Friday, May 19, 2017

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Global FX Insights

by LMAX Exchange Research & Analytics

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

More Panic or Back to Normal? Wake-up Call

The market has settled down since the Wednesday Trump panic and the big question into Friday is whether there is another round of panic about to kick in or if all will be well again. Standouts on Friday's calendar include German producer prices, Canada retail sales and central bank speak.

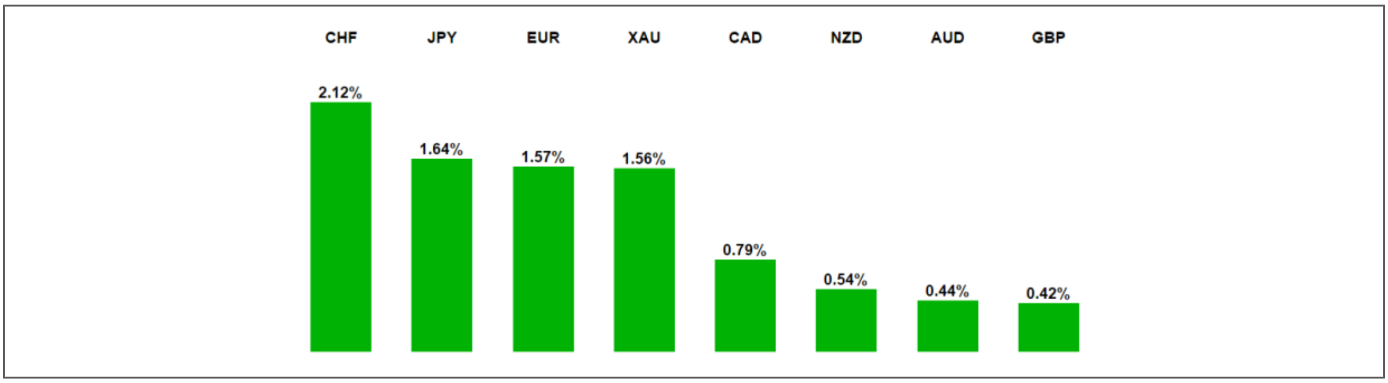
Technical highlights Daily Video

- **EURUSD** Room to extend gains
- **GBPUSD** Projected to 1.3500
- **USDJPY** Pressure back on downside
- **EURCHF** Stalls ahead of 1.1000
- **AUDUSD** Upside only corrective
- **USDCAD** Seeks out higher low
- **NZDUSD** Well capped into rallies
- **US SPX 500** Below 2320 shifts
- **GOLD** (spot) Supported on dips
- **Feature** – USDSGD Fresh low

Fundamental highlights

- **EURUSD** Plenty of EU official and ECB speak
- **GBPUSD** Brexit negotiations still weighing
- **USDJPY** Yen gains stall for now, Mester helps
- **EURCHF** SNB feeling weight of global fear
- **AUDUSD** Medium term players selling strength
- **USDCAD** Important Canada data out Friday
- **NZDUSD** Kiwi gains less impressive this week
- **US SPX 500** Cracks showing but no break yet
- **GOLD** (spot) Metal friendly macro outlook
- **Feature** – USDSGD Q1 GDP next week

Five day performance v. US dollar



Suggested reading

- **Taleb Sees Worse Tail Risks Than 2007**, Bloomberg (May 18, 2017)
- **Creative Manifesto Points**, J. Han, Financial Times (May 18, 2017)

EURUSD – technical overview

The surge continues with the market extending its run in 2017 to fresh highs. The latest break above the previous 2017 high at 1.1020 confirms a fresh higher low in place at 1.0840 and opens a measured move extension to 1.1200-1.1250 area in the sessions ahead. Overall, the market is showing signs of the formation of a meaningful base, with the recovery off the multi-year low from January pointing to additional upside towards 1.1500. At this point, only back below 1.0840 will take the immediate pressure off the topside.

- **R2 1.1200** – Measured Move – Strong
- **R1 1.1172** – 18May/**2017 high** – Medium
- **S1 1.1076** – 18May low – Medium
- **S2 1.1022** – Previous High – Strong

EURUSD – fundamental overview

The market has been feeling a lot better about the Euro's prospects with Eurozone structural risk out of the way and economic data suggesting the ECB could soon look to start reversing policy. Meanwhile, it's been a different kind of story of late in the US, with the combination of US administration protectionist policy and a soft run of US economic data weighing on the Buck. This week's Trump turmoil may have inspired the latest round of Euro bids, but the US Dollar weakness is more about these other major themes than anything else. The US Dollar did get a little help on Thursday after the Philly Fed and initial jobless claims were strong, while Fed Mester downplayed recent events and retained her hawkish outlook. This was clearly reflected in June rate hike odds which pushed back up from 60% to 70%. Looking ahead, key standouts on Friday's calendar are German producer prices, the Eurozone current account, Eurozone consumer confidence and some ECB speak from Praet and Constancio. It's also worth noting we get EU's Dombrovskis and Geursen speaking at the ECB-EU conference and Fed speak from Bullard and Williams.

