Wednesday, September 13, 2017

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Racing Pound Comes Head to Head with UK Jobs Data Wake-up Call

We're coming off a Tuesday session where most currencies sat back on the sidelines, preferring to take in the show that was all Sterling and Yen. The Pound has rallied to a fresh 2017 high, while the Yen has dropped off on higher equities. UK jobs in focus today.

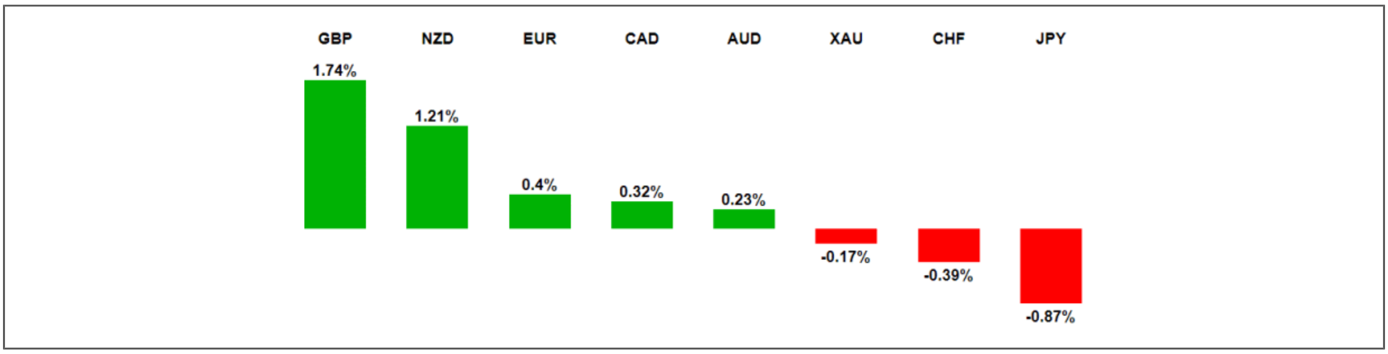
Technical highlights Daily Video

- **EURUSD** Consolidates latest gains
- **GBPUSD** Pushes to fresh 2017 high
- **USDJPY** Back towards resistance
- **EURCHF** Next big break to topside
- **AUDUSD** Rally running out of steam
- **USDCAD** Room for bullish reversal
- **NZDUSD** Additional upside limited
- **US SPX 500** Yet another record run
- **GOLD** (spot) Setbacks to be limited
- **Feature** – USDSGD Turning up

Fundamental highlights

- **EURUSD** German CPI, EZ jobs, industrial production
- **GBPUSD** Surging Pound digests UK employment data
- **USDJPY** Surging stocks and demand for US Dollar
- **EURCHF** SNB continues to get big boost from sentiment
- **AUDUSD** Softer run of Aussie data something to watch
- **USDCAD** Loonie still feeling pain from jobs report
- **NZDUSD** Kiwi gets boost from latest election poll
- **US SPX 500** Another record run on shaky foundation
- **GOLD** (spot) Global backdrop invites metal demand
- **Feature** – USDSGD North Korea rejects sanctions

