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Global FX Insights

by LMAX Exchange Research & Analytics

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

Can't Keep A Dollar Down [Wake-up Call](#)

After coming under a good amount of pressure for most of last week, the US Dollar managed to regain its composure late Friday. The notable rise in the hourly earnings component of the US monthly employment report seemed to be a driving force, given its implication that it would keep the Fed leaning to the hawkish side.

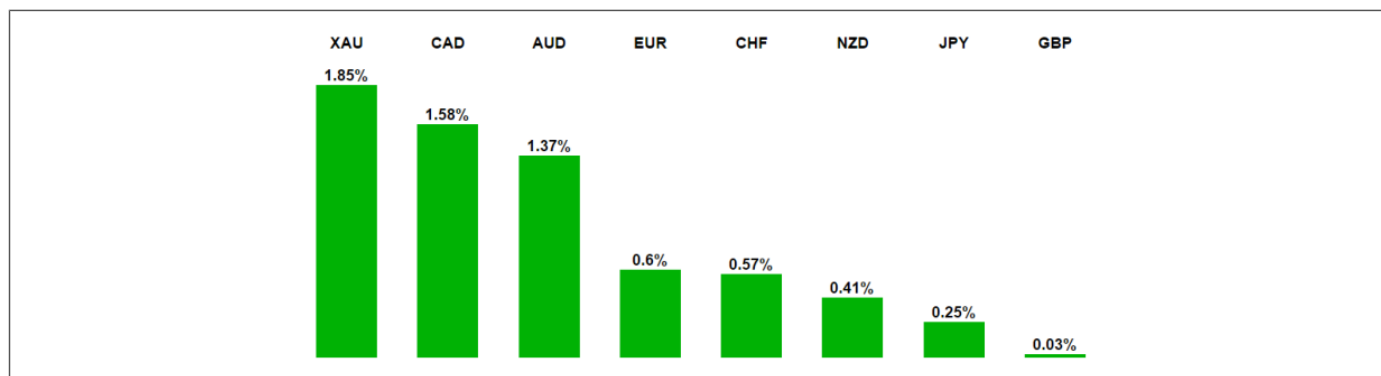
Technical highlights [Daily Video](#)

- **EURUSD** Waiting for next break
- **GBPUSD** Rallies well capped
- **USDJPY** Driving towards 120.00
- **EURCHF** Set to retest 2016 low
- **AUDUSD** Looking for lower top
- **USDCAD** Setbacks limited
- **NZDUSD** Fresh downside ahead
- **US SPX 500** Another record high
- **GOLD** (spot) Structural shift
- **Feature** – USDSGD Higher low

Fundamental highlights

- **EURUSD** Euro digests healthy batch of Monday data
- **GBPUSD** Hard Brexit prospect weighs on Sterling
- **USDJPY** Hawkish Fed speak drives major pair higher
- **EURCHF** Global sentiment impacting SNB policy
- **AUDUSD** Aussie holds up relatively well on solid data
- **USDCAD** Canada trade, employment beat estimates
- **NZDUSD** Kiwi looking ahead to Monday Fed speak
- **US SPX 500** Stocks ignore latest warning signs
- **GOLD** (spot) Global uncertainty should prop metal
- **Feature** – USDSGD EMFX exposed to more weakness

Five day performance v. US dollar



Suggested reading

- **Tom DeMark on Dow 20,000**, Bloomberg (January 6, 2017)
- **Financials at Odds with Credit Cycle**, Variant Perception (January 4, 2017)

EURUSD – technical overview

The major pair has finally broken down below the multi-year base from 2015, taking it to its lowest levels since 2003. Next key support comes in the form of the 2003 low at 1.0336, below which exposes an immediate drop to parity. At this point, look for the current rally to be very well capped ahead of 1.0800, with only a break back above 1.0875 to compromise the bearish outlook.



- R2 1.0654 – 30Dec high – Strong
- R1 1.0623 – 6Jan high – Medium
- S1 1.0481 – 5Jan low – Medium
- S2 1.0336 – 2003 low – Strong

EURUSD – fundamental overview

A solid US employment report with a notable jump in hourly earnings was all it took to get the market buying US Dollars again, with the Euro pulling back sharply from recent recovery highs. All of this was also accompanied by a wave of hawkish Fed speak, which should continue later today when Fed's Lockhart and Rosengren appear. As far as economic data goes, the Euro will be looking for some help from a healthy batch of releases which feature German industrial production, German trade, Eurozone Sentix confidence readings, and Eurozone unemployment.

