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Global FX Insights

by LMAX Exchange Research & Analytics

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Will Other Central Banks Scale Back Post Yellen? [Wake-up Call](#)

The US Dollar was down across the board last week and there appears to be very little that can prevent the Buck from extending its run of ugly declines. To review, the Buck got clobbered on a much less hawkish Fed Chair Yellen testimony and soft run of Friday US data.

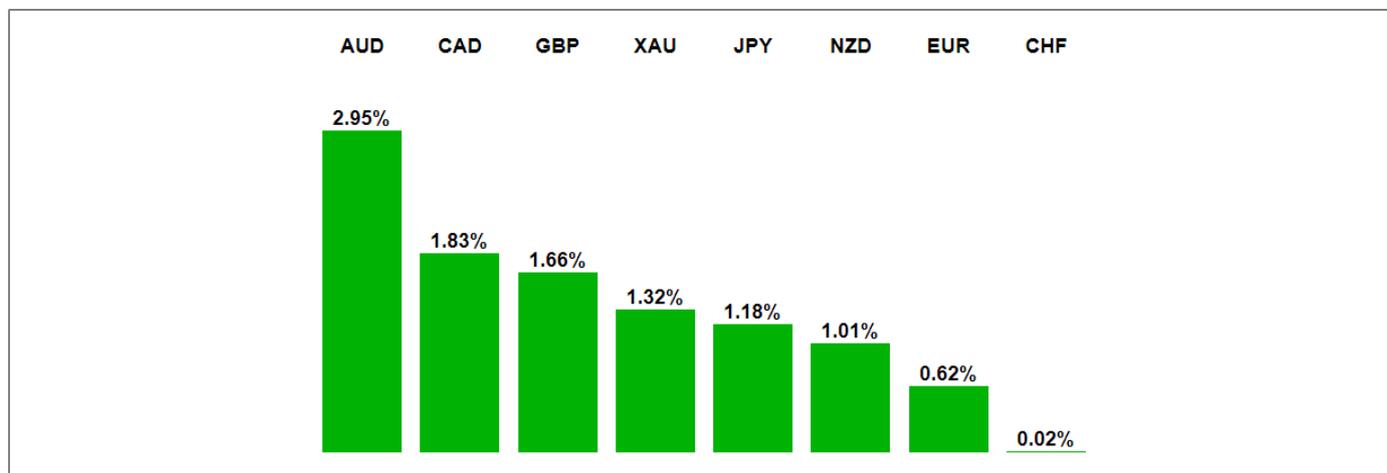
Technical highlights [Daily Video](#)

- **EURUSD** Testing major range high
- **GBPUSD** Door opens for 1.3500
- **USDJPY** Pressure back to downside
- **EURCHF** Sets sights on 1.1200 test
- **AUDUSD** Into strong resistance
- **USDCAD** Gravitating to 2016 low
- **NZDUSD** Rally looking exhausted
- **US SPX 500** Fresh record run underway
- **GOLD** (spot) Bullish break above 1230
- **Feature** – USDZAR Higher low sought

Fundamental highlights

- **EURUSD** Eurozone CPI stands out in Monday trade
- **GBPUSD** Many speculate BOE will hike faster than Fed
- **USDJPY** Yen up but record stocks slow appreciation
- **EURCHF** Big battle around the corner for SNB
- **AUDUSD** Aussie strongest currency over past week
- **USDCAD** Contrasting messages drive Loonie higher
- **NZDUSD** Bascand says lower Kiwi would balance growth
- **US SPX 500** Another record run with Fed in no rush
- **GOLD** (spot) Macro players still buying yellow metal
- **Feature** – USDZAR Yellen gives boost to EMFX

Five day performance v. US dollar



Suggested reading

- **Critics of Economics Miss What It Gets Right**, N. Smith, Bloomberg (July 14, 2017)
- **Differing Inflation Views Stir Investors**, R. Blitz, Financial Times (July 13, 2017)

EURUSD – technical overview

This recent break to fresh 2017 highs beyond 1.1300 has confirmed a higher low at 1.1110 opening the current extension into critical longer-term resistance in the 1.1500-1.1700 area. But daily studies are looking stretched, suggesting any additional upside could be difficult, with the greater risk building for some form of a meaningful bearish reversal between 1.1500 and 1.1600. Still, the uptrend in 2017 is well intact and a break back below 1.1313 would be required at a minimum to take the immediate pressure off the topside.



