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GLOBAL FX STRATEGY | TECHNICAL ANALYSIS

Wednesday, February 19, 2020

- EURUSD looks oversold in the short run but its technical tone is very weak.
- USDJPY spike allows USD to test key resistance in the upper 110s.
- GBPUSD remains in consolidation mode; bullish potential intact.
- USDMXN trend reflects fading downside momentum, heightened correction risk.
- AUDUSD's inability to recover exposes market to more losses below 0.6660.
- USDCLP retains a positive technical undertone for a test of 802.50/804.50.

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Shaun Osborne
Chief FX Strategist
416.945.4538
shaun.osborne@scotiabank.com

Juan Manuel Herrera
FX Strategist
416.866.6781
juanmanuel.herrera@scotiabank.com

EURUSD losses have accelerated sharply over the past two weeks, extending weakness to the 1.08 area. EURUSD losses below support in the upper 1.08 area (Oct low and the 76.4% Fib retracement support from the 1.03/1.25 rally at 1.0866) lift the risk of an further decline in price to the 1.03/1.04 range in the next few months and certainly leave the 1.0865/90 range as a key barrier to any meaningful EUR improvement going forward. While trend oscillators had looked a little slack earlier in February, there is now a clear alignment of the DMI oscillators across the short, medium and longer term studies which should further limit the EUR's ability to recover and encourage the market to fade any sort of short-term rebound or consolidation. The one caveat to a pretty bleak technical picture for the EUR is the fact that spot does look very oversold. We suspect that rebounds to the mid/upper 1.08s may be about as much as the EUR can expect to achieve by way of a bounce in the near term.

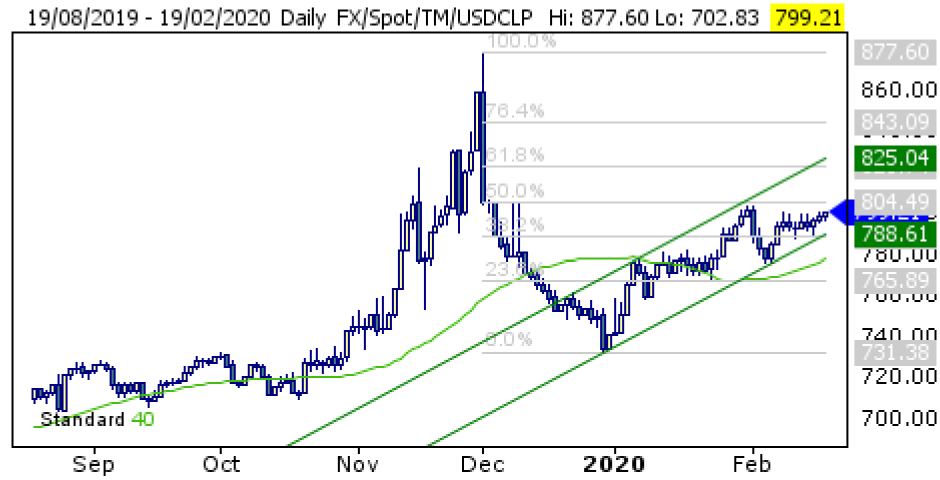
USDJPY retains a firm undertone though mid-February, following its rebound from the mid/upper 108s. We had been a little skeptical of the USD's ability to rally significantly amid weak-looking DMI oscillator signals and the sharp rise in the USD today to test the upper 110s notwithstanding, the situation here remains less than ideal, from our perspective. We think the USD's sudden burst of strength after a period of narrow range trading risks reversing in the short run, rather than extending further—primarily because new highs for the USD are not being matched by new highs for the Slow Stochastic oscillator at this point. A firm close on the week may be needed to drive more USD gains (channel ceiling at 112 on the radar now); otherwise, the USD risks slipping back to the upper 109s at least near term.

GBPUSD continues to consolidate above key short and medium-term support points between 1.2875/1.2925. Meanwhile, the 40-day MA (1.3052 currently) is curbing the pound's ability to rally. Trend signals are weak on the intraday and daily DMI oscillator while the weekly study remains bullish but is weakening. The underlying message from the oscillators supports the broader picture of range trading on the daily chart. The overall backdrop is still relatively constructive for the GBP in the longer run, we think; price is consolidating (potential bull flag or wedge interpretation) after an extended run higher and the initial, major retracement support (1.2921—38.2% of the H2 2019 rally) is holding up relatively well. GBP gains should resume above 1.3095. More sustained weakness becomes a greater risk on a clear push below the 1.2875/1.2925 support range.

USDMXN has traded sideways in effect over the past week or so, supporting our contention that peso gains may be running out of momentum after the USD's sustained slide from the 20.25 high reached last September. The weakening momentum behind the sell-off is reflected in the slack DMI signals on the daily and weekly charts as well as the descending wedge pattern (red lines) on the daily chart. We anticipate a range trade between 18.50/18.75 in the very short term but feel that gains through the upper trend line resistance (which coincides with the 40-day MA approximately currently) should see a more impulsive move higher in the USD towards 19.00/20 unfold.

AUDUSD's failed attempt to reverse from support in the upper 0.66 area earlier this month leaves the market looking precariously poised above the 0.6660/65. Moreover, trend signals remain bearishly aligned for the AUD across the short, medium and longer term studies, with the daily DMI oscillator showing signs of picking up again after the recent consolidation. The AUD's inability—so far, at least—to make more obvious progress from the 0.66/0.67 area opens the door for extended weakness towards the 0.60/61 area potentially in the next few months. Some relief for the AUD would come from a move back above minor trend at 0.6725. Safer ground more generally lies above 0.68 at this point but the situation on the trend oscillators leaves the near-term outlook for the AUD looking quite negative.

USDCLP retains a positive technical undertone. The USD has not been able to extend gains meaningfully over the past couple of weeks but the limited downside movement in this market and the persistent bid for the USD, allied with still bullishly-aligned trend oscillators, suggest that the main risk here remains tilted towards more USD gains in the short/medium term. We think the 802.50/804.50 area is key for the USD from here—where the 50% retracement and intraday high points from Dec and Feb converge. A clear move above 805 should see the USD progress towards 820/25 fairly quickly. Major support is 788/90.



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