

Global FX Insights

by LMAX Exchange Research & Analytics

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

Business As Usual [Wake-up Call](#)

So far, it's been business as usual for markets. The US Dollar remains under pressure in the early days of 2018, while US equities are back at it, looking to extend their run to fresh record highs. Today's economic calendar highlight comes in the form of the Fed Minutes.

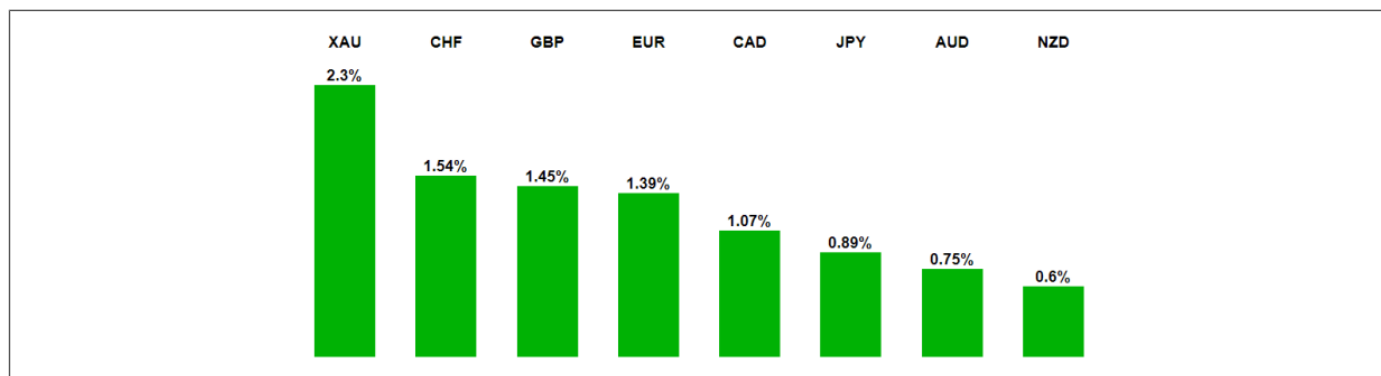
Technical highlights [Daily Video](#)

- **EURUSD** Break of 1.2093 opens 1.2600
- **GBPUSD** Above 1.3660 exposes 1.4200
- **USDJPY** Below 112.00 will accelerate
- **EURCHF** Focus remains on 1.2000 push
- **AUDUSD** Coming into solid resistance
- **USDCAD** Expected to be well supported
- **NZDUSD** Not much more room to run
- **US SPX 500** No end in sight to big trend
- **GOLD** (spot) Thinking about big move
- **Feature** – USDTRY Highly constructive

Fundamental highlights

- **EURUSD** Hawkish weekend comments prop Euro
- **GBPUSD** UK construction PMIs due today
- **USDJPY** Yen will be watching the Fed Minutes
- **EURCHF** SNB strategy will get more challenging
- **AUDUSD** Aussie rally cools ahead of US docket
- **USDCAD** NAFTA risk a big concern for Loonie
- **NZDUSD** Kiwi gets boost from GDT auction
- **US SPX 500** Investor immunity still alive in 2018
- **GOLD** (spot) Global uncertainty supports metal
- **Feature** – USDTRY Turkish inflation data on tap

Five day performance v. US dollar



Suggested reading

- **China's Debt Burden**, J. Authers, Financial Times (January 2, 2018)
- **5 Things to Fear in A Strong Global Economy**, D. Moss, Bloomberg (January 2, 2018)

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 1.2093 – 8Sep/2017 high– Strong
- R1 1.2082 – 2Jan high – Medium
- S1 1.2002 – 2Jan low – Medium
- S2 1.1937 – 29Dec low – Strong

EURUSD – fundamental overview

The Euro has kicked off 2018 with a bid tone, making a run at the 2017 high as the broad based US Dollar selling persists. There are many questions that will need answering, which could have a major impact on the direction here over the next 12 months. The rate at which the Fed and ECB normalize policy respectively will be a major factor, while the politics will also be watched. At the moment, Germany coalition talks, the Italian election and US infrastructure spending plans are big ones. ECB Coeure’s weekend comments that there was a reasonable chance there may not be a QE extension after September have helped to keep the single currency supported on dips this week. As far as today’s docket goes, we get German employment data, US ISM manufacturing and the Fed Minutes late in the day.