- R2 1.1500 – Psychological – Strong
- R1 1.1490 – 12Jul/2017 high – Medium
- S1 1.1371 – 13Jul low – Medium
- S2 1.1313 – 5Jul low – Strong

EURUSD – fundamental overview

Friday's softer round of US CPI and retail sales data did nothing to help an ailing US Dollar, with the Euro pushing up towards a break through that next big barrier at 1.1500. Overall, the Euro has benefited from the combination of softer US data, US administration protectionism, scaled back Fed hawkishness and a concurrent hawkish shift over at the ECB. This will be a big focus later this week when the ECB decides on rates, as the market will be wanting to know if the ECB has any intention of scaling back its own hawkishness in the aftermath of last week's Yellen testimony. As far as today's calendar goes, we get Eurozone CPI and US empire manufacturing.

GBPUSD – technical overview

This latest push to a fresh 2017 high beyond 1.3050 sets the stage for the next big push towards a measured move extension at 1.3500 over the coming days. However, it will be important to see how the market responds above 1.3050 in the sessions ahead, as inability to hold above this level could leave the market chopping around some more before it sets out on that journey to 1.3500. But overall, since breaking above 1.2775 in April, the outlook is constructive, with setbacks expected to be very well supported ahead of 1.2500.



- R2 1.3200 – Figure – Medium
- R1 1.3114 – 14Jul/2017 high – Medium
- S1 1.3000 – Psychological – Medium
- S2 1.2936 – 14Jul low – Strong

GBPUSD – fundamental overview

The Pound exploded on Friday, finally tripping stops above 1.3050 and breaking to a fresh yearly high through 1.3100. Most of the push came from the weaker round of US retail sales and CPI data, which only helped to reinforce the less hawkish Fed Chair Yellen testimony earlier in the week. Meanwhile, there has been increased hawkishness out from the Bank of England, with many speculating the BOE will get ahead of the Fed on policy normalization. Still, with political uncertainty in the UK and Brexit negotiation uncertainty hanging in the balance, this rally could start to find offers from medium-term players. Looking ahead, Monday's economic calendar is quiet, with only US empire manufacturing standing out.

USDJPY – technical overview

The market remains confined to a multi-day range. The latest topside failure above 114.00 strengthens this outlook, leaving the door open for a drop back towards range support in the 108.00s, also coinciding with the 2017 low from April. Ultimately, it would take a clear break through 115.50 to negate this outlook and shift the focus back on the topside.



- R2 113.58 – 14Jul high – Strong
- R1 113.00 – Figure – Medium
- S1 112.27– 14Jul low – Medium
- S2 111.73 – 30Jun low – Strong

USDJPY – fundamental overview

The Yen has managed to make a modest recovery as market participants price a less hawkish Fed in the aftermath of last week's less hawkish Yellen testimony and subsequent softer batch of US retail sales and inflation data. At the same time, setbacks have been less intense than what could have been expected given a concurrent wave of risk on flow as the global equities market feels better about monetary policy leaning back to the lower for longer side. Japan is out on holiday on this Monday and looking ahead, the economic calendar is quiet for the remainder of the day, with only US empire manufacturing standing out.

EURCHF – technical overview

The market has pushed up to a fresh 2017 high through a critical psychological barrier at 1.1000 which could now open the door for an extension to retest the major peak from 2016 at 1.1200. However, inability to hold above 1.1000 in the sessions ahead would suggest a false break and put the pressure back on the downside for an acceleration of declines towards 1.0600.