GBPUSD – technical overview

The recent topside failure ahead of 1.2800 was a significant development as it confirmed the rebound from the +30 year low only corrective and kept the overall pressure on the downside. This has now opened a break back below internal support at 1.2300 which could pave the way for a retest of that 1.1840 critical base from October. Only back above 1.2800 forces a shift in the structure.



- R2 1.2433 – 5Jan high – Strong
- R1 1.2271 – 9Jan high – Medium
- S1 1.2150 – Mid-Figure – Medium
- S2 1.2082 – 25Oct low – Strong

GBPUSD – fundamental overview

The Brexit overhang has not been a friend to the Pound in early 2017, with the market growing increasingly worried about the type of separation now that the March Article 50 date is fast approaching. There have been many headlines over the past several days that would suggest Brexit could very well be a hard one and this has kept the UK currency very well offered into any rallies. Throw in Friday's jump in US hourly earnings and a wave of hawkish Fed speak and it isn't surprising to see the Cable rate at its lowest levels since October, the month the currency dropped to a +30 year low against the Dollar. Looking ahead, with no first tier data out of the UK or US, the focus will be on more Fed speak, this time from Fed's Lockhart and Rosengren, both expected to lean to the hawkish side.

USDJPY – technical overview

Daily studies are now unwinding from stretched levels which suggests additional upside could be limited in favour of a more significant healthy corrective pullback. The recent bearish break below 116.00 confirms and could open a deeper drop towards 114.00. But ultimately, any setbacks are expected to be well supported ahead of 110.00 in favour of that next higher low and bullish resumption towards 120.00.



- R2 118.67 – 15Dec high – Strong
- R1 117.43 – 5Jan high – Medium
- S1 115.07 – 6Jan low – Medium
- S2 114.74 – 13Dec high – Strong

USDJPY – fundamental overview

Monetary policy and yield differentials continue to be the driving force behind this trade. Friday's jump in US hourly earnings has sent a message that the Fed will need to continue to be erring on the hawkish side and this has been backed up in commentary from Fed officials as well. All of this has opened renewed downside pressure on the Yen, and it seems like USDJPY is on a mission to break up to challenge the next major psychological barrier at 120.00. Later today we get speeches from Fed's Lockhart and Rosengren, both expected to keep with the hawkish tone. Of course, it's also worth noting that record high stock prices have also been a bearish development for the Yen.

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 1.0900 would be required to take the immediate pressure off the downside and suggest the market is once again looking settle back into the previous range.



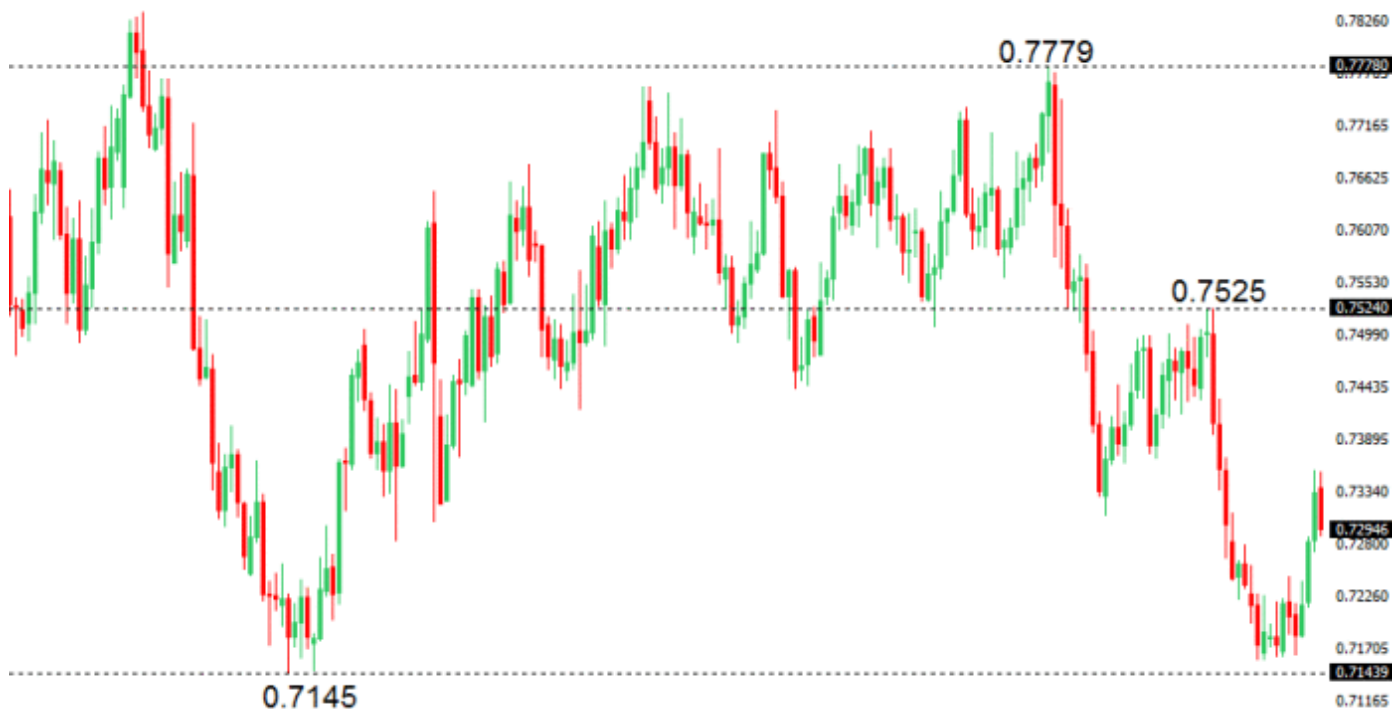
- R2 1.0900 – 8Dec high – Strong
- R1 1.0799 – 9Dec high – Strong
- S1 1.0650 – Mid-Figure – Medium
- S2 1.0624 – 24Jun/2016 low – Strong

