Friday, August 11, 2017

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Global FX Insights

by LMAX Exchange Research & Analytics

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

A Case of Risk Appetite Reduction

Wake-up Call

We came into this week with the US Dollar trying to establish some momentum from a recovery in the previous week, and for the most part, the Buck was able to extend its run. But the emergence of another trend shift has also been playing its part this week, with risk off flow coming into the picture.

Technical highlights

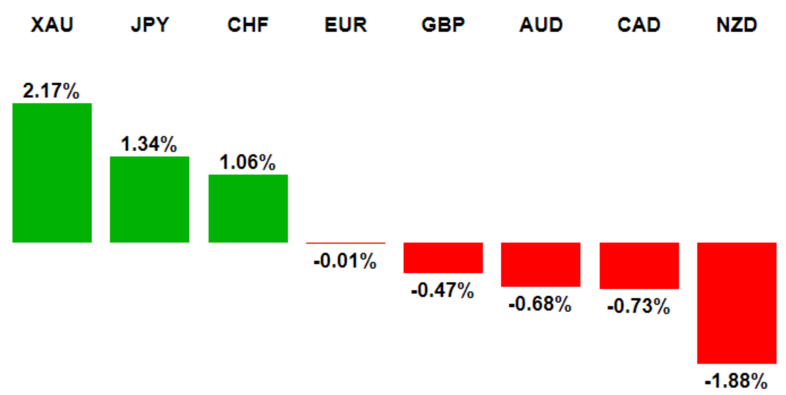
Daily Video

- **EURUSD** Consolidates off highs
- **GBPUSD** Room for deeper drop
- **USDJPY** Gravitating to yearly low
- **EURCHF** Strong support on dips
- **AUDUSD** Slow forming top
- **USDCAD** Extends corrective run
- **NZDUSD** Hard reversal underway
- **US SPX 500** Finally relents a bit
- **GOLD** (spot) Readies for next push
- **Feature** – USDSGD Turning up

Fundamental highlights

- **EURUSD** Fed Dudley comments offset US PPI
- **GBPUSD** Mixed data leaves Pound mostly sideways
- **USDJPY** Yen still tied to traditional correlations
- **EURCHF** SNB's job could get a lot tougher in risk off
- **AUDUSD** Nothing new from RBA Lowe speech
- **USDCAD** Loonie gets nervous as OIL sinks
- **NZDUSD** RBNZ McDermott discourages Kiwi longs
- **US SPX 500** Extended run inspires profit taking
- **GOLD** (spot) Safe haven flow another prop for metal
- **Feature** – USDSGD Singapore GDP, retail sales

Five day performance v. US dollar



Suggested reading

- **5 Steps to Take in Jittery Markets**, C. Benz, **Morningstar** (August 9, 2017)
- **Connecting the Dots**, E. Swarts, **Market Anthropology** (August 9, 2017)

EURUSD – technical overview

The Euro has finally entered an overdue corrective phase after pushing through longer-term resistance to a plus two and a half year high just over 1.1900. Weekly studies have been highly extended, warning of the need for a healthy pullback and Tuesday's daily close below 1.1800 opens the door for further declines, potentially back towards the 50-Day SMA in the 1.1400s before the market considers a higher low and continuation of the 2017 run.

