Monday, March 20, 2017

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Global FX Insights

by LMAX Exchange Research & Analytics

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

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G20 Lays Groundwork for US Protectionism **Wake-up Call**

The US Dollar has picked up where it left off at the end of last week, with the Buck under pressure across the board. Setbacks have been mild thus far, though the trend against the Dollar has been clear as a day, with the market continuing to sell the currency post last Wednesday's more dovishly perceived Fed decision.

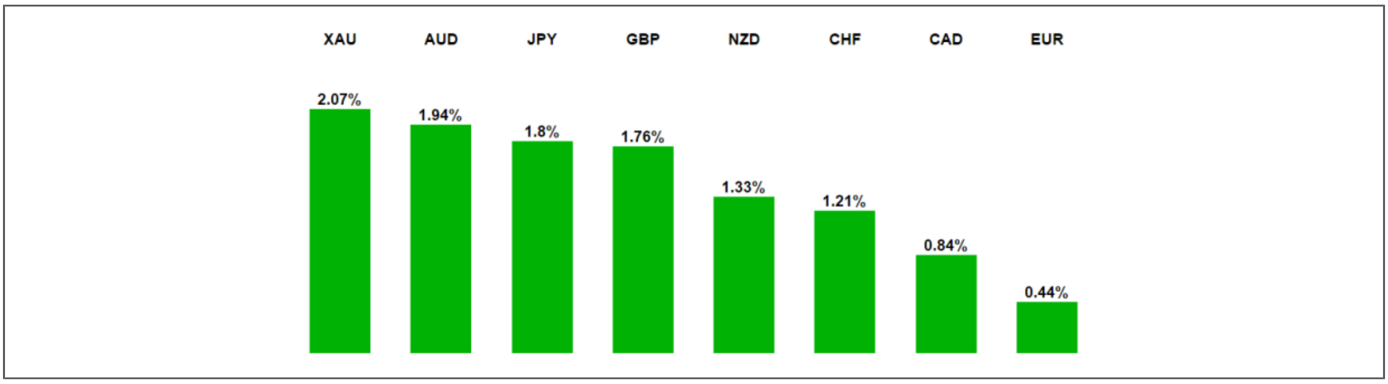
Technical highlights **Daily Video**

- **EURUSD** Setbacks to be supported
- **GBPUSD** Looking for next lower top
- **USDJPY** Gravitating to range base
- **EURCHF** Well capped into rallies
- **AUDUSD** Into major resistance zone
- **USDCAD** Poised to turn back up
- **NZDUSD** Remains under pressure
- **US SPX 500** Bullish consolidation
- **GOLD** (spot) Room to run higher
- **Feature** – USDSGD Lower highs

Fundamental highlights

- **EURUSD** German producer prices due Monday
- **GBPUSD** BOE Haldane to speak late in the day
- **USDJPY** G20 communique invites Yen demand
- **EURCHF** SNB job appears to be getting tougher
- **AUDUSD** Aussie boosted on external drivers
- **USDCAD** Canada wholesale sales into focus
- **NZDUSD** NZ domestic fundamentals discourage
- **US SPX 500** Fed's accommodation props stocks
- **GOLD** (spot) US Dollar declines fuel more gains
- **Feature** – USDMXN Impressive Singapore NODX

Five day performance v. US dollar



Suggested reading

- **Article 50: Defusing the Brexit Time Bomb**, A. Barker, Financial Times (March 13, 2017)
- **Stock Complacency Too High**, A. Haigh, Bloomberg (March 17, 2017)

EURUSD – technical overview

The recent break back above 1.0680 suggests the market could be getting ready for a big push to the topside in the days and weeks ahead. Wednesday's daily close above 1.0680 strengthens the constructive outlook, firming up the possibility for an inverse head and shoulders formation, with a neckline in the 1.0800s. Any setbacks should be very well supported ahead of 1.0500 in favour of the next major upside extension towards the December 2016 peak at 1.0875. Only a daily close below 1.0495 negates.