GBPUSD – technical overview

This latest push through 1.2775, the December 2016 peak, is a significant development as it potentially ends a period of bearish consolidation, warning of the formation of a more meaningful longer-term base. The break ends a multi week consolidation mostly ranging between 1.2000-1.2700 with the bullish move paving the way for a measured moved upside extension equal in size back into the 1.3500 area in the days ahead. Still, there is rise for a short-term pullback, though any declines are now classified as corrective and should be well supported ahead of 1.2500 in favour of a higher low and bullish resumption.

- **R2 1.3100 –** Figure – Figure
- **R1 1.3048 –** 18May/**2017 high** – Strong
- **S1 1.2900** – Figure – Medium
- **S2 1.2831** – 4May low – Strong

GBPUSD – fundamental overview

It isn't too often that you see a currency breaking to a fresh 2017 high while underperforming on the week. Despite the Pound's push to that yearly high above the 1.3000 barrier on Thursday, the major currency is the weakest in the developed currency basket over the past 5 days. While the Pound has managed to trade higher against the Buck on the wave of negative developments out of the US this week, there appears to be solid offers capping the UK currency's run with even an impressive UK retail sales showing on Thursday unable to sustain the rally. Of course, it's somewhat understandable with an important UK election coming up in June and with tough Brexit negotiations still a major concern. Meanwhile, the subdued wage growth component in this week's UK employment data release is yet another factor that should keep the market from getting too aggressive on the bid, with the BOE unlikely to make any moves with wages so soft. Looking ahead, we get some UK CBI trends data followed by Fed speak later in the day. Fed Mester comments late Thursday also contributed to the Pound's retreat after the central banker retained a hawkish outlook, downplaying recent events.

USDJPY – technical overview

The run off the 2017 low has stalled out, with the market sharply reversing course to the downside. This latest daily close back below 112.00 now exposes a possible retest of the yearly low at 108.13. In the interim, look for any rallies to be well capped ahead of 113.00, with only a break back above the recent high at 114.37 to negate and take the pressure off the downside.

- **R2 113.13** – 17May high – Strong
- **R1 112.00** – Figure – Medium
- **S1 110.24**– 18May low – Medium
- **S2 109.59** – 25Apr low – Strong

USDJPY – fundamental overview

The Yen hasn't been able to ignore the swirl of controversy surrounding the White House this week, with tension heating up on the reports the President compromised a federal investigation involving Russia. There has been a consistent attack on the White House since the President has taken office and investors are starting to show they are concerned, with risk markets already well overdue for a more significant corrective decline. And so, the combination of the risk off flow and broad based US Dollar weakness on the back of this development and an already soft patch of US data have opened a more pronounced Yen rally this week. The Yen has however stalled out into Friday, perhaps weighed back down on stability in the US equity market, hawkish Fed Mester comments and Thursday's overdue series of healthy US releases. Looking ahead, the key focus will be on the White House, geopolitics and Fed speak.

EURCHF – technical overview

A recent break back above 1.0900 takes pressure off the downside and could be warning of a more significant structural shift. Next key resistance comes in at 1.1000, with the psychological barrier coinciding with a high from August 2016. The establishment above 1.1000 would strengthen the bullish outlook and open the door for fresh upside. Back below 1.0780 would now be required to put the pressure on the downside.