Five day performance v. US dollar

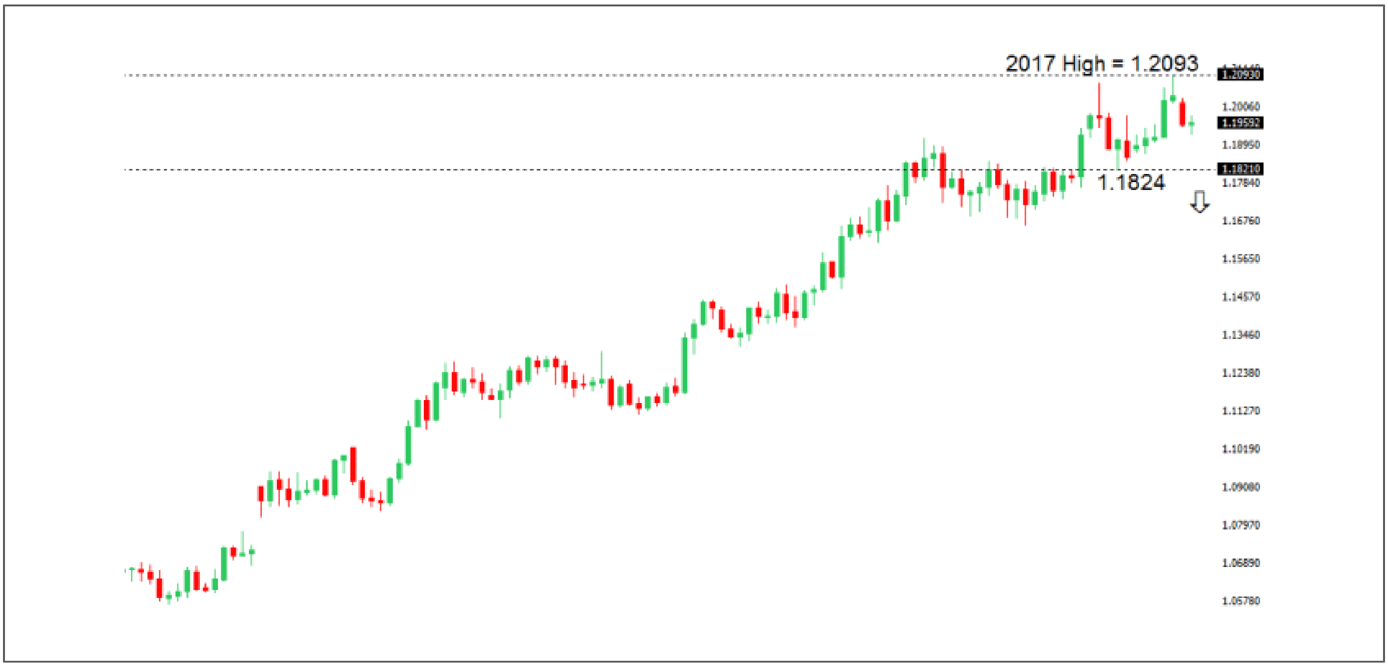


Suggested reading

- **Melt Up Before Melt-Down**, R. Blitz, **Financial Times** (September 12, 2017)
- **Goldman Faces Ruts in Road to Billion**, G. Tan, **Bloomberg** (September 12, 2017)

EURUSD – technical overview

Last week's push to a fresh 2017 and +2.5 year high hasn't been able to garner much momentum thus far, though the breakout does expose the next measured move extension objective in the 1.2300s. However, weekly studies are well overextended, already warning that additional upside could soon be limited in favour of a significant bearish reversal. But a break back below 1.1824 would now be required at a minimum to take the pressure off the topside.



- **R2 1.2093** – 8Sep/**2017 high** – Strong
- **R1 1.2030** – 11Sep high – Medium
- **S1 1.1915** – 7Sep low – Medium
- **S2 1.1824** – 25Aug low – Strong

EURUSD – fundamental overview

The Euro has taken a backseat to the price action in the Pound and Yen, with the single currency seemingly content to wait things out for a bit before making its next move. Overall, the combination of negative US Dollar sentiment and an expectation the ECB will be moving forward with its QE taper in the weeks ahead has been driving the major pair to its highest levels in over 2.5 years. But the run has come hard and fast and some participants have been booking profit in anticipation of what could be a period of weakness ahead, especially with medium term technical studies looking extended. As far as today's docket goes, we get German CPI, Eurozone employment, Eurozone industrial production and US producer prices. While we shouldn't expect much movement from the Eurozone data, the US PPI print could be a market mover, as it sets things up for tomorrow's more highly anticipated CPI reading.

GBPUSD – technical overview

The latest bullish reversal out from very strong previous resistance turned support at 1.2775 has opened the door for a healthy rally to fresh 2017 highs. Still, with technical studies looking a little stretched on the daily chart, any additional upside could be limited for the time being, ahead of another reversal to the downside. Overall, the structure is now constructive, favoring an eventual push into the 1.3500-1.4000 area over the medium-term. But short-term, we still could see some more choppy consolidation that leads to a topside failure in the sessions ahead and drop back down below 1.3000.