- **R2 1.0829** – 2Feb high – Strong
- **R1 1.0783** – 17Mar high – Medium
- **S1 1.0706** – 16Mar low – Medium
- **S2 1.0600** – 14Mar low – Strong

EURUSD – fundamental overview

The combination of a more dovishly perceived Fed decision and more hawkish talk out from various ECB members have been helping to drive the Euro higher in recent days, with the single currency getting an added boost over the weekend. The G20 removed any language against protectionist policy, something the US had wanted given the new administration's platform of making America great again. This gesture is something that will help pave the path for President Trump towards this policy which would encourage a weaker US Dollar. Looking ahead, the market will likely take time to continue to digest the G20 implications while taking in German producer prices and some official speak later in the day from ECB Weidmann and Fed Evans.

GBPUSD – technical overview

Despite this latest bounce, the market remains confined to a well defined downtrend while it holds below the December 2016 peak at 1.2775. A recent close below 1.2345 ends a period of choppy consolidation exposing an eventual drop back towards a retest of the+30 year base from October 2016 at 1.1841. Ultimately, rallies should continue to be very well capped into the 1.2500 area, with only a break above 1.2775 to compromise the overall bearish outlook.

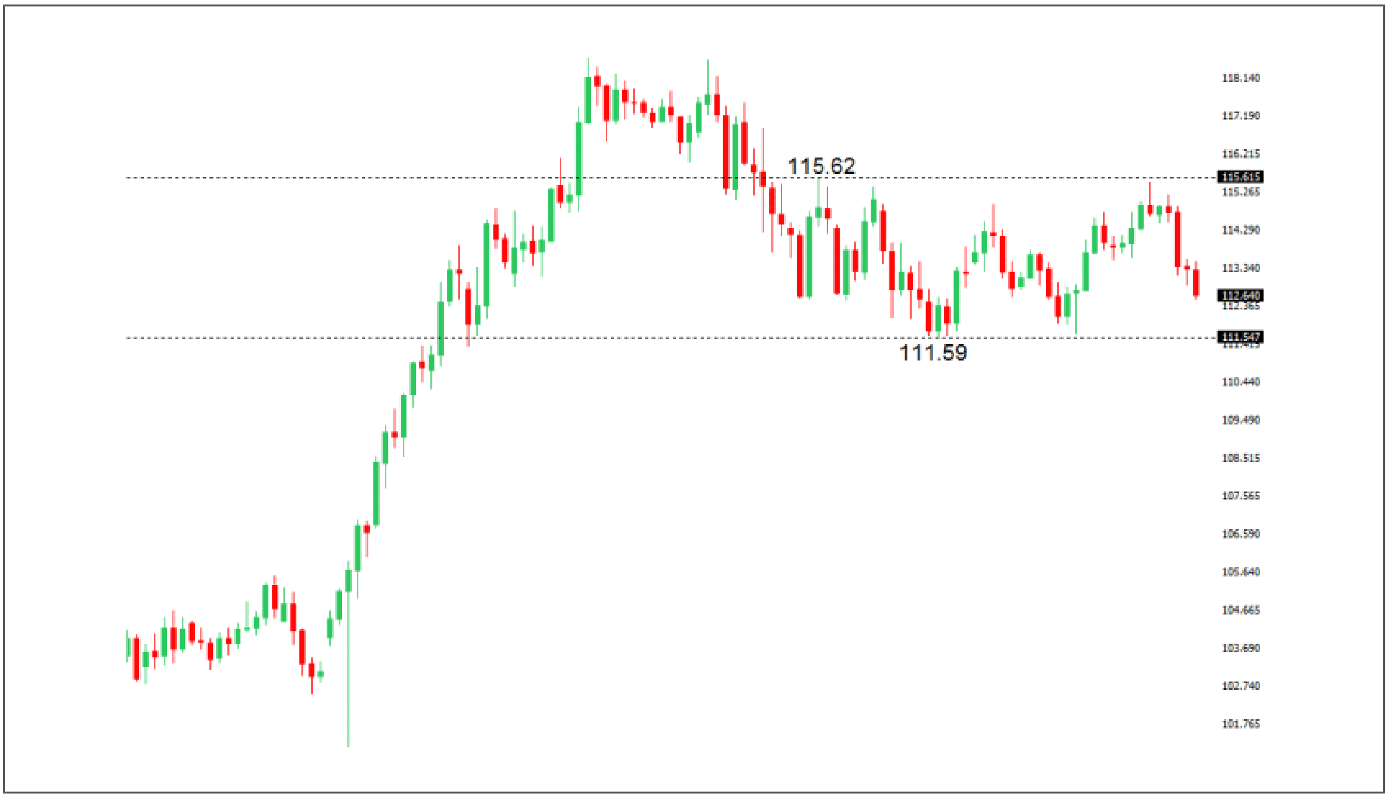
- **R2 1.2479 –** 27Feb high – Strong
- **R1 1.2405 –** 17Mar high– Medium
- **S1 1.2324** – 17Mar low – Medium
- **S2 1.2242** – 16Mar low – Strong

