

Friday, October 13, 2017

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# Global FX Insights

by LMAX Exchange Research & Analytics

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

## Friday Docket Features US CPI, Retail Sales [Wake-up Call](#)

The US Dollar came back under pressure this week and although the setbacks weren't intense, there are many out there calling for this move to be the start to a resumption of declines that we've been seeing for most of 2017. US CPI and retail sales ahead.

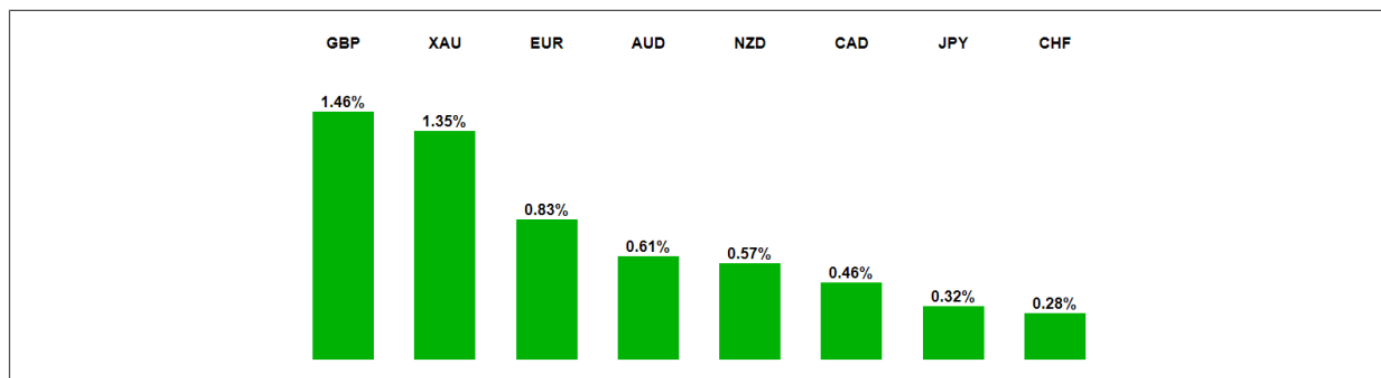
### Technical highlights [Daily Video](#)

- **EURUSD** Looking to roll over again
- **GBPUSD** Expecting choppy trade
- **USDJPY** Thinking about next drop
- **EURCHF** Structure remains bullish
- **AUDUSD** Rallies to be well capped
- **USDCAD** More room for recovery
- **NZDUSD** Looking for lower top
- **US SPX 500** Intense record run
- **GOLD** (spot) Turning back up
- **Feature** – USDZAR Dips supported

### Fundamental highlights

- **EURUSD** ECB Draghi offers more dovish speak
- **GBPUSD** Two year transition deal boosts Sterling
- **USDJPY** Yen looking ahead to important US data
- **EURCHF** Franc soft as record stocks help SNB
- **AUDUSD** China trade solid, IMF cuts forecasts
- **USDCAD** Loonie hit on NAFTA breakup news
- **NZDUSD** Kiwi business PMIs come in soft
- **US SPX 500** Investors will be watching US CPI
- **GOLD** (spot) Hard asset demand making sense
- **Feature** – USDZAR Fear of sentiment downturn

