

Lines in the Sand: Verbal intervention, politics and the law – a whipsaw?

23 August 2018, George Davis, CMT

Background

- In our last update, we presented **new technical targets** for the USD after a series of **bullish range breakouts** argued for further gains in the greenback (see *Lines in the Sand*, August 16 for details).
- We have received questions from clients this week asking if recent comments from Trump criticizing the Fed’s policy stance and pointing to China/Europe as possible currency manipulators may result in a **market whipsaw** just as legal challenges mount for POTUS.
- While we **don’t** believe that is the case yet, we feel that it is prudent to identify price levels that, if broken, would **nullify** the bullish backdrop for the USD (see pages 8, 11-12 and 13).
- We also present some intermarket relationships to watch in this regard as **market sensitivity** to intervention and legal risks **intensifies**.
- **Commodities** remain a focal cross asset influence for us – especially **gold** - along with **interest rate dynamics** (see pages 9-11, 13 and 14).

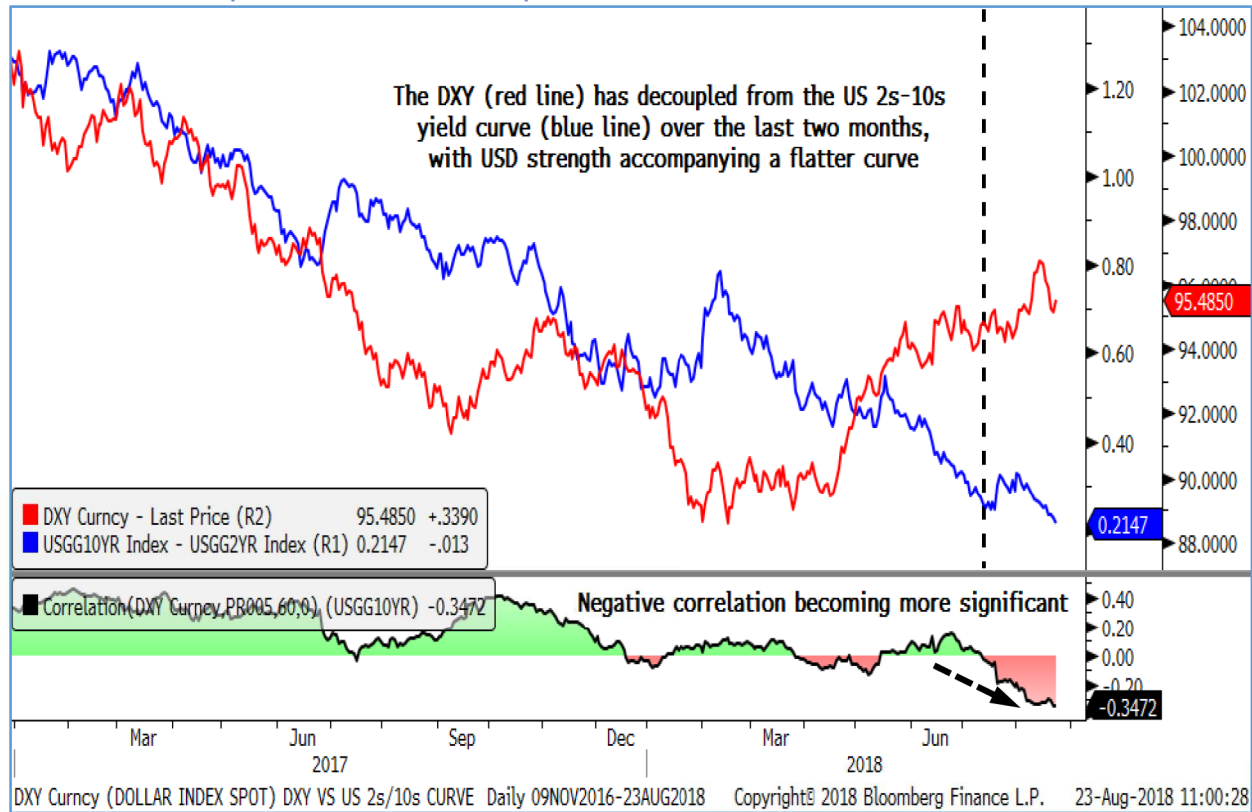
Exhibit 1: Inverted hammer pattern stalls DXY rally; support pivot at 94.73



