Scotiabank.
Global FX Strategy

TECHNICAL ANALYSIS

Tuesday, June 28, 2022

Analyst Team

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

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

FOLLOW US ON TWITTER
@SCOTIABANKFX

Overview

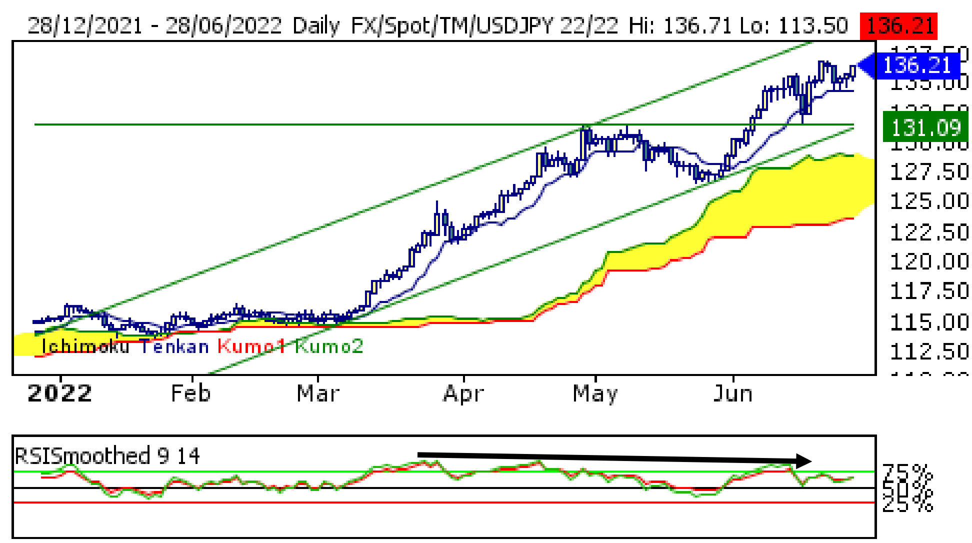
- EURUSD holds broad trading range above 1.0350.
- USDJPY gains resume but gains are starting to look stretched.
- GBPUSD capped by trend, MA resistance near 1.24.
- USDMXN rebound from major trend support test settles into range.
- EURCHF drop below 1.0223 support risks extending to the low 0.99 area.
- USDCLP rally looks overextended but shows no sign of relenting.

EURUSD

EURUSD has settled into a well-defined trading range bound by the mid-1.03 area and the late May/early June highs (note retracement resistance at 1.0789). More recently, the EUR's latest recovery from the mid-1.03 zone has been curbed by the 40-day MA near 1.06 and price action over the past week could spell some trouble for the EUR (rising wedge-like pattern) unless spot can move on to new, short-term cycle highs quickly. Weakness below 1.0450/60 would signal renewed pressure on the mid 1.03 zone for the EUR. Fortunately—for the EUR—short-term (intraday and daily) trend signals are neutral at the moment, which tends to suggest choppy range trading will persist a little longer and longer term (weekly) price signals imply solid support for the EUR on dips. Technical signals only turn more clearly EUR-supportive above 1.0790 at present, however.

USDJPY

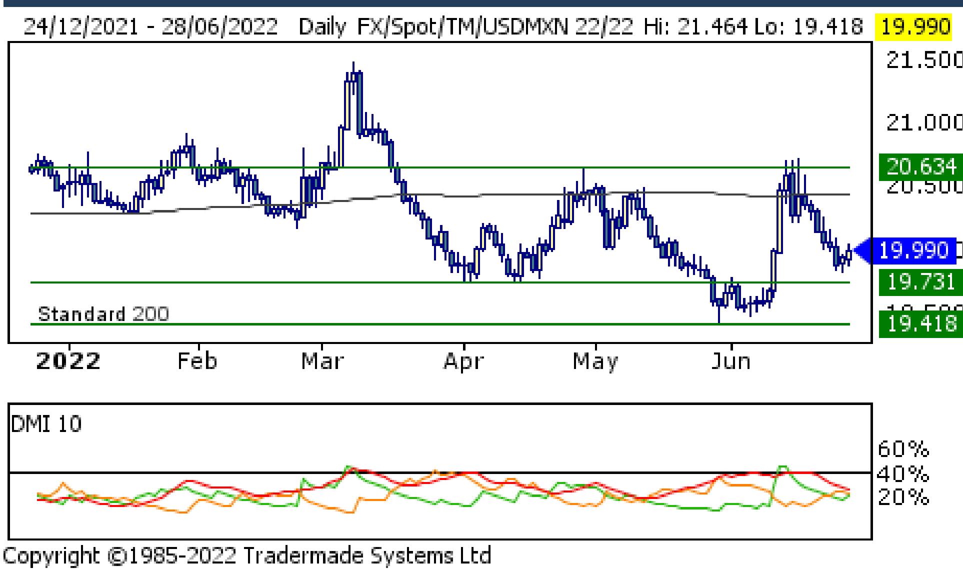
USDJPY's rally stumbled briefly last week, marking out a weekly 'spinning top" candle which typically denotes some indecision creeping into pricing. But USD gains have resumed—so far—this week and the underlying trend in the USD remains powerfully bullish, with DMI oscillators aligned in favour of the USD across the short, medium and long term DMI readings. Price signals give little hint that the USD rally is in any danger but we would highlight the fact that the daily RSI is not "confirming" the USD's latest gains and is starting the show a clear divergence with the steady rise in spot. This a classic warning sign that a market move is very stretched. We think it is wise to monitor price action carefully in the near term for signs that the USD rally is facing some corrective pressure at least. Key support remains distant at 131.10. Resistance is 140 and 147.