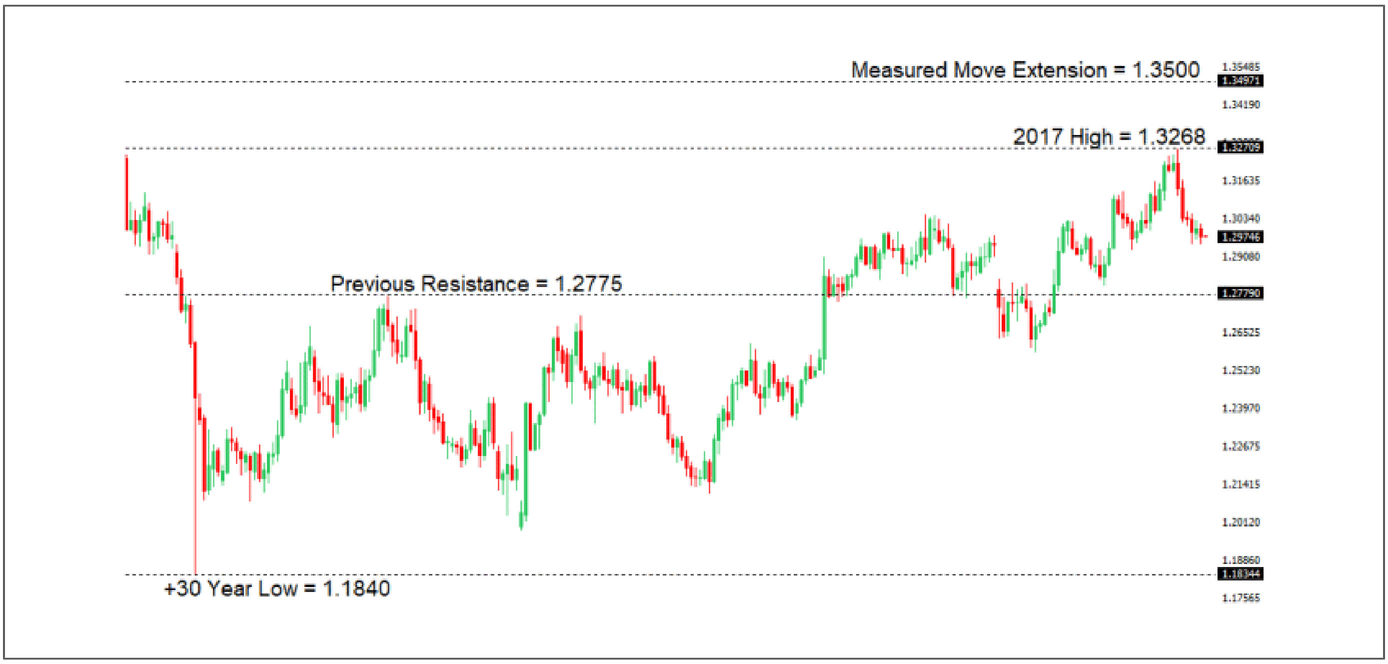
- **R2 1.1824**– 8Aug high – Strong
- **R1 1.1800** – Figure – Medium
- **S1 1.1689** – 9Aug low – Medium
- **S2 1.1613** – 26Jul low – Strong

EURUSD – fundamental overview

There was no Eurozone data to speak of on Thursday and the single currency was left consolidating recent declines, seemingly trying to figure out whether or not there needed to be more corrective setbacks before resuming a very strong uptrend in 2017. Whatever data there was out of the US was not supportive, with initial jobless claims a little higher and producer prices a good deal softer. However, offsetting comments from Fed Dudley, who sounded a little more upbeat, risk off flow and positioning ahead of today's US CPI, prevented the Euro from wanting to push back up too much off the weekly low. Other than today's US CPI, the only only other thing on the calendar is some more Fed speak from Kashkari and Kaplan.

GBPUSD – technical overview

On a longer-term basis, the breakout back in April through 1.2775 suggests the major pair has put in a meaningful base off the October 2016 +30 year low at 1.1840. But shorter-term, the market is looking tired following an impressive run to a fresh 2017 high and there is risk for a period of additional correction and consolidation before a bullish continuation to 1.3500. Still, any setbacks are now expected to be well supported in the 1.2700s, with only a break back below 1.2590 to compromise the constructive outlook.