GBPUSD – fundamental overview

Last week's more dovishly perceived FOMC decision and a surprise in the Bank of England decision, with BOE Forbes voting for a hike, have been the primary drivers behind this latest impressive recovery in the Pound. Into Monday, the UK currency is getting another boost after the G20 gave in to pressure from the US, dropping its pledge against protectionism. But looking ahead, it will be hard to see the Pound extend much further with the Article 50 trigger upon us and US yield differentials continuing to favour the Buck, however dovish the Fed may be. Today's calendar is exceptionally thin and the only standouts comes in the form of a Fed Evans and BOE Haldane speeches later in the day.

USDJPY – technical overview

The market continues to be very well capped on rallies into the 115.00 area, respecting a multi-day range resistance. This latest topside failure now sets the stage for a resumption of declines back towards the range low around 111.60 in the sessions ahead. There is also risk that if the market breaks down below 111.60 we could see an acceleration well below the 110.00 psychological barrier, possibly into the 107.00s on a measured move extension.



- **R2 115.62** – 19Jan high – Strong
- **R1 113.55** – 16Mar high – Medium
- **S1 112.00** – Figure – Medium
- **S2 111.59** – 7Feb low – Strong

USDJPY – fundamental overview

The major pair has been under pressure since last week's FOMC decision in which the Fed raised rates 25 basis points but also failed to really upgrade its outlook, economic projections and dot plot. Certainly the G20 meeting has added to downside pressure, inviting additional Yen demand after the Group left out language critical of protectionist policy, paving the way for President Trump to move in this direction that would encourage a weaker US Dollar policy. Looking ahead, Monday's calendar is exceptionally thin, with only a Fed Evans speech later in the day standing out. Instead, the market will focus on broader macro themes.

EURCHF – technical overview

The latest surge through resistance at 1.0760 could threaten a broader downtrend and suggest we are in the process of seeing a bullish structural shift. However, a daily close above 1.0800 would be required to confirm, while inability to do so keeps the downtrend intact opening the door for a drop back towards and below the 2016 base at 1.0624.

- **R2 1.0900** – 8Dec high – Strong
- **R1 1.0826** – 13Mar high – Medium
- **S1 1.0685** – 16Mar low – Medium
- **S2 1.0624** – 24Jun/**2016 low** – Strong

EURCHF – fundamental overview

The SNB is in a quiet battle with the market, forced to contend with an ongoing wave of demand for the Swiss Franc in a less certain global environment, especially with the weapon of monetary policy worn down. The central bank has been committed to its mandate of ensuring the Franc does not appreciate further. But despite all efforts, the Franc continues to want to appreciate. It seems the central bank's strategy has been to sell Francs when risk comes off and to do nothing when risk is back on and natural flows should be CHF bearish. But the trouble is, even with global equities elevated, arguably reflecting appetite for risk, the Franc hasn't been able to weaken all that much. There have been some signs of the SNB perhaps making a little headway on reports of a boost in SNB reserves, but we will need to see if this latest EURCHF rally holds up above 1.0700.

AUDUSD – technical overview

The impressive rally in 2017 has stalled out into significant medium-term resistance ahead of 0.7800. A recent break back below 0.7600 strengthens the prospect for some form of a top and could open the door for a deeper drop back towards the 0.7000 area in the days ahead. However, the market would need to hold below 0.7741 to keep the prospect of the bearish shift alive, with a subsequent break back below 0.7492 to confirm.