Key Support & Resistance Levels:			
Support:	94.73	93.42	92.24
Resistance:	96.00	96.98	97.87

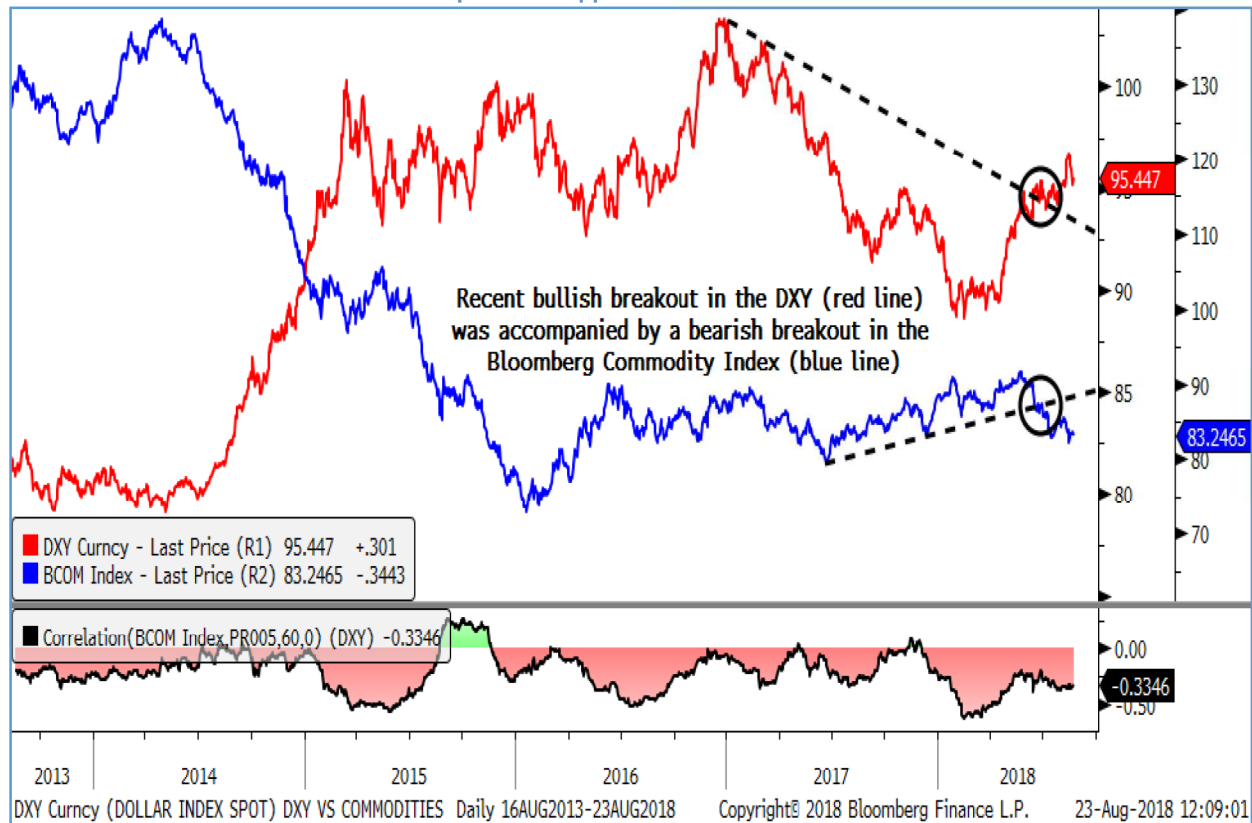
Source: Bloomberg, RBC Capital Markets

Exhibit 2: DXY decouples from US 2s-10s curve spread



Source: Bloomberg, RBC Capital Markets

Exhibit 3: Weaker commodities will be required to support the USD



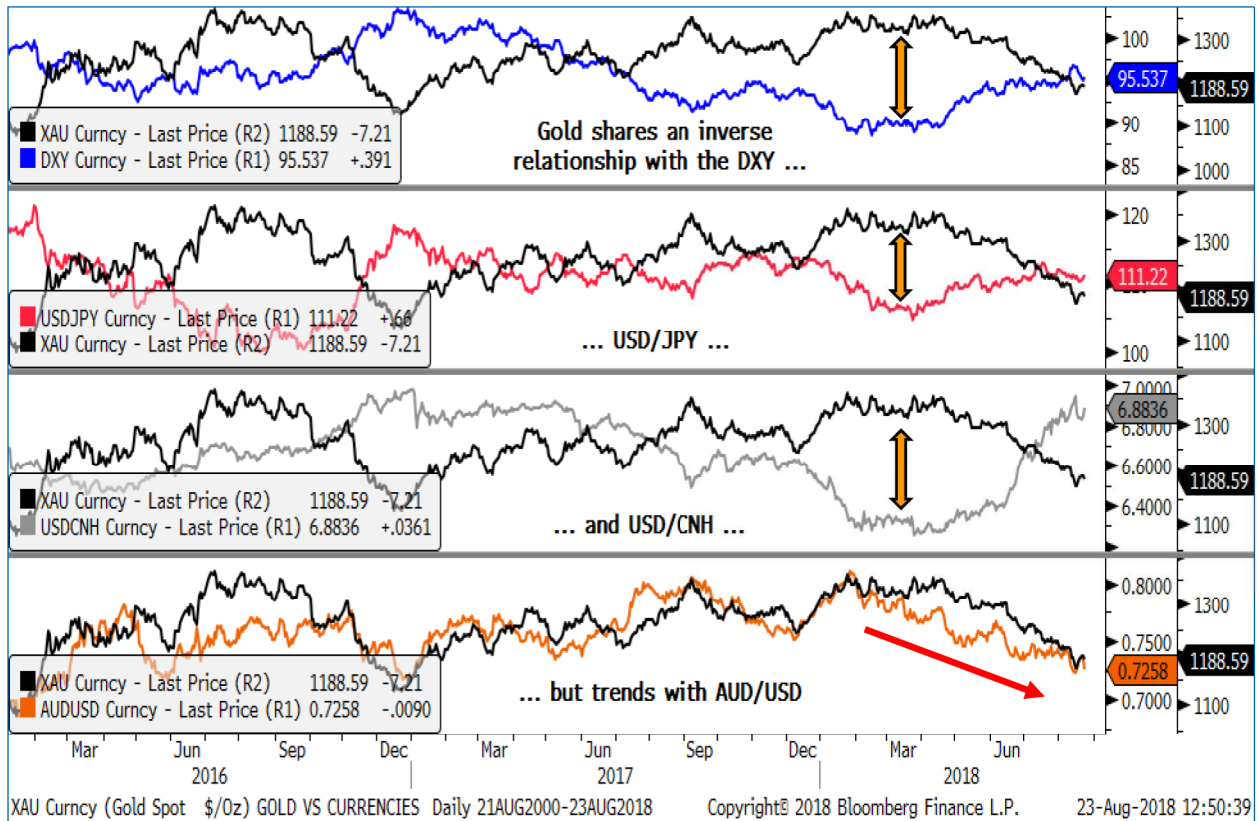
Source: Bloomberg, RBC Capital Markets

Exhibit 4: Watch the downtrend pivot for the Bloomberg Commodity Index at 84.42



Source: Bloomberg, RBC Capital Markets

Exhibit 5: Gold is a critical variable for a number of currencies



Source: Bloomberg, RBC Capital Markets

Exhibit 6: Key downtrend pivots in gold at 1197 and 1249 are relevant for USD bulls



Key Support & Resistance Levels:

