

Global FX Insights

by LMAX Exchange Research & Analytics

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

What About Monetary Policy Limitations? [Wake-up Call](#)

Not much going on today with respect to the economic calendar and the focus will be on broader macro flow and risk sentiment. We come into the day with the US Dollar under pressure on the back of Tuesday's drop in US productivity. Interestingly, US equities are starting to look like they could be stumbling a bit.

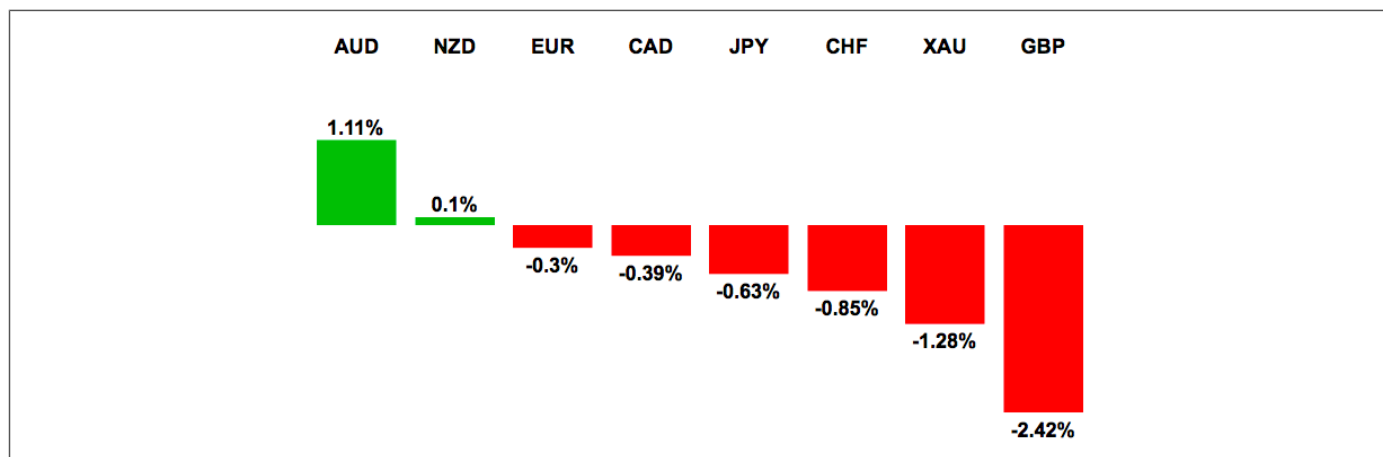
Technical highlights [Daily Video](#)

- **EURUSD** Confined to range
- **GBPUSD** July low exposed
- **USDJPY** Correction stalls out
- **EURCHF** Remains sideways
- **AUDUSD** Into critical zone
- **USDCAD** Setbacks limited
- **NZDUSD** Strong resistance
- **US SPX 500** Ready to roll over
- **GOLD** (spot) Bullish structure
- **Feature** – USDTRY Minor dip

Fundamental highlights

- **EURUSD** US productivity drop props Euro
- **GBPUSD** Pound can't shake downbeat news
- **USDJPY** Risk reduction fuels Yen demand
- **EURCHF** Caught between SNB and risk
- **AUDUSD** Aussie consumer confidence beats
- **USDCAD** OIL pauses for a breather
- **NZDUSD** RBNZ may need to do more
- **US SPX 500** Artificial sweetener fading
- **GOLD** (spot) Wacky dynamics attract demand
- **Feature** – USDTRY More CBRT adjustments

Five day performance v. US dollar



Suggested reading

- **Mark Hart and the Seven Year Short**, Bloomberg (August 7, 2016)
- **Ten Attributes of Great Investors**, M. Mauboussin, Credit Suisse (August 4, 2016)

EURUSD – technical overview

The market remains confined to a broader downtrend with any rallies classified as corrective. This latest bounce has stalled out into the 100-Day SMA, setting up the possibility for a lower top and bearish resumption towards 1.0912. At this point, only back above the 100-Day SMA at 1.1234 will delay the outlook and give reason for pause.