- **R2 1.3113 –** 3Aug low – Strong
- **R1 1.3059 –** 7Aug high – Medium
- **S1 1.2952** – 10Aug low – Medium
- **S2 1.2933** – 20Jul low – Strong

GBPUSD – fundamental overview

More consolidation for the Pound on Thursday, with the currency taking in mixed data and perhaps not getting much attention with so much going on in the world of equities. UK industrial production was better than expected, though UK NIESR GDP estimates disappointed. Then in the US, it was more of the same, with PPI coming in soft, but offset by more upbeat comments from Fed Dudley. US initial jobless claims were a little higher but didn't factor one way or another given the strngth of jobs data overall. Looking ahead, absence of first tier data on the UK calendar will leave the focus on broader flows, US CPI and Fed speak from Kashkari and Kaplan..

USDJPY – technical overview

The market has done a fabulous job adhering to a range trade this year, with rallies well capped above 114.00 and dips supported down into the 108.00s. The latest round of setbacks after this most recent topside failure have now extended back towards the range low just ahead of 108.00, which also represents the yearly low. A weekly close below 108.00 would be required to threaten the range structure.

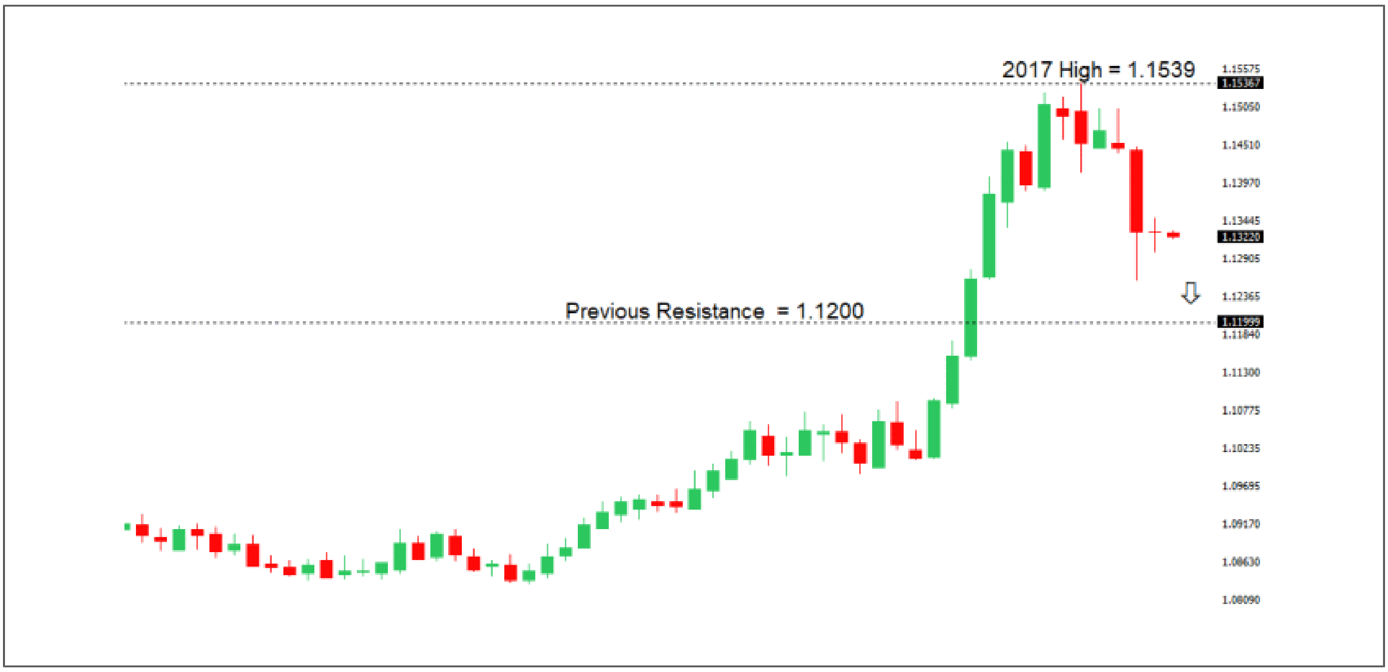
- **R2 111.05** – 4Aug high – Strong
- **R1 110.18** – 10Aug high – Medium
- **S1 108.82** – 14Jun low – Medium
- **S2 108.13** – 17Apr/**2017 low** – Strong

