

Monday, January 29, 2018

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Month End Rebalancing 🗣️ [Wake-up Call](#)

Month end rebalancing flow is said to be behind some of the mild US Dollar demand into Monday. The US Dollar has been hit hard in January and will welcome a little demand with technical studies so extended. US core PCE data ahead.

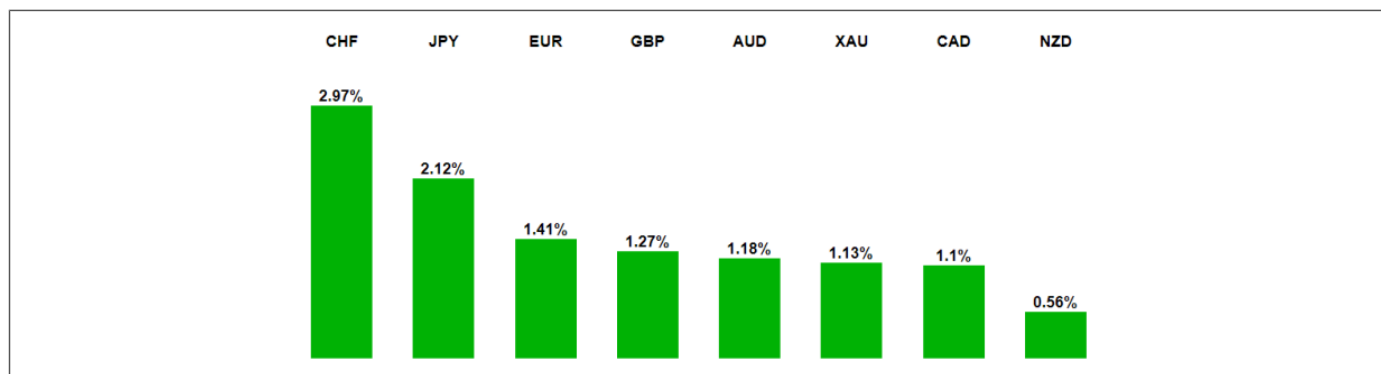
Technical highlights 📺 [Daily Video](#)

- **EURUSD** Into major resistance
- **GBPUSD** Due for correction
- **USDJPY** Testing range base
- **EURCHF** Setbacks seen supported
- **AUDUSD** Starting to look tired
- **USDCAD** Getting ready to bounce
- **NZDUSD** Due for healthy reversal
- **US SPX 500** Parabolic meltup
- **GOLD** (spot) Staring at big level
- **Feature** – BTCUSD More to drop

Fundamental highlights

- **EURUSD** German import prices come in solid
- **GBPUSD** UK Telegraph story ruffles some feathers
- **USDJPY** Month-end rebalancing helping USD
- **EURCHF** Unusual outperformance in Swiss Franc
- **AUDUSD** US core PCE data stands out on Monday
- **USDCAD** Nervous tension around NAFTA fate
- **NZDUSD** Kiwi strength deceptive post soft CPI
- **US SPX 500** Policy normalisation poses big risk
- **GOLD** (spot) Metal demand reflects uncertainty
- **Feature** – BITCOIN Harder times for crypto assets

Five day performance v. US dollar



Suggested reading

- **[Get Used to Mexican Peso Volatility](#)**, R. Blitz, Financial Times (January 24, 2018)
- **[Hong Kong's London Love Affair](#)**, N. Gopalan, Bloomberg Gadfly (January 29, 2018)

EURUSD – technical overview

Though the Euro has seen a nice run of late and could be getting very close to a top, there is still room to run. The break of the 2017 high set up a bullish continuation and the next major measured move upside extension into the 1.2600-1.2700 area, which coincides with monumental resistance in the form of a falling trend-line off the record high from 2008. In the interim, any setbacks should be very well supported ahead of 1.1900.



