

# Global FX Insights

by LMAX Exchange Research & Analytics

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

## Thinking About ECB, Fed and Year End Flow [Wake-up Call](#)

FX trade has been rather subdued over the past 24 hours, with market participants seemingly more comfortable positioning ahead of upcoming ECB and Fed decisions, while also getting ready for year end flow. Looking ahead, we get German and UK industrial production, a BoC decision and US JOLTS job openings.

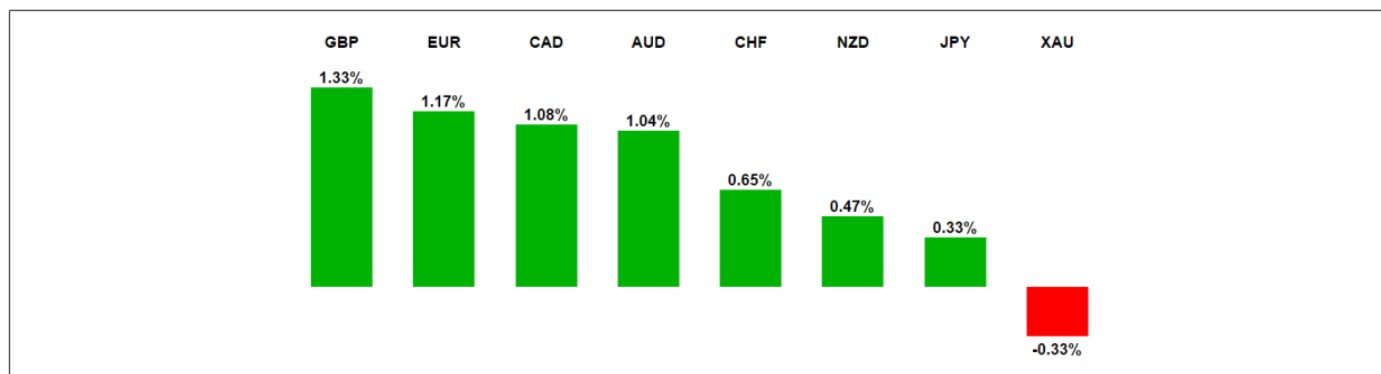
### Technical highlights [Daily Video](#)

- **EURUSD** Looking for lower top
- **GBPUSD** Previous base caps gains
- **USDJPY** Tired ahead of key barrier
- **EURCHF** Fresh downside expected
- **AUDUSD** Room for further decline
- **USDCAD** Higher low sought out
- **NZDUSD** Deeper setbacks ahead
- **US SPX 500** Bullish above 2180
- **GOLD** (spot) Testing internal support
- **Feature** – USDTRY Highly constructive

### Fundamental highlights

- **EURUSD** Euro settles in ahead of ECB decision
- **GBPUSD** High Court ruling expected to be upheld
- **USDJPY** BOJ Deputy Governor Iwata talking easy
- **EURCHF** SNB needs to worry about equity bubbles
- **AUDUSD** Aussie GDP forces RBA outlook rethink
- **USDCAD** BoC policy announcement takes centre stage
- **NZDUSD** Upbeat Wheeler comments have little impact
- **US SPX 500** Stocks ignoring red flag warning signs
- **GOLD** (spot) Fearless bulls continue to build longs
- **Feature** – USDTRY Profit taking offers minor relief

## Five day performance v. US dollar



## Suggested reading

- **SocGen's 'Most Worrying Chart'**, L. Kawa, Bloomberg (December 6, 2016)
- **Gold Appetite Hit a 5 Year High**, M. Saefong, MarketWatch (December 6, 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

Monday's impressive recovery has been followed up with quiet subdued trade and the market now seems to be more comfortable sitting back ahead of tomorrow's highly anticipated ECB policy decision. Today, we get German industrial production and US JOLTS job openings as the key standouts on the economic calendar.

## 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 1.2775 – 6Dec high – Medium
- S1 1.2625 – 5Dec low – Medium
- S2 1.2386 – 28Nov low – Strong

## GBPUSD – fundamental overview

The market is expecting the UK High Court's ruling will be upheld, which will allow British lawmakers to have a transparent debate on Brexit. This has been somewhat supportive of the Pound on dips given softer Brexit implications. But we've also seen a lightening up of Sterling longs following an impressive rally towards 1.2800 and the market is clearly trying to not get ahead of itself with being too optimistic on the Brexit outlook. Looking ahead, UK industrial and manufacturing data is due, while in the US, JOLTS job openings stands out.

## 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

BOJ Deputy Governor Iwata was on the wires earlier today saying the BOJ would ease further if needed, while stressing it would be 'inappropriate' to conclude the central bank has shifted its focus away from expanding the monetary base. All of this easy money talk makes things even more interesting as we head into tomorrow's ECB decision and next week's FOMC, particularly with the Fed on its normalisation path and speculation building the ECB is considering a taper. This has kept the Yen on the decline, with USDJPY at multi-day highs and threatening a push beyond 115.00 barriers. Record high US equities is also forcing the Yen lower. Looking ahead, we get US JOLTS job openings as the main standout on the 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 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.