USDJPY – fundamental overview

Traditional correlations are proving they're still relevant, with the Yen extending its recent run of gains on the back of a wave of risk off flow as reflected through the pullback in US equities. The catalyst for the risk liquidation was less certain. Earlier this week, there had been a reduction in risk appetite on escalating geopolitical tension between North Korea and the US, though this story seemed to have faded away on Wednesday. More likely than anything else, the price action was a function of an overextended US equity market that has been in need for a healthy correction off record highs. Certainly on a macro level, the Fed's move to policy normalisation and the prospect of balance sheet reduction are factors that make it less attractive to be long risk correlated assets. Looking ahead, the direction in global equities will likely play a major role in the Yen's direction today, while the market will also be interested to see what comes of US CPI and some Fed speak from Kashkari and Kaplan..

EURCHF – technical overview

The market recently pushed up to a fresh 2017 and multi-month high through massive resistance in the form of the 2016 peak at 1.1200, taking the rate above 1.1500 and to its highest level since the collapse of January 2015. However, daily studies are finally unwinding from highly overextended readings, warning of an additional corrective reversal in the sessions ahead, possibly back into a previous resistance turned support zone between 1.1000-1.1200, before the market considers a higher low and resumption of gains through 1.1539 and towards 1.2000.



- R2 1.1539 – 4Aug/2017 high – Strong
- R1 1.1450 – 9Aug high – Medium
- S1 1.1262 – 9Aug low – Medium
- S2 1.1200 – Previous High – Strong

EURCHF – fundamental overview

Elevated risk sentiment has been a big friend to an SNB committed to doing what it can to discourage appreciation in the Franc. This, along with a recovery in the Eurozone, more hawkish ECB expectations and ongoing SNB activity have helped to push the exchange rate to its highest level since the great collapse of January 2015. SNB Jordan has also been more active on the wires of late, adding to the bid tone as he reaffirms the central bank's policy strategy. However, the SNB may have been taking extra measures to weaken the Franc in recent days in anticipation of a tougher battle ahead. Any capitulation in US equities is likely to rattle global sentiment and invite an intense wave of unwanted Swiss Franc demand on the safe haven flow. Thursday's price action offered a little taste of this, with the exchange rate flatlining despite intense risk off flow, suggesting the SNB was actively propping the market.

AUDUSD – technical overview

Daily studies have been in the process of turning down after the market recently surged through the critical 0.8000 barrier to a fresh +2 year high. From here, there is risk for a deeper drop back towards a previous resistance turned support zone in the 0.7700-0.7750 area before the market considers a higher low and possible resumption of a more well defined 2017 uptrend.

