

# Global FX Insights

by LMAX Exchange Research & Analytics

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

## Legitimacy of Dollar Recovery Put to Test [Wake-up Call](#)

We have seen a reversal of fortunes for the US Dollar this week, with the Buck trading higher across the board into this final day of trade. But it's a big final day and the outcome of the US monthly employment report will unquestionably play a significant role in determining the legitimacy of this Dollar comeback.

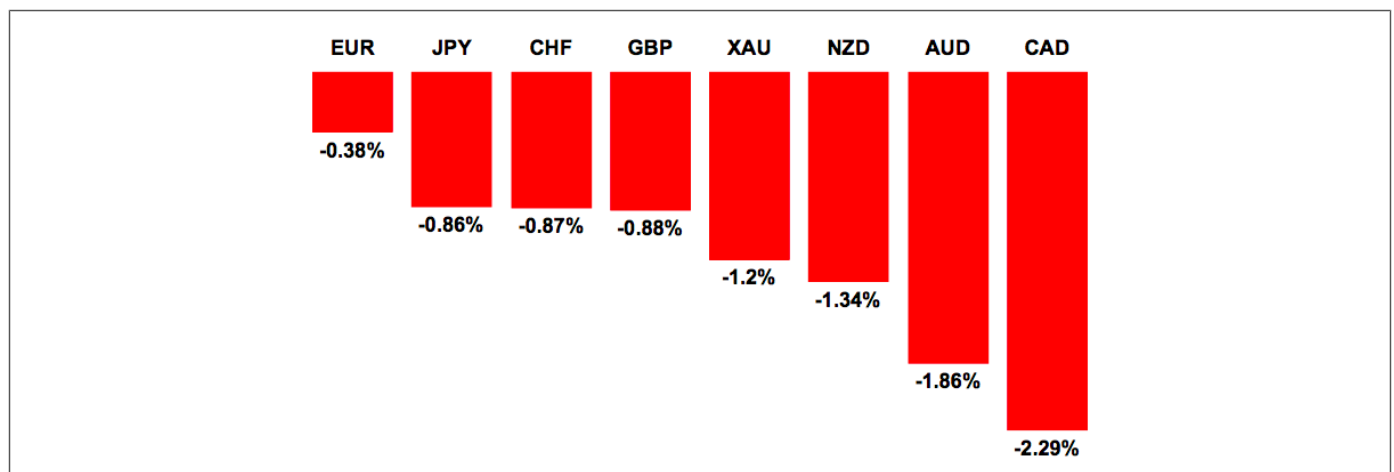
### Technical highlights [Daily Video](#)

- **EURUSD** Constructive despite setbacks
- **GBPUSD** Bearish while below 1.4800
- **USDJPY** Scope exists for a deeper drop
- **EURCHF** Clears key short term level
- **AUDUSD** Risk for extended declines
- **USDCAD** Above 1.2990 confirms base
- **NZDUSD** Closing in on 0.6759 support
- **US SPX 500** Below 2020 to accelerate
- **GOLD** (spot) Consolidates for next push
- **Feature** – USDSGD Upside break favoured

### Fundamental highlights

- **EURUSD** Goldman Sachs ups NFP projection
- **GBPUSD** Pound does good job shrugging soft PMIs
- **USDJPY** PM Abe warns against excessive volatility
- **EURCHF** Chatter of SNB action after Franc hit hard
- **AUDUSD** RBA dramatically lowers inflation outlook
- **USDCAD** Wildfire intensifies in oil sands region
- **NZDUSD** Aussie weakness fuels RBNZ cut speculation
- **US SPX 500** Investors brace for monthly employment
- **GOLD** (spot) Shaky environment welcomes metal bids
- **Feature** – USDSGD Risk markets exposed if US jobs beat

### Five day performance v. US dollar



### Suggested reading

- **G-7 Trading More Perilous Than Emerging Markets**, A. Wong, Bloomberg (May 5, 2016)
- **The Fed's Risky New Mandate**, A. Friedman, Project Syndicate (May 4, 2016)

## EURUSD – technical overview

An extended market finally relented this week after trading to a fresh 2016 high through 1.1600. Tuesday's sharp bearish reversal and inability to hold above 1.1500 suggests the major pair could be poised for additional weakness in the sessions ahead. Ultimately, the combination of major resistance in the 1.1500-1.1700 area and overbought studies, have opened the door for an overdue pullback. Still, a break below 1.1217 would be required to officially take the pressure off the topside.



