Tuesday, December 6, 2016

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Back to Business As Usual **Wake-up Call**

The tone in markets has taken a 180 shift since the Monday open, with the Euro recovering sharply, stocks back up near record highs and GOLD taking a big hit. All of this comes in the aftermath of a NO vote in the Italian referendum that had largely been priced in and that the market no longer seems to be too concerned about.

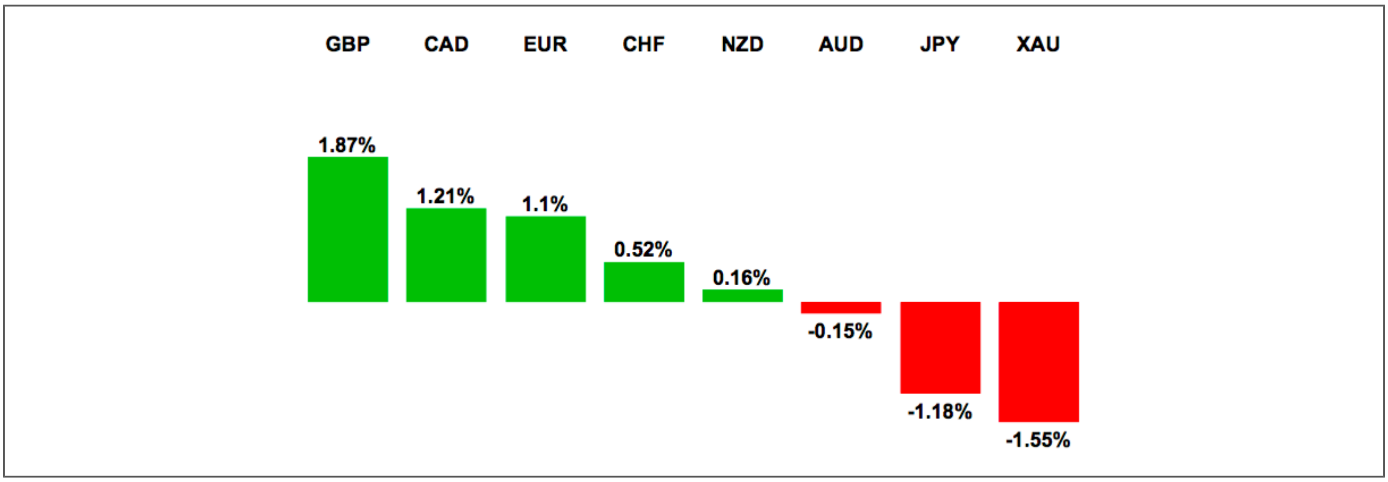
Technical highlights **Daily Video**

- **EURUSD** Rallies seen well capped
- **GBPUSD** Downtrend firmly intact
- **USDJPY** Stalls out into key barrier
- **EURCHF** Room for deeper drop
- **AUDUSD** Lower top sought out
- **USDCAD** Dips to be supported
- **NZDUSD** Additional upside limited
- **US SPX 500** Key support at 2180
- **GOLD** (spot) Major base still in play
- **Feature** – USDTRY Just off record

Fundamental highlights

- **EURUSD** Euro benefits from short covering rally
- **GBPUSD** Dealers talk of renewed Sterling offers
- **USDJPY** St. Louis Fed sees one hike through 2019
- **EURCHF** SNB not getting enough help from risk on
- **AUDUSD** RBA issues warning on growth outlook
- **USDCAD** Canada trade data comes into focus
- **NZDUSD** Kiwi propped on AUDNZD cross demand
- **US SPX 500** Investors buying but momentum waning
- **GOLD** (spot) Hard-asset rotation making sense
- **Feature** – USDTRY Lira needs more help from CBRT

Five day performance v. US dollar



Suggested reading

- **Complacency and the Fat Left Tail**, J. Hussman, Hussman Funds (December 5, 2016)
- **Finally Time for GOLD to Shine?**, J. Felder, The Felder Report (December 2, 2016)

EURUSD – technical overview

The recent break below what had been the 2016 low at 1.0711 has opened the door for this deeper drop into longer-term support in the form of the multi-year base from 2015 at 1.0463. Any rallies should remain well capped below 1.1000, with a only a break and daily close above this barrier to take the immediate pressure off the downside.