- R2 1.1234 – 2Aug high – Strong
- R1 1.1162 – 5Aug high – Medium
- S1 1.1046 – 5Aug low – Medium
- S2 1.1000 – Psychological – Strong

EURUSD – fundamental overview

The Euro is trying to reassert itself into Wednesday trade with most of the demand coming from the US side of the equation. On Tuesday, Euro strength was said to be driven off the drop in US productivity, resulting in the third consecutive quarterly contraction and also the longest losing run for this series since 1979. The data takes wind out of the sails of any hawkish bets post last week’s NFPs and in turn makes the US Dollar less attractive. Looking ahead, US JOLTS job openings is the only notable release on Wednesday.

GBPUSD – technical overview

The latest break below internal range support at 1.3057 ends a period of bearish consolidation and opens the door for a direct retest of the +30 year low from July just under 1.2800. A daily close below 1.3055 will strengthen the bearish outlook, while ultimately, only back above 1.3372 would take the immediate pressure off the downside.



- R2 1.3175 – 5Aug high – Strong
- R1 1.3097 – 8Aug high – Strong
- S1 1.2956 – 12Jul low – Medium
- S2 1.2900 – Figure – Medium

GBPUSD – fundamental overview

Though the Pound was able to avoid a daily close below 1.3000 on Tuesday, the price action was discouraging for bulls, with the UK currency pretty much the only currency to close lower than the Buck on the day. Any Dollar weakness from lower US productivity and expectations the Fed won't be going anywhere on rates has been offset by the Brexit overhang, dovish BOE outlook and economic data. Tuesday's batch of data wasn't supportive with manufacturing production, trade and the NIESR GDP estimate disappointing. Looking ahead, US JOLTS job openings is the only notable release on the day.

USDJPY – technical overview

The latest topside failure sets up a prospective lower top at 107.49 ahead of the next major downside extension below the recent yearly and multi-month low at 98.99. At this point, only a break back above 107.49 would negate this outlook and give reason for pause. In the interim, look for any rallies to be well capped ahead of 104.00.



- R2 102.66 – 8Aug high – Medium
- R1 101.95 – 10Aug high – Strong
- S1 101.00 – Figure – Medium
- S2 100.68 – 2Aug low – Strong

USDJPY – fundamental overview

Very thin trading conditions this week, with the light economic calendar factoring into the price action. But the Yen is finding renewed bids following a period of corrective weakness and it seems the overhang of the underwhelming BOJ, and signs of a pullback in record high US equities are fueling the Yen demand. Stop loss hunting already reported in early Wednesday trade and with only US JOLTS job openings standing out, broader macro flow and sentiment will be what dictates direction.

EURCHF – technical overview

Not much doing here over the past several days, with the market confined to a range trade, roughly between 1.0800 and 1.1000. At this point, a daily close above 1.1000 or back below 1.0800 will be required for clearer directional insight. Until then, look for dips to be supported and rallies well capped.



- R2 1.1014 – 24Jun high – Strong
- R1 1.0945 – 12Jul high – Medium
- S1 1.0790 – 29Jul low – Medium
- S2 1.0778 – 16Jun low – Strong

EURCHF – fundamental overview

SNB smoothing activity to prop the EURCHF rate has been helping to elevate the cross, but overall, any upside moves haven't been sustainable with the cross rate continuing to get sold aggressively into rallies. Last week, the market wasn't too bothered by SNB Jordan comments that there was still room to intervene, perhaps offset by his concern over the central bank's large balance sheet. Overall, this is a market going nowhere right now and it seems sell-stops need to get taken out below 1.0750 or above 1.1000 for clearer insight.

AUDUSD – technical overview

The market has struggled on rallies above 0.7600 and this suggests the rate could be looking to carve a lower top below the 2016 high at 0.7835, in favour of the next major downside extension. Look for a break back below 0.7421 to strengthen this outlook and accelerate declines. Ultimately, only a daily close back above 0.7700 would negate the newly adopted bearish outlook and invite a retest of the 2016 highs.



