

Monday, August 29, 2016

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Global FX Insights

by LMAX Exchange Research & Analytics

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USD Rebounds on Fed Speak [Wake-up Call](#)

Finally an impressive comeback for the US Dollar after the Fed Chair retained a more hawkish tone than the market was expecting, while Fed Fischer added that Yellen's comments were in line with a potential September hike. Looking ahead, US core PCE is the key standout on Monday's calendar.

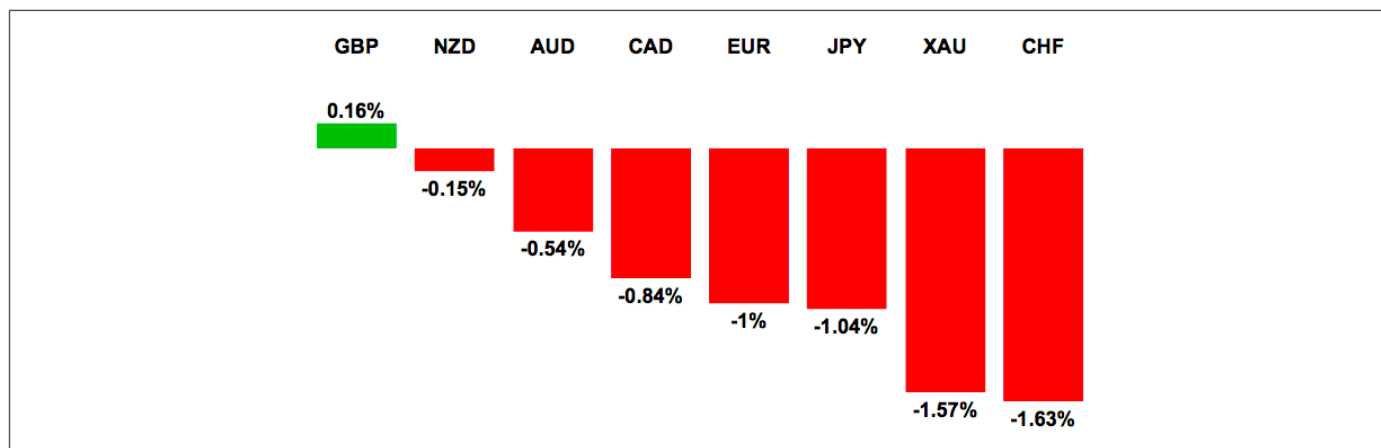
Technical highlights [Daily Video](#)

- **EURUSD** Back below 100-Day
- **GBPUSD** Stalls towards range high
- **USDJPY** Rallies should be limited
- **EURCHF** Testing key resistance
- **AUDUSD** Setbacks accelerate
- **USDCAD** Rounding higher low
- **NZDUSD** Signs of major top
- **US SPX 500** Starting to roll over
- **GOLD** (spot) Supported into 1300
- **Feature** – USDZAR Turning up

Fundamental highlights

- **EURUSD** ECB Coeure out with dovish speak
- **GBPUSD** Empty UK slate puts focus on US PCE
- **USDJPY** BOJ Kuroda talks more accommodation
- **EURCHF** SNB active but not really doing much
- **AUDUSD** Aussie new home sales disappoints
- **USDCAD** Hawkish Fischer sends Loonie lower
- **NZDUSD** Yield differentials weigh on Kiwi
- **US SPX 500** Investors fear September hike
- **GOLD** (spot) Macro players buying metal on dips
- **Feature** – USDZAR Emerging market FX takes hit

Five day performance v. US dollar



Suggested reading

- **Short Vol Trade Out of Hand**, J. Felder, The Felder Report (August 26, 2016)
- **Historical Gold Bull Markets**, OtterWood Capital Management (August 26, 2016)

EURUSD – technical overview

The broader downtrend remains firmly intact, with Friday's daily close back below the 100-Day SMA potentially ending a period of corrective activity, setting the stage for the next major downside extension towards 1.0900. Look for a fresh lower top in place at 1.1367, while ultimately, only above 1.1428 negates the bearish outlook.



