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by LMAX Exchange Research & Analytics

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US Dollar Exposed to Deeper Drop [Wake-up Call](#)

There wasn't anything for the US Dollar to feel good about this past Friday, with the economic data disappointing, highlighted by another soft reading in the hourly earnings component of the jobs report. This could open more USD setbacks in the days ahead.

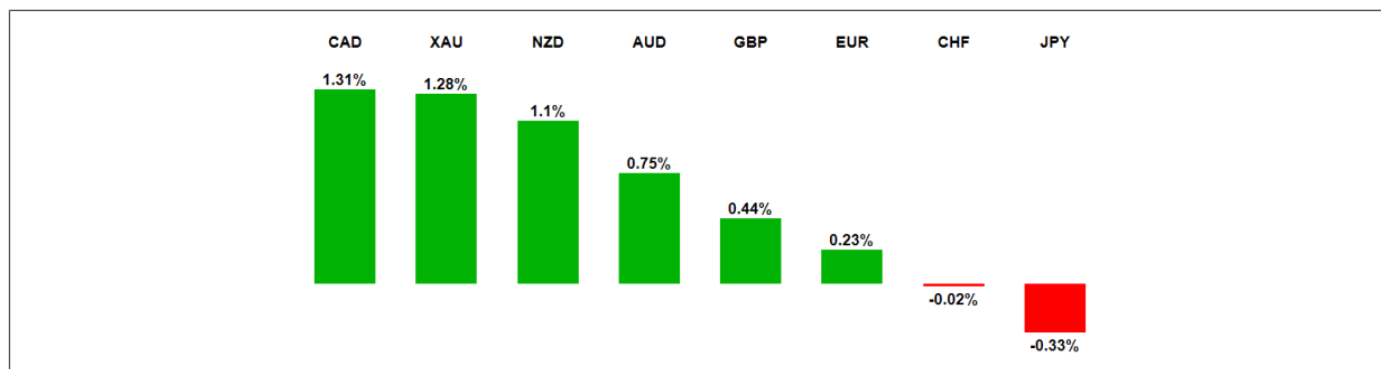
Technical highlights [Daily Video](#)

- **EURUSD** Back to consolidating for now
- **GBPUSD** Waiting for next breakout
- **USDJPY** Confined to choppy range
- **EURCHF** Aiming for retest of 1.2000
- **AUDUSD** Could be running out of gas
- **USDCAD** Expected to turn back up
- **NZDUSD** Kiwi run at risk of stalling
- **US SPX 500** Parabolic rally persists
- **GOLD** (spot) Sights set on 2016 high
- **Feature** – USDTRY Looking to 4.00

Fundamental highlights

- **EURUSD** Eurozone sentiment readings out
- **GBPUSD** All quiet on the Brexit front thus far
- **USDJPY** Higher stocks weighing on the Yen
- **EURCHF** SNB strategy will get more challenging
- **AUDUSD** Aussie construction print slides
- **USDCAD** Canada jobs beat fuels surging Loonie
- **NZDUSD** Dealers reporting decent sell interest
- **US SPX 500** Stocks bid on soft hourly earnings
- **GOLD** (spot) Global uncertainty supports metal
- **Feature** – USDTRY CBRT still needs to worry

Five day performance v. US dollar



Suggested reading

- **Theresa May Set for A Better Year**, J. Ganesh, Financial Times (January 5, 2018)
- **The Lessons of 2017 for Hedge Funds**, M. Gilbert, Bloomberg (January 5, 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 1.2090 – 4Jan high – Medium
- S1 1.2002 – 2Jan low – Medium
- S2 1.1937 – 29Dec low – Strong

EURUSD – fundamental overview

The Euro hasn't been able to extend its run, after stalling ahead of the 2017 high in the previous week. The setbacks are somewhat strange considering the softer batch of US data on Friday, including another subdued US hourly earnings print. Meanwhile, ECB Weidmann has been out talking a fix for the date to end bond purchases. As far as today's docket goes, we get German factory orders and Eurozone sentiment readings. We also get some Fed speak, with Bostic, Williams and Rosengren on the wires.