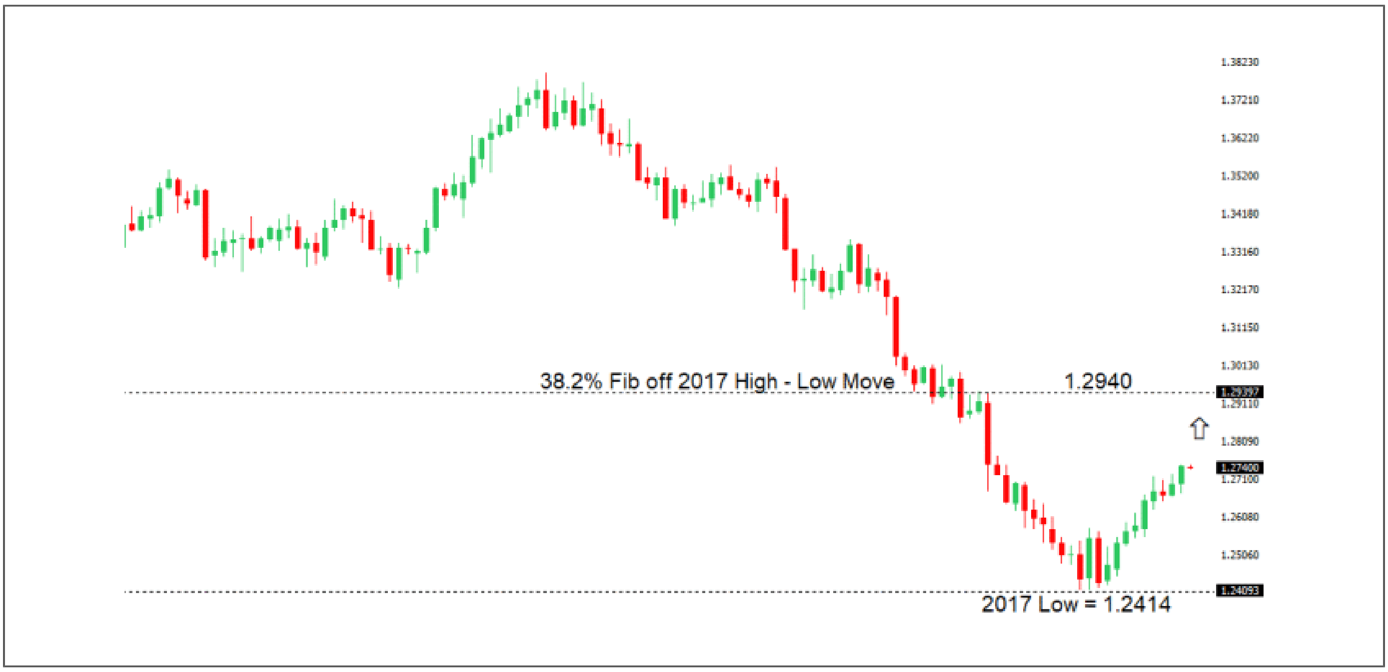
- **R2 0.7915** – 9Aug high – Strong
- **R1 0.7900** – Figure – Medium
- **S1 0.7800** – Figure – Medium
- **S2 0.7787** – 18Jul low – Strong

AUDUSD – fundamental overview

The Australian Dollar has been showing signs of topping out off an impressive 2017 run. Last week, the RBA sent a message that it was not as hawkish as many thought, while also talking the currency down. Of course, distressing China trade figures and a run of more impressive US economic data have also contributed to the Aussie pullback. Still, Aussie has done a decent job finding support on dips, perhaps on cross related demand against its Kiwi cousin as traders reconsider an AUDNZD rate that could be trading at too much of a discount in light of longer term cyclicals and more distressing data out of New Zealand. Thursday's softer US producer prices may have also helped to keep Aussie supported. Into Friday, RBA Lowe has been on the wires, though the central banker hasn't offered any new insights. Looking ahead, the key focus will be on the reaction in global markets to Thursday's pullback in US equities, while the market will also take in US CPI and some Fed speak from Kashkari and Kaplan..

USDCAD – technical overview

Technical studies are in the process of turning up from deep oversold territory, warning of the possibility for a more significant bullish reversal to allow for these studies to unwind. The recent break back above 1.2575 strengthens this outlook, opening the door for a return towards the 38.2% fib retrace off the 2017 high-low move, which comes in at 1.2940.



- **R2 1.2800** – Figure – Medium
- **R1 1.2771** – 13Jul high – Medium
- **S1 1.2700** – Figure – Medium
- **S2 1.2630** – 7Aug low – Strong

USDCAD – fundamental overview

The Canadian Dollar has been giving back some gains, following an impressive 14 big figure run that began in May when it was trading at a yearly low against the US Dollar. Diverging economic data and central bank outlooks had been the primary drivers of this flow, though we have since seen the market book profit on long Canadian Dollar positions that may have run a little too far and fast. Certainly things have been moving back the other way on the fundamental side, with Canada data not as impressive over the past week, while US data moves in the opposite direction. Thursday's softer Canada housing price index didn't help the Loonie's cause, while a sharp reversal in OIL and weakness in US equities opened the door for a drop to a fresh weekly low (USDCAD high). Looking ahead, the market will continue to monitor the price of OIL and global sentiment while also taking in important US CPI data and Fed speak from Kashkari and Kaplan..

