

Global FX Insights

by LMAX Exchange Research & Analytics

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

EU Summit, Catalonia Deadline, UK Retail Sales Wake-up Call

FX has taken on a secondary role this week, with the ongoing bid in record high US equities in the spotlight. It's been a one way show for stocks for many years now, though this latest run has on off the rails, meltup kind of feel, especially when considering Fed policy normalization.

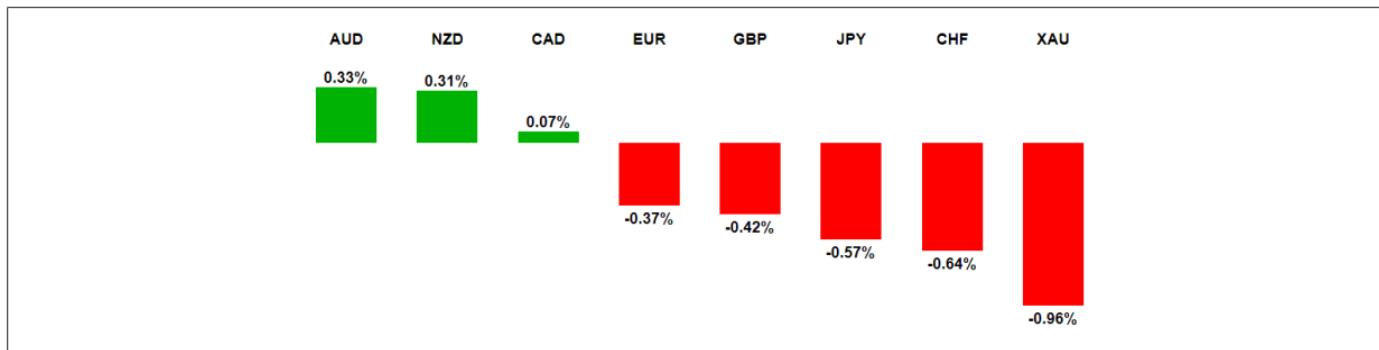
Technical highlights [Daily Video](#)

- **EURUSD** Deeper drop or trend
- **GBPUSD** Well supported on dips
- **USDJPY** Playing the range
- **EURCHF** Next big move to 1.2000
- **AUDUSD** Pressure on downside
- **USDCAD** Looking to August peak
- **NZDUSD** Gravitating to 2017 low
- **US SPX 500** Risk for reversal
- **GOLD** (spot) Remains bullish
- **Feature** – USDZAR Pushing up

Fundamental highlights

- **EURUSD** Catalan deadline and reaction
- **GBPUSD** More on Brexit from EU Summit
- **USDJPY** Yen monitoring macro headlines
- **EURCHF** SNB getting less help from stocks
- **AUDUSD** Aussie jobs weaker beneath surface
- **USDCAD** Canada manufacturing auto driven
- **NZDUSD** Post-election saga no friend to Kiwi
- **US SPX 500** Blind momentum in driver's seat
- **GOLD** (spot) Larger players still buying dips
- **Feature** – USDZAR High CPI and low growth

