

Global FX Insights

by LMAX Exchange Research & Analytics

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

US Tax Reform Stumble, Trump in Asia, Bitcoin [Wake-up Call](#)

Wednesday's economic calendar won't be turning any heads given the absence of first tier data across the board. Instead, the focus will be on global risk sentiment and broad appetite, or lack thereof for the US Dollar. US tax reform updates and the Trump Asia tour are in focus.

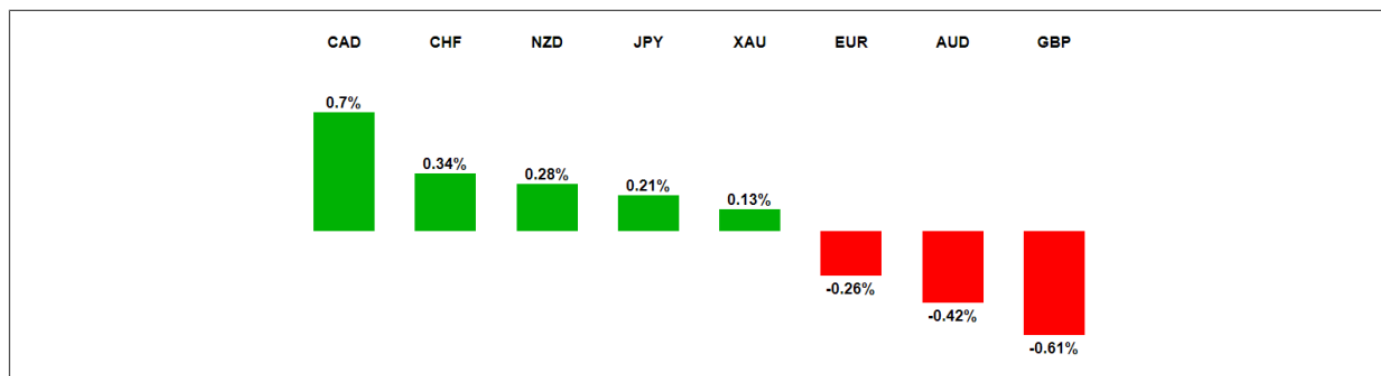
Technical highlights [Daily Video](#)

- **EURUSD** Setbacks extend
- **GBPUSD** Overall constructive
- **USDJPY** Flirting with range high
- **EURCHF** Uptrend firmly intact
- **AUDUSD** Room for 0.7500 drop
- **USDCAD** Still thinking 1.3000
- **NZDUSD** Poised for fresh low
- **US SPX 500** Parabolic action
- **GOLD** (spot) Strong base
- **Feature** – USDZAR Aiming up

Fundamental highlights

- **EURUSD** Euro boosted on US tax reform woes
- **GBPUSD** Looking to Brexit negotiations
- **USDJPY** Yen tracking traditional correlation
- **EURCHF** SNB preparing for big battle ahead
- **AUDUSD** China trade data comes in softer
- **USDCAD** Canada housing starts, building permits
- **NZDUSD** Thursday RBNZ decision into Focus
- **US SPX 500** Continuing to dismiss the red flags
- **GOLD** (spot) Macro accounts happy to buy dips
- **Feature** – USDZAR Threat of more downgrades

Five day performance v. US dollar



Suggested reading

- **Behind the Goldman Sachs Trading Slump**, G. Tan, Bloomberg (November 7, 2017)
- **Survival Guide for Coming Hedge Fund War**, M. Harris, Price Action Lab (November 6, 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 take the immediate pressure off the downside.



- R2 1.1691 – 3Nov low – Strong
- R1 1.1625 – 6Nov high – Medium
- S1 1.1554 – 7Nov low – Medium
- S2 1.1500 – Psychological – Strong

EURUSD – fundamental overview

Wednesday’s economic calendar is super light and the market will likely spend more time focusing on the broader macro themes and technicals. As far as data goes, we get the France trade balance, Spanish industrial production and US mortgage approvals. Most of the chatter of late surrounds US tax reform, with the latest reports talking one year delay of implementation and disagreement over key components within the reform bill. This has helped to prop the Euro back up after the single currency fell to its lowest levels since July on Tuesday. The market will also likely pay more attention to President Trump's Asia tour, as he arrives in China.