- R2 1.1494 – 5May high – Strong
- R1 1.1465 – 12Apr high – Medium
- S1 1.1347 – 29Apr low – Medium
- S2 1.1297 – 28Apr low – Strong

## EURUSD – fundamental overview

A five week high in US jobless claims and less hawkish comments from Fed's Bullard and Lockhart were completely shrugged off on Thursday, with the Euro under intense pressure and extending declines off recent 2016 highs. It seems the lighter European holiday trading conditions and pre-event risk position squaring into today's US employment report, were the most likely drivers behind the price action. We didn't really get anything in the way of any new insights out from Thursday's ECB's economic bulletin, though perhaps the release helped to fuel existing bearish sentiment for the single currency. Goldman was also out Thursday upping its NFP projections while downplaying this week's disappointing ADP result, an additional source for Euro weakness and Dollar strength.

## GBPUSD – technical overview

Although the recent surge through key resistance at 1.4670 may suggest this market is getting ready to carve a more meaningful base, inability to establish a daily close above the level keeps the pressure on the downside. Tuesday's bearish outside day formation suggests we could be poised for additional setbacks in the sessions ahead.



- R2 1.4670 – Previous range high – Strong
- R1 1.4572 – 4May high – Strong
- S1 1.4444 – 5May low – Medium
- S2 1.4403 – 25Apr low – Strong

## GBPUSD – fundamental overview

The Pound has held up rather well into this latest round of setbacks when you consider the intense wave of liquidation in both the Euro and Franc on Thursday. While the other two major currencies shrugged off Dollar bearish news of higher US initial jobless claims and less hawkish Fed comments, the UK currency remained well supported on dips, closing out the day just off opening levels. Even more impressive is the resiliency in Cable despite a weak round of UK manufacturing, construction and services PMIs this week. A recession of Brexit risk is perhaps helping to offset bearish flow, though with plenty of time ahead of the referendum, scope exists for more choppy trade on this front. Looking ahead, the key focus for the remainder of the day will be on the release of the monthly employment report out of the US.

## USDJPY – technical overview

**Setbacks have accelerated**, with the market trading down through a measured move objective in the 106s and into the 105s, following the previous multi-day consolidation break. This puts the focus on the psychological barrier at 105.00. In the interim, look for the current corrective rally to be well capped ahead of 109.00, with only a break back above 111.89 to take the immediate pressure off the downside.



- R2 108.20 – 29Apr high – Strong
- R1 107.50 – 5May high – Medium
- S1 106.25 – 4May low – Medium
- S2 105.55 – 3May/2016 low – Strong

## USDJPY – fundamental overview

**Warnings from the Japanese Prime Minister** the administration will react to excessive Yen volatility or disorderly moves, seem to be helping to curb additional Yen appreciation for the moment. Meanwhile, Thursday's five week high US initial jobless claims and less hawkish comments from Fed's Bullard and Lockhart, both on the fence over June, have also helped to keep the Yen from pushing higher. Still, the currency remains sensitive to risk flow, and with equities under pressure, there could be more room for the Yen to extend short of an official Japanese response. Japan is back into the swing of things after the Golden Week holiday and the focus will now shift to the outcome of today's monthly employment report out of the US.

## EURCHF – technical overview

**Setbacks continue to be very well supported**, with the market turning back up in recent trade, clearing short-term resistance in the 1.1000 area. Look for a push back above 1.1063 to strengthen the constructive outlook and accelerate gains towards a retest of the 1.1200 multi-month high from February. Ultimately, only below 1.0800 would compromise the structure.



- R2 1.1096 – 8Feb high – Medium
- R1 1.1062 – 17Feb high – Strong
- S1 1.0995 – 5May low – Medium
- S2 1.0955 – 29Apr low – Strong

## EURCHF – fundamental overview

Many traders have assigned the latest recovery in the cross rate to SNB action that ultimately could have a very hard time supporting the market should risk sentiment continue to roll over. On Thursday, the Franc stood out as the clear underperformer. And yet, there have been signs of potential topping in equities markets and if this intensifies, it will invite renewed unwanted demand for the safe haven Franc. The SNB remains committed to a policy of weakening the Franc, but it will be interesting to see how the central bank's efforts fair in the face of further risk liquidation.