- R2 1.2538 – 25Jan/2018 high – Strong
- R1 1.2494 – 26Jan high – Medium
- S1 1.2365 – 25Jan low – Medium
- S2 1.2293 – 24Jan low – Strong

EURUSD – fundamental overview

German import prices have come in solid on Monday, though this will hardly be the focus here with most of the attention on the broad based US Dollar weakness at the moment. The ECB recovery is also something to watch, especially after Draghi sounded a little more upbeat in the previous week. As far as today goes, there has been talk of month end rebalancing flow that favours the US Dollar. On the data front, we get some US core PCE data.

GBPUSD – technical overview

The market has rocketed higher in 2018, with the breakout above the 2017 high opening an intense acceleration targeting to 1.4295 that has now been exceeded in remarkable time. While there is risk for additional upside given the implication of a bigger picture structural bottom, daily studies are now highly overbought and this in conjunction with the market reaching the measured move extension objective following the breakout above 1.3660, warns of a possible pullback in the sessions ahead. But any setbacks are viewed as corrective, with the market now seen well supported into that previous resistance turned support of the previous 2017 high at 1.3660.



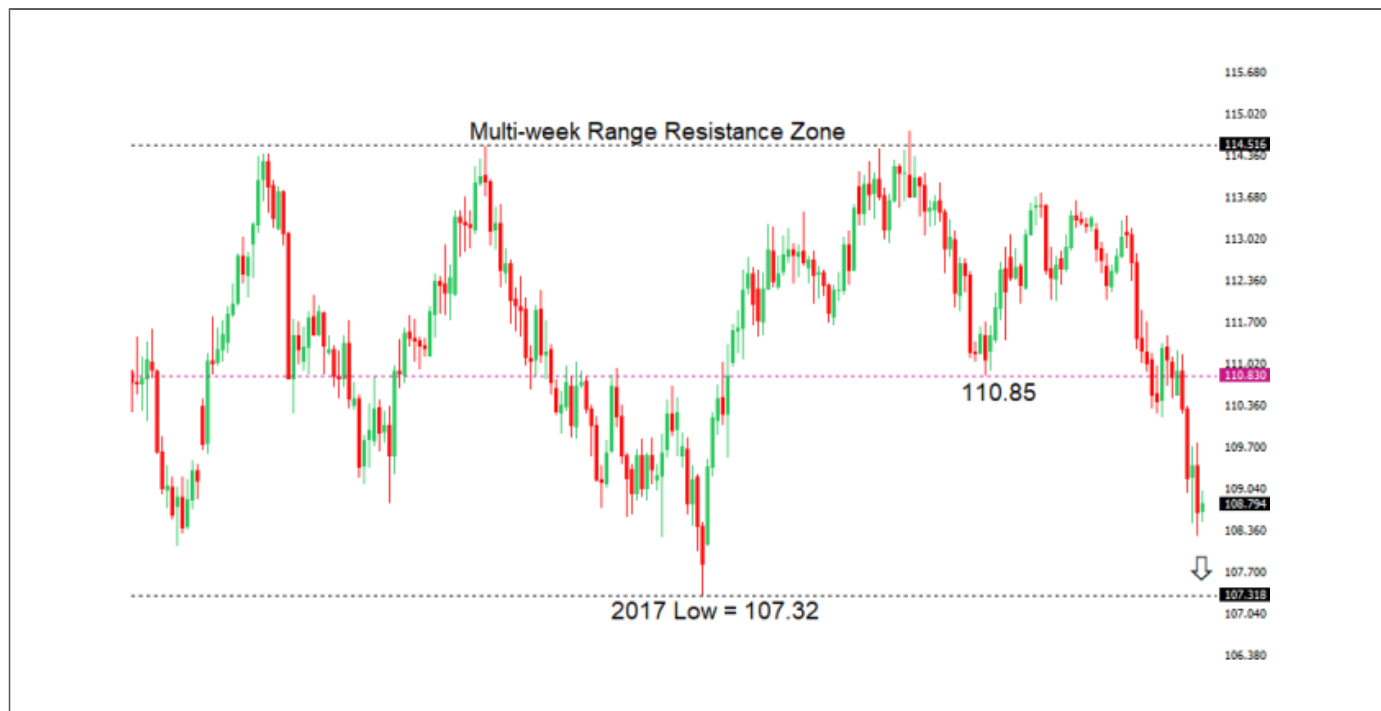
- R2 1.4346– 25Jan/2018 high – Medium
- R1 1.4285 – 26Jan high – Strong
- S1 1.4083 – 25Jan low – Strong
- S2 1.3995 – 24Jan low – Medium