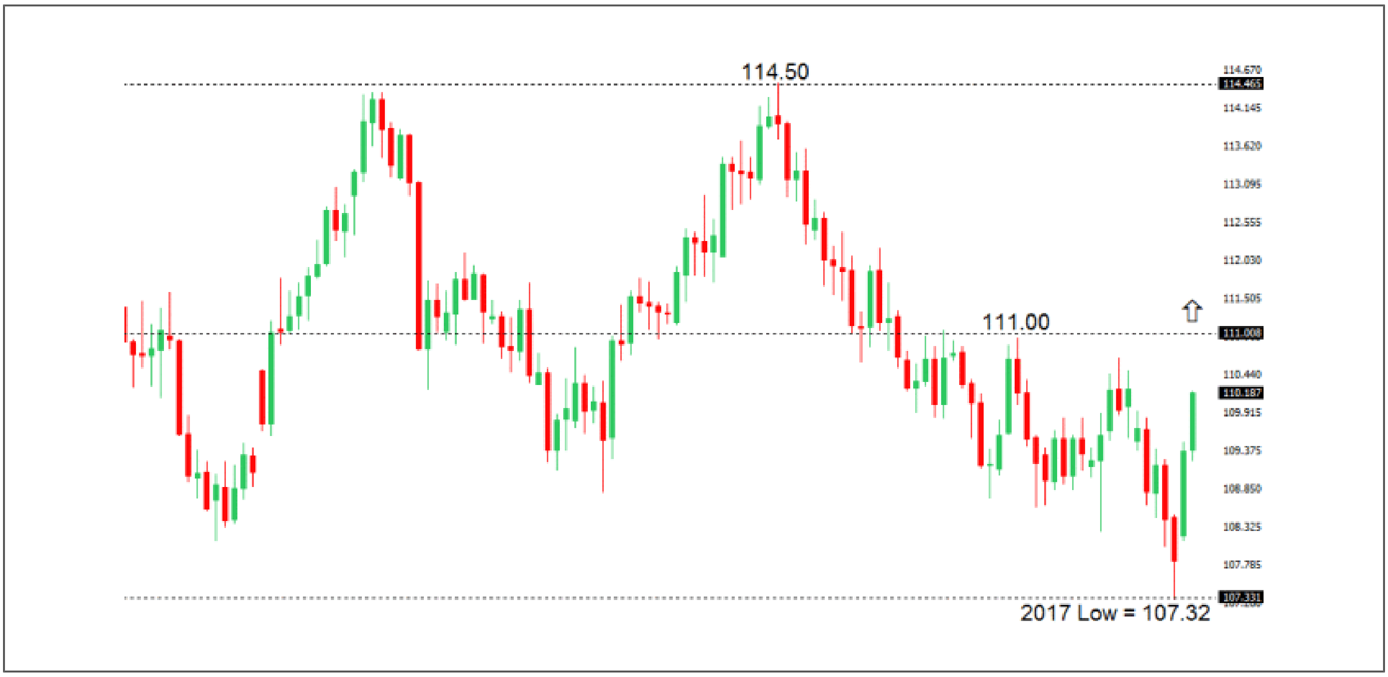
- **R2 1.3445–** September 2016 high – Strong
- **R1 1.3350 –** Mid-Figure – Medium
- **S1 1.3224** – 8Sep high – Medium
- **S2 1.3160** – 11Sep low – Strong

GBPUSD – fundamental overview

The Pound stands out as a major outperformer over the past week, with the UK currency extending its 2017 run, rallying to its highest levels since the Brexit lows. Initially, it was the forward progress relating to Brexit that helped the Pound along. Then on Tuesday, hotter than expected UK inflation readings catapulted the Cable rate to the new heights. Still, with the market now looking technically extended on the daily charts and with the Bank of England decision out tomorrow, it could be difficult for the Cable rate to extend much further on Wednesday. Of course, one thing capable of pushing this run some more is the UK employment data that will be digested. Then, into North America, we get US producer prices, which will set things up for tomorrow's anticipated US CPI print.

USDJPY – technical overview

Despite the latest run up out from last week's sub-108, 2017 low, the overall pressure is still on the downside, with the market capable of stalling out ahead of 111.00 and rolling back over. At this point, it would take a clear break above 111.00 to suggest the market has bottomed out and is looking for a more significant run to the topside back towards the 115.00 area.