- R2 0.7765 – 27Apr high – Strong
- R1 0.7723 – 31Mar high – Medium
- S1 0.7662 – 10Aug low – Medium
- S2 0.7569 – 3Aug low – Strong

AUDUSD – fundamental overview

The Australian Dollar continues to extend gains after last week’s RBA cut, with market participants still comfortable looking for yield in the higher Aussie rates. Softer US productivity helped to drive Aussie on Tuesday, while the early Wednesday release of Westpac consumer confidence has fueled more Aussie demand. Nothing new from RBA Stevens today, with the central banker highlighting the limitations of monetary policy accommodation in his final speech. Looking ahead, the focus will shift to broader mac flow with only US JOLTS job openings standing out on the calendar for the remainder of the day.

USDCAD – technical overview

Finally a major breakout in this pair, with the price clearing critical range resistance at 1.3189. The break ends a period of multi-week basing off the 2016 low and opens the door for a fresh upside extension towards a measured move objective into the 1.3500-1.4000 area. Any setbacks from here should be very well supported ahead of 1.2862.



- R2 1.3254 – 27Jul high – Strong
- R1 1.3123 – 10Aug high – Medium
- S1 1.2997 – 4Aug low – Strong
- S2 1.2862 – 15Jul low – Strong

USDCAD – fundamental overview

Tuesday’s Canada housing starts came in slightly better than expected and might have helped to prop the Canadian Dollar, though the Loonie was already bid on the back of broad based US Dollar selling in response to another drop in US productivity. OIL didn’t come into play with the commodity going nowhere on the day despite chatter OPEC intends to discuss a production freeze at their next meeting . Looking ahead, US JOLTS job openings is the only notable release in a very light calendar day.

NZDUSD – technical overview

Rallies to fresh 2016 highs above 0.7300 have been well capped, with the market looking to adhere to the broader downtrend. As such, look for this latest bounce to once again be well capped, in favour of a resumption of declines. Key support now comes in at 0.6952, with a break below to accelerate.



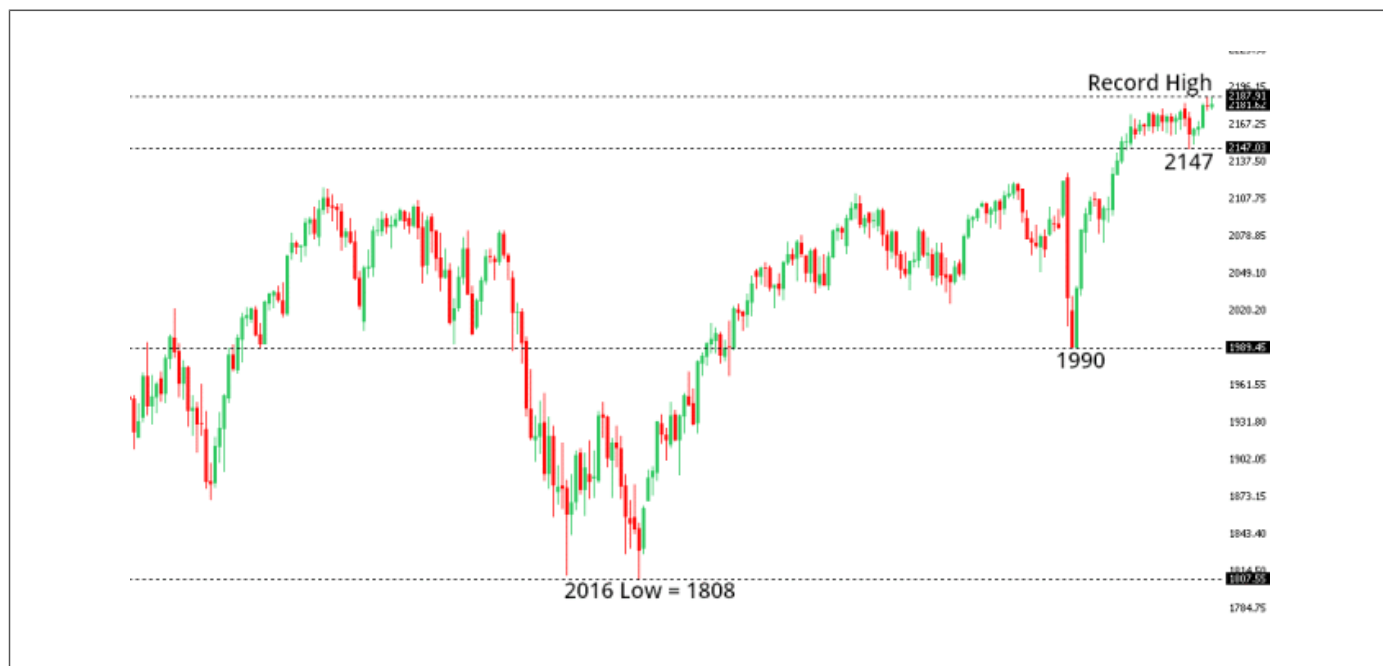
- R2 0.7257 – 2Aug high – Strong
- R1 0.7223 – 10Aug high – Medium
- S1 0.7159 – 10Aug low – Medium
- S2 0.7087 – 8Aug low – Strong

