

Global FX Insights

by LMAX Exchange Research & Analytics

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

A Little More Tamper and A Lot Less Taper [Wake-up Call](#)

The market will likely spend most of the day reflecting on Thursday's ECB decision, while also starting to look ahead to next week's FOMC. Many were expecting an ECB taper of sorts, but all we really got was an ECB tamper, with the central bank moving things around and ultimately producing a more dovish decision once all the parsing was done.

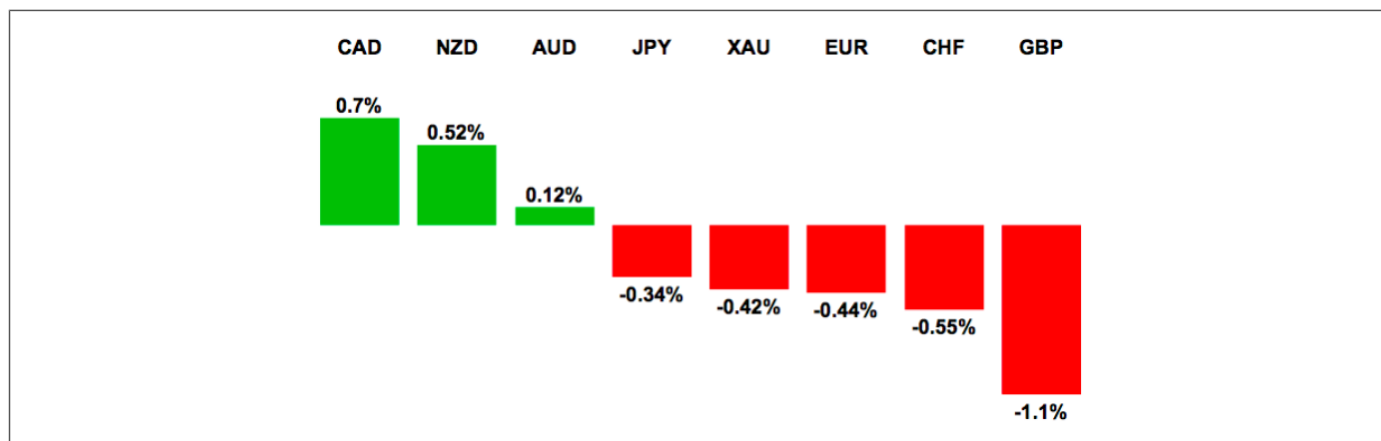
Technical highlights [Daily Video](#)

- **EURUSD** Critical 2015 base in sight
- **GBPUSD** Defended into 1.2800
- **USDJPY** Still flirting with 115.00
- **EURCHF** Set to retest 2016 low
- **AUDUSD** Rallies seen well capped
- **USDCAD** Additional setbacks limited
- **NZDUSD** Seeking out lower top
- **US SPX 500** No signs of let up yet
- **GOLD** (spot) Poised for recovery
- **Feature** – USDTRY Strong uptrend

Fundamental highlights

- **EURUSD** Euro lower on dovish read of ECB
- **GBPUSD** UK trade data stands out on Friday
- **USDJPY** Policy divergence theme props Buck
- **EURCHF** ECB does nothing to help SNB strategy
- **AUDUSD** Aussie shrugs off hotter China inflation
- **USDCAD** Loonie evades US Dollar's firm grasp
- **NZDUSD** Kiwi holds up on supported risk assets
- **US SPX 500** Red flags flying high, no one's looking
- **GOLD** (spot) Macro dynamics favour metal upside
- **Feature** – USDTRY Turkey's ECC measures fall short

Five day performance v. US dollar



Suggested reading

- **Europe's Blanket Pulled Away**, A. Evans-Pritchard, *The Telegraph* (December 8, 2016)
- **World's Factory Has A New Export**, K. Hamlin, *Bloomberg* (December 8, 2016)

EURUSD – technical overview

The recent break below what had been the 2016 low at 1.0711 has set the stage for a deeper drop below longer-term support in the form of the multi-year base from 2015 at 1.0463. As such, any corrective 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 1.0797 – 5Dec high – Strong
- R1 1.0700 – Figure – Medium
- S1 1.0591 – 9Dec low – Medium
- S2 1.0505 – 5Dec/2016 low – Strong

EURUSD – fundamental overview

Thursday was a confusing day for the market, though in the end, participants were left with a dovish takeaway from the ECB decision as reflected in the Euro price action. Initially, the Euro spiked higher on headlines of reduced asset purchases, but the focus quickly shifted to the QE extension and adjustability option which then triggered a massive reversal. This was only intensified on the ultra dovish speak from ECB Draghi, who said, amongst many things, the ECB would be prepared to buy assets yielding below the current deposit rate. Looking ahead, the market will continue to try and make sense of the ECB decision which had both components of taper and accommodation, while also looking ahead to next week's anticipated FOMC decision. As far as today's data goes, we get German trade and US Michigan confidence.