GBPUSD – fundamental overview

The Pound has emerged as a clear outperformer in 2018, with the UK currency benefitting from the combination of priced out worst case Brexit outcomes, Bank of England normalization and broad based US Dollar weakness. However, with the Pound's recovery accelerating in 2018 and the technical picture looking extended, there's risk we could see a reversal in the sessions ahead. We believe the worst of Brexit is indeed behind, while rising inflation and an improving economic outlook will push the Pound higher over the medium to longer term. At the same time, last week, we highlighted there would still be bumps along the way and we had yet to hear anything material out from the Brexit front this year, which suggested some of those bumps could be forthcoming. Sure enough, the latest story out of the Telegraph is reminding us of this fact after reporting discreet discussions for a 3 year Brexit transition instead of the current timeline which has the transition at 2 years. Looking ahead, US core PCE data is the only notable standout for Monday.

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 encourages this outlook, with the break back below 110.85 opening the door for an acceleration towards the 107.00-108.00 area range base in the sessions ahead. Look for any bounces to now be well capped ahead of 111.00.



- R2 110.34 – 24Jan high – Strong
- R1 109.78 – 26Jan high – Medium
- S1 108.29 – 26Jan low – Medium
- S2 108.14 – 11Sep low – Strong

USDJPY – fundamental overview

Overall, the Yen has been well bid in early 2018 despite rocketing US equities, and with stocks melting up, there are signs of capitulation on that front. This warns of even more Yen strength (USDJPY weakness) over the coming days, with a liquidation in risk correlated assets to inspire a flight back into the funding currency that is the Japanese Yen. The primary drivers of Yen demand thus far in 2018 have been broad based US Dollar weakness on soft US Dollar policy and some tweaking of BOJ policy that has the central bank moving a little further from its current super accommodative policy. As far as today's data goes, we have seen some USD demand on reported month end rebalancing in favour of the US Dollar. Looking at the calendar, US core PCE is the only notable standout.

EURCHF – technical overview

The market continues to trend higher, extending gains to a fresh multi-month high. The bullish price action has the market thinking about a retest 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 1.1900 – Figure – Strong
- R1 1.1834 – 15Jan/2018 high – Medium
- S1 1.1588 – 26Jan low – Medium
- S2 1.1609 – 19Dec 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 in 2018. 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 US equities. But any signs of capitulation on that front into this 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. Last week's outperformance in the Swiss Franc despite flows which should have otherwise been supportive of a higher EURCHF, could already be offering up a red flag.

AUDUSD – technical overview

An impressive recovery out from the December low could soon show signs of exhaustion, with the market looking extended and poised for reversal after clearing the 2017 high and stalling out. A daily close back below 0.7957 will strengthen this outlook and open the door for a renewed wave of declines, while at this point, only a daily close back above the 2017 high at 0.8136 would suggest the market wants to look to keep pushing higher.



- R2 0.8200 – Figure – Medium
- R1 0.8136 – 26Jan/2018 high – Strong
- S1 0.8000 – Psychological – Medium
- S2 0.7957 – 23Jan low – Strong

AUDUSD – fundamental overview

The Australian Dollar has been exceptionally well bid in 2018, already breaking up through the 2017 high. The ongoing wave of US Dollar outflow, along with the concurrent recovery in broad commodities, record high stocks, and positive trade deals have been the primary drivers behind the Australian Dollar bid up towards the 2017 high. It's worth noting, another source of Aussie demand has come from cross related Aussie buying post last week's much softer than expected New Zealand inflation readings. Into Monday, we have seen some weakness on reported month end rebalancing flow in the US Dollar's favour. Looking ahead, US core PCE is the only notable standout.

USDCAD – technical overview

Despite the latest round of setbacks, there are signs of basing in this pair, after the recovery from plus two year lows back in September extended through an important resistance point in the form of the August peak. This sets the stage for additional upside, with the next focus on a retest of the psychological barrier at 1.3000. In the interim, any setbacks should now be well supported above a critical 78.6% fib retrace at 1.2240 on a daily close basis. Back above 1.2509 will strengthen the outlook.