## 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

The big news on the day has been the extremely disappointing GDP read out of Australia, with the headline coming in at -0.5% quarter over quarter versus -0.1% forecast and 1.8% year over year versus 2.2% expected. This has clearly weighed on the Australian Dollar with many now repricing what had been more hawkish RBA outlooks. Still, it's worth noting that a surge in the price of iron ore futures has managed to soften the blow to Aussie a good deal. Looking ahead, US JOLTS job openings is the only other notable standout 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 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 be fixated on the upcoming Bank of Canada decision. No change is expected on rates but it will be interesting to see if the central bank gives off a more upbeat assessment in light of a better data run and higher OIL. US JOLTS job openings are also due today.

## 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

Not much of a reaction to early Wednesday comments from RBNZ Wheeler who said the local economy was performing relatively well and that he expected inflation to be back in the target band by the fourth quarter. But we have seen some NZD demand on cross related AUDNZD selling in the aftermath of this latest disappointing Aussie GDP showing. Overall, Kiwi has been playing a game of follow the leader and is less focused on domestic fundamentals, instead worrying more about broader macro themes. Looking ahead, US JOLTS job openings is the main standout for the remainder of the day.



## 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.



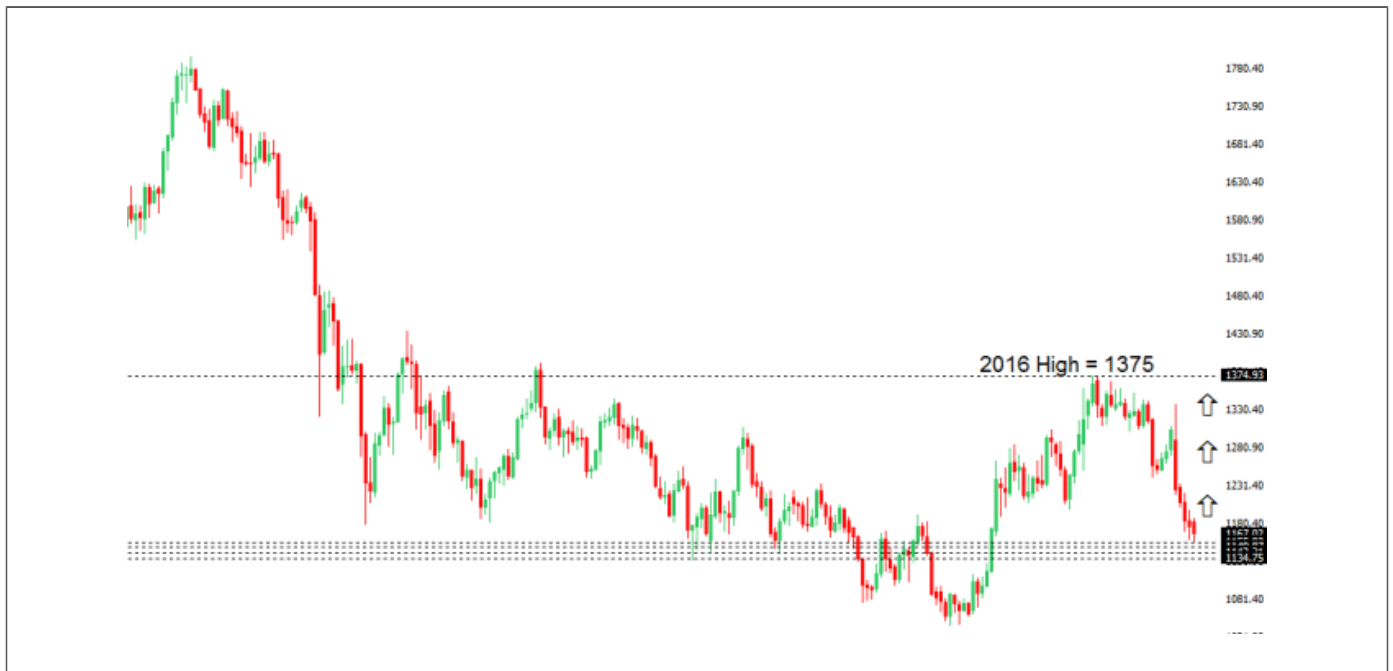
- R2 2250.00 – Psychological – Strong
- R1 2215.00 – 30Nov/Record high – Medium
- S1 2180.00 – 5Dec low – Medium
- S2 2156.00 – 25Oct high– Strong

## 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 uncharted 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. We have seen a mild Lira recovery, though the price action has been attributed to short-term profit taking.



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