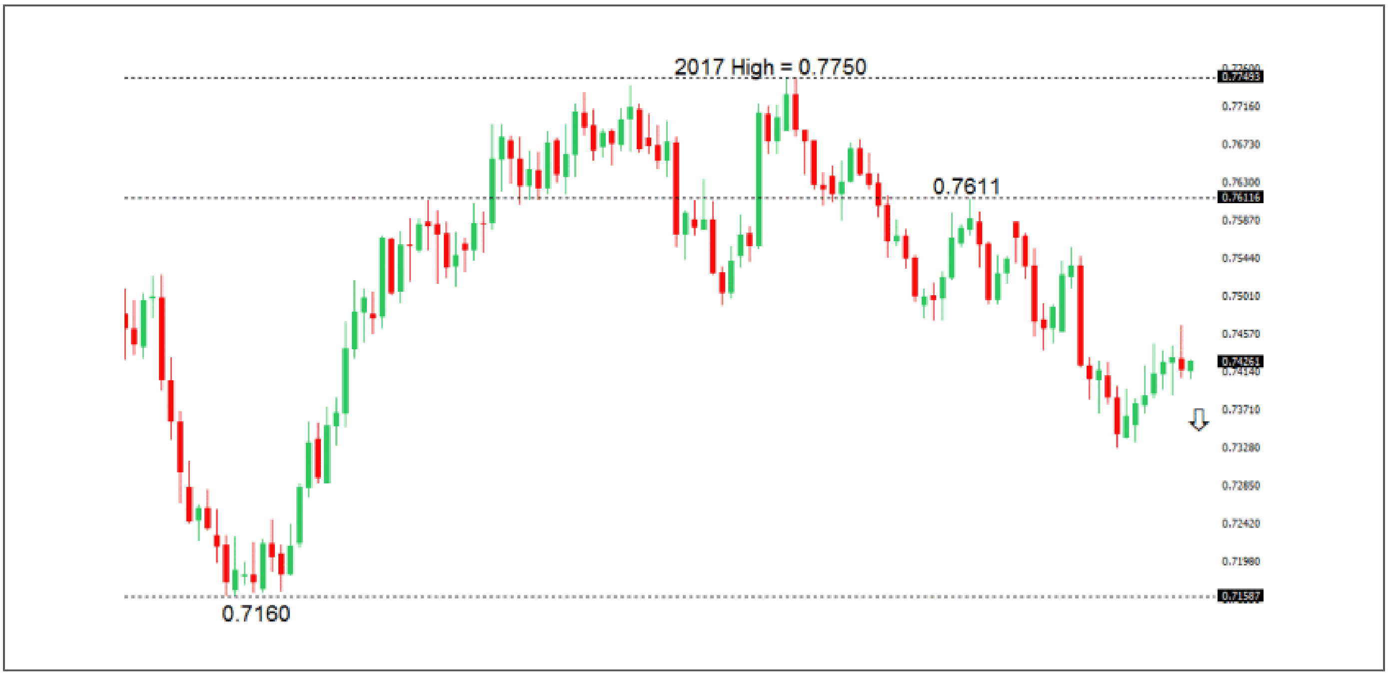
- **R2 1.1000** – Psychological – Strong
- **R1 1.0989** – 12May/**2017 high** – Medium
- **S1 1.0868** – 18May low – Medium
- **S2 1.0782** – 24Apr low – Strong

EURCHF – fundamental overview

With global risk sentiment highly elevated, as reflected through stock markets, and geopolitical tension on the rise, there should be worry that any capitulation on that front could invite massive safe haven Franc demand the central bank will be unable to offset. For now, the SNB is hoping the ECB will take on a more hawkish policy approach as per reports the central bank is preparing for a taper, though at this point, despite some reports of policy reversal and hawkish speak from various ECB officials, there has been no such indication from ECB Draghi in recent speeches, despite some more upbeat talk. The key focus for this market on Friday will unquestionably be on the performance in US equities. Any intensification to the downside will likely invite a pickup in Franc demand and unwanted downside pressure on EURCHF. But if the market extends its recovery, the SNB should be able to relax as the flow supports the EURCHF rate.

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 0.7500 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. The drop below 0.7500 strengthens the bearish outlook and any rallies should be very well capped ahead of that previous support now turned resistance at 0.7600.



- **R2 0.7500** – Psychological – Strong
- **R1 0.7467 –** 18May high – Medium
- **S1 0.7385** – 15May low – Medium
- **S2 0.7330** – 9May low – Strong

AUDUSD – fundamental overview

The broad based decline in the US Dollar has been the bigger story here, with even a concurrent bout of risk off flow failing to weigh on the normally correlated Aussie. It would seem that the recovery in commodities markets is also helping to offset. On the data front, this week's Aussie employment data wasn't as great as it may have appeared to be on initial glance, with most of the jobs coming from the part time sector. Meanwhile, Aussie consumer inflation expectations ticked down from the previous print. We have seen the emergence of fresh offers into rallies, with medium-term accounts still playing the bet the Fed will stick to its timeline this time round. Certainly Thursday's hawkish comments from Fed Mester have helped this cause after the central banker downplayed recent developments in the US. The US also got a welcome round of solid data in the form of initial jobless claims and the Philly Fed. Looking ahead, Friday's focus will be on risk sentiment and some Fed speak, with Bullard and Williams scheduled.

