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Global FX Insights

by LMAX Exchange Research & Analytics

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US Inflation Data is the Big One [Wake-up Call](#)

Short of some more talk of a Brexit transition deal close by, price action has been uneventful in the early week. The economic calendar is exceptionally thin in the European session today, though volatility is expected to pick up later on, with US CPI data due.

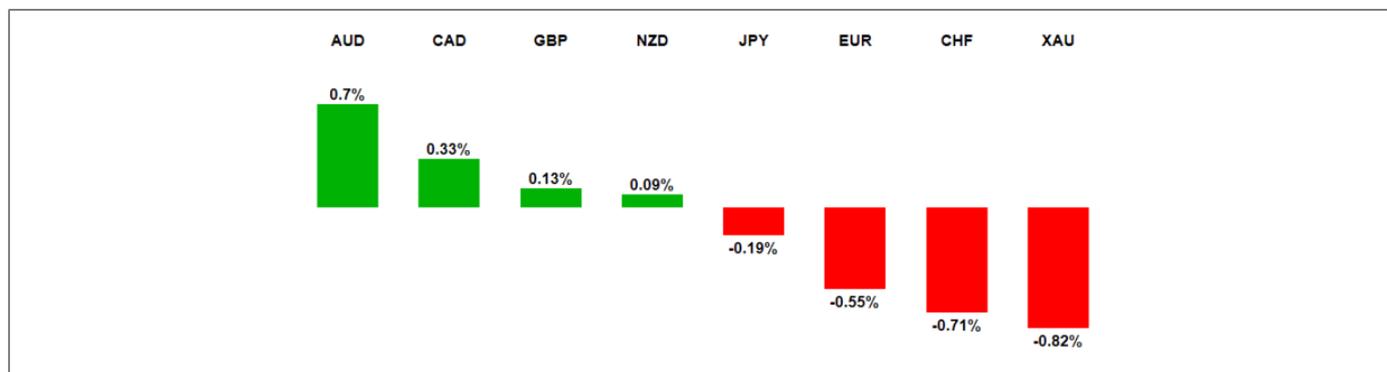
Technical highlights [Daily Video](#)

- **EURUSD** Waiting for the next break
- **GBPUSD** Still room for deeper drop
- **USDJPY** Bearish while below 107.90
- **EURCHF** Continues to hold up on dips
- **AUDUSD** Looking for lower top
- **USDCAD** Fresh higher low sought out
- **NZDUSD** Upside should be limited
- **US SPX 500** Monthly chart warns of reversal
- **GOLD** (spot) Waiting for push through 1375
- **Feature** – BTCUSD Capped for now on rallies

Fundamental highlights

- **EURUSD** Euro waiting for important US CPI
- **GBPUSD** UK Hammond's Spring Statement due
- **USDJPY** Yen tracking traditional correlations
- **EURCHF** SNB battling unwelcome demand
- **AUDUSD** Aussie boosted on tariff exemption
- **USDCAD** BoC Governor Poloz speech on Tuesday
- **NZDUSD** Kiwi tracking broader risk sentiment
- **US SPX 500** Red flags warn of big capitulation
- **GOLD** (spot) Metal demand reflects uncertainty
- **Feature** – BITCOIN Harder times for crypto assets

Five day performance v. US dollar



Suggested reading

- **[Why the World's Richest Firms are Facing A Tech Lash](#)**, R. Foroohar, FT (March 12, 2018)
- **[Investors Brace for Return of Inflation](#)**, M. Winkler, Bloomberg (March 12, 2018)

EURUSD – technical overview

The major pair has stalled out after trading up to a +3 year high above 1.2500. Daily studies have been in the process of consolidating off stretched readings, though setbacks continue to be exceptionally well supported into dips. A daily close back above 1.2400 will suggest the market wants to extend the run up through the 2018 high and towards a massive falling trend-line off the record high, which comes in around 1.2650. But if the market can't hold above 1.2400 and rolls back over, look out for a drop below 1.2155 to accelerate setbacks towards a retest of the 2018 low around 1.1915.



- R2 1.2447 – 8Mar high – Strong
- R1 1.2400 – Figure – Medium
- S1 1.2274 – 9Mar low – Medium
- S2 1.2252 – 2Mar low – Strong

EURUSD – fundamental overview

The Euro has recovered in the aftermath of last Friday's US jobs report which produced a softer hourly earnings reading. This takes pressure off the Fed to be needing to raise rates more aggressively, on account of the threat of rising inflation. However, we have been seeing a trend that points to higher inflation and that will put a lot of today's focus on the highly anticipated US CPI print. If the data comes in above forecast, it will put that pressure right back on the Fed to accelerate policy normalization. Still, despite the Euro's rally since this past Friday, the fact that ECB Draghi leaned more dovish last week, has kept the Euro well capped and less interested in resuming this uptrend we've seen over the past several months.