- R2 1.1130 – May 2016 high – Strong
- R1 1.1075 – 14Jul/2017 high – Medium
- S1 1.1000 – Psychological – Medium
- S2 1.0925 – 2Jul low – Strong

EURCHF – fundamental overview

The SNB is surely delighted with the most recent price action in the FX market, as the Swiss Franc extends its run of declines on the back of continued central bank activity, recent ECB hawkishness and record high US equities. However, the inflated US equity market should be a worry for the SNB as any capitulation on this front is likely to invite massive safe haven Franc demand the central bank will have an extremely difficult time offsetting, irrespective of the central bank's negative rate policy and intervention efforts. For now, the SNB is hoping global sentiment will remain artificially elevated and the ECB will continue to paint a more hawkish picture as has been seen over the past few weeks.

AUDUSD – technical overview

Despite the latest rally, the market continues to be very well capped into medium-term resistance around 0.7800. Ultimately, any moves to the topside are therefore classified as corrective with the market expected to stall out and roll over again. Only a daily close above 0.7900 would give reason for a rethink. Look for a break back below 0.7725 to strengthen this outlook and accelerate declines.



- R2 0.7849 – 18Jun high 2016 – Strong
- R1 0.7835 – 14Jul/2017 high – Medium
- S1 0.7727 – 14Jul low – Medium
- S2 0.7675 – 13Jul low – Strong

AUDUSD – fundamental overview

Quite a run for the Australian Dollar of late, with the currency standing out as an outperformer over the past week. The Australian Dollar had already done a good job benefiting from solid local data in July, including retail sales, confidence, business conditions and consumer inflation expectations. Meanwhile, recovering commodities prices and record high equities have done nothing to hurt the correlated currency. Of course, we've also had Yellen's decidedly less hawkish testimony and Friday's soft US data to really open an acceleration of gains to fresh 2017 highs and into major longer-term resistance. Earlier today, China retail sales, GDP and industrial production all came in above forecast but have failed to have any material impact. Looking ahead, the calendar is quiet for the remainder of the day, with only US empire manufacturing standing out.

USDCAD – technical overview

There has been a clear shift in the outlook for this market over the past several days, with declines holding below 1.3000 and the market extending to fresh 2017 lows in the 1.2600s thus far. Technical studies are tracking in oversold territory, though a bounce may not come until the market retests the 2016 low at 1.2461. A break back above 1.3015 would be required to take the pressure off the downside.



- R2 1.2771 – 13Jul high – Strong
- R1 1.2700 – Figure – Medium
- S1 1.2640 – 17Jul/2017 low – Medium
- S2 1.2600 – Figure – Strong

USDCAD – fundamental overview

The Canadian Dollar surprised many last week, extending its 2017 run, rocketing to fresh highs, despite the market having already priced in the Bank of Canada's first hike in 7 years. Taking a page out of the Fed's book, the Bank of Canada downplayed subdued inflation, while communicating the economy had also adjusted to lower OIL prices. The central bank stopped short of offering more detailed insight on the path forward, leaving it up to data and macro developments, but despite all of this being telegraphed, there has been continued demand. A lot of this has to do with the contrasting developments out of the US, as highlighted by decidedly less hawkish comments from the Fed Chair and another soft run of US data. Looking ahead, Canada existing home sales and US empire manufacturing are the only notable standouts.

NZDUSD – technical overview

Despite an impressive rally in recent weeks, the market remains confined to a longer-term range, with strong resistance into the 0.7400-0.7500 area. As such, look for this most recent topside failure to produce a more pronounced bearish reversal taking the market back down towards the 2017 low in the 0.6800s. Only a clear break back above 0.7500 would compromise the outlook, while back below 0.7200 strengthens the bearish case.