- **R2 111.05** – 4Aug high – Strong
- **R1 110.67** – 31Aug high – Medium
- **S1 109.24** – 12Sep low – Medium
- **S2 108.05** – 7Sep low – Strong

USDJPY – fundamental overview

The major pair continues to track along with traditional correlations. Monday's risk appetite revival after the weekend's worst fears were averted has been one source of demand on the traditional correlation, while some signs of broad based renewed US Dollar demand has been another. Looking ahead, the market will continue to monitor the performance in US equities and broader macro themes while also taking in US producer prices later in the day.

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, medium-term studies are unwinding from extended readings, warning of an additional consolidation in the sessions ahead, possibly back into previous resistance turned support around 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 1.1500** – Psychological – Medium
- **S1 1.1362** – 8Sep low – Medium
- **S2 1.1260** – 18Aug low – Strong

EURCHF – fundamental overview

The sell-off in the Franc in recent weeks has been a welcome development for the SNB, with the central bank committed to weakening its overvalued currency. In early August, the EURCHF rate traded to its highest level since the great collapse of January 2015. However, the SNB may have also been taking extra measures to weaken the Franc in anticipation of a tougher battle ahead. The record run in the US stock market has been a big boost to the SNB's strategy, which means an intensified capitulation in US equities is likely to rattle global sentiment and invite a wave of unwanted Swiss Franc demand on the safe haven flow. And so, building a cushion in anticipation of this risk may have been a part of the central bank's strategy.

AUDUSD – technical overview

The market has broken back above the recent 2017 high at 0.8066, extending the run into the 0.8100s thus far. There is now risk for a continuation of gains towards a measured move in the 0.8250 area, though at the same time, medium-term studies are extended and suggest additional upside could be limited in favour of a reversal back to the downside. A drop back below 0.7975 would however be required at a minimum to take the immediate pressure off the topside.

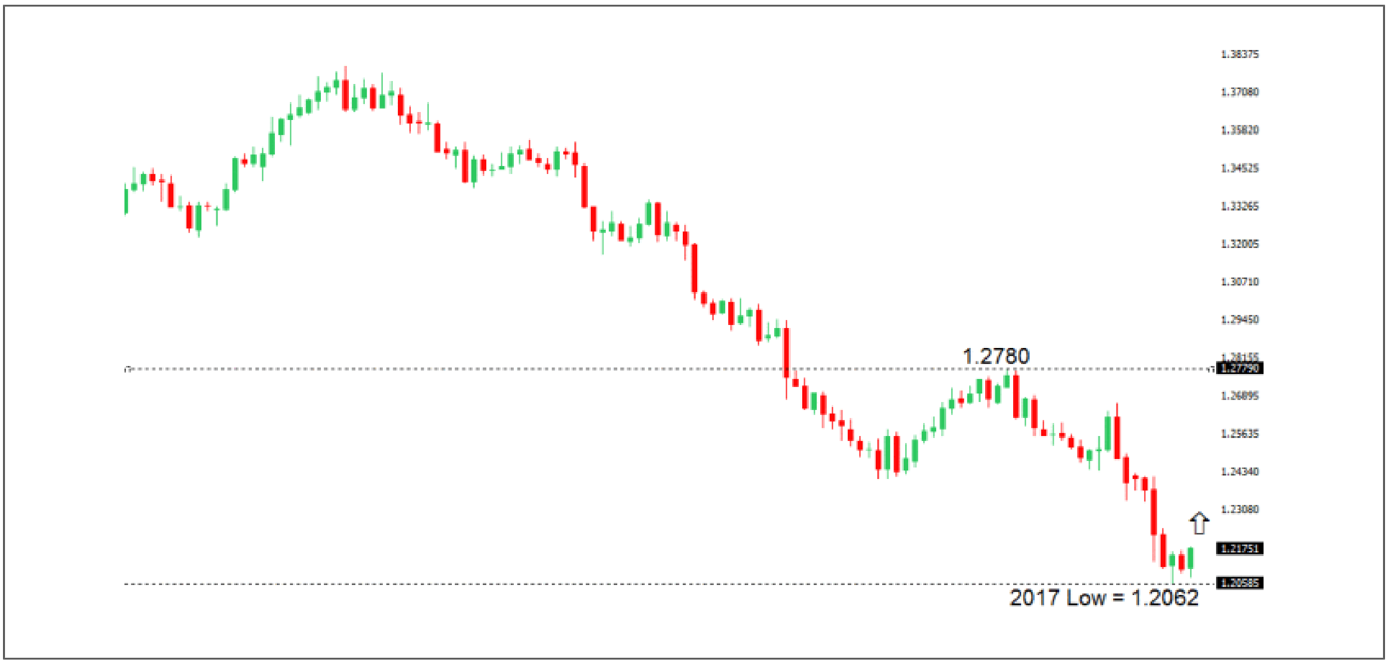
- **R2 0.8126** – 8Sep/**2017 high** – Strong
- **R1 0.8066** – 27Jul high – Medium
- **S1 0.7975** – 7Sep low – Medium
- **S2 0.7922** – 1Sep low – Strong

