

Monday, November 13, 2017

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Global FX Insights

by LMAX Exchange Research & Analytics

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UK Political Turmoil, Crypto Slide, ECB Speak [Wake-up Call](#)

We kick off Monday trade with a light economic calendar, though everything picks up quite a bit from Tuesday on. Some of the major standouts on this week's docket include US CPI and retail sales, UK CPI, unemployment and retail sales and Eurozone GDP and inflation.

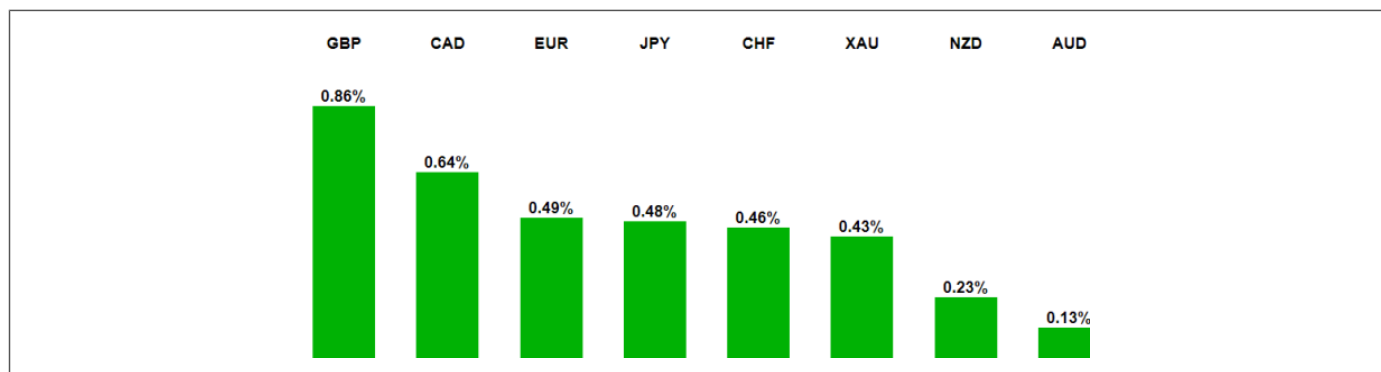
Technical highlights [Daily Video](#)

- **EURUSD** Back to consolidation
- **GBPUSD** Confined to choppy range
- **USDJPY** Signs of topside failure
- **EURCHF** Enters minor correction
- **AUDUSD** Upside should be limited
- **USDCAD** Well supported on dips
- **NZDUSD** Looking for lower top
- **US SPX 500** Below 2543 shifts
- **GOLD** (spot) Turning back up
- **Feature** – USDZAR More upside

Fundamental highlights

- **EURUSD** ECB speak from Constancio, Nowotny
- **GBPUSD** No confidence news knocks Pound
- **USDJPY** Yen tracks traditional correlations
- **EURCHF** SNB exposure to US equities is huge
- **AUDUSD** More dovishness from RBA DeBelle
- **USDCAD** Elevated OIL helps Loonie bid tone
- **NZDUSD** RBNZ policy mandate in question
- **US SPX 500** Investors keep shrugging red flags
- **GOLD** (spot) Macro accounts happy to buy dips
- **Feature** – USDZAR SARB dovishness, budget fears

Five day performance v. US dollar



Suggested reading

- **Yield Curves and Market Color**, M. Levine, Bloomberg (November 10, 2017)
- **Bond Investors May get Caught Napping**, R. Wigglesworth, FT (November 10, 2017)

EURUSD – technical overview

The recent breakdown below 1.1660 has triggered the formation of a major H&S top on the daily chart that now opens the door for a possible measured move downside extension into the 1.1200s. Next key support comes in the form of the psychological barrier at 1.1500. Any rallies should be very well capped below 1.1800, with only a break back above 1.1880 to suggest we've seen the end to the correction.



- R2 1.1691 – 3Nov low – Strong
- R1 1.1678 – 10Nov high – Medium
- S1 1.1580 – 8Nov low – Medium
- S2 1.1554 – 7Nov low – Strong

EURUSD – fundamental overview

A quiet start to the week for the Euro, with the market taking in some ECB speak on Monday from Constancio and Nowotny. Earlier today, Fed Harker was on the wires with some hawkish speak as was to be expected. At the moment, the Euro has been weighed down off 2017 highs in the aftermath of that last dovish ECB meeting, but has found support on dips on doubts about US tax reform. As far as the week ahead goes, key standouts come in the form of Eurozone GDP and inflation and US retail sales and CPI. We will get more updates relating to US tax reform, while Brexit negotiations and more central speak will likely influence.