- **R2 1.0905** – 25Oct low – Strong
- **R1 1.0796** – 5Dec high – Medium
- **S1 1.0685** – 28Nov high – Medium
- **S2 1.0552** – 30Nov low – Strong

EURUSD – fundamental overview

An impressive recovery for the Euro over the past 24 hours, with the market racing higher following an initial drop to fresh 2016 lows in the aftermath of the mostly priced in Italian NO vote. Most of the price action has been classified as a short covering rally and the market will now spend the coming sessions positioning ahead of Thursday's highly anticipated ECB meeting in which many are speculating could invite talk of ECB tapering. As far as today's calendar goes, German factory orders, Eurozone GDP readings and US trade are the notable standouts.

GBPUSD – technical overview

The market has broken out of a multi session consolidation off the multi-year low, which has opened a sizable correction higher. Ultimately, there is room to run a little more to the 1.2800 area without compromising the intense downtrend, with a lower top sought out in favour of a bearish resumption back towards 1.2000. Only a weekly close above 1.2800 would compromise the structure. A daily close below 1.2300 will put the immediate pressure back on the downside.

- **R2 1.2796 –** 6Jul low – Strong
- **R1 1.2750 –** Mid-Figure – Medium
- **S1 1.2625** – 5Dec low – Medium
- **S2 1.2386** – 28Nov low – Strong

GBPUSD – fundamental overview

The Pound continues to benefit from a run of US Dollar profit taking and speculation Brexit may not be as hard as many had feared with the UK potentially gaining access to the single market. Still, dealers have been reporting decent sell interest into this rally, with many offers sitting in the 1.2800-1.3000 area, looking to take advantage of currency that remains in a downtrend with many uncertainties that should continue to strain additional upside. Yield differentials with the US are also cited as a driver behind the sell interest. Looking ahead, the UK calendar is quiet with US trade data as the only notable standout.

USDJPY – technical overview

The major pair has seen an intense bullish shift in recent days, with the most recent break above 107.50 exposing fresh upside towards next meaningful resistance in the 115.00 area. However, daily studies are looking stretched which suggests that additional upside could be limited in favour of a more significant healthy corrective pullback. But ultimately, any setbacks are expected to be well supported above previous resistance at 107.50.

- **R2 114.83** – 1Dec high – Strong
- **R1 114.50** – Mid-Figure – Medium
- **S1 112.87** – 5Dec low – Medium
- **S2 111.36** – 28Nov low – Strong

USDJPY – fundamental overview

An impressive run of US Dollar strength looks to be waning after the major pair stalled shy of psychological barriers at 115.00. It seems last Friday's subdued hourly earnings in the US employment report and this latest Fed Bullard line that the St. Louis model shows one just one Fed hike through 2019 could be having an influence on price action, opening a return of two way flow that includes Yen demand. Looking ahead, US trade data is the only notable standout on today's calendar.

EURCHF – technical overview

A recent close below 1.0800 which had been defined as the bottom of a multi-week range strengthens the bearish outlook and opens the door for an acceleration of declines towards the 2016 low at 1.0624. At this point, a daily close back above 1.0865 would now be required to take the immediate pressure off the downside and suggest the market is once again looking settle back into the previous range.

- **R2 1.0865** – 28Oct high – Strong
- **R1 1.0854** – 5Dec high – Medium
- **S1 1.0687** – 18Nov low – Medium
- **S2 1.0624** – 24Jun/**2016 low** – Strong

EURCHF – fundamental overview

The SNB has unquestionably had a challenging time of late, with the central bank forced to contend with an ongoing wave of demand for the Swiss Franc, mostly recently in the aftermath of this latest Italian referendum NO vote. The central bank has been committed to its mandate of ensuring the Franc does not appreciate further through monetary policy and intervention tools. Though despite all efforts, the Franc continues to want to appreciate against the Euro. It seems the strategy has been to buy Euro when risk comes off and to do nothing when risk is back on and natural flows should be CHF bearish. But the trouble is, with risk mostly on and global equities elevated, the Franc is still not depreciating as much as the SNB would probably like to see and if global risk sentiment deteriorates, it could invite a massive wave of demand for the Franc that the SNB will be unable to offset. Today, the market will be digesting important Swiss inflation data.

AUDUSD – technical overview

The latest break below 0.7400 is a significant development and now opens the door for deeper setbacks towards next key support at 0.7145 in the days ahead. At this point, look for any rallies to be well capped ahead of 0.7600. Only back above 0.7700 delays the bearish outlook.

- **R2 0.7582** – 15Nov high – Strong
- **R1 0.7498 –** 29Nov high– Medium
- **S1 0.7371** – 1Dec low – Medium
- **S2 0.7312** – 21Nov low – Strong

AUDUSD – fundamental overview

While the RBA went ahead and left rates on hold as expected, maintaining a mostly neutral policy stance, there was a downbeat tinge in the decision that has been weighing on Aussie in Tuesday trade. The RBA came out and issued warnings on the growth outlook, which in turn caused Westpac to downgrade its Q3 growth forecasts. And so, we have seen a bit of a repricing of what were more hawkish expectations, which could continue to weigh in the sessions ahead. As far as the remainder of the day goes, we get US trade data as the main standout.