## Five day performance v. US dollar

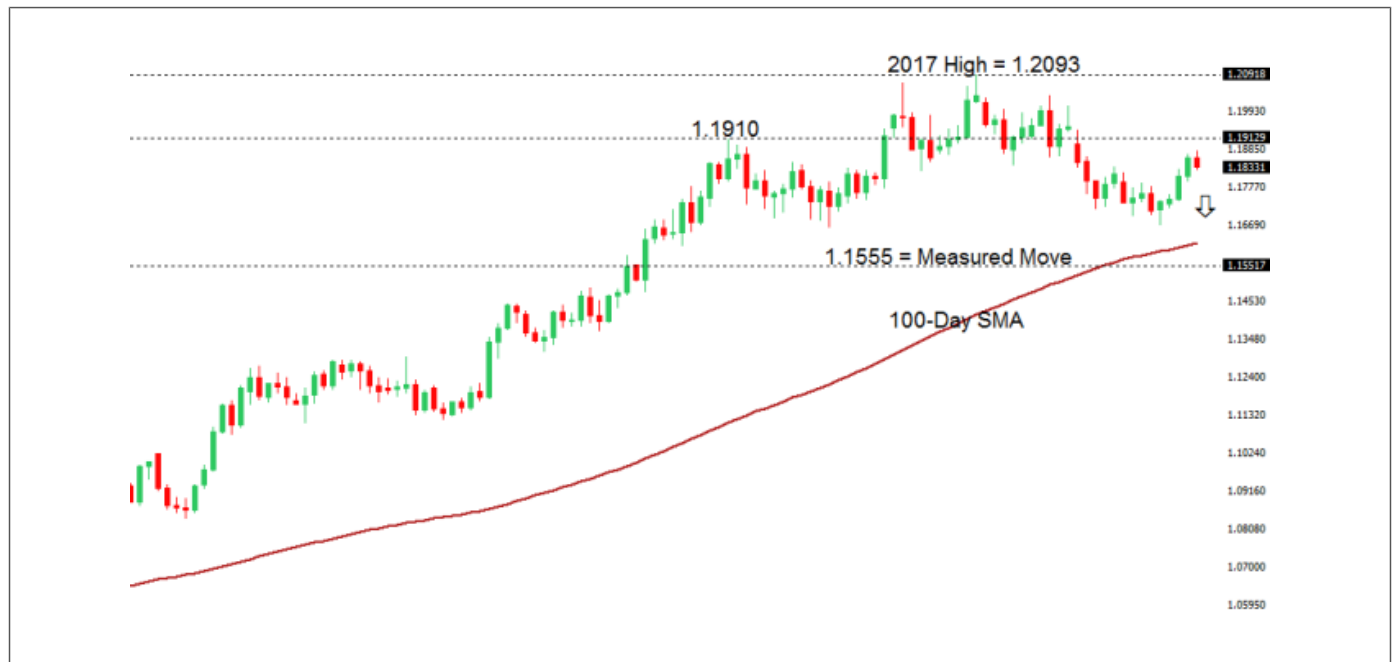


## Suggested reading

- **EM Contains Contagion Risk**, R. Blitz, Financial Times (October 12, 2017)
- **Economics Nobel Tries to Catch Up to Field**, N. Smith, Bloomberg (October 12, 2017)

## EURUSD – technical overview

The uptrend in 2017 has stalled out for now 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, just under the 100-Day SMA. What's even more interesting now is that if this latest minor rebound stalls out and the market holds below 1.1910 on a daily close basis, we could see the formation of an even bigger head and shoulders top that would trigger on a break below 1.1663 and open a downside extension into the 1.1200s.



- R2 1.1910 – 2Aug high – Strong
- R1 1.1880 – 12Oct high – Medium
- S1 1.1740 – 10Oct low – Medium
- S2 1.1663 – 17Aug low – Strong

## EURUSD – fundamental overview

Most of Thursday price action was about digesting the slightly more dovishly perceived FOMC Minutes and in the end, the Buck actually managed to find renewed demand. It seems ECB Draghi's cautious tone where he stressed the need for low rates for some time to come was what ended up weighing on the single currency. Otherwise, Fed speak from Bullard (dovish) and Rosengren (hawkish) proved to offset. Looking ahead, it's all about the US calendar with retail sales, CPI and more Fed speak due.

## 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 1.3403– 20Oct high – Strong
- R1 1.3292 – 4Oct high – Medium
- S1 1.3200 – Figure – Medium
- S2 1.3122 – 12Oct low – Medium

## GBPUSD – fundamental overview

On Thursday, we saw some whipsaw trade in the Pound, with the UK currency initially hit on news Brexit negotiations had reached a deadlock, but then recovering sharply on reports the EU would offer the UK a 2 year transition deal provided financial obligations were met. Looking ahead, more choppy trade is expected from the Brexit back and forth before the market turns its attention to the US docket featuring retail sales, CPI and Fed speak.