- R2 1.1298 – 25Aug high – Strong
- R1 1.1246 – 24Aug low – Medium
- S1 1.1154 – 15Aug low – Strong
- S2 1.1112 – 10Aug low – Medium

EURUSD – fundamental overview

While the Fed Chair talked about the strengthening case for a Fed rate hike, it was Fed Fischer that really cemented the US Dollar's recovery, after the Vice Chair added the door was open for a hike as soon as September. The Euro came under intense pressure as a result, with the currency perhaps finding additional offers on dovish ECB Coeure speak flagging the potential need for additional ECB accommodation. Looking ahead, the market will be looking to see what comes of today's US core PCE and personal income readings.

GBPUSD – technical overview

The market remains confined to an intense downtrend and is in the process of consolidating just off the recent +30-year low from July. Any rallies are classified as corrective ahead of what should be the next major break below 1.2800 and towards 1.2500. Only back above 1.3372 will take the immediate pressure off the downside and force a shift in the structure.



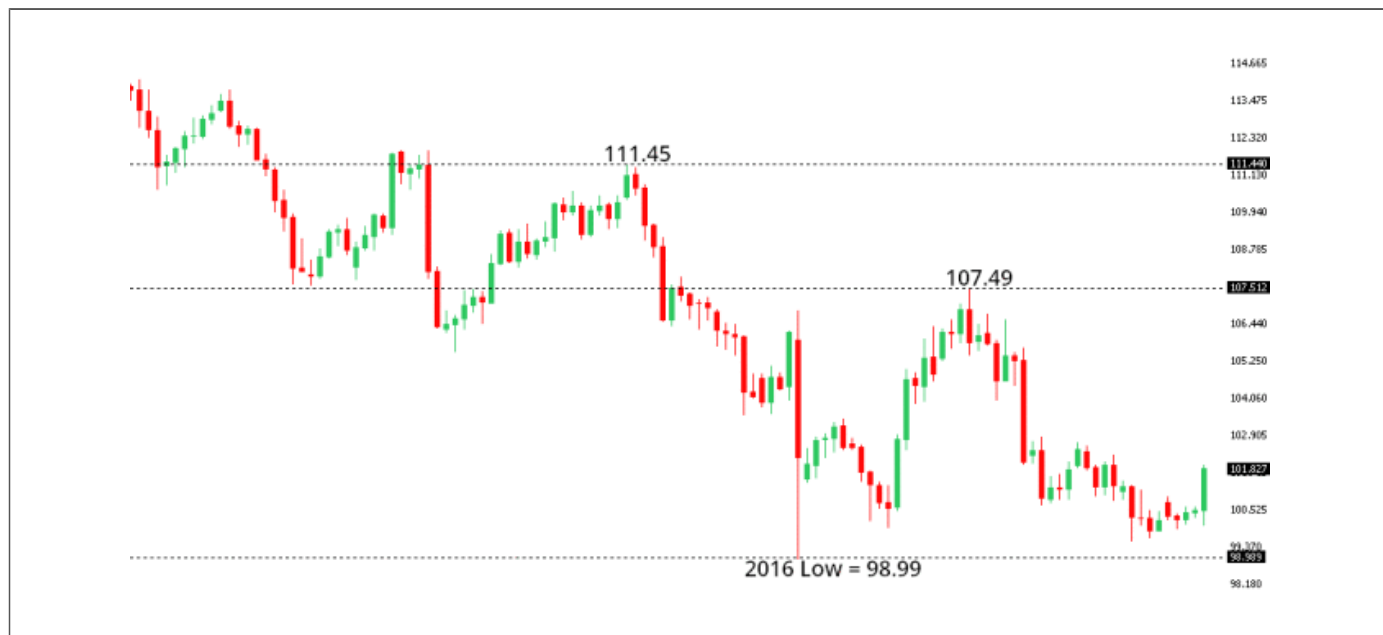
- R2 1.3279 – 26Aug high – Strong
- R1 1.3200 – Figure – Medium
- S1 1.3100 – Figure – Medium
- S2 1.3023 – 19Aug low – Strong