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 1.2705 – 8Dec high – Medium
- S1 1.2549 – 8Dec low – Medium
- S2 1.2386 – 28Nov low – Strong

GBPUSD – fundamental overview

The Pound was mostly quiet on Thursday though the currency did remain under pressure as it consolidated declines from Wednesday's disappointing industrial and manufacturing production reads. Looking ahead, the market will focus in on UK trade and US Michigan confidence readings, while also continuing to monitor any developments relating to Brexit.

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.



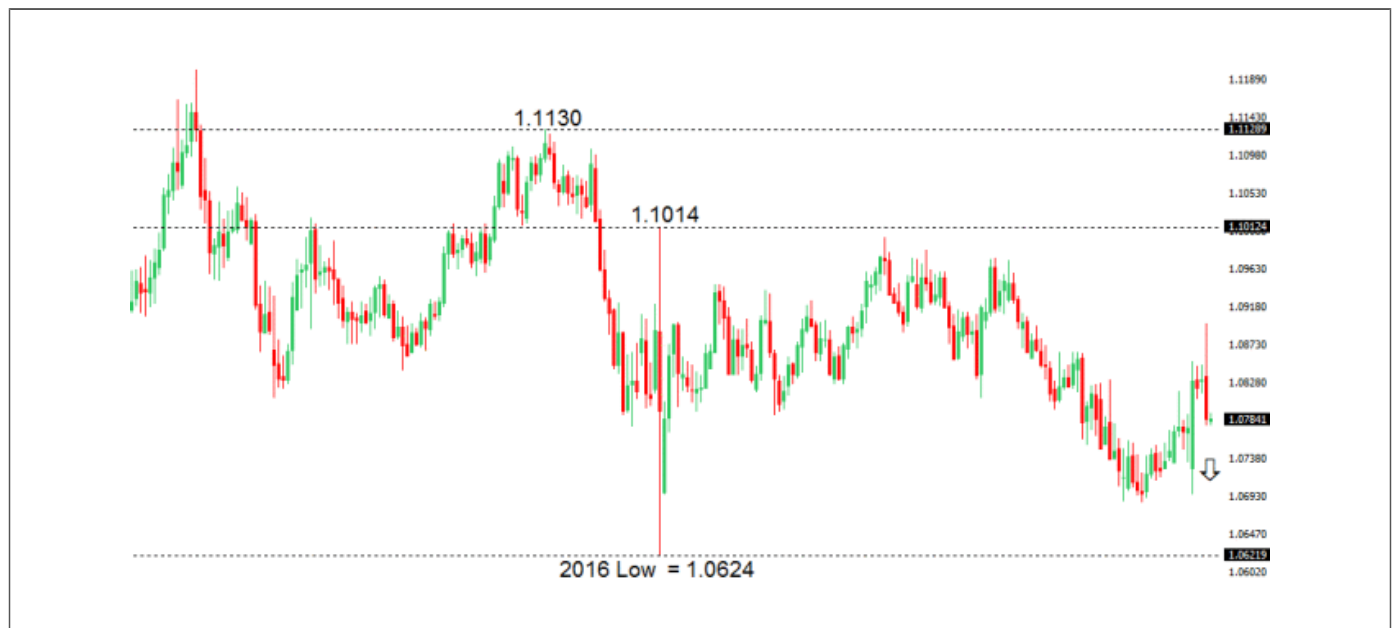
- R2 114.83 – 1Dec high – Strong
- R1 114.50 – Mid-Figure – Medium
- S1 112.87 – 5Dec low – Medium
- S2 111.36 – 28Nov low – Strong

USDJPY – fundamental overview

Thursday's recovery in the US Dollar on the back of a dovishly perceived ECB decision has brought USD yield differentials and monetary policy divergence with the Fed back into the spotlight, in turn opening a resumption of Yen declines and push back towards USDJPY 115.00. Of course another major supportive driver of USDJPY at the moment is the ongoing demand for global equities, with US stocks once again pushing to record highs. Looking ahead, US Michigan confidence is the only notable data release on the calendar for the remainder of the day.

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 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 1.1014 – 24Jun high – Strong
- R1 1.0900 – 8Dec high – Strong
- 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 on the back of this dovishly perceived ECB decision. 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 0.7509 – 8Dec high– Medium
- S1 0.7371 – 1Dec low – Medium
- S2 0.7312 – 21Nov low – Strong

AUDUSD – fundamental overview

China's inflation uptick hasn't really done anything to influence Aussie price action on Friday, with the currency seemingly more focused on broader macro flows relating to the ECB fallout and upcoming FOMC decision. Still, demand for some of the metals and an ongoing bid in US equities has been helping to keep the Australian Dollar supported for now. Looking ahead, US Michigan confidence is the only notable standout on the calendar for the remainder of the day.