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 well ahead of 1.3000 in favour of the next major upside extension towards a measured move objective into the 1.4000 area. Ultimately, only back below 1.3000 would delay the constructive outlook.

- **R2 1.3482** – 29Nov high – Strong
- **R1 1.3357** – 30Nov low – Medium
- **S1 1.3236** – 5Dec low – Strong
- **S2 1.3200** – Figure – Medium

USDCAD – fundamental overview

A run of more upbeat Canada economic data and an impressive recovery in the price of OIL have been fueling a resurgence in demand for the Canadian Dollar in recent days. This latest bout of broad based profit taking on long USD exposure is also helping the Loonie. However, yield differentials continue to favour the US Dollar and bids are USDCAD bids are expected to emerge as this pair trades closer to 1.3000. Looking ahead, the market will start to position ahead of Wednesday's Bank of Canada decision, though today's Canada trade data should not be overlooked. US trade data is also due for release.

NZDUSD – technical overview

Despite the latest bounce, the overall pressure has shifted back to the downside with the market now expected to be very well capped on rallies ahead of 0.7300. Look for a fresh lower top at 0.7403 in favour of the next major downside extension below 0.6952 and towards medium-term support at 0.6675 further down.

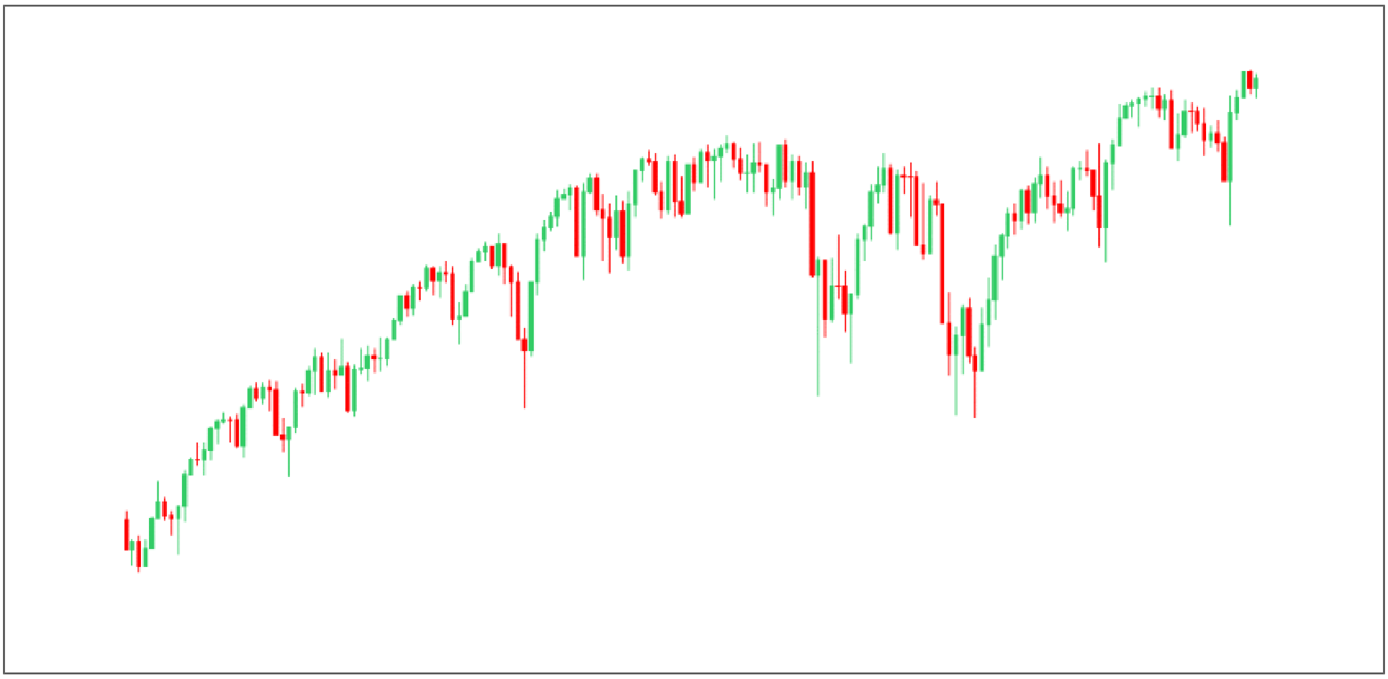
- **R2 0.7229** – 11Nov high – Strong
- **R1 0.7170** – 30Nov high – Medium
- **S1 0.7043** – 1Dec low – Medium
- **S2 0.7000** – Psychological – Strong

