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Global FX Insights

by LMAX Exchange Research & Analytics

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

No Shortage of Risk Out There [Wake-up Call](#)

The market is sitting back and waiting for price action to pick up, and there is no shortage of risk that can easily get things going. North Korea tension is back on the rise, Brexit concerns are once again in the spotlight and Spain and Catalonia remain in a deadlock.

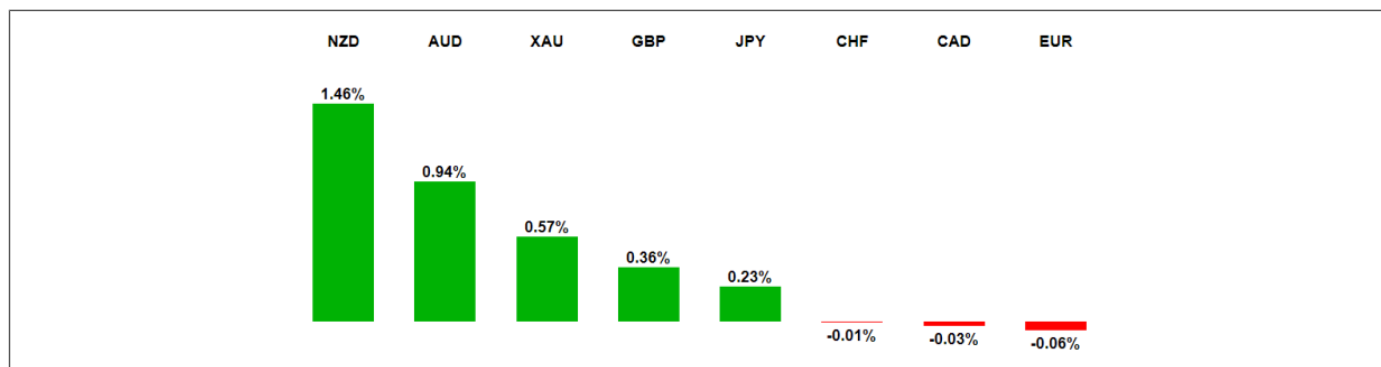
Technical highlights [Daily Video](#)

- **EURUSD** Room for additional slide
- **GBPUSD** Dips to be well supported
- **USDJPY** Thinking about range lows
- **EURCHF** Comfortable in range
- **AUDUSD** Bearish below 0.8000
- **USDCAD** Running to August high
- **NZDUSD** Rallies very well capped
- **US SPX 500** Another record high
- **GOLD** (spot) Sights on 2016 peak
- **Feature** – USDZAR Chopping around

Fundamental highlights

- **EURUSD** Spain-Catalan deadlock in focus
- **GBPUSD** Pound at risk if UK CPI comes in soft
- **USDJPY** Yen direction all about global sentiment
- **EURCHF** SNB looking good so long as stocks up
- **AUDUSD** Dovish RBA Minutes open more selling
- **USDCAD** BoC business outlook deteriorates
- **NZDUSD** Kiwi can't do anything with hot CPI
- **US SPX 500** Investors happy to keep it going
- **GOLD** (spot) Risk backdrop welcomes demand
- **Feature** – USDZAR SA CPI data due Wednesday