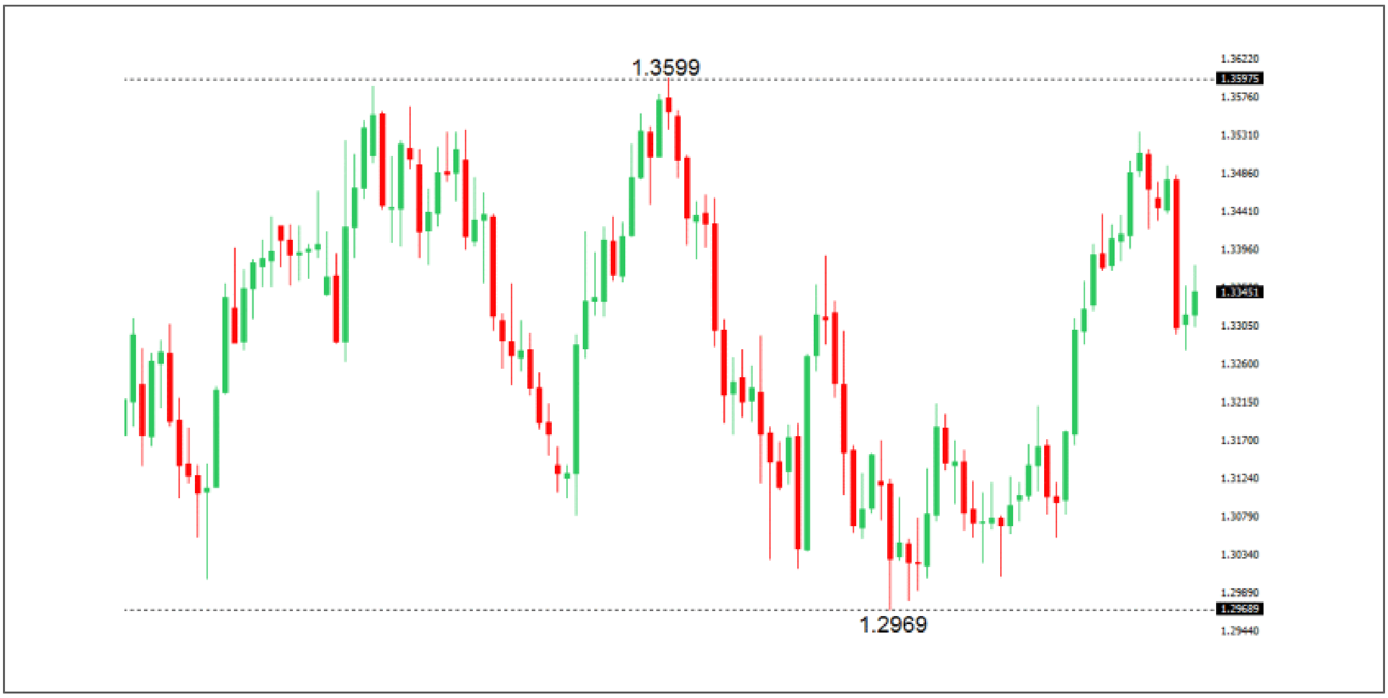
- **R2 0.7741** – 23Feb high – Strong
- **R1 0.7730** – 20Mar high – Medium
- **S1 0.7633** – 7Mar high – Medium
- **S2 0.7556** – 15Mar low – Strong

AUDUSD – fundamental overview

The Australian Dollar has been getting help from external drivers, with the dovishly perceived FOMC decision acting as the primary catalyst for gains. An ongoing bid for global equities and rallying commodities have also factored into Aussie outperformance. Into Monday, Aussie has jumped back up 0.7700 on a G20 meeting that left out any language against protectionism, seemingly paving the way for the US administration's soft US Dollar policy. Still, economic data out of Australia hasn't been all that impressive of late, highlighted by last week's softer employment report, something that could weigh on Aussie going forward. Looking ahead, Monday's calendar is thin, with only a Fed Evans speech standing out.

USDCAD – technical overview

The market remains very well supported on dips, with the latest bounce out from 1.3000 warning of a more significant bullish resumption. Any setbacks should now be very well supported above 1.3200 on a daily close basis in favour of an eventual push back through the multi-day peak at 1.3599 and towards 1.4000 further up.