AUDUSD – fundamental overview

Although today's Aussie Westpac consumer confidence readings were an improvement from the previous print, overall, economic data out of Australia in recent days has been less impressive and is likely contributing to this latest pullback from another run to fresh +2 year highs. Most of the Aussie strength has been helped along by external factors including broad based US Dollar weakness, record high US equities and recovering commodities prices. But when considering disappointing GDP, retail sales and trade, along with Tuesday's discouraging business confidence and business conditions readings, it would seem the Australian Dollar could be more exposed going forward. Looking ahead, the only notable standout on the calendar for the remainder of the day is US PPI. But Aussie traders will be thinking about the early Thursday Aussie employment report.

USDCAD – technical overview

Despite this latest intense breakdown to a fresh 2017 and +2 year low, stretched medium-term technical studies continue to warn of the possibility for a significant bullish reversal to allow for these studies to unwind. But right now, the market would need to break back above 1.2242 to encourage this prospect.



- **R2 1.2242** – 7Sep high – Strong
- **R1 1.2200** – Figure– Medium
- **S1 1.2100**– Figure – Medium
- **S2 1.2062** – 8Sep/**2017 low** – Strong

USDCAD – fundamental overview

The Canadian Dollar has come under some pressure since last week's run to fresh +2 year highs. Last Friday's Canada employment report was rather discouraging beneath the surface and this has been followed up by some broader demand for the US Dollar this week. Still, the Loonie remains in the driver's seat for the time being and USDCAD would need to clear buy stops above 1.2250 to really suggest the Canadian Dollar is relenting. As far as OIL goes, we haven't seen much movement on that front of late, which has made this market less of a factor when looking at the price action. As far as today's calendar goes, second tier Canada housing data isn't going to be a factor and the focus will be on broader macro themes and a US PPI reading.

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. From here, look for any rallies to be well capped below 0.7400 on a daily close basis in favour of the next downside extension towards the psychological barrier at 0.7000.