NZDUSD – technical overview

Daily studies are in the process of turning down from extended readings after the market pushed up to a plus two year high through 0.7500 in late July. A recent close back below 0.7400 has opened the door for a more meaningful corrective pullback, possibly towards 0.7200, before the market considers a higher low and resumption of gains.

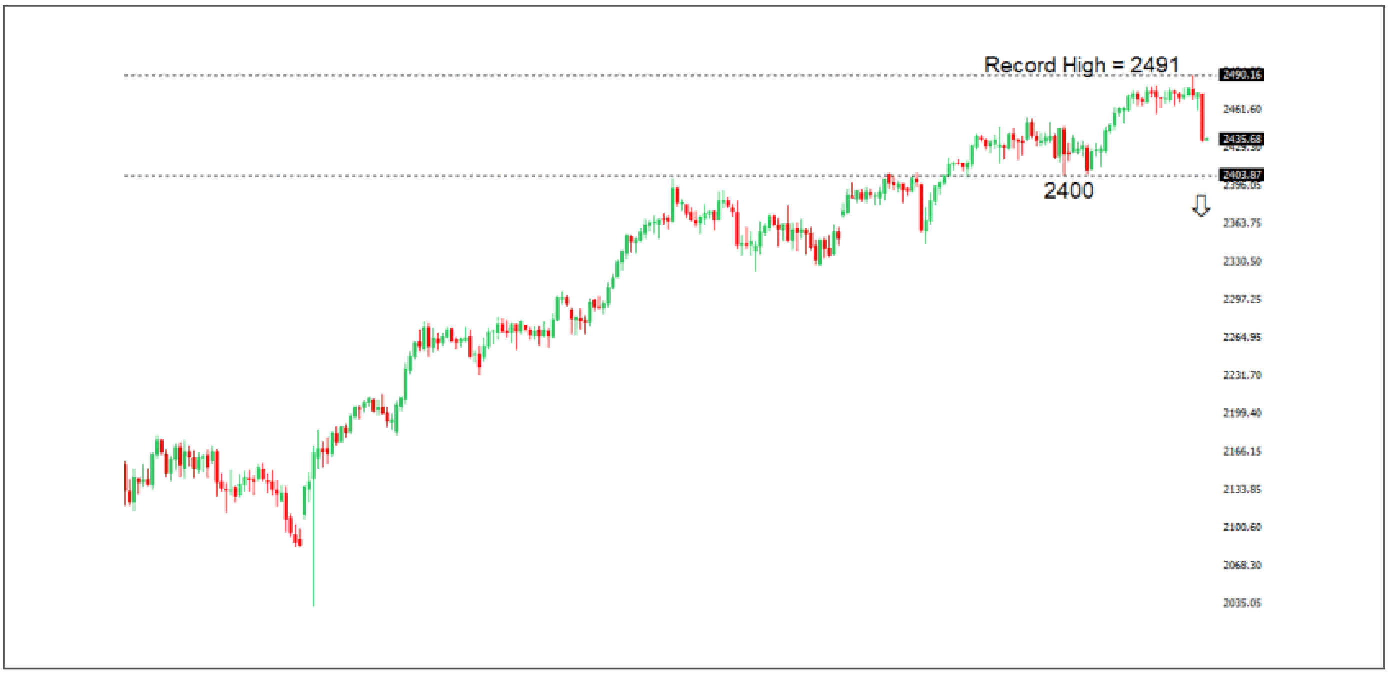
- **R2 0.7370** – 8Aug high – Strong
- **R1 0.7300** – Figure – Medium
- **S1 0.7252** – 10Aug low – Medium
- **S2 0.7202** – 11Jul low– Strong