NZDUSD – fundamental overview

The New Zealand Dollar has been well supported in recent days and this is something that is probably a discomfort to the RBNZ. The central bank will be out with its policy decision early Thursday and is widely expected to cut rates 25bps. And yet, with the rate cut priced, the Kiwi rate is still elevated which suggests the RBNZ could move more aggressively when it meets in an effort to cool off the currency. This week's inflation gauge came in soft and only strengthens the case for a more dovish decision tomorrow. Remember, the RBNZ's economic assessment a few weeks back was quite downbeat, while the introduction of macroprudential measures to cool the property market gives the RBNZ an added level of comfort to ease further.

US SPX 500 – technical overview

The market continues to push to fresh record highs and there is scope from here for additional upside in the sessions ahead towards next key psychological barriers at 2200. Still overall, the prospect for the formation of a longer-term top is very much alive and any signs of exhaustion and a rolling back over below 2100 in the sessions ahead will strengthen this outlook and invite renewed downside pressure. But initially, we would need to see a daily close below 2150 to take the immediate pressure off the topside.



- R2 2200.00 – Psychological – Strong
- R1 2188.00 – 9Aug/Record – Medium
- S1 2147.00 – 2Aug low – Medium
- S2 2136.00 – 12Jul low – Strong

US SPX 500 – fundamental overview

The stock market has done a marvelous job steering clear of underlying fundamentals, rallying at every turn and extending to fresh record highs. But with each passing day, there is a sense this artificial support from governments and central banks is running out, and even if there were more to pump in, there is no longer the same level of confidence this strategy will continue to be effective. But for now, we’re living in a Goldilocks world where investors are feeling good about US economic data, and at the same time, aren’t expecting the Fed to move on rates. It will be interesting to see what Fed officials have to say on the matter over the coming days and if any hawkish comments spook this overinflated market.

GOLD (SPOT) – technical overview

The recent break above the previous 2015 peak at 1307 strengthens the case for a longer term base with the market confirming a medium-term higher low in the 1200 area, opening the door for the next major upside extension towards a measured move at 1400. Any setbacks should be very well supported ahead of 1300, with only a break below 1250 to compromise the outlook.



- R2 1375.20 – 6Jul/2016 high – Strong
- R1 1367.30 – 2Aug high – Medium
- S1 1310.90 – 21Jul low – Strong
- S2 1303.90 – 1May low – Strong

GOLD (SPOT) – fundamental overview

Overall, GOLD has been very well supported in 2016, with the yellow metal finding solid demand from medium and longer-term players on the back of fears over the limitations of exhausted monetary policy and extended global equities. 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

USDTRY has recently broken up to another fresh record high after a period of multi-month consolidation. The latest break through the previous peak from 2015 now opens the door for a measured move upside extension towards 3.3500 in the weeks ahead. At this point, setbacks should be limited with only a break back below 2.8390 to take immediate pressure off the topside.



- R2 3.3500 – Measured Move – Strong
- R1 3.0970 – 20Jul/Record – Medium
- S1 2.9550 – 6Jul high – Medium
- S2 2.9260 – 18Jul low – Strong

Feature – fundamental overview

The CBRT is following through with assurances to ensure the efficient functioning of local markets post coup attempt after changing reserve requirements on Lira reserves at commercial banks. This time round, its a 50bp cut to the reserve requirement and an upping of the coefficients for its reserve options mechanism by 0.1. The Lira has responded well to the news, continuing to recover from recent record lows against the Buck. Still, plenty of Lira offers are reported into rallies as the broader emerging market outlook remains quite fragile.



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