Five day performance v. US dollar

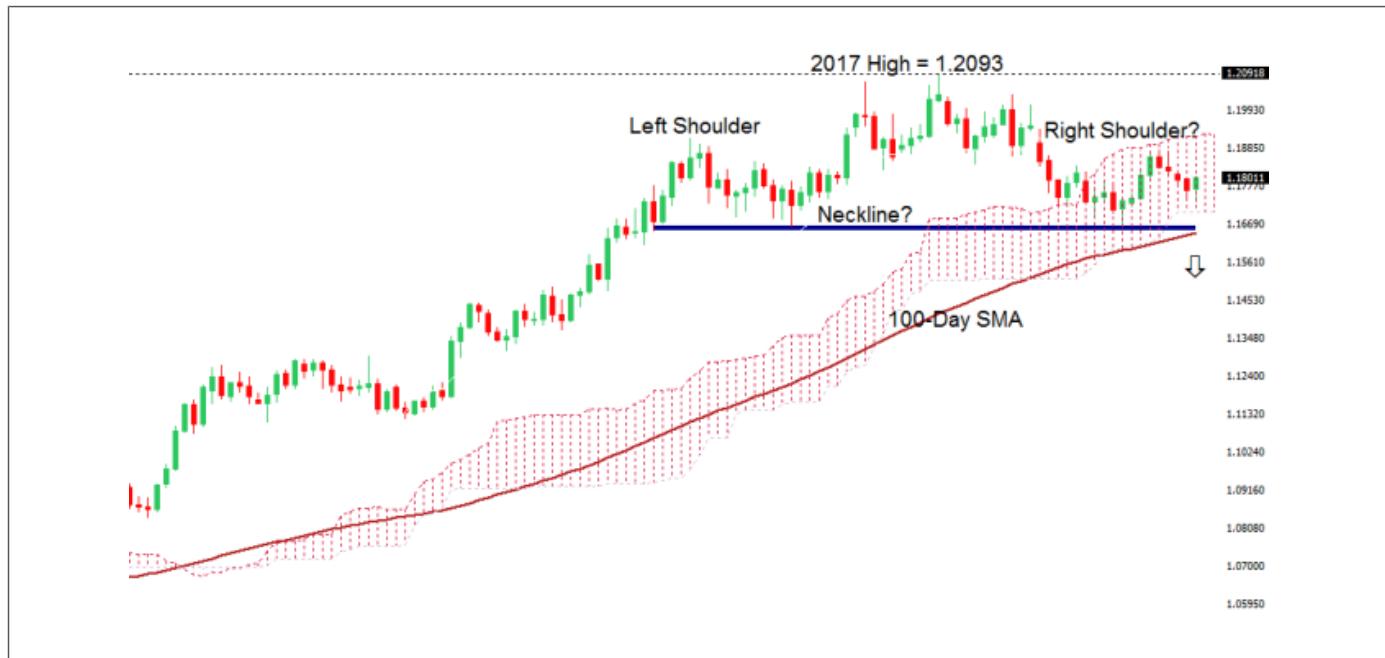


Suggested reading

- **Ivy League Endowments Humbled**, M. Romano, Bloomberg (October 16, 2017)
- **Pretentious Hedge Fund Names and Bad Results**, J. Saft, Reuters (March 29, 2017)

EURUSD – technical overview

The uptrend in 2017 has stalled out for after the market triggered a head and shoulders topping formation and dropped back below the 50-Day SMA for the first time since the Euro broke out earlier this year. The measured move extension off the head shoulders top projects a decline to 1.1555. What's even more interesting right now is if the market breaks down below 1.1660, we could see the formation of an even bigger head and shoulders top projecting a measured move downside extension into the 1.1200s. There is however a lot of support in the 1.1600s including the mentioned neckline, 100-Day SMA and Ichimoku cloud bottom. Inability to establish below 1.1660 will keep the 2017 uptrend intact.



- R2 1.1880 – 12Oct high – Strong
- R1 1.1820 – 16Oct high – Medium
- S1 1.1737 – 17Oct low – Medium
- S2 1.1663 – 17Aug low – Strong

EURUSD – fundamental overview

As far as today goes, the EU Summit kicks off and we will be hearing more about Brexit and the back and forth between the EU and UK. Meanwhile in Spain, we're into the deadline for Catalan President Puigdemont to abandon secession which could easily inspire volatility if things move in a messy direction. As far as economic data goes, there's no first tier data out of the Eurozone, while things are pretty light in the US with initial jobless claims and the Philly Fed survey due. On the official circuit, Fed George is slated to speak later in the day.

GBPUSD – technical overview

The market has eased off quite a bit since topping out at a fresh 2017 high in September, with the price dropping back into the 1.3000 area thus far. However, setbacks should be limited to the psychological barrier from here, with the greater risk for the formation of that next meaningful higher low ahead of a continuation of the newly formed uptrend in 2017. Look for a daily close back above 1.3300 to confirm the constructive outlook and accelerate gains. Until then, there is risk for some more short-term choppy consolidation.



