

Global FX Insights

by LMAX Exchange Research & Analytics

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

Activity to Heat Up into Back Half [Wake-up Call](#)

The US Dollar has come back under pressure this week following a period of recovery. For the moment, fading US tax reform optimism, renewed North Korea tension and a strong technical trend, all seem to be behind the latest run of Dollar weakness.

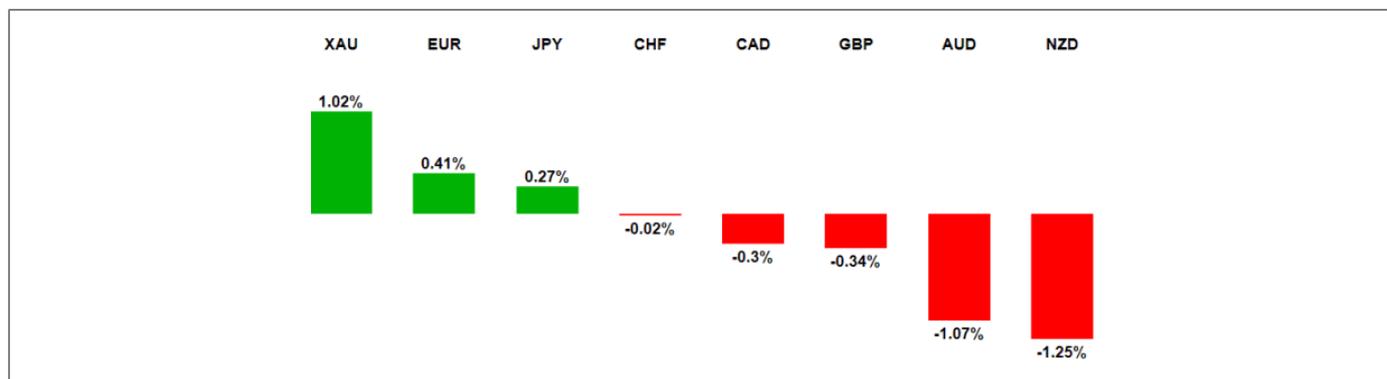
Technical highlights [Daily Video](#)

- **EURUSD** Well capped into 1.1900
- **GBPUSD** Considers trend resumption
- **USDJPY** Another big drop ahead
- **EURCHF** Waiting for next break
- **AUDUSD** Lower top sought out
- **USDCAD** Dips to be well supported
- **NZDUSD** Pressure on the downside
- **US SPX 500** Record run extends
- **GOLD** (spot) Carving higher low
- **Feature** – USDZAR Eyes 2017 high

Fundamental highlights

- **EURUSD** Puigdemont opts for stability for now
- **GBPUSD** Sterling gets another boost on solid data
- **USDJPY** No flinch from North Korea provocation
- **EURCHF** SNB strategy getting big help from stocks
- **AUDUSD** Consumer confidence beat ignored
- **USDCAD** OIL charge gives Loonie an added prop
- **NZDUSD** Kiwi vulnerable to political holdout
- **US SPX 500** Will FOMC Minutes have an impact
- **GOLD** (spot) Hard asset demand making sense
- **Feature** – USDZAR Fear of sentiment downturn

Five day performance v. US dollar



Suggested reading

- **German Bonds Stuck in Risk Off**, M. Ashworth, Bloomberg (October 10, 2017)
- **Crypto Fool's Gold?**, K. Rogoff, Project Syndicate (October 9, 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. Next support comes in at 1.1663 and only a daily close back above 1.1910 will compromise the current bearish outlook.



- R2 1.1910 – 2Aug high – Strong
- R1 1.1833– 29Sep high – Medium
- S1 1.1740 – 10Oct low – Medium
- S2 1.1663 – 17Aug low – Strong

EURUSD – fundamental overview

The Euro extended its weekly recovery on Tuesday after Catalanian President Puigdemont stopped short of declaring independence, opting to pursue talks with the Spanish government instead. Eurozone economic data was also solid on Tuesday after German trade numbers were healthy and Italian industrial production came in above forecast. Looking ahead, key standouts on today’s calendar include an ECB Praet speech, US JOLTS job openings and the FOMC Minutes.

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 below the psychological barrier should be limited, 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.



