

Thursday, November 9, 2017

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Brexit, Trump in China, US Tax Reform Update [Wake-up Call](#)

Into Thursday, with the exception of the Euro, all of the developed currencies are higher against the Buck since the weekly open, led by Kiwi, on the back of today's more upbeat RBNZ decision. Looking ahead, the focus will be Brexit negotiations, President Trump's Asia tour and US tax reform updates.

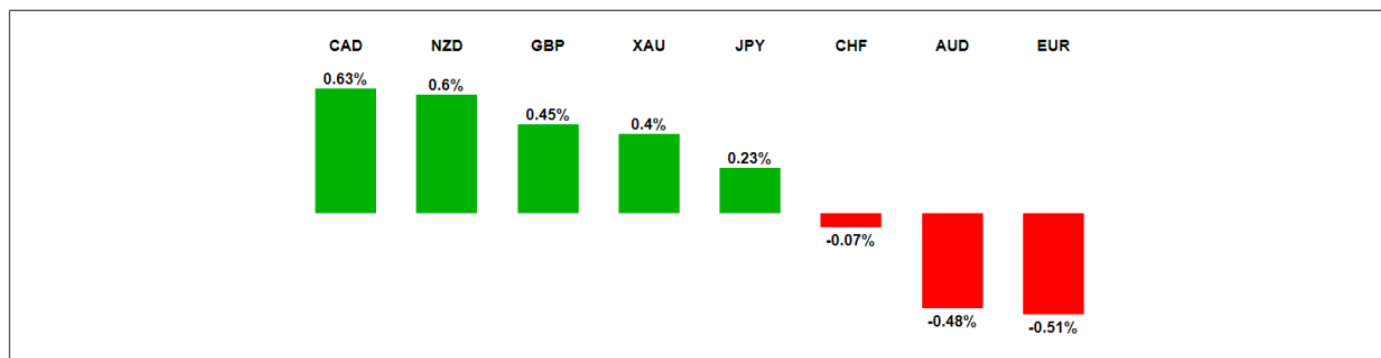
Technical highlights [Daily Video](#)

- **EURUSD** Bearish below 1.1690
- **GBPUSD** Setbacks to be supported
- **USDJPY** Possible topside failure
- **EURCHF** Thinking about 1.2000
- **AUDUSD** Upside is corrective
- **USDCAD** Higher low sought out
- **NZDUSD** Deeper setbacks ahead
- **US SPX 500** No signs of let up
- **GOLD** (spot) Eyes 2016 high
- **Feature** – USDZAR Room to run

Fundamental highlights

- **EURUSD** Euro takes in wave of ECB speak
- **GBPUSD** Negotiations resume on Brexit
- **USDJPY** Yen tracking traditional correlations
- **EURCHF** SNB exposure to US equities is huge
- **AUDUSD** Aussie home loans come in softer
- **USDCAD** Loonie gets help as Poloz defends
- **NZDUSD** RBNZ holds but accelerates timeline
- **US SPX 500** Investors look to Senate update
- **GOLD** (spot) Macro accounts happy to buy dips
- **Feature** – USDZAR EM exposed to risk off

Five day performance v. US dollar



Suggested reading

- **Italy's Shrinking Safety Net**, M. Ashworth, Bloomberg (November 8, 2017)
- **Russian Stocks Can Do Better**, M. Giustiniano, Financial Times (November 8, 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 1.1625 – 6Nov high – Medium
- S1 1.1554 – 7Nov low – Medium
- S2 1.1500 – Psychological – Strong

EURUSD – fundamental overview

The Euro is the only developed currency that is lower since the weekly open, albeit marginally. The super thin economic calendar has left the market thinking about a recent technical breakdown on the daily chart and fallout from the latest ECB decision in which the central bank took on a decidedly more dovish tone. Nevertheless, with so much negative US Dollar sentiment into 2017, bigger players continue to look to be buyers of the Euro on bets the ECB will still outpace the Fed when it comes to policy normalisation and on bets the current US administration will be committed to weakening the Buck. Today's economic data won't factor, with the market digesting German trade and looking ahead to US initial jobless claims. Instead, the focus will be on a slew of ECB speak, updates from the Senate on US tax reform and headlines from Asia relating to the US President's visit to 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 1.3178 – 7Nov high – Medium
- S1 1.3087 – 8Nov low – Medium
- S2 1.3027 – 6Oct low – Strong

GBPUSD – fundamental overview

Last week's Bank of England decision produced renewed Brexit anxiety that we believe, should serve both the UK economy and Pound well in the weeks and months ahead. Ultimately, whether by design or not, the expression of such anxiety should only serve as added motivation for negotiators to work productively towards an amenable, crisis averting transition deal. While we recognize there will continue to be bumps along the way, we are optimistic the path forward will become increasingly reassuring. For today, the focus will be on headlines out from the Brexit talks in Brussels which run through tomorrow. There has been an added anxiety in the lead up as the political situation sours in UK parliament, given a string of sexual harassment allegations and an untimely resignation. There is no first tier UK data and the only calendar event of note on the data side comes from US initial jobless claims. Later in the day, Senate updates on US tax reform will command a good deal of attention.