GBPUSD – fundamental overview

Monday’s UK economic calendar is empty in light of the UK bank holiday and the Pound will continue to focus on all things US. The Pound has been enjoying a period of outperformance in the currency market over the past several days, though has since come back under pressure against the Buck following this latest wave of hawkish comments from Fed Chair Yellen and Vice Chair Fischer. Looking ahead, US core PCE and personal income are the key standouts on today’s calendar.

USDJPY – technical overview

Although we've seen an impressive bounce in recent trade, overall, the pressure remains on the downside with a lower top potentially in place at 102.65 ahead of the next major downside extension below the recent yearly and multi-month low at 98.99. At this point, only a break back above 102.65 would delay this outlook and give reason for pause. Below 99.00 exposes the next major support level in the 95.00 area.



- R2 102.65 – 8Aug high – Strong
- R1 102.00 – Figure – Medium
- S1 101.00 – Figure – Medium
- S2 100.06 – 25Aug low – Strong

USDJPY – fundamental overview

The Yen has come under intense pressure into the new week, with the Japanese currency taking a hit on some broad based USD demand post hawkish Fed speak and these latest more dovish BOJ Kuroda comments in which the Japanese central banker has flagged the possibility for additional accommodation. Still, there plenty of offers reported into rallies, with many out there speculating a downturn in risk sentiment could fuel renewed Yen demand on safe haven flow. Looking ahead, US core PCE and personal income are the key standouts on Monday's calendar.

EURCHF – technical overview

Not much doing here over the past several days, with the market confined to a range trade, roughly between 1.0800 and 1.1000. At this point, a daily close above 1.1000 or back below 1.0800 will be required for clearer directional insight. Until then, look for dips to be supported and rallies well capped.



- R2 1.1014 – 24Jun high – Strong
- R1 1.0960 – 26Aug high – Medium
- S1 1.0870 – 24Aug low – Medium
- S2 1.0778 – 16Jun low – Strong

EURCHF – fundamental overview

SNB smoothing activity to prop the EURCHF rate has been helping to elevate the cross, but at the same time, any upside moves haven't been sustainable with the cross rate continuing to get sold aggressively into rallies. Overall, this is a market going nowhere right now and it seems sell-stops need to get taken out below 1.0750 or above 1.1000 for clearer insight. US stocks have been supporting EURCHF but are also looking extended which could invite Franc demand if the market starts to roll over from record highs in the sessions ahead.

AUDUSD – technical overview

The market has struggled on rallies above 0.7700 and this suggests the rate could be looking to carve a lower top below the 2016 high at 0.7835 in favour of the next major downside extension. The recent break back below 0.7637 strengthens this outlook and should accelerate declines towards 0.7400 in the sessions ahead. Ultimately, only back above 0.7758 will negate the newly adopted bearish outlook and invite a retest of the 2016 highs.



- R2 0.7693 – 26Aug high – Strong
- R1 0.7600 – Figure – Medium
- S1 0.7488 – 2Aug low – Medium
- S2 0.7421 – 27Jul low – Strong

AUDUSD – fundamental overview

The Australian Dollar was already under pressure on the back of the broad based bout of USD gains in the aftermath of Friday’s more hawkish Fed speak, before extending declines early Monday following the release of a downbeat Aussie HIA new home sales. Plenty of medium term specs have been on the offer and we could see additional downside if broader risk sentiment deteriorates. Looking ahead, US core PCE and personal income are the key standouts on today’s calendar.

USDCAD – technical overview

This market looks to be in the process of carving out a longer-term base off the 1.2461, 2016 low. Look for any additional weakness to be supported ahead of 1.2655 in favour of the next major upside extension towards a measured move objective into the 1.3500-1.4000 area. Ultimately, only back below 1.2655 would delay the constructive outlook.



