

# Global FX Insights

by LMAX Exchange Research & Analytics

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

## Does it Still Pour When it Rains? [Wake-up Call](#)

There's a lot more uncertainty into Wednesday, which could weigh more heavily on sentiment in the sessions ahead. The economic calendar won't get that much attention, though it's worth noting we get German factory orders and construction PMIs, US ADP and the BoC decision.

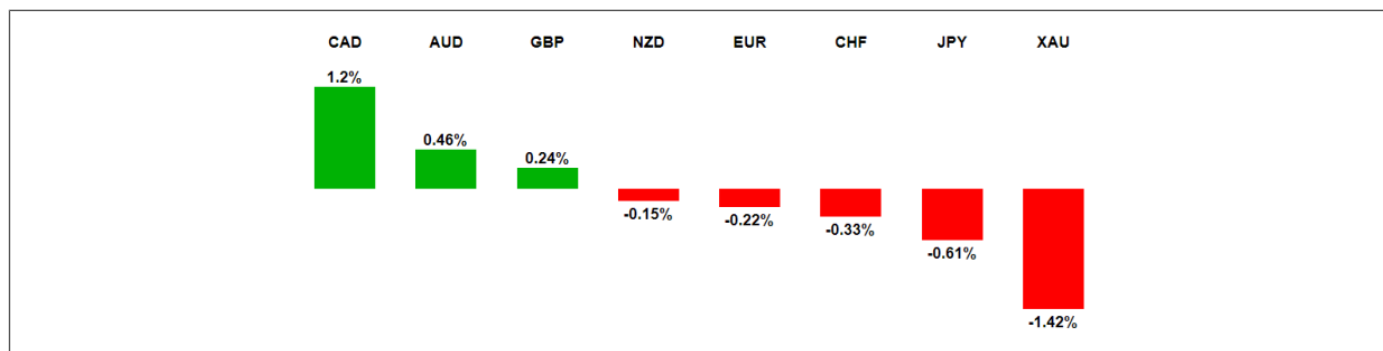
### Technical highlights [Daily Video](#)

- **EURUSD** Setbacks should be limited
- **GBPUSD** Plenty of room to extend run
- **USDJPY** Confined to defined range
- **EURCHF** Consolidates for next run
- **AUDUSD** Signs of healthy correction
- **USDCAD** Recovery alive above 1.2400
- **NZDUSD** Attempting to turn back up
- **US SPX 500** Highly extended chart
- **GOLD** (spot) Lower but supported
- **Feature** – USDTRY Major barrier

### Fundamental highlights

- **EURUSD** German factory orders, PMIs
- **GBPUSD** Divorce bill holdup trips up Pound
- **USDJPY** US tax reform optimism fades
- **EURCHF** SNB strategy will get more challenging
- **AUDUSD** Aussie hit on softer Australia GDP print
- **USDCAD** Loonie looking ahead to BoC decision
- **NZDUSD** Kiwi gets help from positive GDT
- **US SPX 500** Investors keep shrugging red flags
- **GOLD** (spot) Macro accounts happy to buy dips
- **Feature** – USDTRY Surging inflation to force action

## Five day performance v. US dollar



## Suggested reading

- [ETF Managers Are A Better Buy Than ETFs](#), M. Johnson, Financial Times (December 5, 2017)
- [So Long, Year of the Bond Market Rooster](#), M. Ashworth, Bloomberg (December 5, 2017)

## EURUSD – technical overview

The recent break back above 1.1880 is a significant development, as it undermines the prospect for a deeper correction, while opening the door 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. Only a daily close back below 1.1700 will delay this outlook.



- R2 1.2000 – Psychological – Strong
- R1 1.1962 – 27Nov high – Medium
- S1 1.1809 – 30Nov low – Medium
- S2 1.1714 – 21Nov low – Strong

## EURUSD – fundamental overview

The Euro has come under mild pressure on the back of some softer data this week, though the single currency has also done a good job holding up into dips. Germany factory orders and construction PMIs will be digested ahead of US ADP employment later in the day. Most of the market’s focus right now is on the bigger picture politics, with Brexit, US tax reform updates, a potential government shutdown in the US and a wider Trump-Russian collusion probe all taking the spotlight.

## GBPUSD – technical overview

The market has broken out to the topside, signaling the end to a range that had defined price action since early October. The push back above 1.3340 now suggests the market is poised for a continuation of the 2017 uptrend, with a higher low in place at 1.3027, to be confirmed 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 that previous range resistance now turned support at 1.3340.