- **R2 1.3422** – 10Mar low – Strong
- **R1 1.3378** – 17Mar high – Medium
- **S1 1.3277** – 16Mar low – Medium
- **S2 1.3165** – 28Feb low – Strong

USDCAD – fundamental overview

The Canadian Dollar has been consolidating gains following last Wednesday's broad based US Dollar selloff in the aftermath of the more dovishly perceived Fed decision. Friday's solid Canada manufacturing data has helped to keep the Loonie bid into dips, though on the other side, ongoing weakness in the price of OIL is likely to keep the Loonie from making any serious runs. But we have seen the Loonie trade higher early Monday, taking advantage of the G20 communique which dropped its anti-protectionism pledge, seemingly paving the way for a softer US Dollar policy on account of the administration's desire to being jobs back to America and bolster US manufacturing and exports. Looking ahead, the calendar is exceptionally thin, with only Canada wholesale sales and a speech from Fed Evans standing out.

NZDUSD – technical overview

The overall pressure remains on the downside with the market expected to be very well capped on rallies. The weekly chart is reflective of this fact as it looks like we're seeing the formation of a major top off the 2016 high. As such, expect the market to continue to roll over in the days ahead, with setbacks projected towards medium-term support in the 0.6600s. Only back above 0.7400 compromises the outlook.

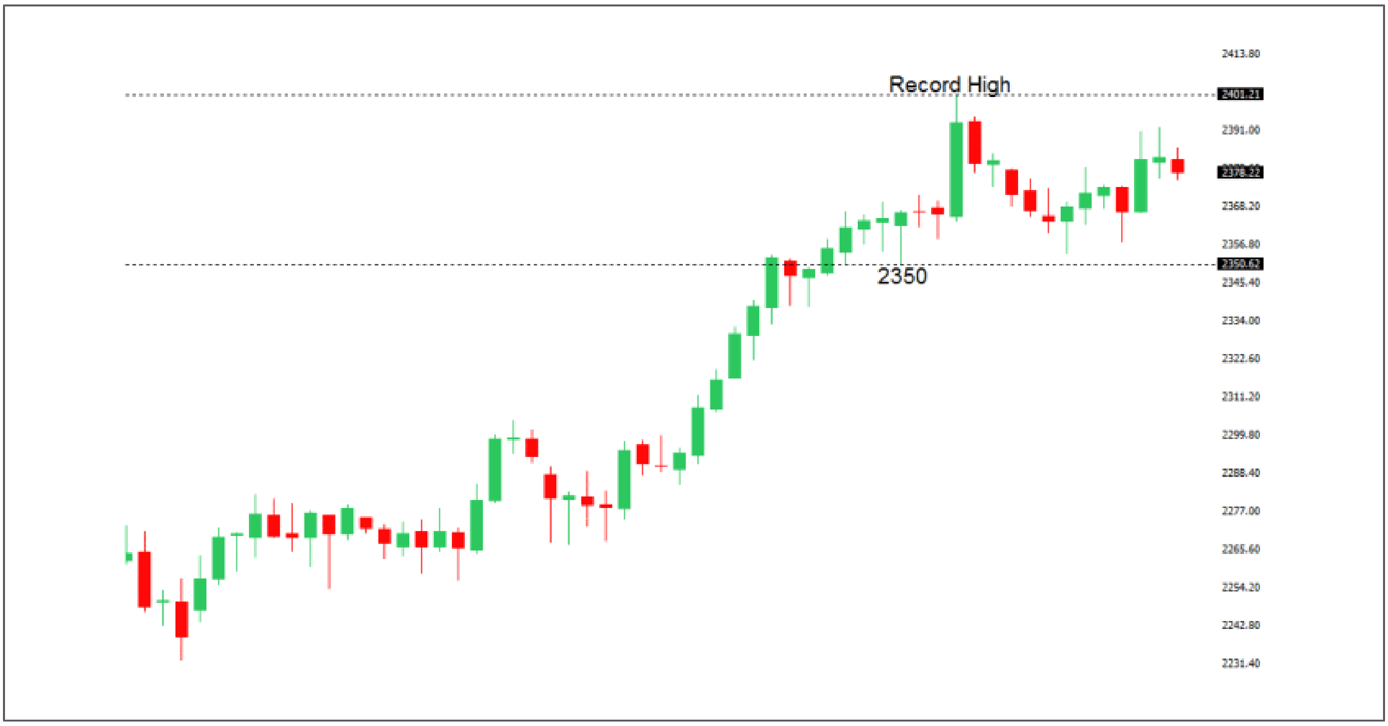
- **R2 0.7066** – 3Mar high – Strong
- **R1 0.7056 –** 20Mar high – Medium
- **S1 0.6950** – 13Mar high – Strong
- **S2 0.6890** – 9Mar low – Strong