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, while there is risk for another drop, setbacks should be limited below the psychological barrier, with the greater risk for the formation of that next meaningful higher low ahead of a continuation of the newly formed uptrend in 2017. Ultimately, only a weekly close back below 1.2775 will delay the constructive outlook. At the same time, the market is capable of chopping around some more and it's going to take a run back above 1.3338 to send a signal the market is ready to start moving back up again.



- R2 1.3300 – 2Nov high – Strong
- R1 1.3230 – 10Nov high – Medium
- S1 1.3113 – 10Nov low – Medium
- S2 1.3085 – 9Nov low – Strong

GBPUSD – fundamental overview

The Brexit negotiation process is back in the spotlight, with the UK government having only 2-3 weeks to put together a divorce bill or risk delaying trade and transition talks. The prospect of this getting done amidst ongoing political turmoil has not done the Pound any favors into the new week, with the UK currency sliding on the Monday open. This comes from declining faith in PM May, after 40 Tory members agreed over the weekend to sign a letter of no confidence in the PM. 48 signatures are required to officially contest the PM's leadership. There is no first tier data out on Monday, though looking ahead, we get some important UK releases in the form of employment, CPI and retail sales.

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. There are now signs of the market wanting to adhere to the range trade after stalling out yet again above 114.00. But a break back below 111.65 will be required to send a message that this could in fact be the case. Initial support comes in at 112.96, with a daily close below to strengthen the bearish prospect. Ultimately, only back above 115.60 would negate the range outlook.



- R2 114.73 – 6Nov high – Strong
- R1 114.07 – 9Nov high – Strong
- S1 112.96 – 19Oct low – Medium
- S2 112.00 – Figure – Medium

USDJPY – fundamental overview

Overall, risk sentiment will likely continue to influence the next big move here. And for now, a lot of that sentiment hinges on what comes of US tax reform. The market is still unsure how effective the reform will be and the more skeptical and disappointed the market is, the more it will weigh on both the US Dollar and equity market, something very supportive of the Yen on traditional correlations. At the moment, the Senate's tax plan reveal proposed to delay corporate tax cuts until 2019, while the House Ways & Means Committee approved tax plan amendments, which includes increase in proposed repatriation tax rates. A lot is still up in the air and this should continue to be the primary focus. But we also get some first tier data out of the US that will be important to watch, highlighted by CPI and retail sales.

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 1.1713 – 26Oct/2017 high – Strong
- R1 1.1665 – 29Oct low – Medium
- S1 1.1485 – 17Oct low – Medium
- S2 1.1390 – 20Oct 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 both the US equity market and the ECB. 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 the US equity market. But any signs of capitulation on that front or any signs of more dovishness from the ECB, 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

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 be well capped ahead of 0.7800, with only a close back above the 0.7900 to put the pressure back on the topside.



- R2 0.7730 – 2Nov high – Strong
- R1 0.7700 – Figure – Medium
- S1 0.7626 – 27Oct low – Medium
- S2 0.7600 – Figure – Strong

AUDUSD – fundamental overview

The Australian Dollar hasn't gone anywhere over the past week, but remains weighed down overall on the back of the recent recovery in the US Dollar and diverging monetary policy, with the Fed on track to follow through with guidance and the RBA moving in the other direction, given the ongoing strain of low inflation and tepid wage growth. Earlier today, RBA Debelle reminded the market of this divergence after expressing his fear of wages staying lower for longer and higher interest rates strangling households needing to service their debt. This is consistent with what the official RBA line, so not much of a move in reaction. Key Aussie calendar events this week are Aussie employment and the wage price index.

USDCAD – technical overview

Clear signs of basing in this pair, with the recovery from plus two year lows back in September extending through an important resistance point in the form of the August peak. This sets the stage for additional upside in the days and weeks ahead, with the immediate focus now on a retest of the psychological barrier at 1.3000. In the interim, any setbacks should now be well supported ahead of 1.2500.