- R2 1.3338 – 13Oct high – Strong
- R1 1.3288 – 17Oct high – Medium
- S1 1.3140 – 18Oct low – Medium
- S2 1.3122 – 12Oct low – Medium

GBPUSD – fundamental overview

The two day EU Summit kicks off and we will be hearing more about Brexit and the back and forth between the EU and UK. In recent days, Brexit uncertainty has worked its way back in, with tension heating up and Governor Carney talking contingency plans. The big issue right now is the exit fee, with both sides unable to come to an agreement on this sticky point. On the data front, UK retail sales are in the spotlight, though as we've already highlighted this week, the data could have a diminished impact, particularly if on the better side of expectation, given all of the focus on Brexit headlines. Later on in the US, we get initial jobless claims, the Philly Fed Survey and Fed George.

USDJPY – technical overview

The market 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 recent run up has been showing signs of stalling out yet again into the resistance zone. But a drop back below 111.65 will be required to strengthen the bearish prospect. If on the other hand the market pushes back through 113.44, it will expose a direct retest of the top of the range at 114.50.



- R2 113.44 – 6Oct high – Strong
- R1 113.05 – 18Oct high – Medium
- S1 112.14 – 18Oct low – Medium
- S2 111.65 – 16Oct low – Strong

USDJPY – fundamental overview

Upcoming Japan elections haven't been a factor here, with the market already pricing a strong LDP victory. But the Yen has come under some pressure on US demand from favourable USD yield differentials. The news of the hawkish leaning John Taylor as a leading candidate to replace Janet Yellen has been helping to prop up the Buck, while US data has also been solid. The Yen has also been weaker on account of an ongoing bid in US equity markets, though with the record run looking exhausted, a reversal there could inspire Yen demand on the traditional correlation. Dealers report offers in size in the 114.00-114.50 area. Looking ahead, the risk sensitive Yen will monitor political developments out of Spain and the EU Summit before taking in US initial jobless claims, the Philly Fed survey and a Fed George speech later in the day.

EURCHF – technical overview

A period of multi-day consolidation has been broken, with the market pushing up to a fresh 2017 high beyond 1.1600. 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 1.1200, while only back below the figure would delay the overall constructive tone.



- R2 1.1624 – 22Sep/2017 high – Strong
- R1 1.1600 – Figure – Medium
- S1 1.1485 – 17Oct low – Medium
- S2 1.1390 – 2Oct low – Strong

EURCHF – fundamental overview

The SNB kept with its general policy line when it met last month and there were no major waves from the event risk. The one notable exception was the language relating to the strength of the Franc, with the SNB viewing the Franc as “highly valued” rather than significantly overvalued. This was a downgrade to the level of concern over the currency’s strength, but again, not much of a reaction. Overall, the sell-off in the Franc in 2017 has been a welcome development for the SNB. Still, the central bank will need to be careful as the record run in the US stock market has been a big boost to the SNB’s strategy. Any signs of capitulation on that front, will likely invite a very large wave of demand for the Franc, which could put the SNB in a more challenging position to weaken the Franc. Interestingly, the latest surge in stocks has failed to bolster the exchange rate.

AUDUSD – technical overview

Despite rallying to a fresh +2 year high in September, the market has been unable to hold onto gains, quickly reversing course and trading back below 0.8000. There is now risk for the formation of a more meaningful top opening the door for the next downside extension towards 0.7500. Look for rallies to now be well capped ahead of 0.8000, with only a close back above the psychological barrier to put the pressure back on the topside.