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 1.3660 – 20Sep/2017 high – Very Strong
- R1 1.3613 – 3Jan high – Medium
- S1 1.3495 – 2Jan low – Medium
- S2 1.3426 – 29Dec low – Strong

GBPUSD – fundamental overview

All has been rather quiet on the Brexit front so far this year, while the UK economic calendar has been quiet as well. This has left the Pound trading on the broader flow and largely supported just off the 2017 high on the back of an overwhelming negative sentiment towards the US Dollar. However, there has been some profit taking on short term longs after the major pair was unable to extend gains despite the discouraging Friday US data highlighted by another subdued hourly earnings component in the jobs report. Looking ahead, we get speeches from Fed's Bostic, Williams and Rosengren. UK Halifax house prices won't factor into trade.

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 113.31 – 5Jan 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, 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. Into the new week, USDJPY has been bid up a bit, despite the discouraging US data this past Friday, with the record run in stocks playing a role here. However, the gains haven't been all that impressive considering, and with equities well extended, there could be room for another USDJPY decline ahead. Looking ahead, the focus for Monday will be a round of Fed speak from Bostic, Williams and Rosengren.

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 have turned back up over the past several days, with the market in the process of recovering after trading down to a fresh multi-day low around the 0.7500 barrier in December. 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 0.7876 – 5Jan high – Medium
- S1 0.7794 – 2Jan low – Medium
- S2 0.7724 – 27Dec low – Strong

AUDUSD – fundamental overview

The latest round of Aussie data has been coming in on the softer side, with weaker trade followed up by a slide in the performance of construction index. This has resulted in the Australian Dollar retreating off multi-week highs. Overall however, the Australian Dollar has been better bid, with the currency extending its recovery into 2018. The combination of surging commodities prices, record US stocks, 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 run of gains. Interestingly, Aussie has not been able to do much with Friday's soft batch of US data, highlighted by another subdued hourly earnings component. Looking ahead, the focus for Monday will be a round of Fed speak from Bostic, Williams and Rosengren.

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 ahead of 1.2300.



- R2 1.2590 – 29Dec high – Strong
- R1 1.2519 – 5Jan high – Medium
- S1 1.2356 – 5Jan low – Medium
- S2 1.2300 – Figure – Strong

USDCAD – fundamental overview

The market wasn't thinking about a disappointing Canada trade number on Friday, with the booming Canada jobs report opening a big surge in the Loonie. USDCAD stops were tripped up below 1.2400 and this was helped along by the concurrent release of a US jobs report letdown, after hourly earnings came in subdued yet again, while NFPs were lower and other US data missed as well. The Canadian Dollar has also been better bid of late on the recovery in the price of OIL, better bid commodities across the board, higher US equities, and broad based US Dollar outflows. All of this is having an impact on yield differentials, with the market getting back to pricing in a more aggressive Bank of Canada normalisation timeline. 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. Looking to today's calendar, we get the Bank of Canada business outlook survey and a round of Fed speak from Bostic, Williams and Rosengren.

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 the prospect for this current run towards a measured move objective at 0.7200. However, once this area is tested, additional upside is expected to be limited, with the market at risk of rolling over again.



- R2 0.7203 – 17Oct high – Strong
- R1 0.7188 – 5Jan 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 highs, with the currency extending its recovery off the 2017 low from November. The combination of surging commodities prices, record high US equities and a broad based wave of US Dollar outflow have been behind this accelerated run of gains. Last week's uptick in the GDT auction and some solid Kiwi manufacturing data have also helped the cause, though technical traders cite solid resistance into 0.7200, while dealers report heavy sell orders around the barrier as well, which could limit gains from here. Certainly, the inability for the Kiwi rate to extend the run after US data disappointed on Friday, should only add to the case that Kiwi could indeed be getting ready to roll back over. Looking ahead, the focus for Monday will be a round of Fed speak from Bostic, Williams and Rosengren.

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 2650 at a minimum to alleviate immediate topside pressure.



- R2 2800.00 – Extension Target – Strong
- R1 2750.00 – 8Jan/Record high – Medium
- S1 2725.00 – 5Jan low – Medium
- S2 2700.00 – Psychological – Strong

US SPX 500 – fundamental overview

The US equity market continues to push 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. Friday's subdued hourly earnings have only made investors that much more confident in the slow Fed path, fueling the latest run. 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 in 2017. 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. Look for this most recent dip to round out that next meaningful base 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 1357.75 – 8Sep/2017 high – Strong
- R1 1326.30 – 4Jan 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 3.9820 – 22Nov/Record – Strong
- R1 3.8980 – 14Dec high – Medium
- S1 3.7330 – 5Jan low low – Medium
- S2 3.7000 – 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.



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