Five day performance v. US dollar

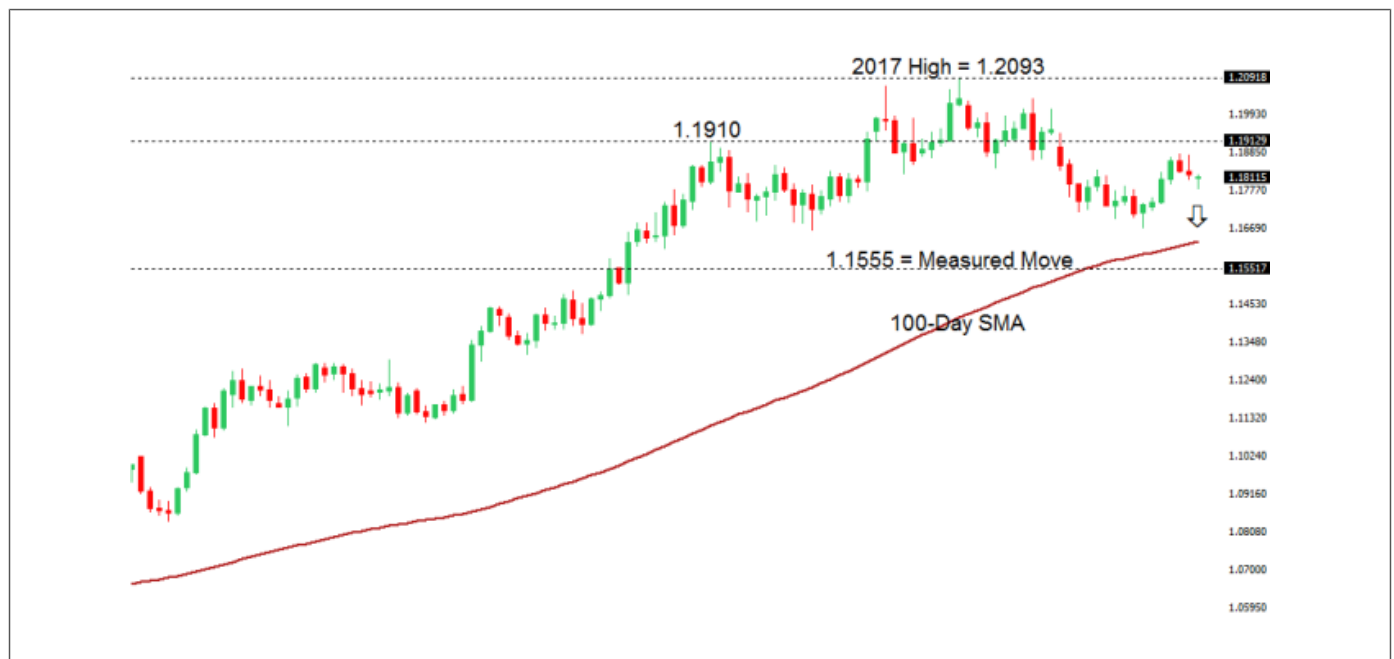


Suggested reading

- **Why Brexit Risks a Gangsters' Paradise**, D. Doyle, Bloomberg (October 16, 2017)
- **Digital Trade Boom**, S. Donnan, Financial Times (October 16, 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

The Euro focus right now remains on the Catalan-Spain deadlock. President Puigdemont has been insisting he has a mandate for independence, while the Spanish PM has given Puigdemont until Thursday to back down or risk a loss of Catalonia’s autonomy. This presents the possibility for a messy outcome where the EU would need to step in, something that would be a headache for the market with the EU already struggling to deal with Brexit negotiations. Germany coalition talks are also a source of stress at the moment, as the market deals with the implications of Merkel’s looser grip. As far as today’s docket goes, we get ECB speak from Constancio and Praet, followed up by Fed Harker later on. On the data front, the focus will be on German ZEW, Eurozone CPI and US industrial production.

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 1.3338 – 13Oct high – Medium
- S1 1.3200 – Figure – Medium
- S2 1.3122 – 12Oct low – Medium

GBPUSD – fundamental overview

It should be a busy day for the Pound with the market taking in an important UK CPI reading, while also contending with BOE speak headlined by Governor Carney. Of course, Brexit concerns are back in the spotlight with talk of a potential breakdown in negotiations worrying the market. Thursday’s EU Summit will be important to watch as more colour comes from this event. As far as the UK CPI goes, the greater risk to the Pound is to the downside if the data comes in soft given the market’s expectation for rates to be moving up sooner than later. Other standouts on the calendar today include US industrial production and a speech from Fed Harker.