- R2 1.2509 – 19Jan high – Strong
- R1 1.2392 – 25Jan high – Medium
- S1 1.2283 – 25Jan low – Medium
- S2 1.2240 – 78.6% Fib – Strong

USDCAD – fundamental overview

Overall, Canada's recovery is still somewhat fragile, and this coupled with an unstable macro picture and plenty of uncertainty around the fate of NAFTA, should be keeping the Canadian Dollar from wanting to run much higher, especially after the Bank of Canada opted to go ahead with another rate hike this month, which will only add to the strain if the global picture deteriorates. Looking ahead, US core PCE data is the only notable standout on the Monday calendar.

NZDUSD – technical overview

The market has done a good job recovering off the 2017 low from November, though additional upside could now be limited after overshooting a measured move objective in the 0.7200 area off an inverse head and shoulders formation. Overall, there is still medium term risk tilted to the downside and it will take a clear establishment back above 0.7400 to delay the bearish outlook and risk for another reversal. Look for a daily close back below 0.7200 to strengthen this outlook.



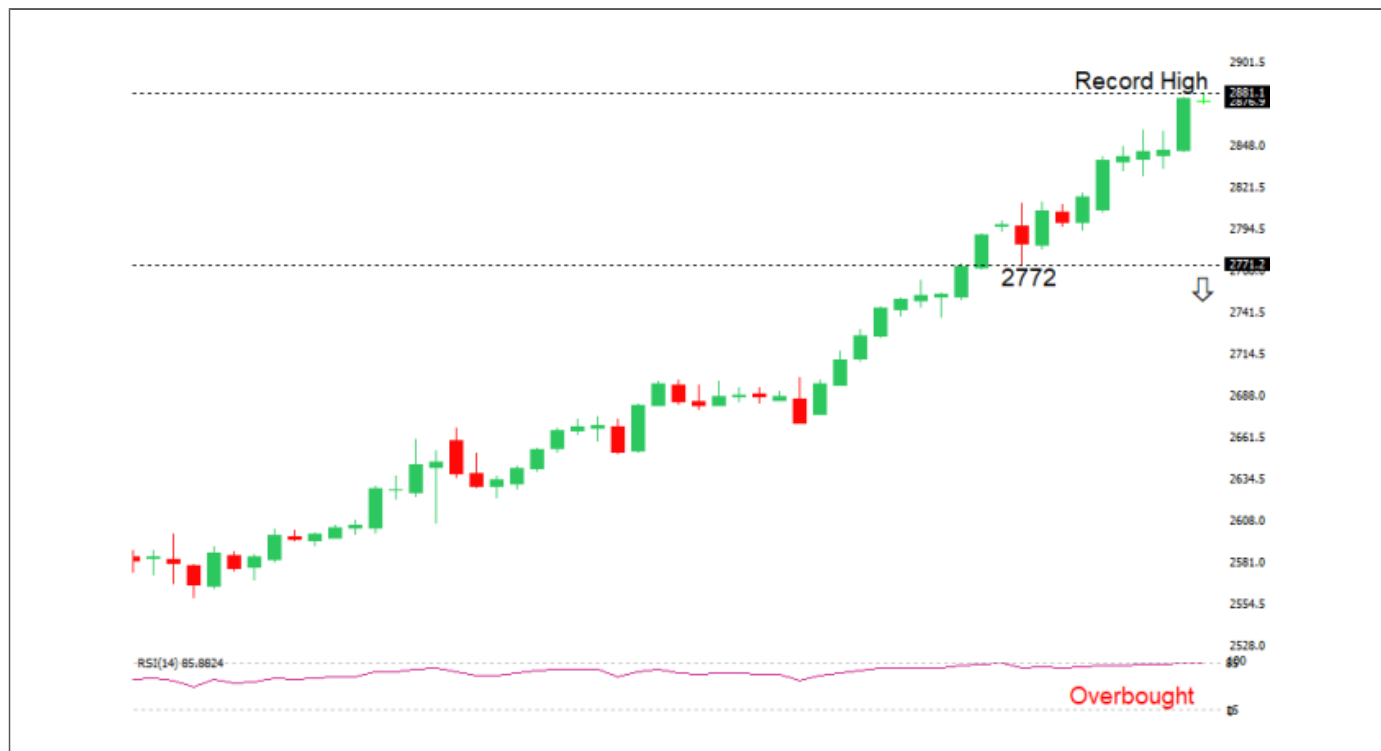
- R2 0.7437 – 24Jan high – Strong
- R1 0.7400 – Figure – Medium
- S1 0.7289 – 26Jan low – Medium
- S2 0.7268 – 22Jan low – Strong