NZDUSD – fundamental overview

While most of the market was focused on a PM Renzi resignation early Monday, over in New Zealand, it was the shocking announcement of PM Key's resignation that had local traders' attention. According to the PM, it was time time to step down given his level of exhaustion and toll the position had taken on his family over the years. Still, not much of a reaction in the Kiwi market, with participants seemingly confident in the prospect of a competent successor in the form of Deputy PM English. We have seen some NZD demand on cross related AUDNZD selling in the aftermath of the RBA decision in which the central bank issued warnings on the growth outlook. But overall, Kiwi has been playing a game of follow the leader and is less focused on domestic fundamentals. Looking ahead, US trade data is the only notable standout on Tuesday.

US SPX 500 – technical overview

While this latest surge back to a fresh record high could compromise what has been the possibility for a toppish structure, the risk is still tilted to the downside if the market fails to establish above 2200 on a monthly close basis. But ultimately, at this point, any topside failure will also need to be met with a break back below 2100 to once again encourage the possibility for a bearish structural shift. Initial support comes in at 2180, with a break below to take the immediate pressure off the topside.



- **R2 2250.00** – Psychological – Strong
- **R1 2215.00** – 30Nov/**Record high** – Medium
- **S1 2180.00** – 5Dec low – Medium
- **S2 2156.00** – 25Oct high– Strong

US SPX 500 – fundamental overview

The ongoing support for US equities has been more than impressive, particularly at a time when the Fed is about to embark on a steady path to policy normalisation. But the market will need to once again think about the bigger, more worrying issue at hand, which is an exhaustion of global monetary policy tools globally and an inability for central banks to continue to support and stimulate growth. This leaves financial markets vulnerable to any shocks and exposed to intense periods of additional risk liquidation going forward, especially at a time when the Fed is moving further away from accommodation.

GOLD (SPOT) – technical overview

Despite a major setback, the overall structure remains constructive with the market in the process of carving out a longer-term base. Look for any weakness to be very well supported above 1130, with only a close back below this level to negate the basing outlook and give reason for pause. Back above 1197.70 strengthens the outlook and should accelerate gains towards a retest of the 2016 peak at 1375.

- **R2 1221.10** – 22Nov high – Strong
- **R1 1197.70** – 28Nov high – Medium
- **S1 1157.10** – 5Dec low – Medium
- **S2 1150.00** – Psychological – Strong

GOLD (SPOT) – fundamental overview

GOLD has suffered quite a blow over the past several days, with the yellow metal unable to ignore the intense rotation into the US Dollar. However, solid demand from medium and longer-term players continues to emerge on dips despite the setbacks, with these players more concerned about the limitations of exhausted monetary policy, extended global equities, systemic risk and a bet that record low inflation will turn up even faster in a Trump presidency. All of this will almost certainly continue to keep the commodity in demand, even if the Buck is propped, 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

USDTRY continues to push into unchartered territory, breaking to yet another record high, this time through psychological barriers at 3.5000, stalling just shy of 3.6000. While the uptrend remains firmly intact, daily studies are now at the point where they are overextended. This warns of some form of a major corrective pullback ahead to allow for these studies to unwind. Medium-term studies are also extended, yet another indication we could soon see a period of correction. Ultimately however, any setbacks should be well supported ahead of 3.2000.

- **R2 3.6500** – Psychological – Strong
- **R1 3.5950** – 2Dec/**Record High** – Medium
- **S1 3.4070** – 29Nov low – Medium
- **S2 3.3515** – 21Nov low – Strong

Feature – fundamental overview

While it's been clear for some time the Erdogan government has been opposed to rate hikes, with Erdogan even calling for rate cuts in the previous week, it has also been very difficult to ignore the necessity for such action with the Lira continuing to decline to record lows. The other week, the CBRT went ahead and pushed rates up 50 basis points in an effort to offset some of this currency depreciation, though it seems the market is going to need a more aggressive move if it is going to make a dent in the current environment. Event risk and political risk are major headaches on the domestic front, while the CBRT also has to continue to worry about Fed normalisation. One major bank has come out with a downbeat assessment for Turkey and the Lira into 2017, declaring that Turkey has 'by far the worst external position in CEEMEA'. The CBRT's latest financial stability report has tried to paint a more upbeat picture but that's a difficult thing to do when the currency is crashing and you get trade data showing a wider deficit.