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, with the market rolling back over. This sets up a drop back to the range lows, with a break below 111.00 to strengthen the bearish prospect. Only back above 113.44 would delay the outlook and expose the range highs in the 114.00s.



- R2 112.83 – 10Oct high – Strong
- R1 112.31 – 10Oct high – Medium
- S1 111.47 – 25Sep low – Medium
- S2 111.00 – Previous Resistance – Strong

USDJPY – fundamental overview

The Yen has found some renewed demand in recent days (USDJPY lower), with the move largely attributed to broad based US Dollar selling after the Buck had enjoyed a small recovery rally. Right now, the big focus for the Japanese currency is global sentiment and any fallout from risks around the globe that include North Korea, Iran, Catalonia, Germany, the UK and New Zealand. Of course, next week's Japan election is also worth mention, though with the LDP expected to win out convincingly, there shouldn't be too many waves here. Looking at today's docket, the focus will be on a Fed Harker speech and US industrial production.

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 – 2Oct 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 0.7987 – 22Sep high – Strong
- R1 0.7898 – 13Oct high – Medium
- S1 0.7815– 13Oct low – Medium
- S2 0.7734 – 6Oct low – Strong

AUDUSD – fundamental overview

A recovery in the Australian Dollar on the back of last week’s broad based slide in the Buck, has stalled out, with Aussie finding good offers into the rally. The weekend news of Yellen keeping with her outlook for higher rates had started to weigh on the Aussie rally, while an impressive US empire manufacturing print and reports that President Trump was impressed with the hawkish John Taylor as a prospect for the next Fed Chair opened more downside pressure. And the selling hasn’t stopped into Tuesday with the RBA Minutes coming out on the dovish side after the central bank reiterated concern over the subdued nature of wage growth, while reinforcing that a move to higher rates elsewhere would not dictate the RBA’s decision making. Looking ahead, we get a speech from Fed Harker and US industrial production.

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 – 60Oct high – Strong
- R1 1.2559 – 90Oct high– Medium
- S1 1.2433– 120Oct low – Medium
- S2 1.2417 – 29Sep low – Strong

USDCAD – fundamental overview

The Canadian Dollar was an underperformer in Monday trade, with the Loonie positioning to extend its recent run of declines. The primary drivers of the relative underperformance were a decline in the Bank of Canada Business Outlook Survey, aggressive NAFTA negotiations and weekend comments from BoC Governor Poloz, who said growth would moderate, leading to an “intense data dependent mode.” Meanwhile, on the US side, the Canadian Dollar didn’t get any help, with empire manufacturing coming out strong and President Trump impressed with the more hawkish John Taylor as a prospect for the next Fed Chair. Looking ahead, we get speeches from Fed Harker and BoC Wilkins along with US industrial production, NAHB housing and TIC flows.

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 0.7197 – 13Oct high – Medium
- S1 0.7121 – 13Oct low – Medium
- S2 0.7056 – 10Oct low – Strong

NZDUSD – fundamental overview

Not a lot of love for the New Zealand Dollar right now. The currency tried its best to rally on the hotter than expected Kiwi CPI data early Tuesday, but was quickly sold into offers quite aggressively. The market doesn't believe this will do anything to alter the central bank's rate hike timeline which doesn't see anything happening on that front until at least November 2018. Meanwhile, Kiwi traders are trying to figure out what will be with post election uncertainty and who NZ First will back for a coalition government. On the US side, strong empire manufacturing and President Trump's good feelings about John Taylor as a prospect for next Fed Chair have been adding to downside pressure on the Kiwi rate. Looking ahead, we get an important GDT auction, Fed Harker speech, and US data that includes industrial production, NAHB housing and TIC flows.

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.