- R2 0.7987 – 22Sep high – Strong
- R1 0.7898 – 13Oct high – Medium
- S1 0.7815 – 13Oct low – Medium
- S2 0.7734 – 6Oct low – Strong

AUDUSD – fundamental overview

Earlier today, Aussie employment data came in a little better than expected though the headline print was deceiving with most of the gains coming from the part time sector. China data was also out and produced a similar result with the headline prints looking ok but painting a different picture beneath the surface, as reflected through the industrial production reading which revealed a decline in coal output. Looking ahead, we get US initial jobless claims, the Philly Fed survey and a Fed George speech later in the day.

USDCAD – technical overview

Despite the September breakdown to a fresh 2017 and +2 year low, stretched medium-term technical studies continue to warn of the possibility for a more significant bullish reversal as oscillators turn up again. From here, there's room for a push to retest key resistance in the form of the August peak at 1.2780, while any setbacks should be well supported ahead of 1.2300.



- R2 1.2599 – 6Oct high – Strong
- R1 1.2534 – 18Oct high – Medium
- S1 1.2433 – 12Oct low – Medium
- S2 1.2400 – Figure – Strong

USDCAD – fundamental overview

The Canadian Dollar has been helped along this week on extended NAFTA negotiations and Wednesday data that had US housing softer in contrast with an above forecast Canada manufacturing print. Still, when breaking it down, the results aren't that impressive for the Loonie with the US housing data influenced by the hurricanes and Canada manufacturing mostly auto driven. Overall, the Loonie has been having a harder time of late as the market prices a scaled back outlook at the Bank of Canada in the aftermath of a wave of data that has called recent rate hikes into question. At the same time, things have been looking up for the US Dollar, with the Buck getting help from a Fed keeping to its policy normalisation timeline. Looking ahead, absence of first tier data out of Canada will leave the focus on US initial jobless claims, the Philly Fed survey and a Fed George speech.

NZDUSD – technical overview

Medium term studies have turned down after the market pushed up to a plus two year high through 0.7500 in late July. A recent break below 0.7200 warns of the possibility for a more meaningful reversal, that could be setting the stage for a drop all the way back down towards the 2017 low in the 0.6800s. Any rallies should now be very well capped ahead of 0.7300.



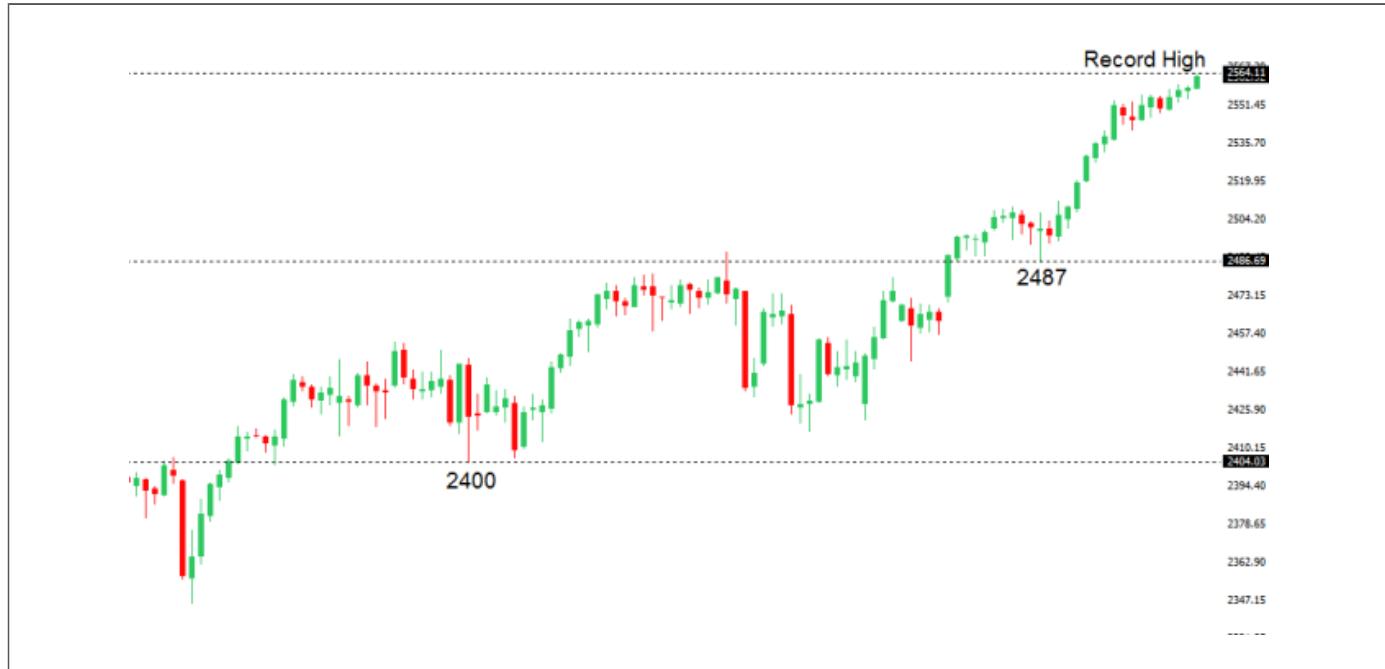
- R2 0.7244 – 29Sep high – Strong
- R1 0.7204 – 17Oct high – Medium
- S1 0.7075 – 19Oct low – Medium
- S2 0.7056 – 10Oct low – Strong