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 1.3357 – 30Nov low – Strong
- R1 1.3297 – 7Dec high – Medium
- S1 1.3185 – 8Dec low – Medium
- S2 1.3100 – Figure – Strong

USDCAD – fundamental overview

The Canadian Dollar has been a big winner in the currency market over the past week. It seems the Loonie has managed to slip under the radar a bit, escaping the grasp of a broadly bid US Dollar. The combination of higher OIL following the OPEC production cut agreement, improving Canada data and a more balanced Bank of Canada decision have all factored into the Loonie's outperformance. Still, with the FOMC on the horizon and monetary policy divergence with the Fed coming back into the spotlight following Thursday's dovish ECB read, plenty of US Dollar demand is expected to emerge in the sessions ahead, with dealers even citing heavy USDCAD buy interest towards 1.3000. Looking ahead, US Michigan confidence is the only notable standout on the economic calendar.

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.



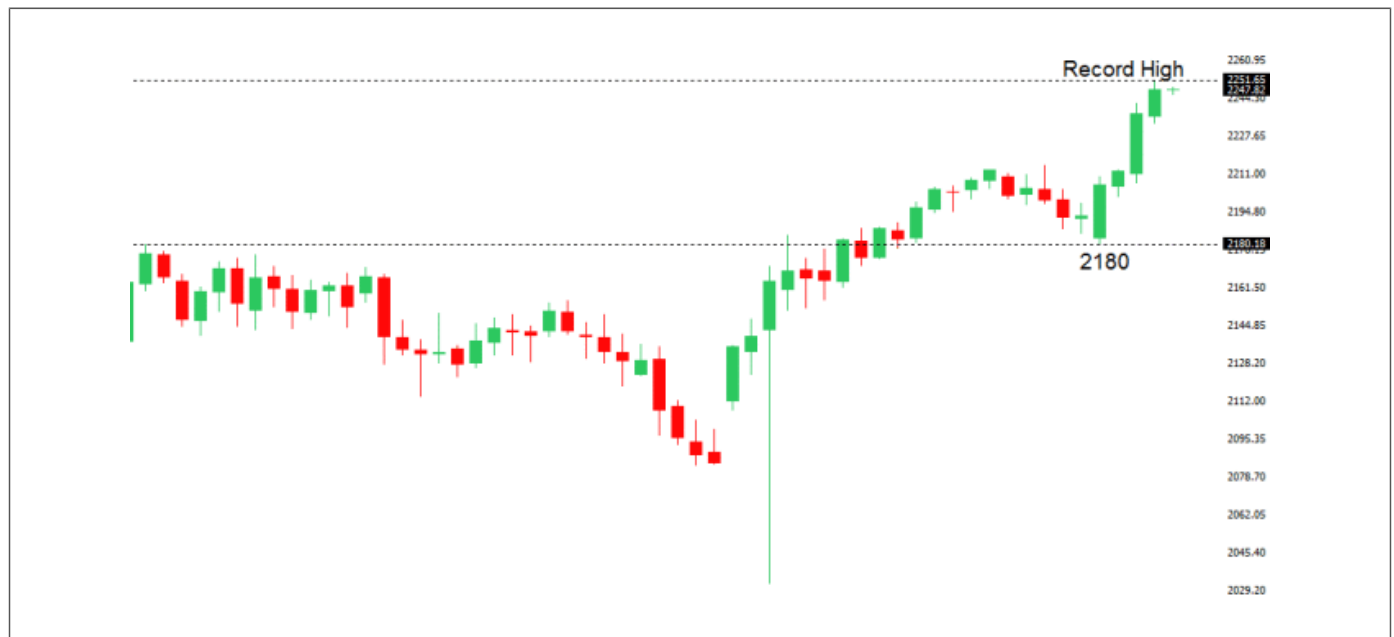
- R2 0.7266 – 20Oct high – Strong
- R1 0.7223 – 8Dec high – Medium
- S1 0.7146 – 8Dec low – Medium
- S2 0.7095 – 6Dec low – Strong

NZDUSD – fundamental overview

The New Zealand Dollar has done a good job holding up against the US Dollar this week, mostly benefitting from higher equities and upbeat comments from RBNZ Wheeler who said the RBNZ were likely to be done with interest rate cuts. But now it comes down to trying to figure out with the rest of the currency market what exactly the implications are from this latest ECB decision which seemed to present a conditional taper but at the same time was more than offset with dovish talk. The Kiwi market will also need to start thinking about the upcoming Fed decision, which could start to open downside pressure as the market once again focuses on monetary policy divergence with the Fed. As far as today's calendar goes, US Michigan confidence is the only notable standout.