Support:	1172	1157	1124
Resistance:	1197	1249	1266

Source: Bloomberg, RBC Capital Markets

Exhibit 7: Correction set to come to an end in USD/JPY



Key Support & Resistance Levels:

Support:	110.87	109.88	109.37
Resistance:	111.95	112.77	113.75

Source: Bloomberg, RBC Capital Markets

Exhibit 8: USD/CNH “correction” starts to lose some momentum



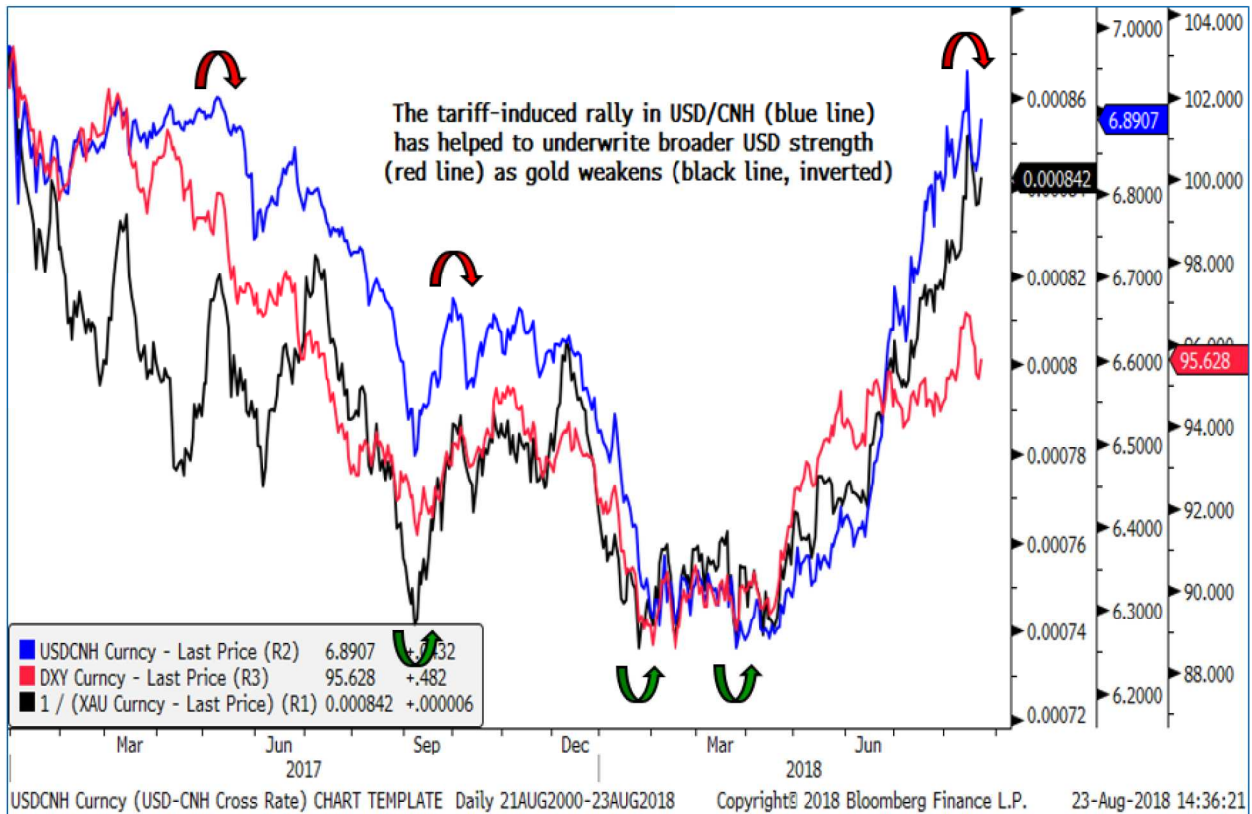
Source: Bloomberg, RBC Capital Markets

Exhibit 9: Channel top serves as key downtrend pivot for AUD/USD



Source: Bloomberg, RBC Capital Markets

Exhibit 10: The cross asset connection between gold, USD/CNH and broader USD strength