## AUDUSD – technical overview

An impressive run for this pair is finally stalling out after extending gains to fresh 2016 highs. The run had been looking stretched and this latest topside failure opens the door for additional weakness and a potential bearish resumption. Still, a daily close below the 100-Day SMA in the 0.7330 area would be required to strengthen this outlook and force a shift in the structure.



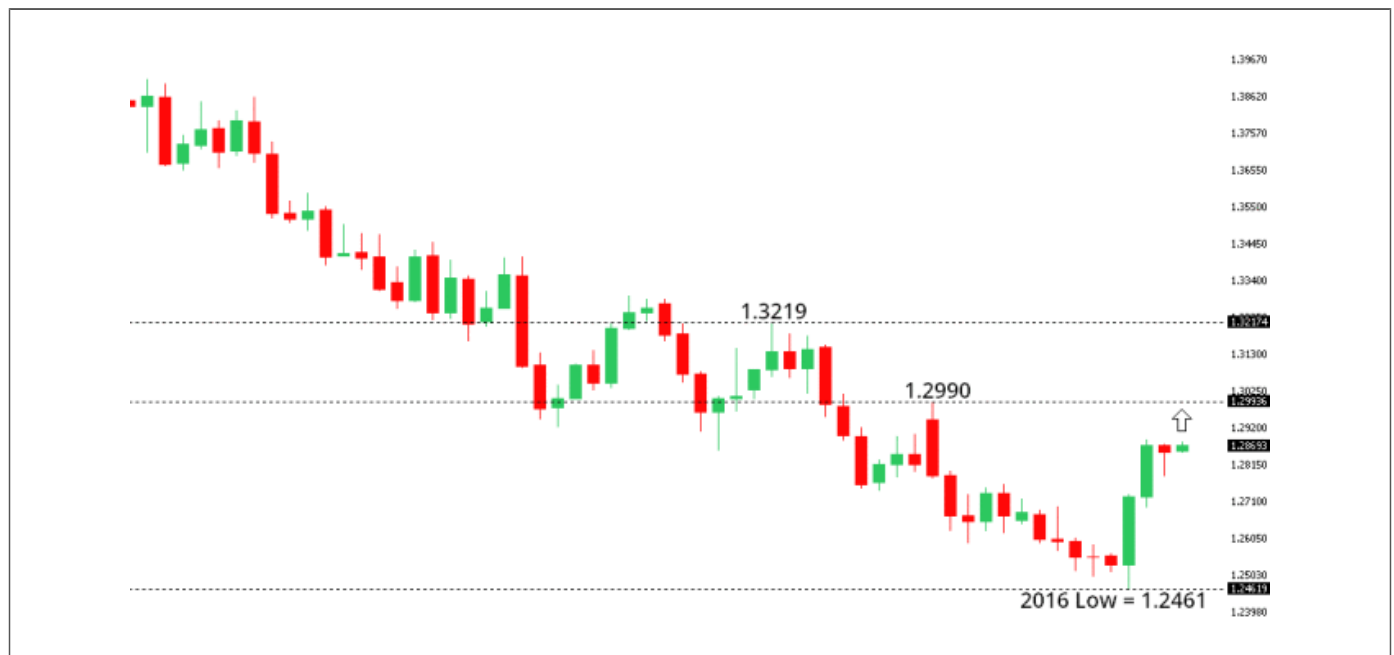
- R2 0.7517 – 4May high – Strong
- R1 0.7447 – 4May low – Medium
- S1 0.7330 – 100-Day SMA – Strong
- S2 0.7259 – 23Feb high – Strong

## AUDUSD – fundamental overview

It's been a tough go for the Australian Dollar these past several days. The currency had taken a big hit the other week on the revelation of super subdued inflation, which set the stage for further weakness after the RBA responded with a record low rate cut this week and a more dovish RBA SOMP earlier today. It now appears as though the door is wide open for additional rate cuts, given this latest dramatic lowering of the RBA's underlying inflation outlook. Looking ahead, the market will continue to digest the fallout from this wave of RBA dovishness, while also focusing on the release of the highly anticipated monthly employment report out of the US.