- R2 1.3549 – 30Nov high – Strong
- R1 1.3482 – 5Dec high – Medium
- S1 1.3370 – 5Dec low – Medium
- S2 1.3338 – 13Oct low – Strong

## GBPUSD – fundamental overview

The Pound continues to hold up well despite failure to formalise the Brexit divorce bill. Complications involving the Northern Ireland border have been the sticking point, and while there has been added tension into Wednesday, both sides remain optimistic this will be worked out so they can keep with the timeline and push forward to trade and transition talks. As far as today’s docket goes, absence of first tier data out of the UK will continue to leave the focus on Brexit divorce bill developments. We also get US ADP employment later on, while US tax reform updates, a potential government shutdown in the US and a wider Trump-Russian collusion probe, will all get plenty of attention as well.

## 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 break below 111.65 reaffirms this outlook, encouraging the next big drop all the way back to the range lows in the 107-108 area. Look for rallies to be well capped below 113.50.



- R2 113.44 – 6Oct high – Strong
- R1 113.09 – 4Dec high – Medium
- S1 111.41 – 1Dec low – Medium
- S2 110.84 – 27Nov high – Strong

## USDJPY – fundamental overview

Overall, the combination of broad based negative sentiment for the US Dollar in 2017 and highly extended US equity market, that could soon be on the verge of rolling over, are major drivers that could weigh heavily on the major pair going forward. Tax reform optimism has faded in the US on account of worry over a watered down bill if the 20% alternative minimum tax rate is preserved. The market is also worried about a potential US government shutdown, wider Trump-Russian collusion probe and ongoing geopolitical tension with North Korea. As far as today’s economic calendar goes, US ADP employment is the only notable standout.

## 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 1.1738 – 1Dec/2017 high – Medium
- S1 1.1544 – 5Nov low – Medium
- S2 1.1485 – 17Oct 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, 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

The market has been under a lot of pressure over the past several weeks, extending declines into the 0.7500s thus far. It's worth noting technical studies are in the process of unwinding from oversold readings, resulting in this latest minor bounce. But overall, the pressure is on the downside and rallies are viewed as corrective while below 0.7900.



- R2 0.7696 – 10Nov high – Strong
- R1 0.7666 – 13Nov high – Medium
- S1 0.7580 – 4Dec low – Medium
- S2 0.7533 – 21Nov low – Strong

## AUDUSD – fundamental overview

The Australian Dollar has forgotten about Tuesday's solid retail sales and less dovish RBA decision, with the Australian Dollar weighed back down into Wednesday on weaker than expected Australia GDP, falling commodities prices and a reduction in risk appetite. Looking ahead, we get US ADP employment, while US tax reform updates, a potential government shutdown in the US and a wider Trump-Russian collusion probe, will all get plenty of attention as well.

## 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 immediate focus now on a retest of the psychological barrier at 1.3000. In the interim, any setbacks should now be well supported ahead of 1.2600.



- R2 1.2837 – 21Nov high – Strong
- R1 1.2727 – 4Dec high – Medium
- S1 1.2650 – Mid-Figure – Medium
- S2 1.2599 – 6Oct high – Strong

## USDCAD – fundamental overview

Despite last Friday’s solid Canada jobs data and a decent trade print this week, the overall outlook for the Canadian Dollar is less favourable than this latest run of data leads on, with many still worried about a Bank of Canada that may have been too aggressive with consecutive rates hikes this year and economic data that has deteriorated since. We will get more colour from the Bank of Canada when it meets later today, with no change expected on rates. It will be interesting to see if there are any upgraded concerns from Poloz and company with respect to the outlook for NAFTA, a theme that could become a much bigger issue into 2018. US ADP employment is also due, while US tax reform updates, a potential government shutdown in the US and a wider Trump-Russian collusion probe, will all get plenty of attention as well.

## NZDUSD – technical overview

Medium term studies have turned down sharply after the market pushed up to a plus two year high through 0.7500 in late July. A recent break below 0.7000 has opened a more meaningful reversal that has accelerated declines to fresh 2017 lows below 0.6800. This sets the stage for a fresh downside extension to support from May 2016 at 0.6676, though with daily studies looking stretched, the market is taking time to allow those studies to unwind before making the next move. While below 0.7200, the structure remains bearish.



- R2 0.6945 – 28Nov high – Strong
- R1 0.6913 – 1Dec high – Medium
- S1 0.6817 – 1Dec low – Medium
- S2 0.6780 – 17Nov/2017 low – Strong

## NZDUSD – fundamental overview

The New Zealand Dollar is trying to claw its way back to recovery out from recent 2017 lows and is getting some help this week from RBNZ Spencer who talked about greater inflation targeting flexibility, and the Tuesday GDT auction result, which managed to produce the first positive print since September. But overall, we would caution against getting optimistic about Kiwi's prospects. Economic data has been less than impressive on the whole and this should keep the RBNZ erring on the side of accommodation. Looking ahead, we get US ADP employment, while US tax reform updates, a potential government shutdown in the US and a wider Trump-Russian collusion probe, will all get plenty of attention as well.