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 113.40 – 8Nov 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. Overall, risk sentiment will likely continue to influence the next big move here. News from President Trump's visit to Asia and an update on US tax reform out of the Senate, will be the things to watch. As far as data goes, earlier today, we got disappointing reads out of Japan, with machine orders and the current account balance below forecast. Later on, we get US initial jobless claims.

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 – 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

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 since has shifted back to broader macro themes including President Trump’s Asia tour, US tax reform and US equity market performance. Earlier today, Aussie home loans data dissatisfied and inspired some mild offers, though not much going on right now. Later today, we get that Senate update on US tax reform and some US initial jobless claims data.

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, a surge in the price of OIL on the back of the Saudi Arabia turmoil and some less dovish Poloz comments. Meanwhile, worry over the effectiveness of US tax reform is also helping to support the Loonie a bit this week. Still, overall, economic data has deteriorated in the aftermath of the central bank’s aggressive move of consecutive rate hikes in 2017. And 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. Later today, we get more Canada housing data, US initial jobless claims and that important update from the US Senate on tax reform.

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.



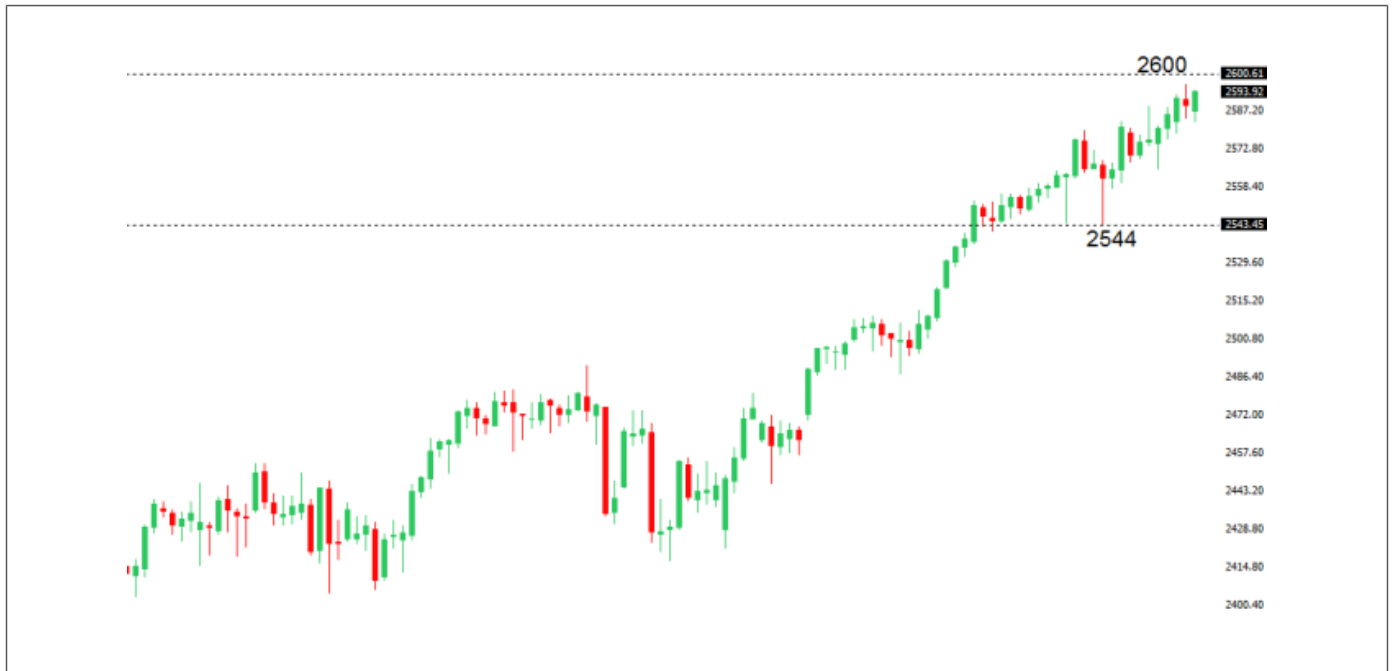
- R2 0.7004 – 24Oct high – Strong
- R1 0.6964 – 8Nov high – Medium
- S1 0.6875 – 6Nov low – Medium
- S2 0.6818 – 21May/27Oct/2017 low – Strong

NZDUSD – fundamental overview

No surprise to see the New Zealand Dollar up on Thursday after the RBNZ produced a less dovish tone than what was expected. Spencer and company left rates on hold at 1.75% which was expected, but also bumped up the rate hike path a quarter earlier than previous estimates, to Q2 2019. Overall however, this shouldn't do much to comfort a New Zealand Dollar contending with a less than impressive run of data of late, including this week's GDT auction results, and a new government that the market is still trying to figure out. Looking ahead, we get US initial jobless claims and an update from the US Senate on 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 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 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. Today's Senate update on the tax reform will be the big focus.

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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