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 1.3700 – Figure – Medium
- R1 1.3660 – 20Sep/2017 high – Strong
- S1 1.3495 – 2Jan low – Medium
- S2 1.3426 – 29Dec low – Strong

GBPUSD – fundamental overview

The Pound will take in some UK construction PMIs today, though most of the focus will be on the broader flows, which have been exceptionally supportive. The Pound is coming out of a 2017 which saw the currency in a healthy uptrend throughout the year, as the market priced out the worst of Brexit outcomes, while getting a nice boost from broad based weakness in the US Dollar, after the Buck saw its worst performance since 2003. Higher UK wage growth and inflation have also contributed to the Pound’s recovery. As we look ahead, policy normalisation trajectories at the Fed and BOE will be important to watch, while the next stages of Brexit negotiations will also be getting a lot of attention. As far as today’s docket goes, the primary focus will be on US ISM manufacturing and the Fed Minutes due late in the day.

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 112.98 – 29Dec high – Medium
- S1 112.04 – 15Dec low – Strong
- S2 111.38 – 29Dec low – Medium

USDJPY – fundamental overview

Into 2018, the Yen is trying to figure out whether it needs to be selling off on the ongoing bid in global risk assets and yield differentials that favour the Buck, as the Fed looks to continue with its policy normalisation, or if it needs to be rallying on the back of broad based US Dollar weakness and the possibility that an extended risk market could finally begin to capitulate. These are the big drivers that will dictate direction going forward. As far as today's docket goes, the market will be wanting to see what comes of US ISM manufacturing and the more anticipated Fed Minutes, late in the day.

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 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.

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 ahead of 0.8000.



- R2 0.7898 – 13Oct high – Strong
- R1 0.7845 – 2Jan high – Medium
- S1 0.7724 – 27Dec low – Medium
- S2 0.7700 – Figure – Medium

AUDUSD – fundamental overview

The Australian Dollar has broken up to two multi-week, with the currency extending its recovery into 2018 and outperforming on the day. The combination of surging commodities prices, a broad based wave of US Dollar outflow, rallying iron ore prices and a more upbeat outlook for the Australian economy have been behind this week’s accelerated run of gains. Dealers are however starting to talk decent sell interest from medium term players and the market will need to think about US ISM manufacturing and the Fed Minutes, due later today.

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 1.2696 – 27Dec high – Strong
- R1 1.2590 – 29Dec high – Medium
- S1 1.2501 – 2Jan low – Medium
- S2 1.2434 – 12Oct low – Strong

USDCAD – fundamental overview

The Canadian Dollar has been better bid of late on the back of some solid Canada data, this latest surge in the price of OIL, better bid commodities across the board and some broad based US Dollar outflows. Nevertheless, in 2018, there is plenty of 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 today’s docket goes, absence of first tier data out of Canada will leave the focus on US ISM manufacturing and the more anticipated Fed Minutes, late in the day.

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 0.7132 – 2Jan high – Medium
- S1 0.7029 – 27Dec low – Medium
- S2 0.6955 – 20Dec low – Strong

NZDUSD – fundamental overview

The New Zealand Dollar has broken up to multi-week, 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 accelerated run of gains. Tuesday’s uptick in the GDT auction and some solid Kiwi manufacturing data have also helped the cause. Still, dealers are starting to talk offers from medium term accounts following this impressive run. As far as today’s calendar goes, we get US ISM manufacturing and the Fed Minutes.

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.