- R2 1.3201 – 5Aug high – Strong
- R1 1.3080 – 11Aug high – Medium
- S1 1.2900 – Figure – Medium
- S2 1.2831 – 26Aug low – Strong

USDCAD – fundamental overview

Nasty price action in the Canadian Dollar on Friday with the Loonie initially bid on higher OIL but then reversing course sharply after the Fed Chair talked about policy normalisation and the Vice Chair then backed this up with mention of a potential rate hike as soon as September. Looking ahead, price action in OIL will be monitored closely, while the market will also be looking to US core PCE and personal income readings.

NZDUSD – technical overview

Rallies to fresh 2016 highs above 0.7300 have been well capped, with the market looking to adhere to the broader downtrend. As such, look for this latest surge to once again fizzle out, in favour of a resumption of declines. Key support now comes in at 0.7087, but a break below 0.7199 will get things going to the downside.



- R2 0.7381 – 26Aug/2016 high – Strong
- R1 0.7300 – Figure – Medium
- S1 0.7199 – 16Aug low – Medium
- S2 0.7087 – 8Aug low – Strong

NZDUSD – fundamental overview

A wild ride for the New Zealand Dollar this past Friday after the currency initially traded up to a fresh 2016 high before reversing sharply into the weekly close. Hawkish commentary out from Fed Chair Yellen and Vice Chair Fischer have certainly been the primary drivers of Kiwi weakness, with yield differentials moving back in the Buck's favour as Fed rate hike odds increase for September and December. Meanwhile, the market will be looking for a rate cut from the RBNZ in November. Looking ahead, US core PCE and personal income are the key standouts on today's calendar.

US SPX 500 – technical overview

Signs of a potential top after the market put in a bearish reversal week off fresh record highs. But a break and daily close below critical support at 2147 will be required to strengthen this outlook and accelerate declines. Inability to establish below 2147 will leave the market consolidating and focused on a push to fresh record highs through 2200.



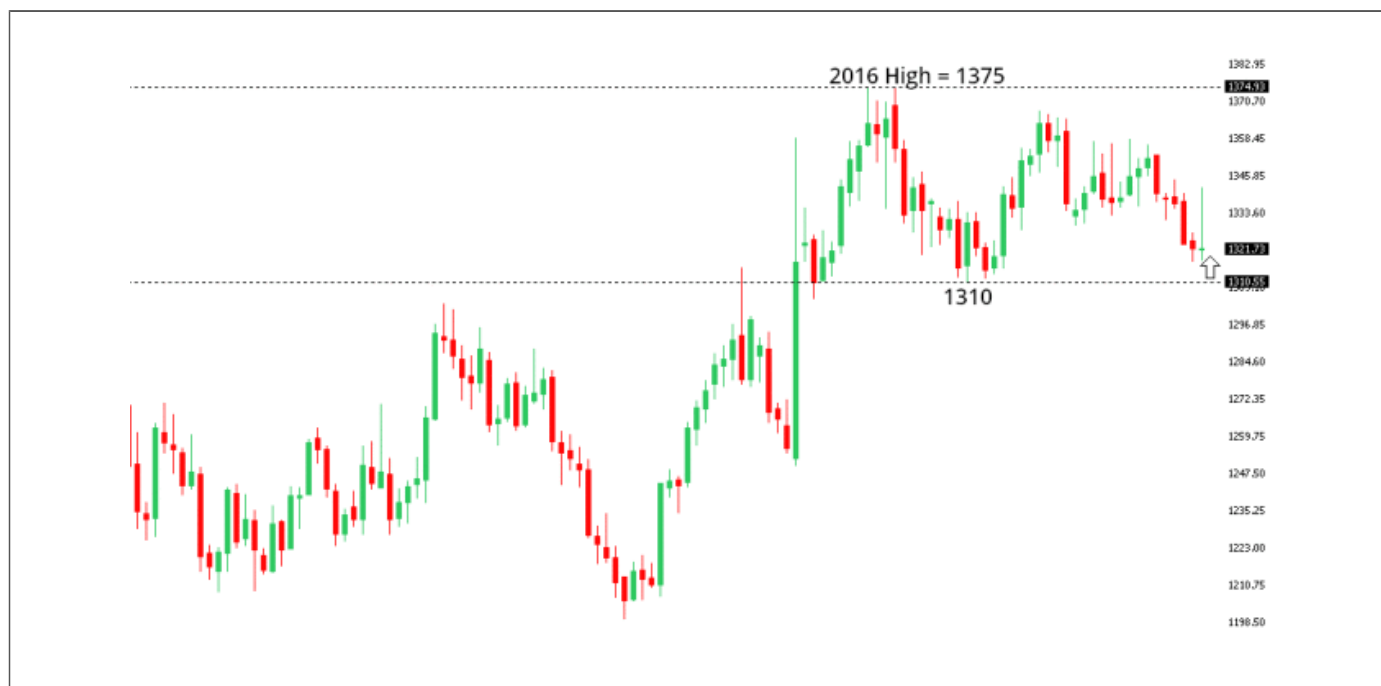
- R2 2200.00 – Psychological – Strong
- R1 2194.00 – 15Aug/Record – Medium
- S1 2147.00 – 2Aug low – Medium
- S2 2136.00 – 12Jul low – Strong