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 is required to send a signal the market is ready to start moving back up.



- R2 1.3300 – 2Nov high – Strong
- R1 1.3200 – Figure – Medium
- S1 1.3100 – Figure – Medium
- S2 1.3027 – 6Oct low – Strong

GBPUSD – fundamental overview

The market has settled down following the whippy price action seen around last week's Bank of England decision, where the central bank raised rates for the first time in a decade. Ultimately, it was down for the Pound after a decidedly more dovish tone, though bids have emerged into the dip. The Pound is actually the strongest performer amongst the developed currencies since the weekly open, with the UK currency perhaps feeling a little bit better about the Brexit outlook and looking forward to progress at the next round of negotiation talks tomorrow and Friday. The Pound has also received some support from US tax reform updates, with the latest reports talking one year delay of implementation and disagreement over key components within the reform bill. Looking at today's calendar, absence of first tier data will leave the focus on any headlines relating to Brexit and broader macro themes.

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. The market has been in rally mode over the past several days, taking the rate back into the range highs. At this point, look for the market to adhere to the range and stall out yet again for the start to a drop back towards the range lows. A daily close back below 113.00 would strengthen this outlook.



- R2 115.00 – Psychological – Strong
- R1 114.73 – 6Nov high – Strong
- S1 113.54 – 2Nov low – Medium
- S2 112.96 – 19Oct low – Strong

USDJPY – fundamental overview

The major pair has been unable to hold onto gains from earlier this week to fresh multi-week highs that were helped along by BOJ Kuroda comments that the central bank would continue to persistently pursue powerful monetary easing to achieve the central bank’s 2% target. It seems fresh doubts over the effectiveness of US tax reform have contributed to setbacks, with the news negative for both the US Dollar and US equities at the same time, clearly inspiring Yen bids by extension. Overall, risk sentiment will likely continue to influence the next big move here, while short-term, President Trump’s Asia tour and any things that comes from today’s visit in China.

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 1.1800 – Figure – Medium
- R1 1.1713 – 26Oct/2017 high – Medium
- S1 1.1485 – 17Oct low – Medium
- S2 1.1390 – 2Oct 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. 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

On Tuesday, the RBA left rates on hold at 1.50% as was widely anticipated, with an accompanying statement that produced no surprises. There was no escalation in Australian Dollar jawboning and economic forecasts remained ‘largely unchanged.’ The ongoing strain of low inflation and tepid wage growth was expected to persist. The reaction has been contained given the market got what it was waiting for and the focus will now shift to broader macro themes including President Trump’s Asia tour and US equity market performance. We have however seen some demand for the commodity currency after reports broke of the US tax reform progress not looking as good or going as smoothly as anticipated. Earlier today, China trade data came in soft, while iron ore prices faltered, which were not Aussie supportive. But it seems the US tax reform news is taking precedence.

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 1.2917 – 27Oct high – Strong
- R1 1.2836 – 3Nov high – Medium
- S1 1.2703– 6Nov low– Medium
- S2 1.2599 – 6Oct high – Strong

USDCAD – fundamental overview

The Canadian Dollar has been feeling a little better of late, getting some relief from last Friday’s Canada jobs report, Monday’s Ivey PMI beat, and a surge in the price of OIL on the back of the Saudi Arabia turmoil. Meanwhile, worry over the effectiveness of US tax reform is also helping to support the Loonie a bit into Wednesday. Still, overall, economic data has deteriorated in the aftermath of the central bank’s aggressive move of consecutive rate hikes in 2017. The BoC has been forced to do a 180, saying it will now remain cautious when considering future rate hikes while also citing concern over the stronger currency. And all of this comes with a Fed that is moving forward with its forward guidance, which ultimately points to more US Dollar strength ahead. Later today, we get Canada housing starts and building permits.