## 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 is therefore expected to stall out yet again into the resistance zone ahead of renewed downside pressure and bearish decline back towards the range low. Only a clear break above 115.00 or back below 107.00 would negate the outlook.



- R2 113.44 – 6Oct high – Strong
- R1 112.83 – 10Oct high – Medium
- S1 111.99 – 10Oct low – Medium
- S2 111.47 – 25Sep low – Strong

## USDJPY – fundamental overview

The Yen has found some renewed demand this week on the back of a combination of factors that include the slightly more dovishly perceived Fed Minutes, US tax reform concerns and renewed geopolitical tensions. Otherwise, Thursday's conflicting Fed speak was offsetting and the focus will now shift to today's US docket that features retail sales, CPI and more Fed speak.

## 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 1.1568 – 12Oct high – Medium
- S1 1.1390 – 20Oct low – Medium
- S2 1.1360 – 8Sep 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 0.7876 – 40Oct high – Strong
- R1 0.7836 – 12Oct high – Medium
- S1 0.7734 – 60Oct low – Medium
- S2 0.7727 – 14Jul low – Strong

## AUDUSD – fundamental overview

The Australian Dollar has been attempting to recover this week, getting some help from renewed technical selling of the US Dollar and fundamental drivers that include concerns over US tax reform, a more dovish leaning FOMC Minutes, rallying iron ore prices, rising consumer inflation expectations and solid China trade data. Still, there continues to be healthy offers into rallies from medium-term accounts and the news the IMF has cut its forecasts for Aussie GDP and inflation is helping to cap gains. Looking ahead, the focus shifts to an important US docket that features retail sales, CPI and more Fed speak.

## 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 1.2663 – 31Aug high – Strong
- R1 1.2599 – 6Oct high– Medium
- S1 1.2433– 12Oct low – Medium
- S2 1.2417 – 29Sep low – Strong

## USDCAD – fundamental overview

The news that the NAFTA accord could dissolve in 5 years is not a positive for the Canadian Dollar and has opened renewed offers despite a broader recovery in the Loonie this week on the back of US Dollar selling from concerns over US tax reform and a more dovishly perceived FOMC Minutes. Overall, it hasn't been a good run of developments for the Canadian Dollar since the Bank of Canada opted to catch the market off guard and hike rates for a second consecutive time last month. While Canada employment data was solid last week, it's been overshadowed by discouraging trade data, GDP, manufacturing, retail sales, subdued inflation and scaled back BoC Poloz comments. Looking ahead, the focus shifts to an important US docket that features retail sales, CPI and more Fed speak.

## 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 0.7206 – 4Oct high – Strong
- R1 0.7146 – 12Oct high – Medium
- S1 0.7056 – 10Oct low – Medium
- S2 0.7035 – 30May low – Strong