GBPUSD – technical overview

The market has entered a corrective phase since pushing to a 2018 high at around 1.4350 and rallies should be well capped ahead of the 2018 high for additional corrective activity. There is still scope for additional declines into the 1.3400-1.3600 area, though setbacks should then be very well supported in favour of that next meaningful higher low and bullish continuation.



- R2 1.3997 – 27Feb high – Strong
- R1 1.3930 – 6Mar high – Medium
- S1 1.3782 – 8Mar low – Medium
- S2 1.3756 – 2Mar low – Strong

GBPUSD – fundamental overview

The Pound got a boost on Monday on more talk of a transition deal being close at hand. However, the UK currency hasn't been wanting to get too carried away, with such talk still lacking in substance. The big focus in the UK on Tuesday will be UK Chancellor Hammond's spring statement, which could move the Pound as updates relating to the UK's financial health and Brexit are revealed. Attention then turns to the US, where the market will take in the highly anticipated US CPI reading, with anything on the hotter side of expectation, to likely fuel a resurgence in broad based US Dollar demand.

USDJPY – technical overview

A multi-month range trade was broken in February after the market sunk below 107.30. This has opened the door for deeper setbacks in the days ahead, possibly down towards the 102-103.00 area, an area that coincides with a measured move extension target and the 78.6% fib retrace off the 2016 low to high move. At this point, a daily close back above 107.91 would be required to take the immediate pressure off the downside.



- R2 107.91 – 21Feb high – Strong
- R1 107.00 – Figure – Medium
- S1 105.90 – 8Mar low – Medium
- S2 105.25 – 2Mar/2018 low – Strong

USDJPY – fundamental overview

Political turmoil in Japan has been getting attention this week, after Japan’s Ministry of Finance has admitted to doctoring the land sale document submitted to the Upper House Budget Committee, while PM Abe’s wife has been reported as one of the names deleted from the document. Still, this hasn’t had much impact on the Yen, with the major pair mostly supported on last Friday’s Goldilocks US jobs report. As far as the Tuesday calendar goes, the primary focus will be on US CPI.

EURCHF – technical overview

Despite this latest round of setbacks, overall, the market continues to trend higher, recently extending gains to a fresh multi-month high. The bullish price action has the market thinking about a retest of that major barrier at 1.2000 further up. In the interim, look for the current round setbacks to be very well supported, while only back below 1.1448 would delay the overall constructive tone.



- R2 1.1834 – 15Jan/2018 high – Strong
- R1 1.1750 – Mid-Figure – Medium
- S1 1.1632 – 7Mar low – Medium
- S2 1.1448 – 8Feb/2018 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

The market has been in the process of rolling over after failing to sustain a break above the 2017 high. The recent daily close below 0.8000 strengthens this outlook and opens the door for a renewed wave of declines towards 0.7500. At this point, only a daily close back above 0.8000 would delay.



- R2 0.7989 – 16Feb high – Strong
- R1 0.7894 – 26Feb high – Medium
- S1 0.7773 – 12Mar low – Medium
- S2 0.7713 – 1Mar low – Strong

AUDUSD – fundamental overview

The Australian Dollar got a boost this past Friday on the back of the broad based US Dollar selling in reaction to the softer hourly earnings in the US jobs report, but has since found some relative strength into the early week. The news President Trump has exempted Australia from steel and aluminum tariffs has been well received, though gains have been tempered by offers from medium-term players. As far as the Tuesday calendar goes, the big focus will be on US CPI.

USDCAD – technical overview

There are signs of basing after months of downside pressure, with the market racing back above critical resistance at 1.2921. Look for any setbacks from here to be very well supported ahead of 1.2600, in favour of the next higher low and bullish continuation well beyond 1.3000.