## USDCAD – technical overview

The market could finally be poised for a healthy corrective reversal after taking out barriers at 1.2500 and trading to a fresh 2016 low. Tuesday's impressive bullish outside day formation strengthens this prospect and opens the door for additional upside in the sessions ahead. Still, a break back above 1.2990 would be required to officially take the pressure off the downside.



- R2 1.2990 – 18Apr high – Strong
- R1 1.2900 – Figure – Medium
- S1 1.2786 – 5May low – Medium
- S2 1.2732 – 3May high – Strong

## USDCAD – fundamental overview

The Canadian Dollar was already reeling from this week's release of the largest deficit on record, and has come under additional pressure as the wildfire intensifies in Canada's oil sands region. The Canadian Dollar has been a clear underperformer as a result, with the Loonie now bracing for even more volatility ahead as it readies to digest the double whammy of monthly employment data out of Canada and the US later today.

## NZDUSD – technical overview

Despite recent gains to fresh 2016 highs, the market remains confined to a broader downtrend with rallies expected to continue to be well capped in the 0.7000s. Tuesday's topside failure and impressive bearish outside day formation strengthens this outlook, opening a deeper correction in the sessions ahead. Still, a break back below 0.6759 will be required to officially take the immediate pressure off the topside.



- R2 0.6941 – 4May high – Strong
- R1 0.6891 – 6May high – Medium
- S1 0.6807 – 27Apr low – Medium
- S2 0.6759 – 5Apr low – Strong

