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# Global FX Insights

by LMAX Exchange Research & Analytics

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

## A Wounded Dollar into Weekly Close [Wake-up Call](#)

The week started out with the US Dollar almost miraculously bid, after somehow absorbing a round of discouraging data in the previous Friday. But as reality came rushing back into the picture, the Dollar was once again under pressure and at risk of extending declines.

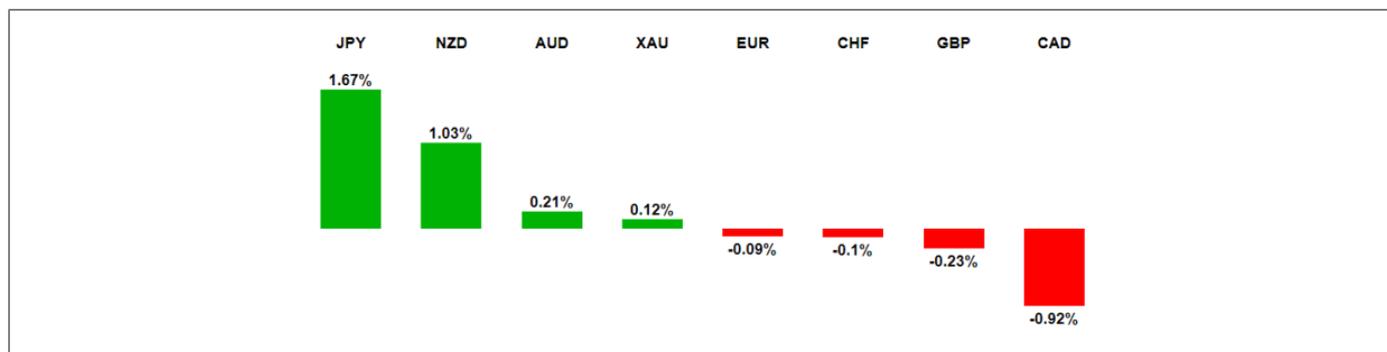
### Technical highlights [Daily Video](#)

- **EURUSD** Looking to next levels
- **GBPUSD** Well defined uptrend
- **USDJPY** Gravitating to range low
- **EURCHF** Pushing to major barrier
- **AUDUSD** Upside should be limited
- **USDCAD** Recovery outlook intact
- **NZDUSD** At risk of stalling out
- **US SPX 500** Parabolic and at risk
- **GOLD** (spot) Focused on 2016 high
- **Feature** – USDTRY Uptrend intact

### Fundamental highlights

- **EURUSD** Merkel trying to secure coalition deal
- **GBPUSD** Quiet Brexit front has Pound looking out
- **USDJPY** Dealers talking sell stops in size
- **EURCHF** SNB strategy will get more challenging
- **AUDUSD** No big reaction to China trade data
- **USDCAD** Foreign minister downplays NAFTA risk
- **NZDUSD** Kiwi building permits race higher
- **US SPX 500** All eyes on US CPI and retail sales
- **GOLD** (spot) Global uncertainty supports metal
- **Feature** – USDTRY CBRT still needs to worry

## Five day performance v. US dollar



## Suggested reading

- **Jumpy January**, R. Blitz, Financial Times (January 11, 2018)
- **Why We Have to Talk Bubble**, J. Michel Paul, Bloomberg (January 11, 2018)

## EURUSD – technical overview

Despite a prolonged period of sideways trade, the outlook for the major pair remains highly constructive. The door is now open for a more immediate resumption of a well defined uptrend that has taken form in 2017. Look for any setbacks to be well supported ahead of 1.1700, for the next major upside extension beyond the current yearly high of 1.2094 and towards the 1.2600-1.2700 area further up, which happens to coincide with falling trend line resistance off the record high from 2008. Ultimately, only a daily close back below 1.1550 will delay this outlook.



- R2 1.2150 – Mid-Figure– Medium
- R1 1.2093 – 8Sep/2017 high – Strong
- S1 1.2000 – Psychological – Medium
- S2 1.1976 – 9Jan low – Strong

## EURUSD – fundamental overview

Solid data out of the Eurozone this week and a more upbeat ECB Minutes, have been met with contrasting results on the US side, with last Friday's discouraging data out of the US setting the tone for Thursday's subdued US producer prices, and more dovish Fed speak working into the mix. It's no surprise therefore, to see the Euro easily recovering from minor setbacks, trading right back towards the 2017 high. Looking at today's calendar, the market will want to see what comes of the German coalition talks and if Merkel can avoid another election, which would be a drag on the single currency. We then get an important round of US data, with CPI and retail sales due. This is also accompanied by some Fed speak from the more hawkish leaning Harker and Rosengren.