NZDUSD – fundamental overview

The New Zealand Dollar has been finding bids since this past Wednesday's dovishly perceived FOMC decision, with Kiwi getting an added boost into Monday on the back of the G20 communique's omission of its anti-protectionism pledge. This sends a message the US administration will be looking to follow through with policy that would encourage a softer US Dollar as the Trump administration looks to promote US manufacturing and exports. Still, overall, yield differentials continue to favour the US Dollar, while economic data out of New Zealand has been softer. Look no further than the recent disappointing Kiwi GDP print and miss at the latest GDT auction. This will likely translate to an accommodative RBNZ later this week and keep Kiwi well offered into rallies. As far as today's calendar goes, the only notable standout is a speech from Fed Evans later in the day.

US SPX 500 – technical overview

The latest break to yet another record high following a healthy period of consolidation, has opened the door for the next big push through 2400. While technicals are severely stretched and there are definitive signs of exhaustion on the horizon, given the intensity of this uptrend, a break back below 2350 would be required at a minimum to alleviate immediate topside pressure.



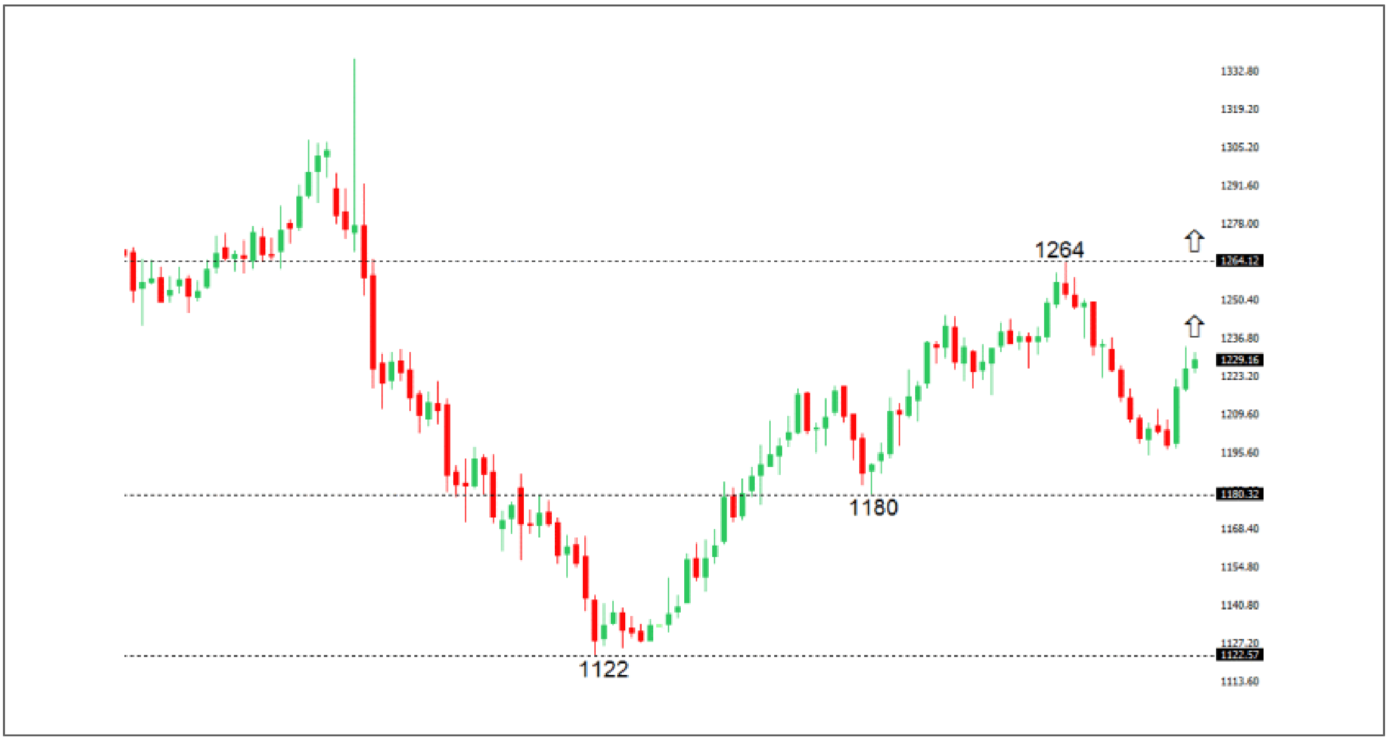
- **R2 2450.00** – Psychological – Strong
- **R1 2402.00** – 1Mar/**Record high** – Medium
- **S1 2350.00** – 24Feb low – Medium
- **S2 2304.00** – 26Jan high– Strong