NZDUSD – fundamental overview

The New Zealand Dollar may be holding up well against the US Dollar right now, but this hasn't stopped the currency from underperforming relative to its peers over the past week. Last week's release of a much softer than expected New Zealand CPI print has been a primary driver of the relative weakness. Most of the Kiwi strength over the past several weeks has been driven off the broad based US Dollar weakness, record stocks and recovering commodities prices. But with US equities capable of rolling over at any moment and sentiment at risk of deteriorating, the market could be getting ready to sell into this rally. As far as the remainder of the day goes, US core PCE is the only notable standout. We have however been hearing about USD demand on month end rebalancing activity.

US SPX 500 – technical overview

The market continues to shrug off severely 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 2772 at a minimum to alleviate immediate topside pressure.



- R2 2900 – Extension Target – Strong
- R1 2859 – 24Jan/Record high – Medium
- S1 2772 – 16Jan low – Medium
- S2 2739 – 10Jan low – Strong

US SPX 500 – fundamental overview

The US equity market has pushed further into record high territory this week in a move that can only be described as a full on meltup. It seems, the combination of blind momentum, expectation US tax reform will ultimately work out well, excitement around infrastructure plans, and a belief the Fed will remain super accommodative in light of a more dovish leaning Fed Chair and ongoing subdued inflation, 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. And so, all of this coupled with 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 in 2017. At this point, it will take a breakdown in this market back below 2772 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. Look for the current run to break through and establish above massive resistance in the form of the 2016 high at 1375, with the push to suggest a major bottom has formed, opening the door for a much larger recovery in the months ahead. Any setbacks should now be well supported ahead of 1300.



- R2 1375 – 2016 high – Very Strong
- R1 1367 – 25Jan high – Medium
- S1 1306 – 4Jan low – Strong
- S2 1294 – 29Dec low – Medium

GOLD (SPOT) – fundamental overview

Solid demand from medium and longer-term players persists, 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 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. The 2016 high at 1375 is a massive level that if broken and closed above, could be something that triggers a widespread panic and rush to accumulate more of the hard asset.

Feature – technical overview

Bitcoin has come under intense pressure since topping out at a record high just shy of 20,000 in December. The market had been in a period of consolidation in the aftermath of the record run, with most of that consolidation playing out between 12,000 and 17,000. The recent break below the consolidation low opens the door for an accelerated decline towards the next measured move extension target around November levels, in the 7,000 area.



- R2 14,500 – 13Jan high – Strong
- R1 12,000 – Previous Support – Medium
- S1 9,200 – 17Jan low – Medium
- S2 7,000 – Measured Move – Strong

Feature – fundamental overview

The crypto asset has come under intense pressure in early 2018, with ramped up regulatory oversight and potential government crackdowns forcing many holders to exit positions. The market has also been on a euphoric ride, with the run gaining too much momentum as latecomers look to get in on the action, often a sign of a bubbling asset. Bitcoin has struggled on the transaction side as well, with transactions per second a major drawback, along with a mining community that has been less willing to process transactions due to the lower fees. The Lightning network is expected to ramp up transaction speed as it is integrated, which could be a big help to Bitcoin, though it seems the combination of a massive bubble, more regulatory oversight and a market that is still trying to convince of its proof of concept, could be at risk for deeper setbacks. Throw in an extended global equities market at risk for its own capitulation and the picture looks even gloomier.



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