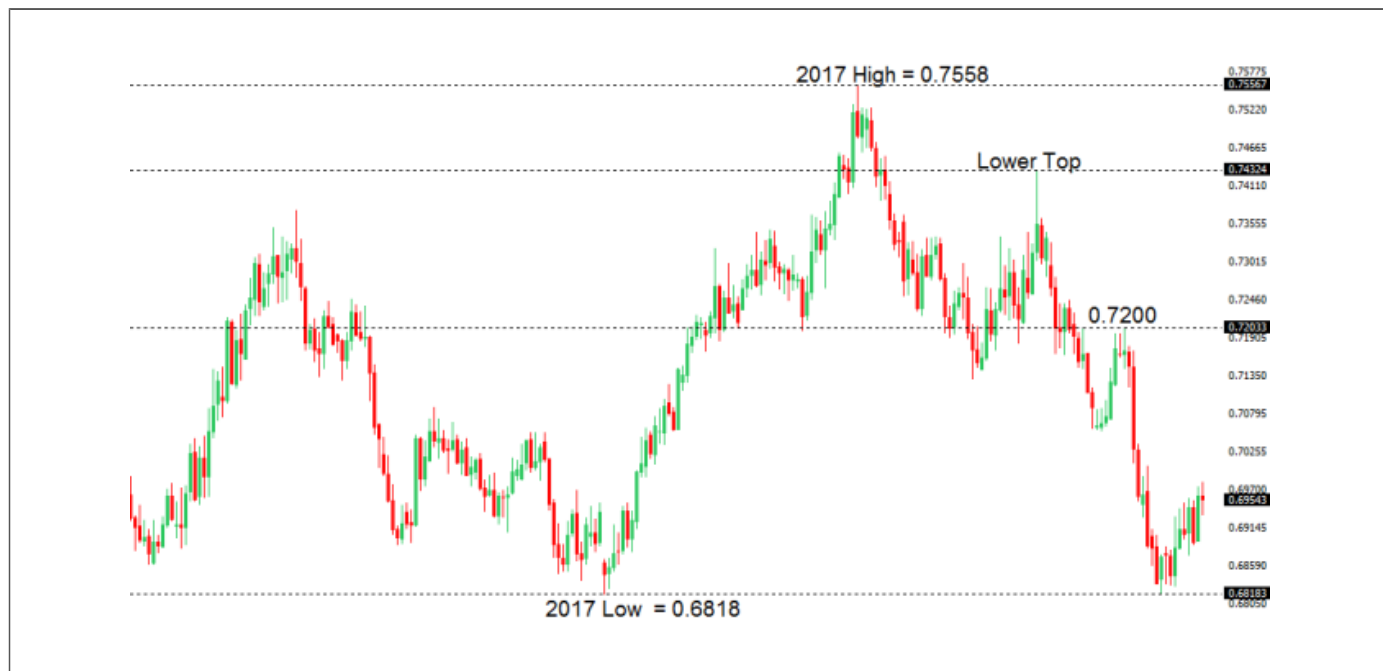
- R2 1.2820 – 7Nov high – Strong
- R1 1.2783 – 6Nov high – Medium
- S1 1.2650 – Mid-Figure – Medium
- S2 1.2599 – 6Oct high – Strong

USDCAD – fundamental overview

The Loonie has been trying to mount a recovery, driven off three developments. Data over the past couple of weeks has been better, reflected through employment stats and Ivey PMIs, Governor Poloz was on the wires last week with a more measured, less concerned speech that comforted Canadian Dollar bulls, and the price of OIL has rocketed back to plus 2 year highs in response to the latest reform measures in Saudi Arabia. Of course, doubts over the effectiveness of US tax reform are also contributing to the Loonie recovery as well. Still, we believe the Canadian Dollar has more room to decline. While recent data has improved, data overall has deteriorated in the aftermath of the central bank's aggressive move of consecutive rate hikes in 2017. Moreover, while Poloz was less dovish than the tone from the latest BoC meeting, this was to be expected as the central banker was going to do his best to justify the recent consecutive rate hikes. Looking ahead, absence of first tier data will leave Monday's focus on broader themes. One of those themes the Canadian Dollar will be watching into 2018 is the fate of NAFTA.

NZDUSD – technical overview

Medium term studies have turned down sharply after the market pushed up to a plus two year high through 0.7500 in late July. A recent break below 0.7000 has opened a more meaningful reversal to retest the 2017 low at 0.6818. Any rallies should now be very well capped ahead of 0.7200 ahead of the next downside extension below 0.6818 that would target 0.6500.