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. 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 recent break below 0.7400 is a significant development and now opens the door for deeper setbacks towards next key support at 0.7145. At this point, look for the current rally to be well capped ahead of 0.7500. Only back above 0.7525 delays the bearish outlook.



- R2 0.7371 – 1Dec low – Strong
- R1 0.7357 – 5Jan high– Medium
- S1 0.7273 – 5Jan low – Medium
- S2 0.7160 – 26Dec low – Strong

AUDUSD – fundamental overview

The Australian Dollar has been holding up relatively well considering this latest uptick in US hourly earnings and hawkish Fed speak. It seems today's better than expected Aussie construction and building approvals data have been helping to support, with the market less concerned about softer Aussie job ads. However, it's worth noting the Australian government was out warning that the rally in iron ore and coal prices might not last, which could be giving some local traders and excuse to be selling. Overall, the direction here will continue to track the broader direction in the US Dollar and with more hawkish speak expected from Fed's Lockhart and Rosengren today, Aussie could come under renewed pressure.

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 1.3081 in favour of the next major upside extension towards a measured move objective into the 1.4000 area. Ultimately, only back below 1.3081 would delay the constructive outlook.



- R2 1.3461 – 3Jan high – Strong
- R1 1.3313 – 5Jan high – Medium
- S1 1.3178 – 6Jan low – Medium
- S2 1.3081 – 14Dec low – Strong

USDCAD – fundamental overview

While the Canadian Dollar has come back under pressure following an impressive recovery in early 2017, the currency has held up relatively well in the face of this latest US Dollar rebound. Friday's jump in US hourly earnings and hawkish Fed speak have ignited a fresh wave of US Dollar demand across the board, though with Canada trade data producing an impressive surplus and with Canada employment coming in much better than forecast, some of the positive USD flow has been offset. Still, overall, it's about yield differentials right now and if the market continues to see risk for a more hawkish Fed, this could open additional weakness in the Loonie. As far as today's calendar goes, Canada releases include business outlook future sales and the Bank of Canada senior loan officer survey, while in the US, we get speeches from Fed's Rosengren and Lockhart.

NZDUSD – technical overview

The overall pressure has shifted back to the downside with the market now expected to be very well capped on rallies ahead of 0.7200. The recent break below 0.6972 confirms a fresh lower top at 0.7239 opening the next major downside extension towards medium-term support at 0.6676.