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 0.6958 – 6Nov high – Medium
- S1 0.6875 – 6Nov low – Medium
- S2 0.6818 – 21May/27Oct/2017 low – Strong

NZDUSD – fundamental overview

There have been very few rays of sunshine for the New Zealand Dollar since the currency topped out at a +2 year high back in July. But things have died down post election and the uncertainty has taken a bit of a breather for the time being which has helped to support the market a bit. Last week’s well received New Zealand employment readings have helped to slow the decline. And on Tuesday, NZ FinMin Robertson stated he had no desire to include Kiwi in the RBNZ review, which helped to invite some more support for the commodity currency. Kiwi has been getting additional help from the US side, as updates on tax reform go south. But if the data continues to sour as reflected again via yesterday’s discouraging GDT auction, the RBNZ may be forced to upgrade its dovishness. All eyes now turn to the early Thursday RBNZ event risk.

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 slightly 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 2543.00 – 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 of favourable US tax policy 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. On Tuesday, the market retreated a fraction on some hiccups relating to tax reform, but again, this market needs to see a break below 2500 to really suggest an overdue correction has begun.

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.



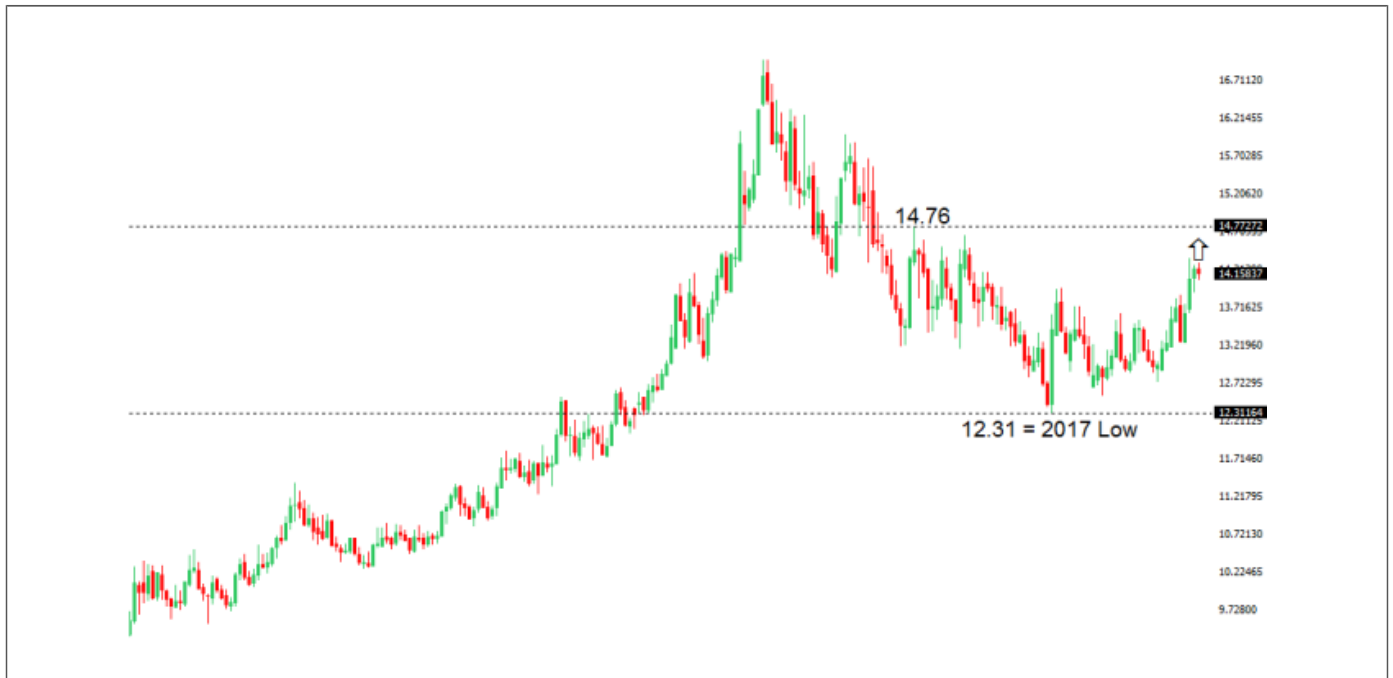
- R2 1334.35 – 15Sep high – Strong
- R1 1316.10 – 20Sep high – Medium
- S1 1260.70 – 6Oct low – Medium
- S2 1251.45 – 8Aug low – Strong

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 14.36 – 27Oct high – 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. 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. 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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