USDCAD – technical overview

The uptrend in this market remains firmly intact, getting added confirmation following this latest break to a fresh 2017 high and through a key peak from December 2016 at 1.3600. But the market is looking super stretched at the moment which has invited this short-term correction. Still, any setbacks should now be very well supported ahead of 1.3400 in favour of an eventual push towards the next measured move upside extension objective in the 1.4000 area. Ultimately, only back below 1.3224 would give reason for pause and delay the constructive outlook.

- **R2 1.3723** – 15May high – Strong
- **R1 1.3670** – 18May high– Medium
- **S1 1.3572** – 17May low – Medium
- **S2 1.3530** – 27Apr low– Strong

USDCAD – fundamental overview

The Canadian Dollar is finally recovering off 2017 lows after getting hit hard on the combination of US tariffs, rating agency downgrades, troubles at a mortgage lending giant and a drop in the price of OIL. But, a recovery in the price of OIL (latest run on Russia-Saudi Arabia talk of production cuts extending into 2018), overall soft patch of US data, comments from BOE Governor Poloz that risk associated with mortgage lending giant Home Capital Group has been contained and more controversy out of the White House have definitely helped to inspire profit taking on Canadian Dollar shorts. Looking ahead, it will be a busy day for the Loonie. We get Canada CPI and retail sales, while the market will also be intently focused on broader risk sentiment and the price action in OIL.

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, with outlook strengthened on this week's breakdown to a fresh 2017 low. 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 0.7100 compromises the outlook.

- **R2 0.6969** – 3May high– Strong
- **R1 0.6951 –** 10May high– Medium
- **S1 0.6863** – 16May low – Medium
- **S2 0.6818** – 11May/**2017 low**– Strong

NZDUSD – fundamental overview

The performance in the New Zealand Dollar this week isn't all that impressive when considering an intense wave of negative US Dollar sentiment, rallying commodities prices and a concurrent upbeat batch of local data including consumer confidence, the GDT auction and firmer producer prices. Still, with broader risk sentiment deteriorating and with many out there still looking for the Fed to follow through with its policy guidance of two more hikes in 2017, these players are happy to sell Kiwi into rallies. Certainly Thursday's hawkish comments from Fed Mester have helped this cause after the central banker downplayed recent developments in the US. The US also got a welcome round of solid data in the form of initial jobless claims and the Philly Fed. Looking ahead, Friday's focus will be on risk sentiment and some Fed speak, with Bullard and Williams scheduled.

US SPX 500 – technical overview

The market has been unable to break down below major support at 2320 thus far, leaving the pressure on the topside and the door open for that next big record push towards a measured move extension at 2480. However, if setbacks intensify and the market breaks down and closes below 2320, this will signal a shift in the structure and suggest a meaningful top is finally in place ahead of a more significant corrective decline.

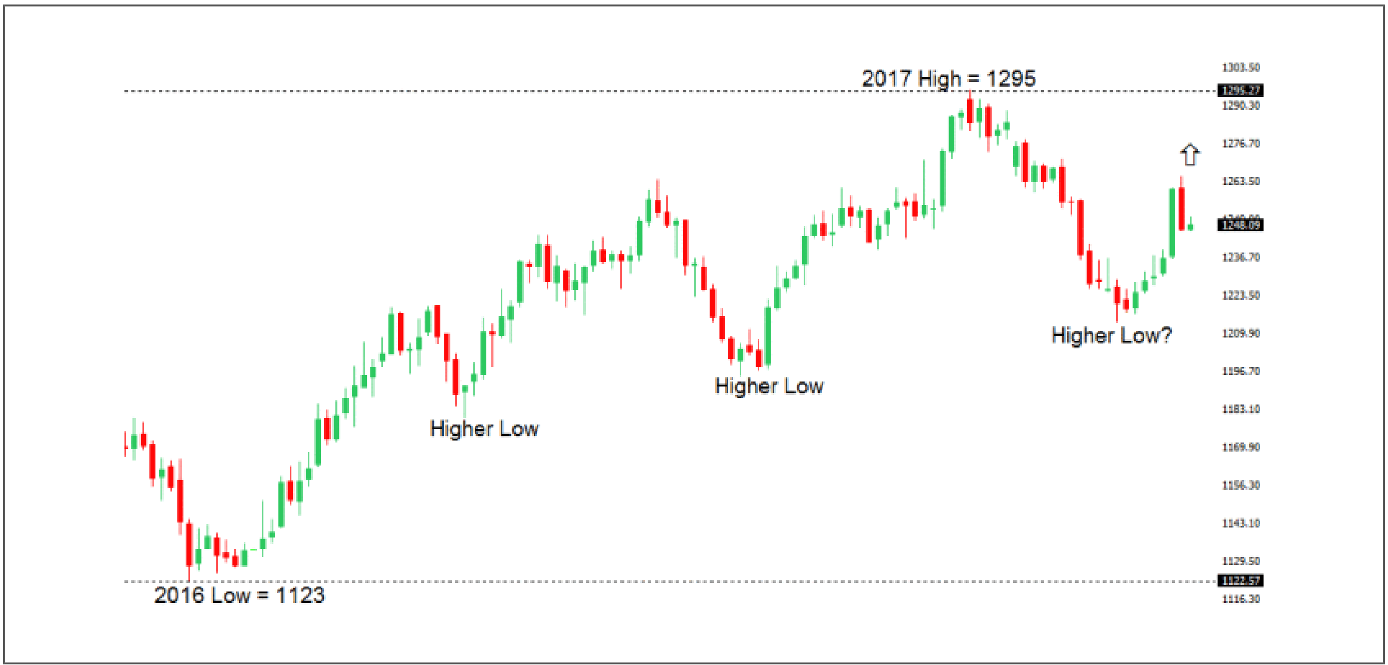
- **R2 2480.00** – Measured Move – Strong
- **R1 2406.00** – 8May/**Record high** – Medium
- **S1 2346.00** – 18May low – Medium
- **S2 2321.00** – 27Mar low – Strong