## GBPUSD – technical overview

The market has been consolidating but ultimately looks poised for a continuation of the 2017 uptrend, with a higher low waiting to be confirmed at 1.3027 on a break of the 2017 high at 1.3658. This will then open the door for a measured move upside extension back above 1.4000 and towards 1.4200 into 2018. Any setbacks should now be well supported into previous range resistance now turned support in the 1.3300 area.



- R2 1.3660 – 20Sep/2017 high – Very Strong
- R1 1.3586 – 8Jan high – Medium
- S1 1.3459 – 11Jan low – Medium
- S2 1.3426 – 29Dec low – Strong

## GBPUSD – fundamental overview

Short of some mixed data in the middle of the week, the Pound has mostly been trading on broader flow, taking its cues from the direction in the US Dollar. There have been no meaningful updates out from the Brexit negotiation front and absence of first tier data out of the UK today, will have participants watching US CPI and retail sales. We also get some Fed speak from the more hawkish leaning Harker and Rosengren. This follows a week in which the Dollar took an added hit on dovish speak from other members.

## 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 latest topside failure off the range high encourages this outlook, though the market will ideally need to break back down below 110.85 to strengthen the bearish case.



- R2 112.79 – 10Jan high – Strong
- R1 111.88 – 11Jan high – Medium
- S1 111.00 – Figure – Medium
- S2 110.85 – 27Nov low – Strong

## USDJPY – fundamental overview

The Yen has been a big mover this week, finding a wave of demand after the BOJ slashed its JGB purchases of maturities with durations longer than 10 years by 10 billion yen in a shadow tapering move. We've also seen Yen demand on a fresh batch of dovish Fed speak. Overall, into 2018, the Yen is trying to figure out whether it needs to be selling off on the ongoing bid in global risk assets, or if it needs to be rallying on the back of broad based US Dollar weakness and the possibility that an extended risk market could finally begin to capitulate. These are the big drivers that will dictate direction going forward. Dealers report big sell stop order below 110.85. As far as the calendar goes, we get US retail sales and CPI, along with Fed speak from the hawkish leaning Harker and Rosengren.

## 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 – Strong
- R1 1.1778 – 27Dec/2017 high – Medium
- S1 1.1586 – 22Nov low – Medium
- S2 1.1543 – 7Nov 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 the US equity market in 2018. 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 US equities. But any signs of capitulation on that front into this new year, 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

Technical studies have turned back up over the past several days, with the market in the process of recovering after trading down to a fresh multi-day low around the 0.7500 barrier in December. Overall however, the pressure remains on the downside and additional upside could be difficult into solid internal resistance ahead of 0.8000.



- R2 0.7950 – 26Sep high – Strong
- R1 0.7905 – 12Jan high – Medium
- S1 0.7838 – 11Jan low – Medium
- S2 0.7808 – 9Jan low – Strong

## AUDUSD – fundamental overview

Absence of first tier data out of Australia on Friday had this market watching the China trade numbers which managed to produce a larger surplus, driven by a much lower than expected import number. But there wasn't much of a reaction and the market will get back to focusing on the US Dollar story, with Aussie benefitting a great deal from this wave of Dollar weakness, along with commodity price demand and ongoing record runs in US equities. Looking ahead, key standouts for the remainder of the day come from US retail sales, US CPI and Fed speak from Harker and Rosengren.

## USDCAD – technical overview

Despite the latest round of setbacks, there are signs of basing in this pair, after the recovery from plus two year lows back in September extended through an important resistance point in the form of the August peak. This sets the stage for additional upside, with the next focus on a retest of the psychological barrier at 1.3000. In the interim, any setbacks should now be well supported ahead of 1.2300.



- R2 1.2662 – 28Dec high – Strong
- R1 1.2591 – 11Jan high – Medium
- S1 1.2479 – 9Jan high – Medium
- S2 1.2428 – 10Jan low – Strong

## USDCAD – fundamental overview

Canada's foreign minister has been trying to cool concerns over any fears of a NAFTA crumble after stressing the government had come up with creative ideas to settle the toughest NAFTA sticking points. Unfortunately for Canada, there is another side involved here, which is where all of that fear and uncertainty is coming from and this will continue to hang over the Loonie's head as a major risk in 2018, something that should keep the Canadian Dollar from wanting to materially extend gains, despite broad based US Dollar weakness. Looking ahead, the second tier Canada HPI index readings will be looked over, as the market is more concerned with risk sentiment, commodities price performance and US data that includes retail sales and CPI. We also get Fed speak from the more hawkish leaning Harker and Rosengren.