NZDUSD – fundamental overview

The New Zealand Dollar continues to take its hits and is once again underperforming on Thursday after National leader English said he was unsure if his party would get backing from NZ First to form a coalition. Meanwhile, the Ministry for Primary Industries has published an updated outlook report that projects a downturn in exports into 2018-19. Looking ahead, we get US initial jobless claims, the Philly Fed survey and a Fed George speech later in the day.

US SPX 500 – technical overview

The market continues to shrug off overextended longer term technical readings, once again pushing up to fresh record highs. The latest break now opens the door for the possibility of a run to that next major barrier at 2600. At this point, it would take a daily close back below 2487 at a minimum to take the pressure off the topside, while a break all the way back below 2400 would be required to force a bearish structural shift.



- R2 2600.00 – Psychological – Strong
- R1 2565.00 – 18Oct/Record high – Medium
- S1 2501.00 – 28Sep low – Medium
- S2 2487.00 – 25Sep low – Strong

US SPX 500 – fundamental overview

The US equity market continues to be well supported on dips, pushing further into record high territory. It seems the combination of blind momentum and expectation of favourable US policies are helping to keep the move going. But at the same time, there's a nervous 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 another rate hike still on the cards this year. But for now, it's more of the same. 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, opening a recent push to a fresh 2017 high up around 1357. And so, look for this most recent dip to round out that next higher low around 1260 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 1334.35 – 15Sep high – Strong
- R1 1316.10 – 20Sep high – Medium
- S1 1260.70 – 6Oct low – Medium
- S2 1251.45 – 8Aug 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 1260.

Feature – technical overview

USDZAR has been confined to some range trade for much of this year, with rallies well capped ahead of 14.00 and dips supported into the 12.30 area. The most recent run up has once again stalled out into the range resistance suggesting we could see another drop to the range lows. A break and close back below 13.16 will strengthen this bearish outlook.



- R2 13.87 – 9Oct high – Strong
- R1 13.60 – 18Oct high – Medium
- S1 13.25 – 16Oct low – Medium
- S2 13.16 – 22Sep low – Strong

Feature – fundamental overview

Expectations for a November rate cut in South Africa have been cut down after Wednesday's SA CPI readings rose by more than forecast. This isn't a positive development for the South African economy with the greater need for flexibility on rates on the basis of a near zero growth and a negative output gap. Meanwhile, the Rand remains exposed to ongoing tension on the political front which will only bid into year-end on account of the upcoming ANC leadership election and risk of credit rating downgrades. The only supportive Rand driver at the moment seems to be coming from the record run in US equities, which is a positive for risk correlated emerging market currencies. However even here the Rand should be sitting uneasy as the prospect for a capitulation is looking increasingly realistic on overbought technicals and an unstable political backdrop around the globe.



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