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 upside.



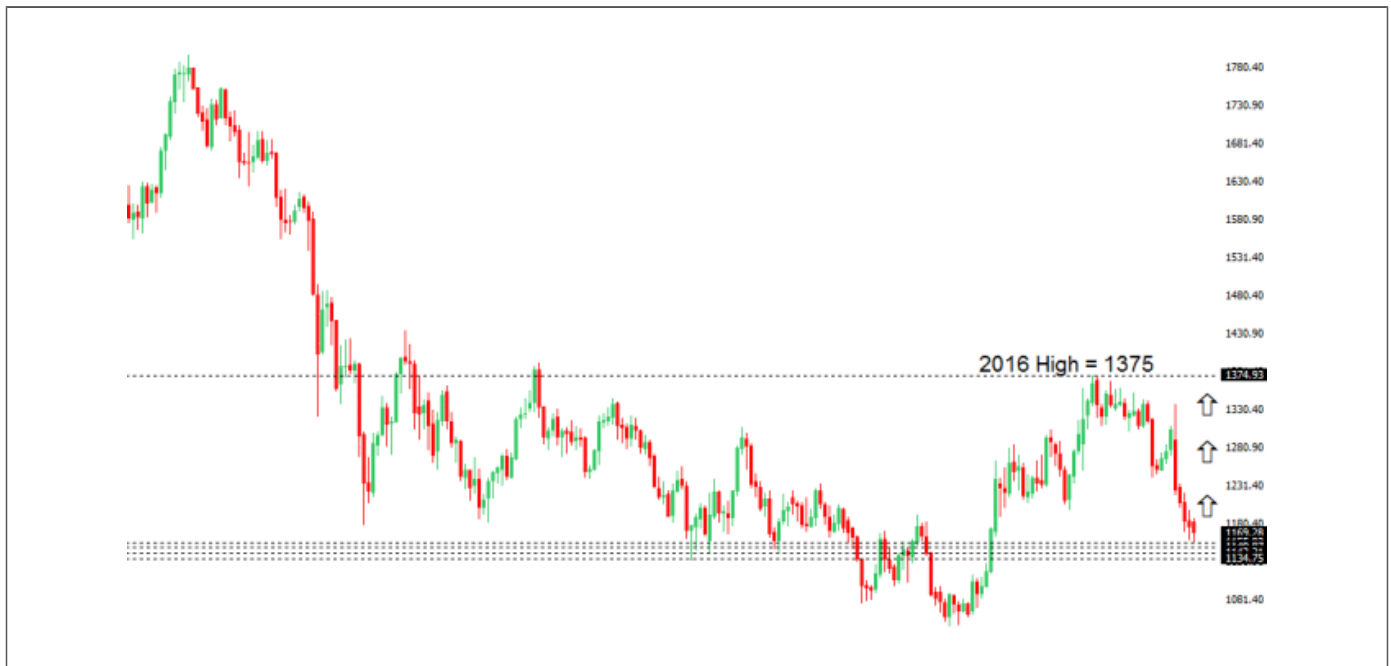
- R2 2300.00 – Psychological – Strong
- R1 2252.00 – 8Dec/Record high – Medium
- S1 2180.00 – 5Dec low – Medium
- S2 2156.00 – 25Oct high – Strong

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 monetary policy tools globally and an inability for central banks to continue to support and stimulate growth. Look no further than this latest ECB decision, which tried as hard as it could to paint a dovish slant, but in the end, produced a form of conditional taper. 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 in the process of unwinding from intense overbought readings. Medium-term studies are also extended, yet another reason for a short-term pullback. Ultimately however, any setbacks should be well supported ahead of 3.2000.



- R2 3.5950 – 2Dec/Record High – Strong
- R1 3.4970 – 8Dec high – Medium
- S1 3.3410 – 8Dec low – Medium
- S2 3.3000 – Psychological – Strong

Feature – fundamental overview

Two knocks to the Lira on Thursday, which once again is staring at a test of fresh record lows against the Buck. First it was the disappointing Turkish Economic Coordination Committee (“ECC”) measures which many had thought would produce something more substantive. Then it was a dovish read of the ECB decision which opened the door for a broad based recovery in the US Dollar as the monetary policy divergence theme with the Fed came back into the spotlight. Overall, event risk and political risk are major headaches on the domestic front, while the CBRT also has to continue to worry about Fed normalisation and pressure on the CBRT to raise rates ever higher in an effort to slow the rapid depreciation in the Lira.



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