- R2 0.7376 – 7Feb/2017 high – Strong
- R1 0.7350 – Mid-Figure – Medium
- S1 0.7247 – 13Jul low – Medium
- S2 0.7202 – 11Jul low – Strong

NZDUSD – fundamental overview

The New Zealand Dollar had been underperforming quite a bit before finally catching a strong bid in the latter portion of the previous week. Initially, it was Wednesday's decidedly less hawkish Yellen testimony that generated some demand for the Kiwi rate on the back of broad based US Dollar outflow. This was then followed up by a combination of impressive China trade data, a report showing cooling New Zealand house price inflation and another round of disappointing first tier data out of the US on Friday. The market has however stalled out for now just shy of the 2017 high, with some medium-term players looking to play a market that has been well capped into the current area. Monday's softer than previous Kiwi performance of services data and comments from RBNZ deputy governor Bascand that a lower Kiwi would help rebalance growth are helping those offers along. Looking ahead, the calendar is quiet for the remainder of the day, with only US empire manufacturing standing out.

US SPX 500 – technical overview

Any setbacks have been exceptionally mild thus far and at a minimum, a daily close back below 2400 would be required to take the immediate pressure off the topside, though only a break below 2320 would signal a meaningful shift in the structure. Until then, the market is capable of extending the record run towards the next measured move extension target at 2480 further up.



- R2 2480.00 – Measured Move – Strong
- R1 2464.00 – 14Jul/Record high – Medium
- S1 2403.00 – 31May low – Medium
- S2 2346.00 – 18May low – Strong

US SPX 500 – fundamental overview

The US equity market has done a good job proving it can hold up into any dip and can keep pushing to record highs as it focuses on rates staying lower for longer and the Fed continuing to underdeliver on forward guidance. Janet Yellen played right into the market's hand last week, when the Fed Chair's overall tone was quite a departure from recent messages since the June Fed meeting. Yellen was decidedly less hawkish, expressing upgraded concerns about low inflation, while also adding rates would only need to go a little higher before policy was at a neutral level. At this point, it might not be enough to completely remove hawkish prospects, though it's clearly inviting additional record high demand with hawks forced to reconsider their bets.

GOLD (SPOT) – technical overview

The market has come under intense pressure in recent weeks, though overall, continues to be very well supported on dips. The latest round of setbacks have held above 1200 and a break back above 1230 takes the immediate pressure off the downside, setting the stage for a bullish resumption towards 1300. Only below 1200 would compromise the constructive outlook.



- R2 1258.90 – 23Jun high – Strong
- R1 1232.90 – 14Jul high – Medium
- S1 1204.90 – 10Jul low – Medium
- S2 1195.00 – 10Mar low – Strong

GOLD (SPOT) – fundamental overview

Despite the latest sharp round of setbacks, 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 supported around 1200, 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 is adding 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, GOLD will hold up on risk off macro implications.

Feature – technical overview

USDZAR is showing signs of the formation of a meaningful base since bottoming out around 12.30 earlier this year. A recent push back above 13.00 strengthens this outlook and sets the stage for a continuation of gains towards next key resistance at 13.71 further up. Any setbacks should ideally be well supported ahead of 12.55, with only a break back below this level to negate the constructive outlook.



- R2 13.63 – 11Jul high – Strong
- R1 13.28 – 13Jul high – Medium
- S1 13.00 – Psychological – Medium
- S2 12.80 – 27Jun low – Strong

Feature – fundamental overview

The Rand finally got a break from all the political and economic turmoil that had been weighing on the currency in recent days, instead benefiting from a fresh wave of broad based US Dollar selling and demand for risk assets in the aftermath of last week's decidedly less hawkish Yellen testimony. Yellen's concerns about inflation and comments relating to rates only needing to go a little higher to get to neutral gave the market the green light to sell Dollars and buy back into emerging markets on the lower for longer Fed policy outlook implications. Meanwhile, there was some good news on the local front with South African mining production coming in much higher than expected, helping to keep the Rand recovery in play. Still, looking out, it's hard to be too dismissive of the South African political uncertainty, including a never ending string of Zuma corruption charges. Throw in persisting South African recessionary forces, yield differentials shifting in favor of the major central banks and the still looming prospect for a material reversal in elevated global equities and it all points to the greater risk for additional Rand weakness going forward.



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