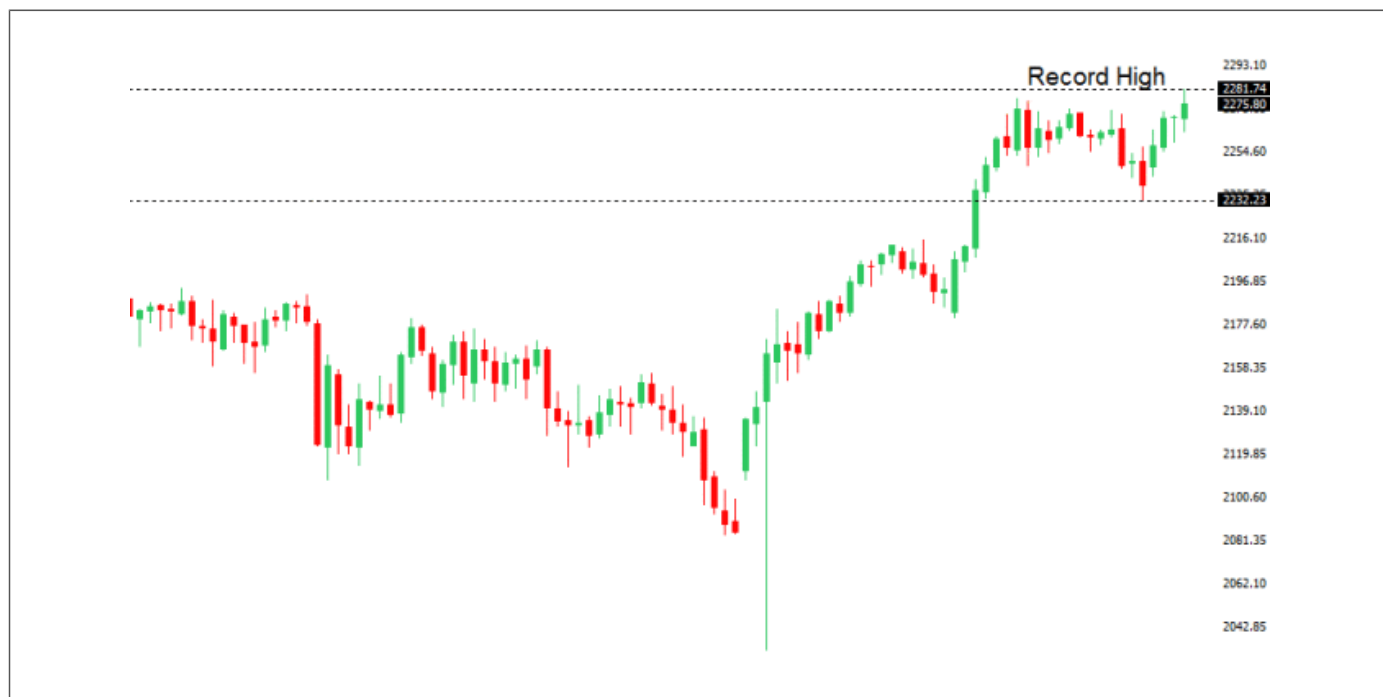
- R2 0.7044 – 6Jan high – Strong
- R1 0.7000 – Psychological – Medium
- S1 0.6900 – Figure – Medium
- S2 0.6862 – 26Dec low– Strong

NZDUSD – fundamental overview

Lack of first tier data out of New Zealand has kept the primary focus on developments on the US front. Friday's uptick in US hourly earnings and wave of hawkish Fed speak have opened a renewed demand for the US Dollar, with the market now taking hawkish Fed calls more seriously. Looking ahead, the key focus for this pair on Monday will be on more Fed speak, this time from Fed's Rosengren and Lockhart, both expected to keep with a US Dollar supportive hawkish tone.

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 sustain gains beyond 2200 over the coming weeks. But ultimately, at this point, any topside failure will also need to be met with a break back below 2180 to once again encourage the possibility for a significant bearish structural shift. Next resistance comes in at 2300, while initial support comes in at 2232, with a break below to take the immediate pressure off the topside.