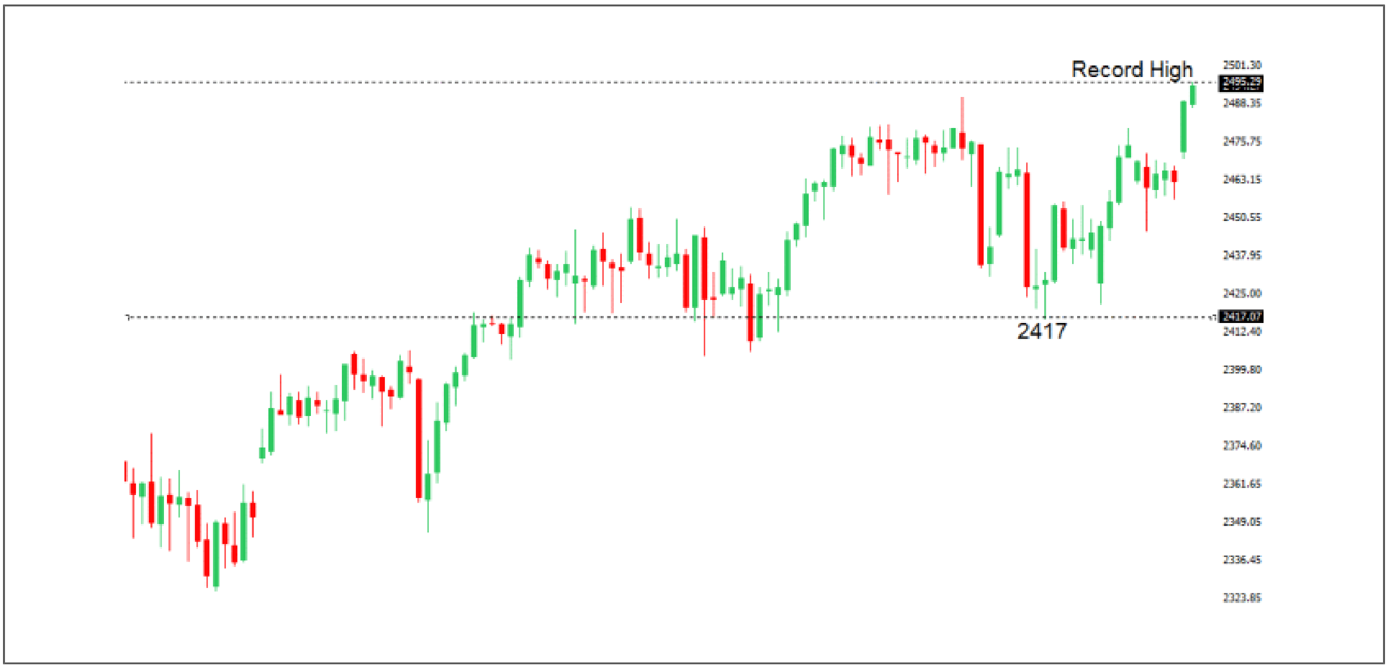
- **R2 0.7370** – 8Aug high – Strong
- **R1 0.7337** – 8Sep high – Medium
- **S1 0.7217** – 12Sep low – Medium
- **S2 0.7172** – 7Sep low– Medium

NZDUSD – fundamental overview

The New Zealand Dollar has been trying to quietly put in a recovery over the past week, and the commodity currency was able to get another boost on Tuesday on news of a poll that had the National Party extending its lead to 47%. But overall, the outlook is less encouraging right now, as there have been too many negative drivers for the market to ignore, which should continue to inspire offers into these rallies. New Zealand government growth and budget cuts, discouraging economic data and lingering uncertainty around the upcoming election continue to have a more significant impact, more than offsetting any optimism from one poll. The only saving grace for the Kiwi rate in 2017 has been the intense distaste for US Dollar. Looking ahead, the only notable standout on the calendar for the remainder of the day is US PPI. But Aussie traders will be thinking about the early Thursday Aussie employment report.

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 measured move upside extension into the 2550 area. At this point, it would take a clear break back below 2417 at a minimum to take the pressure off the topside and suggest we could finally be seeing the onset of a bearish structural shift.