US SPX 500 – fundamental overview

US equities haven't been bothered by anything over the past several years, with even rate rises from the Fed doing nothing to dissuade equity investors. Instead, the focus has been on a still exceptionally low rate environment supportive of higher stocks and Trump policies that will fuel additional upside in the market. Market participants have dismissed the idea that the reversal of Fed policy will have negative impact on stocks, citing recent price action as a testament to this fact. The market hasn't believed the Fed will hike at a consistent pace, given the fact that the only consistency investors have seen is the Fed's consistency to back away from hawkish guidance. Last Wednesday, the Fed proved investors right yet again. While the central bank delivered a rate hike that was fully priced, there was nothing in the Fed's language or projections that offered any shift in the outlook, this despite all of the hawkish speak in the lead up to the event. And so, stocks hold up by record highs and will seemingly continue to push on the accommodative Fed outlook. Dealers aren't reporting any meaningful sell stops until below 2350.

GOLD (SPOT) – technical overview

The market has been very well supported since basing out around 1120 in 2016. A recent break above 1260 strengthens the outlook, opening the door for the next major upside extension towards a measured move into the 1300 area. Look for the latest setbacks to be very well supported around 1200, with only a break back below 1180 to compromise the constructive outlook.



- **R2 1264.00** – 27Feb high – Strong
- **R1 1236.85** – 6Mar high – Medium
- **S1 1195.05** – 10Mar low – Medium
- **S2 1180.60** – 27Jan 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 the limitations of exhausted monetary policy, extended global equities, political uncertainty and systemic risk. All of this should continue to keep the commodity in demand, with many market participants fleeing to the hard asset as the grand dichotomy of record high equities and record low yields comes to an unnerving climax. Of course, the selloff in the the US Dollar post a dovishly perceived FOMC decision and this latest USD bearish G20 communique are fueling additional gains in the metal.

Feature – technical overview

USDSGD has been in the process of correcting out from the critical high 1.4545 from earlier this year, putting in a series of lower highs and lower lows. That next lower high could now be in place around 1.4220, with a daily close below 1.3970 to confirm and open the door for the next measured move downside extension towards 1.3700. Back above 1.4265 would be required to negate the bearish outlook.

- **R2 1.4160** – 14Mar high – Strong
- **R1 1.4130** – 6Mar low – Medium
- **S1 1.3950** – Mid-Figure – Medium
- **S2 1.3910** – 2Nov low – Strong

Feature – fundamental overview

The Singapore Dollar has been bolstered on many fronts over the past several days. At the top of the list is a more dovishly perceived FOMC decision which has tilted yield differentials back in the emerging market currency's favour. At the same time, the latest Singapore trade data is fueling additional SGD demand, with the data set showing consistent growth. And into Monday, pressure from the US at the G20 to drop its anti-protectionist pledge is fueling additional SGD demand on the implication the G20 communique edit is a sign the US will be looking to promote a softer USD policy to make America great again via US manufacturing and exports.