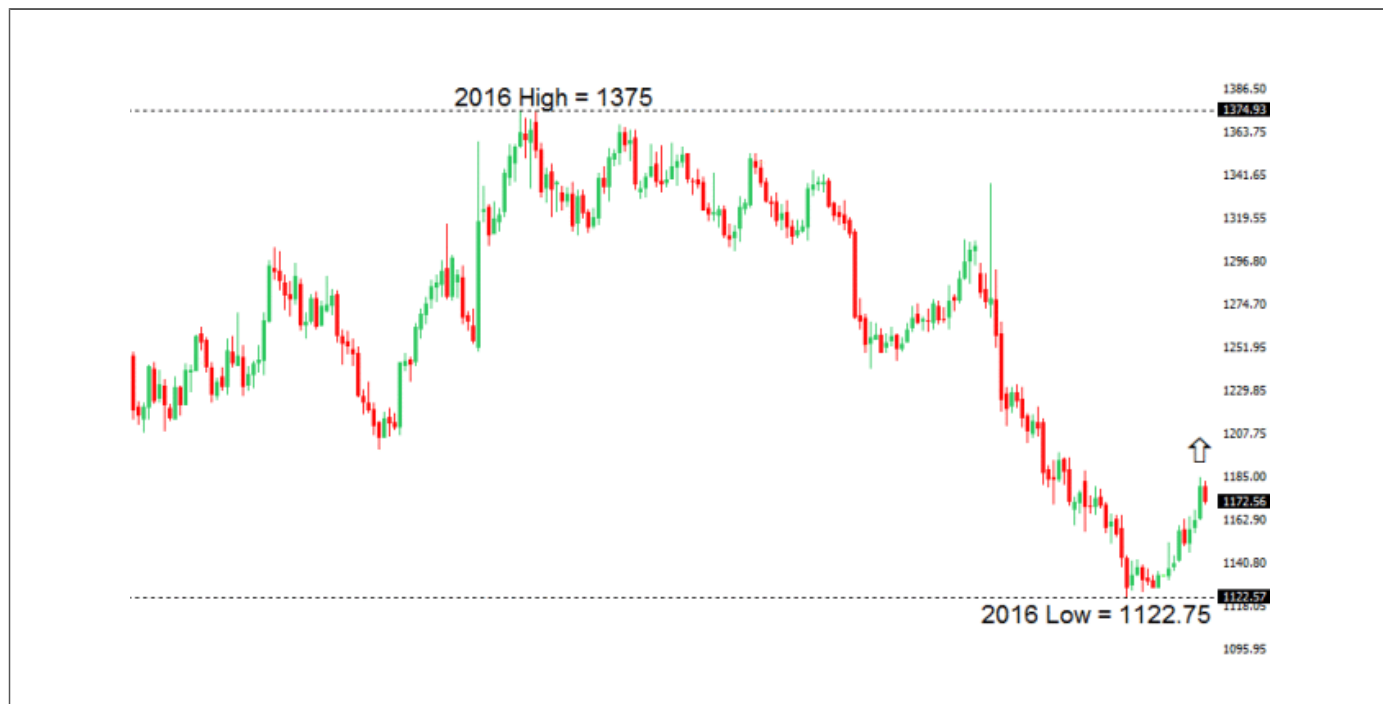
- R2 2300.00 – Psychological – Strong
- R1 2282.00 – 6Jan/Record high – Medium
- S1 2232.00 – 30Dec low – Strong
- S2 2180.00 – 5Dec low – Strong

US SPX 500 – fundamental overview

The ongoing support for US equities has been more than impressive, particularly at a time when the Fed is embarking on a more hawkish path to policy normalisation and the Trump administration could bring in policies that threaten prospects for global 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 monetary policy around the rest of the globe is exhausted with very little left in the tank. Friday’s uptick in hourly earnings and another round of hawkish Fed speak, with some officials even warning of the possibility for more than three hikes this year, should be a concern to investors, but once again, have failed to have any impact on record high stocks, seemingly driven on blind momentum.

GOLD (SPOT) – technical overview

The market has bounced out from critical 1120 area support in the form of a 78.6% fib retracement off of the 2015-2016 low-high move, with the hold above this level keeping the longer-term basing outlook intact. Daily studies are confirming, looking more constructive after trading into oversold territory. A daily close above 1200 will strengthen the bullish shift in structure and open the door for a push back towards the 2016 peak at 1375. Only below 1120 negates.



- R2 1197.70 – 28Nov high – Strong
- R1 1185.00 – 5Jan high – Medium
- S1 1122.75 – 15Dec low – Medium
- S2 1120.00 – 78.6% Fib – Strong

GOLD (SPOT) – fundamental overview

Solid demand from medium and longer-term players continues to emerge on dips despite an intense round of setbacks in late 2016, 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, 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

USDSGD recently pushed up to a fresh multi-month high, taking the market to its highest levels since 2009. However, daily studies are starting to unwind from stretched levels which warns additional upside could be limited for now, in favour of a healthier corrective decline. Still, any setbacks should be well supported above 1.4000 in favour of the next higher low and bullish resumption.



- R2 1.4545 – 3Jan/2017 high – Strong
- R1 1.4407 – 5Jan high – Medium
- S1 1.4268 – 6Jan low – Medium
- S2 1.4148 – 8Dec low – Strong

Feature – fundamental overview

The **Singapore Dollar** is doing its very best to battle against additional declines in early 2017. Last week's impressive Singapore GDP data, rumours of MAS intervention and some broad based profit taking on long US Dollar exposure helped to offset the intense bearish flows. But ultimately, downside pressure on the local currency isn't expected to fade away for any meaningful period of time as the market keeps its eye on overall solid US economic data, striking monetary policy divergence and prospects for slower emerging market growth when the new US administration takes over. This latest uptick in US hourly earnings and wave of hawkish Fed speak only strengthens the US Dollar supportive tone. Looking ahead, the emerging market currency will want to pay attention to what Fed's Lockhart and Rosengren have to say.



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