US SPX 500 – fundamental overview

There has been a lot of talk about a potential top in the US equity market, with the rally pushing to record highs at an unnerving pace in the face of some disturbing fundamentals including the reversal of Fed policy and rising geopolitical risk. And certainly this latest turmoil surrounding the US President has exposed these more pressing fundamentals a little more. But overall, the US equity market has done a good job proving it can easily buy back into the shallow dips as it focuses on rates staying lower for longer and the Fed continuing to underdeliver on its forward guidance. The fact that the Fed has begun the reversal of policy has been of no consequence to this point, with negligible rate increases to date, doing nothing to dissuade the market, with valuations remaining attractive. Still, with asset prices where they are right now and with the Fed showing it may actually follow through with guidance in 2017, there is risk it could all come crashing down, with any additional upside limited before a major capitulation. It's worth highlighting the fact that although Fed rate hike odds have been scaled back, the stock market hasn't been able to rally on this news this week, while Fed Mester came out Thursday with hawkish comments despite the recent developments. Keep an eye on Fed Bullard and Williams later today.

GOLD (SPOT) – technical overview

The market has been very well supported since basing out ahead of 1100 in 2016, putting in a series of higher lows and higher highs. This latest round of setbacks have been well supported above the previous higher low at 1195, with the 1215 area now sought out as the next higher low ahead of a fresh upside extension beyond the 2017 high at 1295 and towards the 2016 peak at 1375 further up. At this point, only a break back below 1215 would compromise the constructive outlook.



- **R2 1295.60** – 17Apr/**2017 high** – Strong
- **R1 1271.20** – 1May high – Medium
- **S1 1241.30** – 4May high – Medium
- **S2 1214.30** – 9May 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, systemic risk and geopolitical threats. All of this should continue to keep the commodity in demand, 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 back under pressure in recent days is adding to the metal's bid tone as well.

Feature – technical overview

USDSGD has been trending lower in 2017, making a series of lower highs and lower lows. The most recent lower top has just been confirmed at 1.4130 following Wednesday's break to a fresh 2017 low, with the drop now opening the door for the next measured move downside extension into the 1.3600-1.3700 area. At this point, rallies should be well capped ahead of 1.4000, with only a break back above 1.4130 to compromise the bearish outlook.

- R2 1.4130 – 11May high – Strong
- R1 1.4000 – Psychological – Medium
- S1 1.3885 – 18May/2017 low – Strong
- S2 1.3800 – Figure – Medium

Feature – fundamental overview

The Singapore Dollar has done a fabulous job overlooking this week's non-oil domestic export data which came in quite weak. For now, it seems the currency is more focused on the broader macro flows and fallout from an intense wave of US Dollar selling on the back of softer US economic data and this latest controversy out of the White House. But Thursday's hawkish Fed Mester comments and overdue round of solid US data have invited some profit taking on Singapore Dollar longs, after the emerging market currency squeaked out a fresh 2017 high. Looking ahead, the market will continue to focus on these broader flows with no local data of note until next weeks Q1 GDP release.