- R2 1.3292– 4Oct high – Strong
- R1 1.3226 – 10Oct high – Medium
- S1 1.3131 – 10Oct low – Medium
- S2 1.3075 – 9Oct low – Medium

GBPUSD – fundamental overview

Tuesday’s run of UK data was mixed, though on the whole, better than expected, with industrial production and NIESR GDP estimates coming in strong and only UK trade disappointing. This in conjunction with some more profit taking on US Dollar longs helped to extend the Cable recovery out from recent declines into the 1.3000 area. Looking ahead, key standouts on the calendar include UK PM May’s Question Time, US JOLTS job openings and the FOMC Minutes.

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 is therefore expected to stall out yet again into the resistance zone ahead of renewed downside pressure and bearish decline back towards the range low. Only a clear break above 115.00 or back below 107.00 would negate the outlook.



- R2 113.44 – 6Oct high – Strong
- R1 112.83 – 10Oct high – Medium
- S1 111.99 – 10Oct low – Medium
- S2 111.47 – 25Sep low – Strong

USDJPY – fundamental overview

Renewed North Korea tension hasn't had any real impact on price action thus far this week, while the market hasn't done much to react to today's stronger than expected Japan core machine orders. There has been some talk of USDJPY demand on fading support for the Koike party, though ultimately, the Yen hasn't really moved all that much. It continues to come down to the primary macro drivers as far as direction in this major pair goes, with geopolitical risk, US tax reform progress, the Fed outlook and overall sentiment being the difference makers. Looking ahead, we get US JOLTS job openings and the FOMC Minutes.

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 1.1550 – Mid-Figure – 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 0.7876 – 4Oct high – Strong
- R1 0.7799 – 6Oct high – Medium
- S1 0.7734 – 6Oct low – Medium
- S2 0.7727 – 14Jul low – Strong

AUDUSD – fundamental overview

There has been some Aussie demand off recent lows, with the price action mostly attributed to broad based profit taking on US Dollar longs. Tuesday’s RBA DeBelle Aussie jawboning wasn’t a surprise and didn’t have any impact, while the market hasn’t been too excited about Wednesday’s firmer Westpac consumer confidence showing. Overall, the Australian Dollar is still getting sold into any rallies, with the market turning back to a US Dollar that is benefiting from improved economic data in the US and a more hawkish Fed policy outlook (despite USD profit taking this week). Looking ahead, US JOLTS job openings and the FOMC Minutes stand out.

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 1.2663 – 31Aug high – Strong
- R1 1.2599 – 6Oct high– Medium
- S1 1.2449– 4Oct low – Medium
- S2 1.2417 – 29Sep low – Strong

USDCAD – fundamental overview

The Canadian Dollar has been trying to reassert itself this week, with the Loonie getting some help from last Friday’s above forecast Canada jobs report, broad based profit taking on USD longs and a Tuesday surge in the price of OIL after Saudi Arabia announced it would be cutting exports. But overall, it hasn’t been a good run of developments for the Canadian Dollar since the Bank of Canada opted to catch the market off guard and hike rates for a second consecutive time last month. While Canada employment data was solid, it’s been overshadowed by discouraging trade data, GDP, manufacturing, retail sales, subdued inflation and scaled back BoC Poloz comments. At the same time, the Fed’s more hawkish leaning shift and healthy US data are giving the US Dollar a bid of its own. Looking ahead, absence of data on the Canada calendar will leave the focus on US JOLTS job openings and the FOMC Minutes.

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 0.7168 – 5Oct high – Strong
- R1 0.7118 – 6Oct high – Medium
- S1 0.7056 – 10Oct low – Medium
- S2 0.7035 – 30May low – Strong

NZDUSD – fundamental overview

A bout of broad based profit taking on US Dollar longs this week has helped to support on ailing Kiwi rate off of recent lows. However, offers continue to emerge into rallies as the currency contends with a deteriorating outlook and ongoing political uncertainty post New Zealand elections. The Kingmaker and National/Labour camps are trying to talk it out, but until there is clarity on that front, the Kiwi rate remains exposed. New Zealand First chief Peters added to uncertainty after saying he would not announce his partnership decision by his original deadline and would instead be made known as soon as possible. Looking ahead, key standouts come in the form of US JOLTS job openings and the FOMC Minutes.

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.