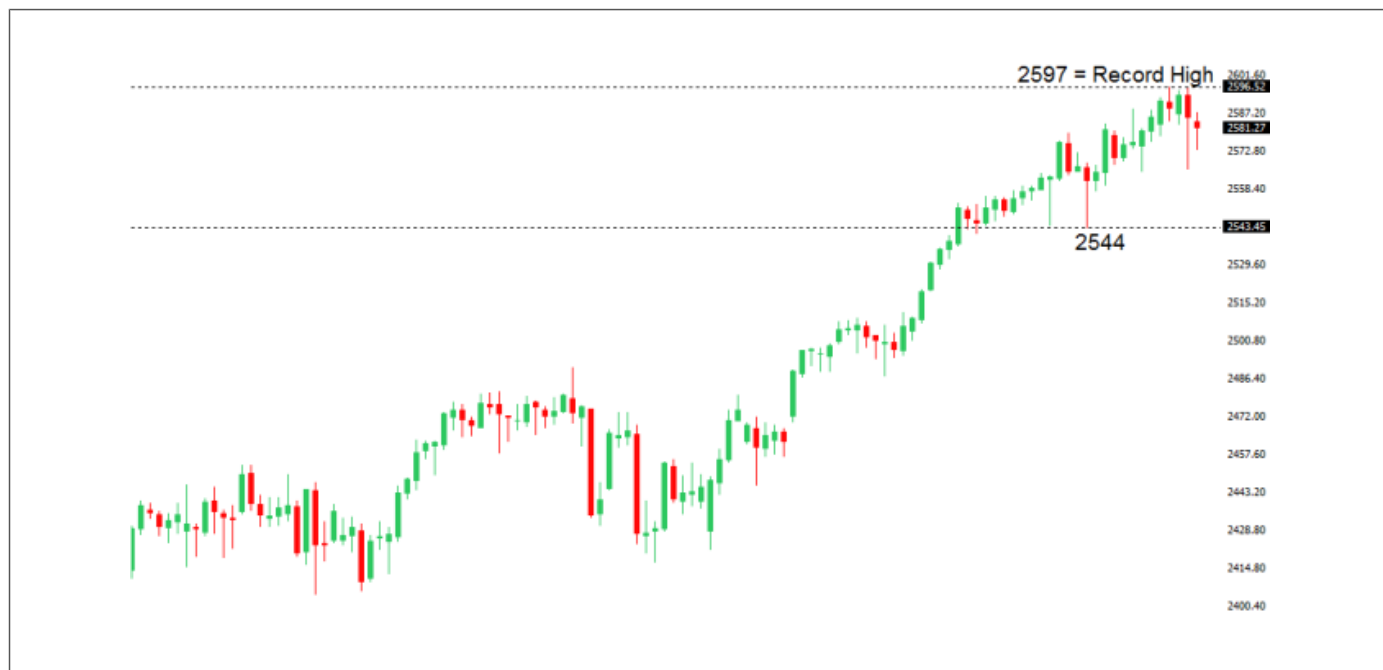
- R2 0.7004 – 24Oct high – Strong
- R1 0.6980 – 9Nov high – Medium
- S1 0.6875 – 6Nov low – Medium
- S2 0.6818 – 21May/27Oct/2017 low – Strong

NZDUSD – fundamental overview

The New Zealand Dollar hasn't been able to muster much of a rally since last Thursday's RBNZ meeting which revealed a bump up in the rate hike path to Q2 2019, a quarter earlier than previous estimates. Overall however, it seems the market isn't too excited about the prospect for an accelerated rate hike timeline in 2019 when it is contending right now with a less than impressive run of data, and a new government that the market is still trying to figure out. Last week's FinMin comments that the RBNZ's dual mandate could result in looser policy and that the central bank's 2% inflation target would be up for discussion, were not Kiwi supportive. Still, we have seen some Kiwi support since the currency matched its 2017 low from May the other week, on the back of renewed uncertainty over US tax reform.

US SPX 500 – technical overview

The market continues to shrug off overextended technical readings, with any setbacks quickly supported for fresh record highs. At the same time, it's worth noting that the market broke out in August after a 75 point consolidation, which projected a measured move to 2565. And now that this 2565 measured move objective has been met and exceeded, it could warn of some form of a reversal to come, though we would need to see a daily close back below 2544 at a minimum to take the immediate pressure off the topside. Until then, the record run continues into uncharted territory, with the focus on establishing above the next major barrier at 2600.