## 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.



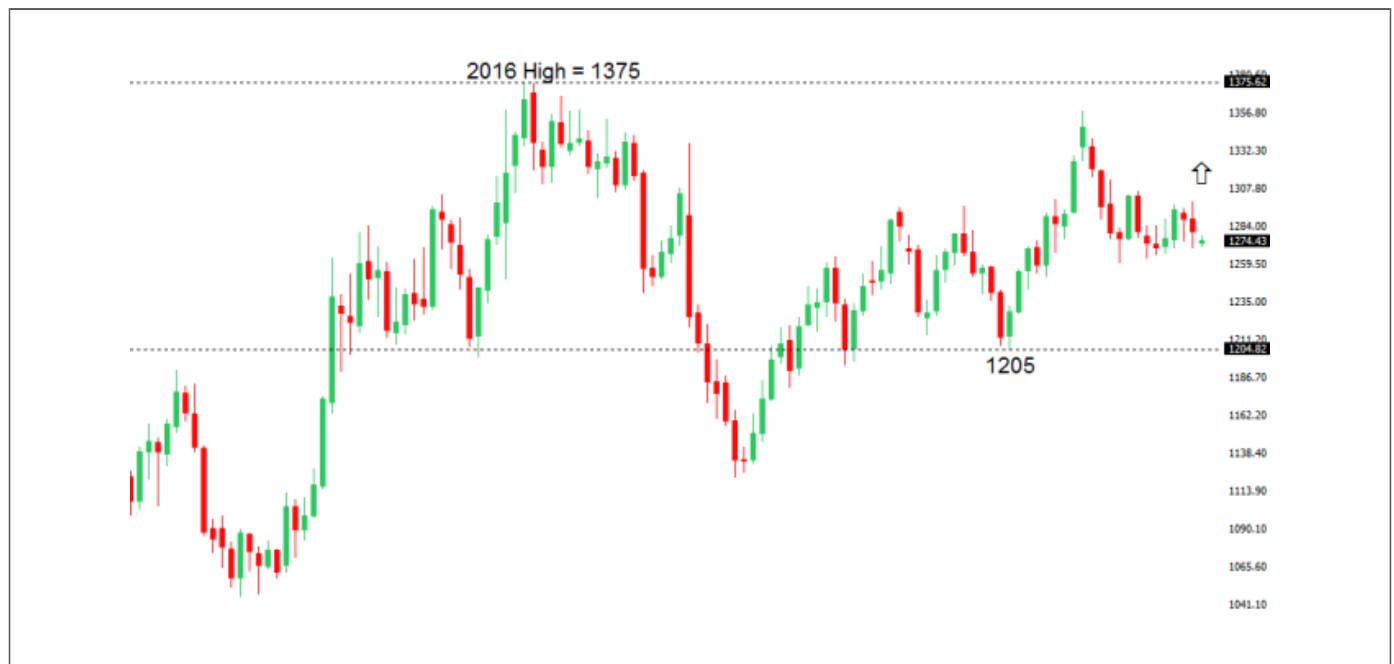
- R2 2700.00 – Extension Target – Strong
- R1 2665.00 – 4Dec/Record high – Medium
- S1 2599.00 – 28Nov low – Strong
- S2 2557.00 – 15Nov low – Strong

## 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 and the appointment of Jerome Powell as the next Fed Chair are helping to keep the move going. But at the same time, 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 another rate hike still on the cards this month. But for now, it's more of the same, with the market shrugging off any red flags, including doubts over the effectiveness of tax reform, a possible government shutdown and a wider probe into the Trump-Russia collusion investigations. 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 around 1260 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 1334.35 – 15Sep high – Strong
- R1 1316.10 – 20Sep high – Medium
- S1 1260.70 – 6Oct low – Medium
- S2 1251.45 – 8Aug 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 1260.

## 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 3.8400 – 5Dec low – Medium
- S2 3.7660 – 30Oct low – Strong

## Feature – fundamental overview

The CBRT is in that awful position of needing to decide between reacting to rocketing inflation and a free fall in the currency, or to a sluggish economy that is strained by the removal of any accommodation in place. Of course, the situation is even more stressful for the CBRT, with President Erdogan consistently calling for more accommodation. Monday's inflation data came in hot yet again and has done nothing to help the central bank's cause, though we have since seen the Lira recover a little, perhaps with the market feeling more confident in the CBRT taking action as the move will be more justified in the eyes of the government. How the CBRT decides to tighten policy is another question and we could see moves by way of alternative mechanisms.



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