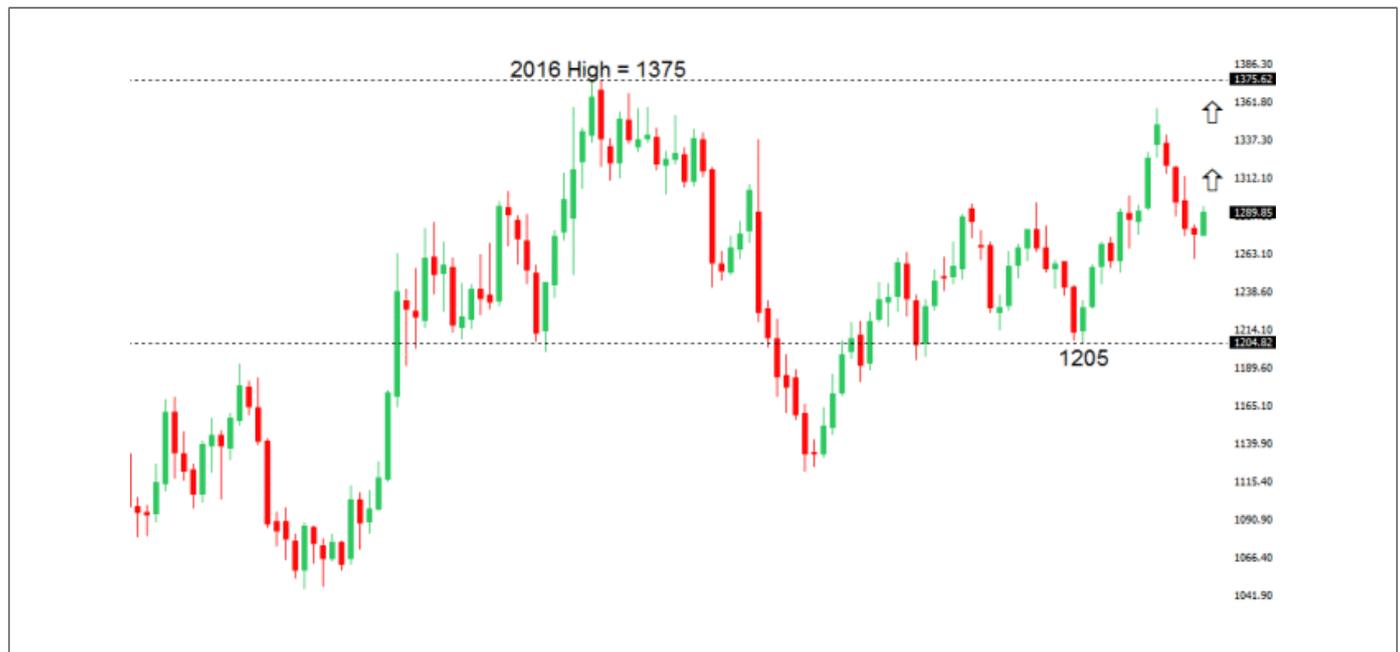
- R2 2600.00 – Psychological – Strong
- R1 2556.00 – 10Oct/Record high – Medium
- S1 2501.00 – 28Sep low – Medium
- S2 2487.00 – 25Sep low – Strong

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. Last Friday's jump in hourly earnings only adds pressure on the Fed to raise rates more aggressively, something that should make equity market valuations less attractive. But for now, it's more of the same. It will take a breakdown in this market back below 2500 to turn heads. The market will now digest the latest FOMC Minutes.

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 the latest round of weakness to once again be well supported on the dip, with a higher low sought out ahead of 1250 ahead of the next major upside extension and 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 pushed back above a multi-week range high that has capped gains in 2017. The clear break above this range top opens the door for additional upside towards the 2017 high from early January just shy of 14.00. From here, look for any setbacks to be well supported ahead of 13.16, with only a break back below 13.00 to compromise the constructive outlook.



- R2 13.98 – 11Jan/2017 high – Strong
- R1 13.87 – 9Oct high – Medium
- S1 13.43 – 29Sep low – Medium
- S2 13.16 – 22Sep low – Strong

Feature – fundamental overview

The Rand has been struggling of late, as ongoing tension on the political front prevents the emerging market currency from making any headway. The political mess has made the Rand one of the least attractive emerging market currencies out there at a time when risk correlated currencies are coming back under pressure on the reemergence of US Dollar demand from a more hawkish leaning Fed and solid US data. Last week'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 doing anything 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 with stocks going parabolic.



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