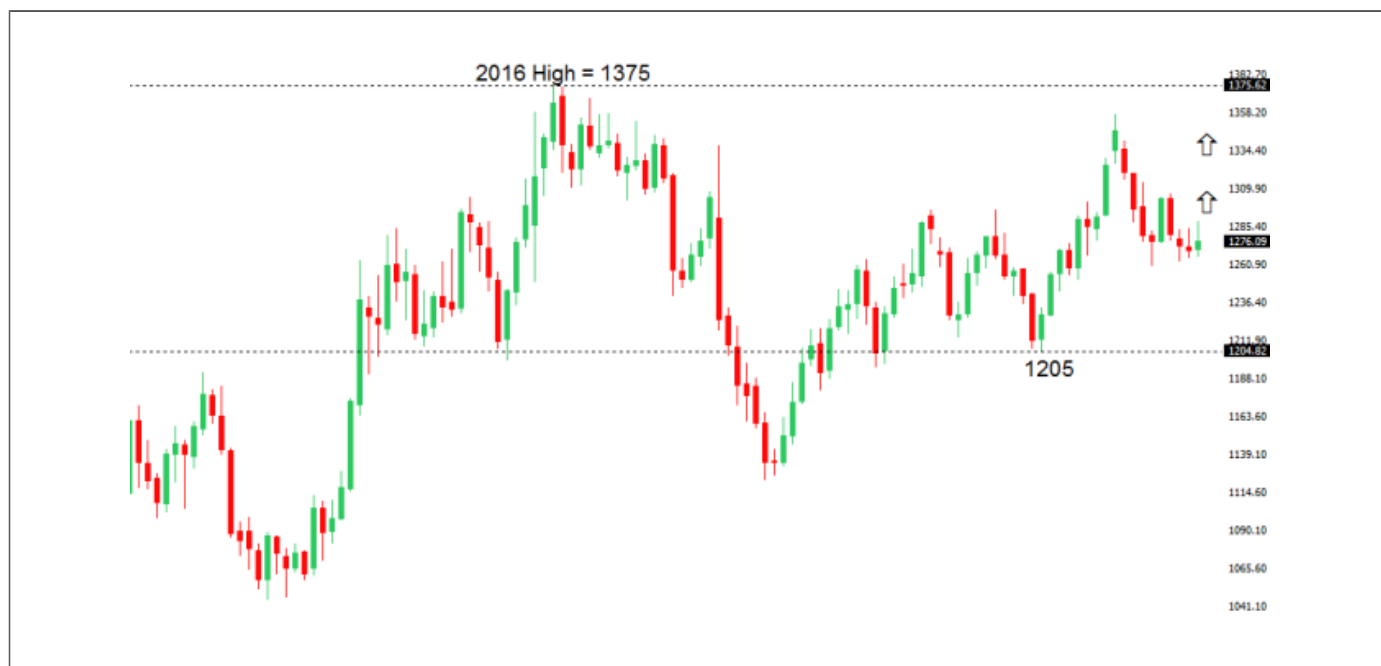
- R2 2600.00 – Psychological – Strong
- R1 2597.00 – 7Nov/Record high – Medium
- S1 2544.00 – 25Oct low – Medium
- S2 2487.00 – 25Sep low – Strong

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, expectation US tax reform will ultimately work out well and the appointment of Jerome Powell as the next Fed Chair are helping to keep the move going. But at the same time, 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 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. Looking at the week, the market will continue to focus on tax updates, while also monitoring President Trump headlines and taking in first tier data releases that include CPI and retail sales.

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 breaking out of a period of multi-month consolidation, with the price surging to fresh 2017 highs beyond 14.00, suggesting the run could have a lot more to go. The next major level of resistance comes in at 14.76, the high from August 2016. Setbacks should be well supported from here ahead of 13.65.



- R2 14.76 – August 2016 high – Strong
- R1 14.50 – Round number – Medium
- S1 14.00 – Psychological – Medium
- S2 13.65 – 23Oct low – Strong

Feature – fundamental overview

The South African economy is in greater need for flexibility on rates on the basis of a near zero growth and a negative output gap, though rising inflation is forcing the SARB to think about going in the opposite direction. Last week, SARB Gov Kganyago said there was scope for counter-cyclical accommodative monetary policy to support the economy. Meanwhile, the Rand remains exposed to ongoing tension on the political front which will persist into year-end on account of the upcoming ANC leadership election. October's Budget Statement dealt the emerging market currency another big blow, with the Rand sinking to a fresh 2017 low on the revelation of sharp revisions to debt and deficit projections, highlighting risk for further downgrade. And there has been more thrown onto the budget problem in recent days, with concerns arising from higher education funding. The only supportive Rand driver at the moment has come 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 backdrop around the globe.



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