record low in the days ahead, with USDTRY considering a break of the massive psychological barrier at 4.00. The emergence of new stress in the global economy could add to the Lira strain if we see a global reduction in risk appetite that ultimately drags the entire emerging market space.



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