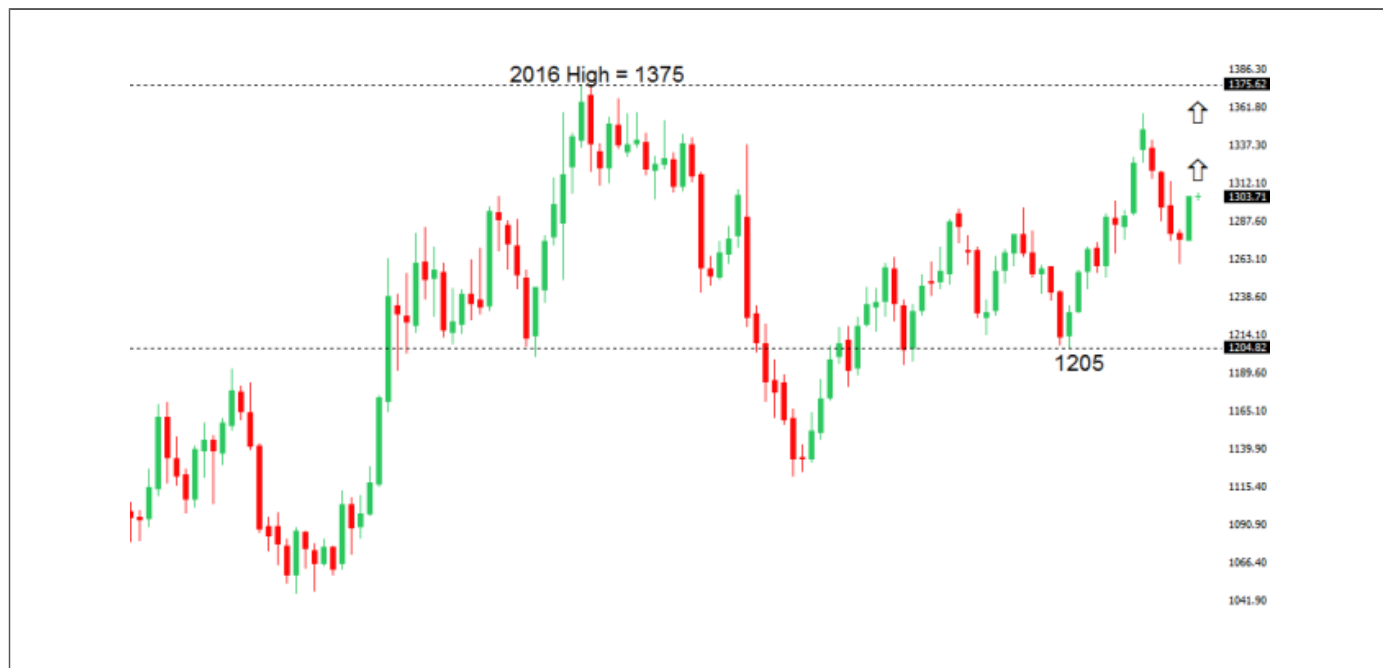
- R2 2600.00 – Psychological – Strong
- R1 2560.00 – 16Oct/Record high – Medium
- S1 2501.00 – 28Sep low – Medium
- S2 2487.00 – 25Sep low – Strong

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. Although last Friday's softer US CPI was supportive of the market, this has been somewhat offset by the weekend Yellen comments with the Fed chief sticking to her more hawkish leaning tone. Nevertheless, 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 13.55 – 12Oct high – Medium
- S1 13.20 – Figure – Medium
- S2 13.16 – 22Sep low – Strong

Feature – fundamental overview

A nice recovery in the Rand over the past week, with the emerging market currency getting help from the USD side on broad based selling of the Buck from tax reform concerns, a dovish Fed Minutes and soft Friday US data. Still, Yellen kept with her hawkish leaning tone over the weekend and this should keep the market from selling the Buck too aggressively against the emerging market currencies. Meanwhile, the Rand remains exposed to ongoing tension on the political front. This month'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 going 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 on overbought technicals and an unstable political backdrop around the globe. Looking ahead, the big focus for the week will be tomorrow's South Africa CPI readings forecast to tick higher to 4.9% year over year.



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