GBPUSD

GBPUSD retains a soft undertone. Spot failed to make any real headway through May or June and the downtrend persists (trend resistance at 1.2394), reinforced by the 40– and 21-day MAs. Sequentially lower lows and lower highs plus the bearish DMI readings on the daily and weekly DMI oscillators emphasize the broader downtrend here. Cable has found support around the mid/upper 1.21 area over the past week or so, however, and we note again that the weekly chart does reflect clear, technical signs of a longer run low/reversal forming earlier this month (bullish "hammer"). Still, the pound has its work cut out to rally through obvious MA and trend resistance just below 1.24

USDMXN



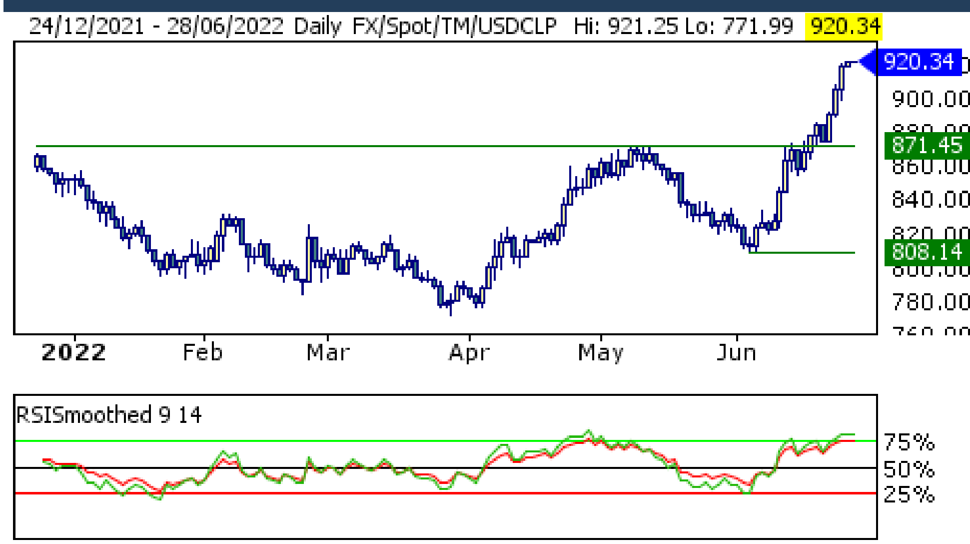
USDMXN's failure to extend losses below support in the 19.40/50 area through early June has prompted the USD to move back into a range. Trading looks neutral from a directional point of view at this stage. Solid USD (multi-year trend) support below the market at 19.50 now has been rejected but not forcefully, from our point of view. And, with USD gains struggling to better the 200-day MA (20.4250) and near the April peak through mid-June, downside risks have not been entirely erased, from our point of view. We are neutral here for now and look for more, wide range trading between 19.50/20.65.

Tuesday, June 28, 2022

EURCHF

EURCHF failed to progress through the low 1.05 area, as we had expected in our last update and instead firmly rejected the early May peak. The subsequent loss of support at 1.0223 signals a double top in play for the cross and that implies a little less than 300bps of potential losses from 1.0223 now over the course of the next 2-4 weeks (i.e., measured move risk to around 0.9930, or new cycle lows since the 2015 meltdown in the cross). The neckline trigger for the double top at 1.0223 now figures as key resistance. All else equal, a retest of this point is a selling opportunity from a technical perspective.

USDCLP



USDCLP's extension through major highs from 2020/21/22 in the 870/80 zone is showing no sign of relenting at this point. The USD looks overbought on the daily RSI but there are no clear signs from daily price action that the USD rally is poised to reverse at this point. The underlying trend higher retains strong momentum on the longer-term oscillators, which suggests that losses are liable to remain shallow and short-lived (and will likely base around 880/90). Gains may extend to the 950/60 range, based on extended channel lines stemming from the long-term rally in the USD.