US SPX 500 – fundamental overview

US equities have come under pressure off record highs following this latest wave of hawkish commentary signaling the possibility for a rate hike as soon as September. But overall, there is a sense that even if the Fed ends up doing nothing in 2016 and holds off, with monetary policy already exhausted and the limitations of policy being reached, there is still the risk for a more intense period of weakness off the recently established record highs. Looking ahead, US core PCE and personal income readings are in focus on Monday.

GOLD (SPOT) – technical overview

The recent break above the previous 2015 peak at 1307 strengthens the case for a longer term base with the market confirming a medium-term higher low in the 1200 area, opening the door for the next major upside extension towards a measured move at 1450. Any setbacks should be very well supported ahead of 1300, with only a break below this level to compromise the outlook.



- R2 1375.20 – 6Jul/2016 high – Strong
- R1 1367.30 – 2Aug high – Medium
- S1 1318.10 – 26Aug low – Medium
- S2 1310.90 – 21Jul low – Strong

GOLD (SPOT) – fundamental overview

Overall, GOLD has been very well supported in 2016, with the yellow metal finding solid demand from medium and longer-term players on the back of fears over the limitations of exhausted monetary policy and extended global equities. All of this will almost certainly 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.

Feature – technical overview

USDZAR has come under a good deal of pressure in recent months, trading down to a fresh 2016 low around 13.2000. However, it now appears as though the market is finally ready to turn back up in favour of a resumption of the broader uptrend. In the interim, look for any setbacks to be well supported ahead of 13.2000, with fresh upside seen towards 15.0000 in the sessions ahead. Only back below 13.2000 gives reason for pause.



- R2 15.0000 – Psychological – Strong
- R1 14.6000 – 15Jul high – Medium
- S1 13.8850 – 24Aug low – Medium
- S2 13.2000 – 10Aug/2016 low – Strong

Feature – fundamental overview

Friday’s round of hawkish comments from the SARB Deputy Governor did nothing to help the Rand, with these comments wrapped in concern over the state of the softer local currency and structural deficiencies in the South African economy. Meanwhile, broad based USD demand on the back of the hawkish Fed comments helped to propel the USD higher, in turn weighing on the Rand. This also invited downside pressure in correlated risk assets, something that doesn’t bode well for the EM FX outlook. Certainly all of the drama surrounding Finance Minister Pravin Gordhan is doing nothing to help the Rand’s cause.



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