Source: Bloomberg, RBC Capital Markets

Exhibit 11: EUR/USD features a resistance pivot at 1.1674

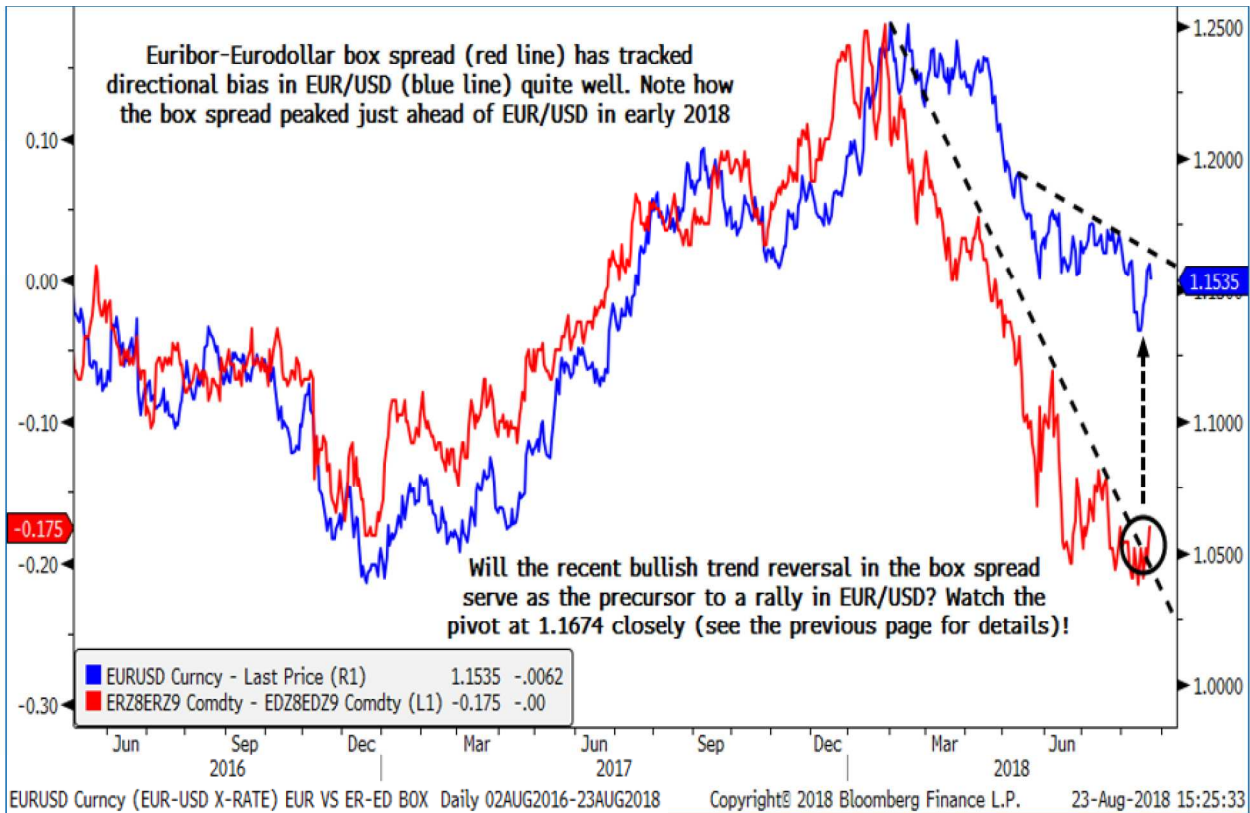


Key Support & Resistance Levels:

Support:	1.1487	1.1300	1.1187
Resistance:	1.1674	1.1830	1.1996

Source: Bloomberg, RBC Capital Markets

Exhibit 12: Trend reversal in Euribor-Eurodollar box spread flashes a critical warning signal



Source: Bloomberg, RBC Capital Markets

Exhibit 13: A close below 2.80 in US 10-year yields may erode USD support



Source: Bloomberg, RBC Capital Markets