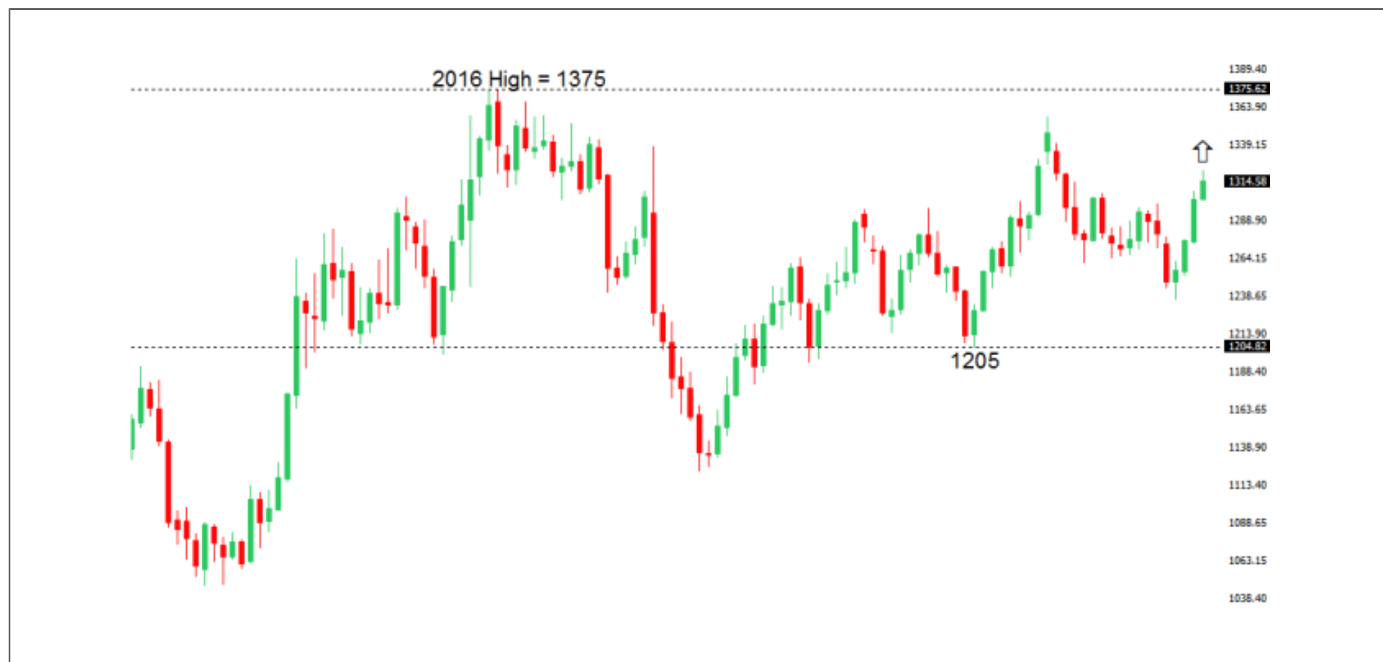
- R2 2750.00 – Extension Target – Strong
- R1 2700.00 – 29Dec/Record high – Medium
- S1 2652.00 – 14Nov low – Strong
- S2 2599.00 – 28Nov low – Strong

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. Perhaps there will be more colour on this front later today, with the Fed Minutes due for release. 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 1334.90 – 13Sep high – Medium
- S1 1281.50 – 27Dec low – Medium
- S2 1236.70 – 12Dec 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 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 is in the process of correcting off the record highs in November to allow for extended studies to unwind. However, the uptrend remains firmly intact and a fresh higher low is now sought out ahead of the next big push through the massive psychological barrier in the form of the 4 handle. Ultimately, any setbacks should be well supported ahead of 3.6500, with only a break back below this level to delay the outlook.



- R2 4.0000 – Psychological – Strong
- R1 3.9820 – 22Nov/Record – Medium
- S1 3.7660 – 30Oct low – Medium
- S2 3.7500 – Psychological – 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 in December. 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. As far as today goes, it will be worth keeping an eye on the latest inflation CPI readings out of Turkey. We then get the Fed Minutes late in the day.



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