## NZDUSD – technical overview

The market has done a good job recovering off the 2017 low from November, though additional upside could now be limited after overshooting a measured move objective in the 0.7200 area off an inverse head and shoulders formation. Overall, there is still medium term risk tilted to the downside and it will take a clear establishment back above 0.7400 to delay the bearish outlook and risk for another reversal.



- R2 0.7300 – Figure – Strong
- R1 0.7277 – 12Jan high – Medium
- S1 0.7183 – 11Jan low – Medium
- S2 0.7141 – 10Jan low – Strong

## NZDUSD – fundamental overview

The New Zealand Dollar has broken up to multi-week highs, with the currency extending its recovery off the 2017 low from November. The combination of surging commodities prices, record high US equities and a broad based wave of US Dollar outflow have been behind this accelerated run of gains. Economic data on the local front has been better as well, with last week’s uptick in the GDT auction and solid Kiwi manufacturing data followed up with this latest surge in building permits. Still, technical traders cite solid resistance up around current levels, with dealers talking heavy sell orders around the barrier as well. This could limit gains from here, especially if a run in commodities and overextended equities starts to roll over. Looking ahead, key standouts for the remainder of the day come from US retail sales, US CPI and Fed speak from Harker and Rosengren.

## US SPX 500 – technical overview

The market continues to shrug off overextended technical readings, with any setbacks quickly supported for fresh record highs. Still, technical readings are tracking well overbought and are in desperate need for a period of healthy corrective action. Ultimately however, it will take a break back below 2670 at a minimum to alleviate immediate topside pressure.



- R2 2800.00 – Extension Target – Strong
- R1 2773.00 – 11Jan/Record high – Medium
- S1 2725.00 – 5Jan low – Medium
- S2 2700.00 – Psychological – Strong

## US SPX 500 – fundamental overview

The US equity market continues to push further into record high territory. It seems, on a macro level, the combination of blind momentum, expectation US tax reform will ultimately work out well, excitement around infrastructure plans and a belief the Fed will remain super accommodative under Jerome Powell are all factoring into the relentless bid. Ongoing subdued inflation readings have only made investors that much more confident in the slow Fed path, which has helped to fuel the latest run. Nevertheless, investor immunity to downside risk is not looking as strong these days and 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 the Fed finally following through with forward guidance in 2017. But for now, it’s more of the same, with the market shrugging off any red flags. At this point, it will take a breakdown in this market back below 2670 to turn heads. US CPI and retail sales should be watched today, along with Fed speak for the more hawkish leaning Harker and Rosengren.

## 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. Look for this most recent dip to round out that next meaningful base 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 1357.75 – 8Sep/2017 high – Strong
- R1 1327.95 – 10Jan high – Medium
- S1 1281.50 – 27Dec low – Medium
- S2 1236.70 – 12Dec 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 1200.

## Feature – technical overview

USDTRY is in the process of correcting off the record highs in November to allow for extended studies to unwind. However, the uptrend remains firmly intact and a fresh higher low is now sought out ahead of the next big push through the massive psychological barrier in the form of the 4 handle. Ultimately, any setbacks should be well supported ahead of 3.6500, with only a break back below this level to delay the outlook.



- R2 3.9820 – 22Nov/Record – Strong
- R1 3.8980 – 14Dec high – Medium
- S1 3.7330 – 5Jan low low – Medium
- S2 3.7000 – Psychological – Strong

## Feature – fundamental overview

The CBRT did a fabulous job disappointing investor expectation for what the market thought would be a much bigger adjustment to rates than what the CBRT delivered back in December. The Turkish central bank opted to only raise by a modest 50bps in the LLW. This is viewed as a knock on CBRT credibility, with the central bank clearly influenced by the ongoing pressure from the Erdogan government to keep policy as loose as possible. The Lira could be poised for a fresh record low in the days ahead, with USDTRY considering a break of the massive psychological barrier at 4.00. The emergence of new stress in the global economy could add to the Lira strain if we see a global reduction in risk appetite that ultimately drags the entire emerging market space.



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