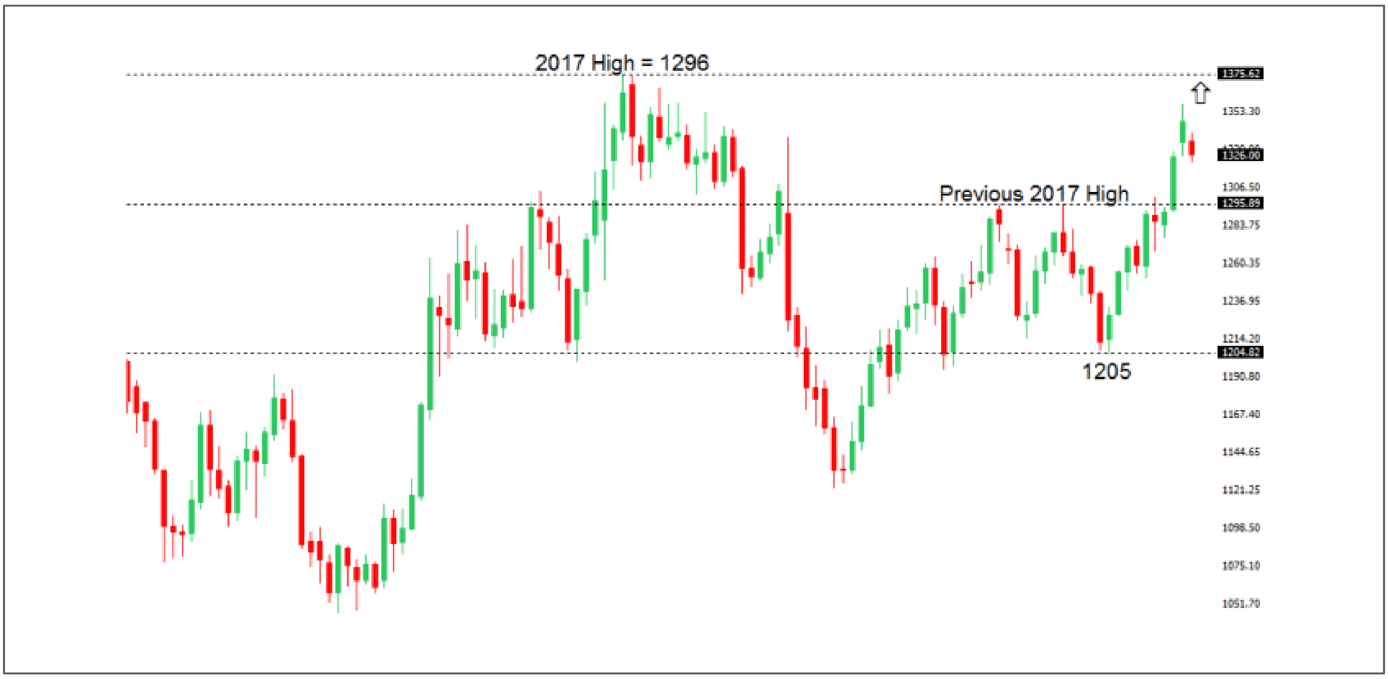
- **R2 2500.00** – Psychological – Very Strong
- **R1 2496.00** – 12Sep/**Record high** – Strong
- **S1 2446.00** – 5Sep low – Strong
- **S2 2417.00** – 21Aug low – Very Strong

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, weekend fears averted and expectation of favourable reforms from the US administration are helping to keep the move going this week. But at the same time, there is 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, wage growth still subdued, balance sheet reduction coming into play and another rate hike still on the cards this year. Meanwhile, geopolitical tension and White House instability are other wild cards making an artificially support run look increasingly vulnerable. As of yet, there has been no confirmation of such a bearish shift in the price action and it will take a breakdown in this market back below 2400 to turn heads.

GOLD (SPOT) – technical overview

Setbacks have been well supported, with the latest surge to fresh 2017 highs through 1300 setting the stage for a bullish continuation to the 2016 peak at 1375 further up. A higher low is now in place around 1265 and only back below this level would offset this latest wave of bullish momentum. Look for any dips to be well supported now around 1300.



- **R2 1375.00 – 2016 high** – Very Strong
- **R1 1357.50** – 5Sep/**2017 high** – Strong
- **S1 1316.40** – 1Sep low – Medium
- **S2 1300.00** – Psychological – 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.

Feature – technical overview

USDSGD has been under pressure in 2017, with the market recently dropping down to a fresh yearly low below 1.3500, exposing a possible retest of the 2016 base down at 1.3315. However, stretched studies are warning of the possibility for a meaningful bullish reversal to allow for these studies to unwind and if the market holds above 1.3315 and breaks back above 1.3500, we could see the formation of another base in favor of significant medium-term upside back above 1.4000.

- **R2 1.3611** – 31Aug high – Strong
- **R1 1.3500** – Psychological – Medium
- **S1 1.3348** – 8Sep/**2017 low** – Medium
- **S2 1.3315** – **2016 low** – Strong

Feature – fundamental overview

The Singapore Dollar has enjoyed a nice rally in 2017, extending its run this past week. US Dollar selling has been a major supporter of the currency's strength and we have seen some more of this on the back of White House instability, soft US Dollar policy talk, worry over the US debt ceiling negotiations outcome, disappointing US data and the possibility for a more dovish leaning Fed. Meanwhile, data out of Singapore has been solid, with last week's PMI readings coming in above forecast and today's retail sales beating as well. At the same time, given the correlation with the Yen, the Singapore Dollar also has the ability to benefit from safe haven flow, especially with this correlation being lost on the US Dollar right now. We have seen some SGD weakness in the early week as weekend fears have been averted, but the follow through has been quite mild. North Korea continues to provoke as well, rejecting this latest round of sanctions.