- R2 1.3002 – 7Mar/2018 high – Strong
- R1 1.2910 – 9Mar high – Medium
- S1 1.2800 – Figure – Medium
- S2 1.2762 – 28Feb low – Strong

USDCAD – fundamental overview

The Canadian Dollar has been getting help in recent sessions, on the back of last Friday’s softer US hourly earnings and confirmation of President Trump’s Canada exemption from steel and aluminum tariffs. However, the rally in the Loonie should be taken with a grain of salt, especially after Canada’s jobs report produced a distressing full time employment reading. Of course, NAFTA uncertainty also continues to cast its dark shadow over Canada and will keep the Loonie from wanting to rally too much. As far as the Tuesday’s calendar goes, we get an important US CPI reading along with an appearance from Bank of Canada’s Poloz, when the central bank delivers a speech on the topic of ‘Today’s labour market and the future of work.’

NZDUSD – technical overview

The market looks to be in the process of rolling over, with the daily chart showing a possible topping formation. Right now, it will take a clear break above 0.7400 to take the pressure off the downside. Until then, there is risk for continued weakness back towards 0.6900, with a break below 0.7178 to trigger the bearish formation and strengthen the outlook.



- R2 0.7387 – 21Feb high – Strong
- R1 0.7346 – 26Feb high – Medium
- S1 0.7246 – 8Mar low – Medium
- S2 0.7178 – 8Feb low – Medium

NZDUSD – fundamental overview

The New Zealand Dollar has been rallying in the aftermath of last Friday’s softer hourly earnings component in the US jobs report, while the concurrent wave of risk on flow has also been supportive. However, overall, rallies are still expected to be well capped, particularly in light of the RBNZ’s adoption of a more dovish leaning outlook. This coupled with signs of rising inflation in the US (despite Friday’s reading), and increased tension around fallout from US protectionist measures, could easily offset any demand from alternative flows that might otherwise be supportive of the Kiwi rate. As far as the Tuesday calendar goes, the big focus will be on US CPI.

US SPX 500 – technical overview

A severely overbought market is finally showing signs of relenting, allowing for stretched readings to unwind. There's plenty of room for these setbacks to extend following the break back below the 2675 area January low, with the market at risk for a further intensification of declines. Any rallies should now be very well capped ahead of 2800.



- R2 2882 – 29Jan/Record high – Strong
- R1 2805 – 78.6% of Jan-Feb move – Strong
- S1 2662 – 1Mar low – Medium
- S2 2624 – 12Feb low – Strong

US SPX 500 – fundamental overview

Investor immunity to downside risk is not looking as strong these days and there's a clear tension out there as the VIX starts to rise from 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. Certainly, the Fed's more hawkish tone and subsequent jumps in hourly earnings, CPI, and core PCE are the types of things that could weigh more heavily on sentiment in the sessions ahead, if there is more evidence confirming this bias. Today's US CPI reading will therefore be important to watch. Of course, the added wrench of ramped up US protectionism should only intensify the negative sentiment if things continue along this path.

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 some more chop followed by an eventual push above massive resistance in the form of the 2016 high at 1375. This will then open the door for a much larger recovery in the months ahead. In the interim, setbacks are expected to be well supported around 1300.



- R2 1375 – 2016 high – Very Strong
- R1 1341 – 26Feb high – Medium
- S1 1303 – 2Mar low – Strong
- S2 1300 – Psychological – Strong

GOLD (SPOT) – fundamental overview

Solid demand from medium and longer-term players persists, 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 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. The 2016 high at 1375 is a massive level that if broken and closed above, could be something that triggers a widespread panic and rush to accumulate more of the hard asset.

Feature – technical overview

Bitcoin has come under intense pressure since topping out at a record high just shy of 20,000 in December. The market has exceeded a measured move downside objective that had targeted a drop to \$7,000, with deeper setbacks now on the cards for a move to retest the September 2017 peak around \$5,000. At this point, it will take a daily close back above \$13,000 at a minimum, to take the pressure off the downside.



- R2 13,000 – 20Jan high – Strong
- R1 12,000 – Figure – Medium
- S1 8,000 – Figure – Strong
- S2 6,000 – 6Feb/2018 low – Strong

Feature – fundamental overview

The crypto asset has come under pressure in 2018, with ramped up regulatory oversight and potential government crackdowns forcing many holders to exit positions. The market is also coming back to earth after a euphoric 2017 run that had bubble written all over. Bitcoin has struggled on the transaction side as well, with transactions per second a major drawback, along with a mining community that has been less willing to process transactions due to the lower fees. The Lightning network has been a welcome development and will ramp up transaction speed, which has been behind some of the recovery off the 2018 low, though it seems the combination of a massive bubble, more regulatory oversight, a market that is still trying to convince of its proof of concept, and the threat of a reduction in global risk appetite, could all suggest even deeper setbacks ahead.



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