NZDUSD – fundamental overview

In the initial aftermath of Thursday's RBNZ decision, Kiwi actually managed to rally despite the RBNZ's expectation to stay on hold until Q3 2019 and lowering of inflation forecasts. But it didn't take long for that rally to get wiped away and then some, after RBNZ McDermott made it abundantly clear the Kiwi rate needed to adjust lower, and a change in language was the first step towards a possible intervention. Traders were forced to consider a more significant repricing of bullish Kiwi bets, especially with that added hangover of a recent run of disturbing New Zealand data including soft CPI, weaker GDP, an employment report miss, the weakest GDT auction since March, and slide in consumer inflation expectations. Of course, Thursday's liquidation in US equities and reduction in risk appetite helped to keep the risk correlated currency weighed down, with the market largely ignoring the below forecast US producer prices. Looking ahead, the key focus will be on the reaction in global markets to Thursday's US stocks drop, while the market will also take in US CPI and some Fed speak from Kashkari and Kaplan. There hasn't been much of a reaction to the early Friday Kiwi manufacturing PMIs.

US SPX 500 – technical overview

After extending the record run earlier this week, the market has finally relented, acknowledging the need for a period of corrective declines to allow for highly extended longer-term studies to unwind. Still, while the market holds above 2400 on a weekly close basis, the uptrend remains firmly intact. A weekly close below 2400 would be required to signal the possibility for a more meaningful top and bearish structural shift.



- **R2 2491.00** – 8Aug/**Record high** – Strong
- **R1 2458.00** – Previous Low – Medium
- **S1 2400.00** – Psychological – Strong
- **S2 2346.00** – 18May low – Strong

US SPX 500 – fundamental overview

The US equity market has done a good job proving it can hold up into any dip and can keep pushing to record highs as it focuses on rates staying lower for longer and the Fed continuing to underdeliver on forward guidance. While rates may not be going lower in the US, it seems a dovish policy normalisation is the next best thing and enough to keep the artificially supported rally going. At the same time, the Fed's move to policy normalisation and the prospect for Fed balance sheet reduction as soon as September are not supportive of stocks, while the longer-term technical picture has been quite extended, warning of the need for a major correction. Thursday's fallout may have some turning their heads, but it would likely take a weekly close below 2400 to suggest the market isn't doing that same aggressive buy on dips as we've seen so many times in recent years.

GOLD (SPOT) – technical overview

Setbacks have been well supported, with the latest push back above 1275 setting the stage for a bullish resumption through 1300 and towards the 2016 peak at 1375 further up. A higher low is now in place around 1250 and only back below this level would offset this latest wave of bullish momentum.

- **R2 1296.20** – 6Jun/**2017 high** – Strong
- **R1 1288.95** – 8Jun high – Medium
- **S1 1251.45** – 8Aug low – Strong
- **S2 1243.80** – 26Jul low – Medium

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.

Feature – technical overview

USDSGD has been under pressure in 2017, with the market recently dropping down to a fresh yearly low at 1.3544. However, stretched studies are starting to turn back up and there are signs of the possibility for a meaningful bullish reversal to allow for these studies to unwind. Setbacks have also stalled out around an important 78.6% fib retracement off the 2016 to 2017 low to high move. Look for a daily close back above 1.3650 to strengthen this outlook and open the door for a more meaningful bounce towards 1.4000 further up. Only a close below 1.3500 negates.

- **R2 1.3720** – 17Jul high – Strong
- **R1 1.3655** – 10Aug high – Medium
- **S1 1.3544** – 27Jul/**2017 low** – Strong
- **S2 1.3500** – Psychological – Strong

Feature – fundamental overview

There have been signs of a reversal in the Singapore Dollar's fortunes of late. Various employment readings are tracking at their lowest levels in months, while soft domestic conditions and a reliance on exports could influence the MAS into encouraging weakness in the local currency. Meanwhile, US economic data is turning back up and risk has come off, inspiring additional profit taking in the EM currency as yield differentials and safety flow benefit the US Dollar. As far as today's calendar goes, there will be a lot of focus on digesting Singapore GDP and retail sales, while the market also contends with the global reaction to Thursday's US equity market reversal.