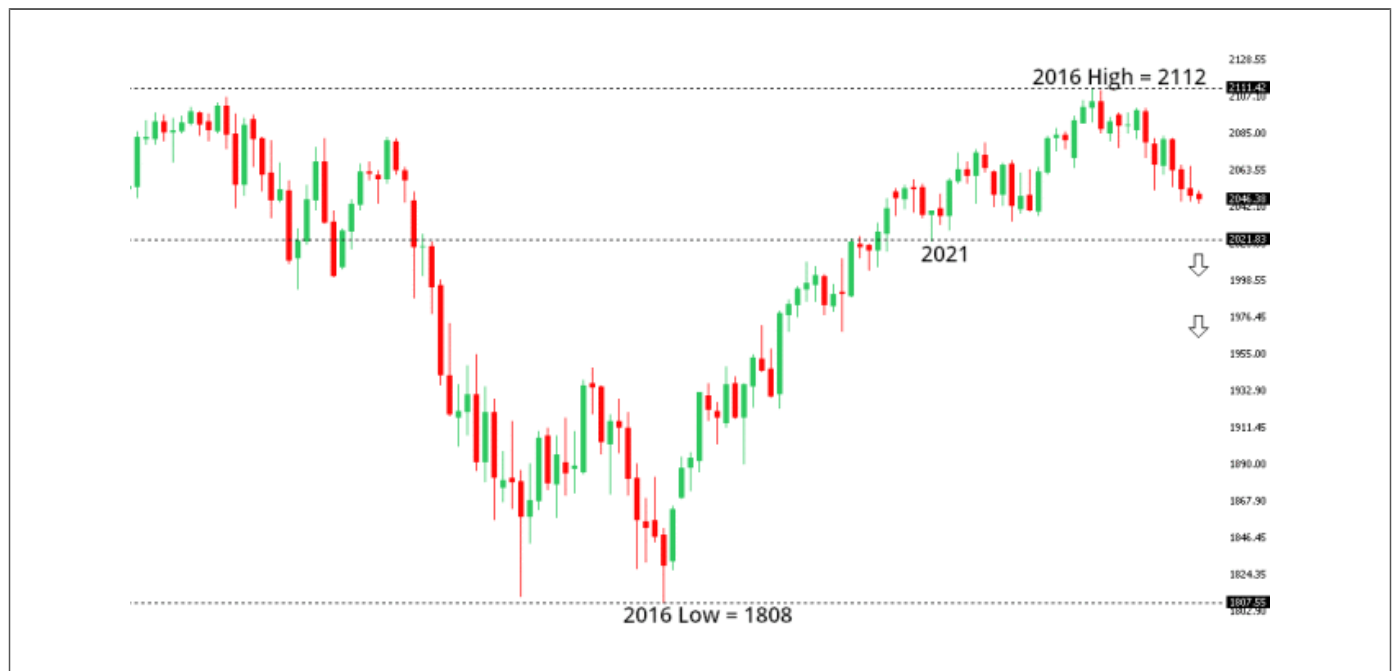
## NZDUSD – fundamental overview

**Weakness in the New Zealand Dollar** this week has been a function of a broader recovery in the US Dollar, disappointing GDT auction and setbacks in sympathy with the Australian Dollar. Tuesday's RBA cut and subsequent dramatic lowering of inflation forecasts earlier today, increases odds of a similar fate in New Zealand, with an expectation the RBNZ will need to follow up with another cut of its own when it next meets in June. Risk off trade also hasn't done anything to help Kiwi's cause. Looking ahead, the key standout on Friday's calendar comes in the form of the highly anticipated monthly employment report out of the US.



## US SPX 500 – technical overview

This latest multi-day rally is classified as corrective, with any additional upside expected to be well capped below 2100 on a weekly close basis in favour of the next major downside extension below 1800 and towards a measured move at 1500 further down. Look for a break back below 2021 to strengthen this outlook and accelerate declines. Ultimately, only a weekly close above 2100 will delay.



- R2 2112.00 – 20Apr/2016 high – Strong
- R1 2084.00 – 2May high – Medium
- S1 2033.00 – 7Apr low – Medium
- S2 2021.00 – 24Mar low – Strong

## US SPX 500 – fundamental overview

The stock market is once again looking vulnerable at lofty heights, with the 2016 rally continuing to feel like it has very little behind it. The fact that monetary policy is exhausted on a global scale is not something that should be a comfort to investors. Moreover, there is clearly a debate going on within the Fed and the case for slowing down the normalisation process may not be as much of a done deal as the market is pricing, something that could once again spook investors. The market will now be looking for more guidance from today's monthly employment report. Certainly another solid showing with a pickup in hourly earnings, will strengthen the case for additional rate hikes over the coming months, something that will not be well received by an investor base wanting the Fed to leave current free money policy in place.

## GOLD (SPOT) – technical overview

The market continues to show signs of a major structural shift, with the impressive recovery from the multi-year low in late 2015 at 1046, extending above the critical October 2015 peak at 1191. From here, any setbacks should be well supported, in favour of a higher low and the next major upside extension through medium-term resistance at 1307 and towards 1400 further up. Ultimately, only a weekly close back below 1191 would delay the newly adopted constructive outlook.



- R2 1307.00 – 22Jan/2015 high – Very Strong
- R1 1304.00 – 2May/2016 high – Medium
- S1 1265.10 – 29Apr low – Medium
- S2 1223.85 – 14Apr low – Strong

## GOLD (SPOT) – fundamental overview

Overall, GOLD has been very well supported in recent dips, with the yellow metal finding solid demand in 2016 on the back of fears over the limitations of exhausted monetary policy and extended global equities. Whether the US Dollar is bid is becoming less relevant, with risk sentiment likely to be the primary driver going forward. Renewed weakness on this front will continue to bolster the yellow metal. For now, the focus shifts to today's anticipated monthly employment report out of the US.

## Feature – technical overview

**USDSGD** finally looks poised to start thinking about turning back up after a period of intense correction from earlier this year. Overall, the structure remains constructive, with the most recent dip supported ahead of 1.3300. Look for a break and close back above 1.3668 over the coming sessions to strengthen the outlook. Ultimately, only a weekly close below 1.3300 would give reason for pause.



- R2 1.3668 – 14Apr high – Strong
- R1 1.3620 – 18Apr high – Medium
- S1 1.3505 – 4May low – Medium
- S2 1.3350 – 19Apr/2016 low – Strong

## Feature – fundamental overview

Scope for additional **Singapore Dollar upside** should be limited given recent MAS efforts and the prospect the central bank will step in to intervene in an effort to stem a further appreciation in the local currency. Meanwhile, with global equities starting to falter, this will put added strain on correlated emerging market FX, which ultimately should invite renewed downside pressure in the Singapore Dollar. Certainly this week's comments from many Fed officials open to a June rate hike, have not done anything to help the Singapore Dollar's cause. The market will now get ready to take in today's anticipated monthly employment report out of the US. Anything at or above expectation, will likely invite a fresh wave of Sing weakness on favourable US Dollar yield differentials and risk off flow resulting from the implication of higher rates in the US.



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