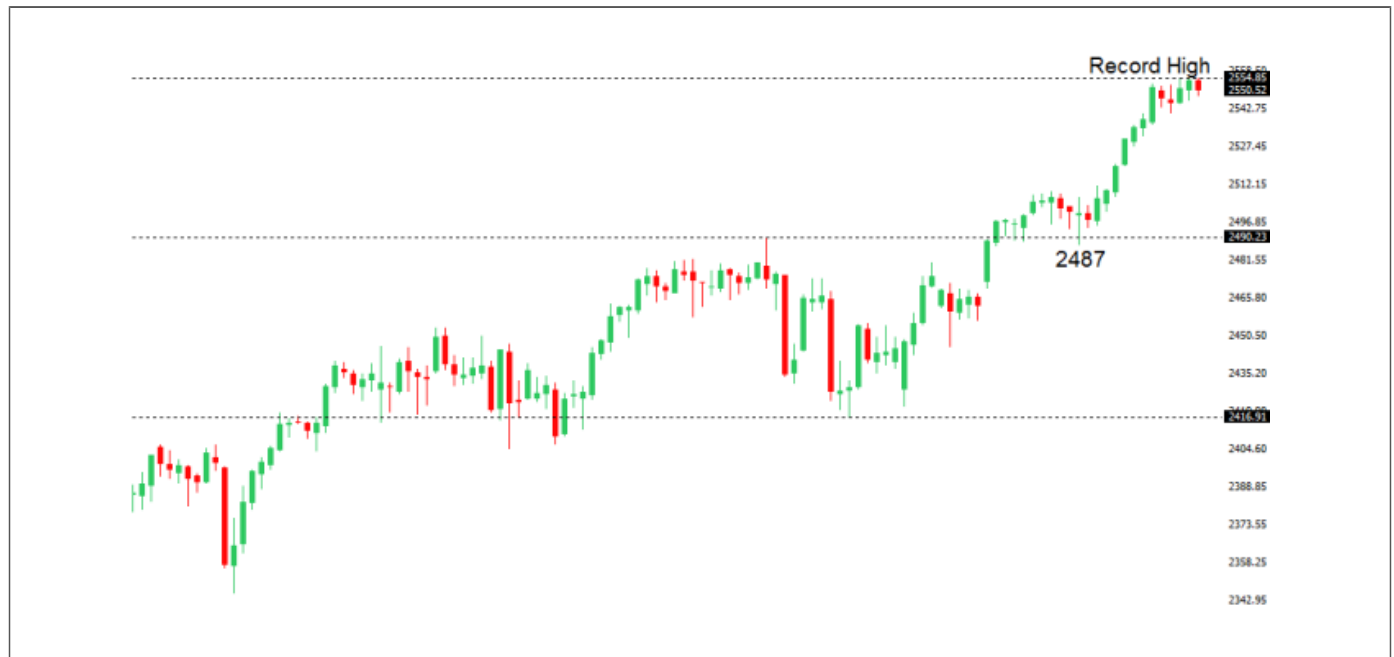
## NZDUSD – fundamental overview

A bout of broad based profit taking on US Dollar longs this week has helped to support on ailing Kiwi rate off of recent lows, with renewed concerns over US tax reform and a slightly more dovish FOMC Minutes as the primary drivers. However, offers continue to emerge into rallies as the currency contends with a deteriorating outlook and ongoing political uncertainty post New Zealand elections. The Kingmaker and National/Labour camps are trying to talk it out, but until there is clarity on that front, the Kiwi rate remains exposed. Earlier today, we got another round of softer Kiwi data in the form of business manufacturing PMIs. Looking ahead, the focus shifts to an important US docket that features retail sales, CPI and more Fed speak.



## 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 2556.00 – 10Oct/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. Last Friday's jump in hourly earnings and Thursday's hotter producer prices only add pressure on the Fed to raise rates more aggressively, something that should make equity market valuations less attractive. Today's US CPI will now be an important one to watch, while retail sales and more Fed speak are due. But for now, it's more of the same. It will take a breakdown in this market back below 2500 to turn heads. The market will now digest the latest FOMC Minutes.

## 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 the latest round of weakness to once again be well supported on the dip, with a higher low sought out ahead of 1250 ahead of the next major upside extension and 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 pushed back above a multi-week range high that has capped gains in 2017. The break above this range top opens the door for additional upside towards the 2017 high from early January just shy of 14.00. From here, look for any setbacks to be well supported ahead of 13.16, with only a break back below 13.00 to compromise the constructive outlook.



- R2 13.98 – 11Jan/2017 high – Strong
- R1 13.87 – 9Oct high – Medium
- S1 13.36 – 27Sep low – Medium
- S2 13.16 – 22Sep low – Strong

## Feature – fundamental overview

The Rand has been struggling of late, as ongoing tension on the political front prevents the emerging market currency from making any headway. The political mess has made the Rand one of the least attractive emerging market currencies out there at a time when risk correlated currencies are coming back under pressure on the reemergence of US Dollar demand from a more hawkish leaning Fed and solid US data. Last week's SARB monetary policy report flagging scope for additional rate cuts on the basis of near zero growth and a negative output gap aren't doing anything to help the Rand either. The only supportive theme at the moment is arguably the record run in US equities. However even here the Rand should be sitting uneasy as the prospect for a capitulation is looking increasingly realistic with stocks going parabolic.



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