

Wednesday, November 14, 2018

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Global FX Insights

by LMAX Exchange Research & Analytics

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The Pound will get a lot of attention on Wednesday as the UK cabinet soaks in the 500 pages of draft agreement that was reached between Theresa May and the EU. It hasn't been an easy go and how things unfold here will definitely play a part in shaping the Pound's direction. Plenty of data out as well including UK inflation reads.

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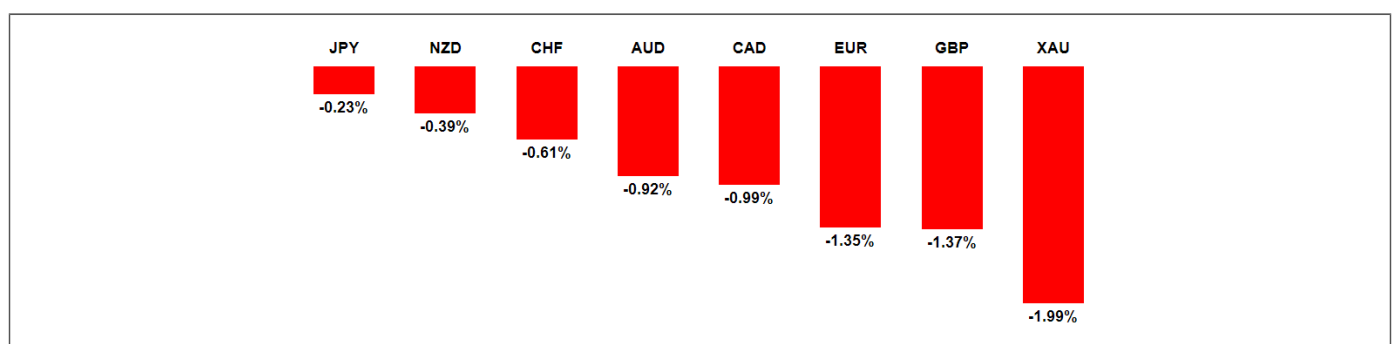
Technical highlights ▶ [Daily Video](#)

- [EURUSD](#) Waiting for clarity at in key area
- [GBPUSD](#) Signs of longer-term bottom
- [USDJPY](#) Still at risk for major pullback
- [EURCHF](#) No directional insight at moment
- [AUDUSD](#) Working its way off +2.5 year low
- [USDCAD](#) Studies tracking in neutral territory
- [NZDUSD](#) Into correction out from key low
- [US SPX 500](#) Looking for next lower top
- [GOLD](#) (spot) Slowly working to bullish break
- [BTCUSD](#) Closer to next volatility surge
- [ETHUSD](#) Stuck sideways for now

Fundamental highlights

- [EURUSD](#) Eurozone IP and growth data
- [GBPUSD](#) May meets with Cabinet, UK inflation
- [USDJPY](#) Still tracking with traditional forces
- [EURCHF](#) SNB staring at tough situation
- [AUDUSD](#) China data produces mixed readings
- [USDCAD](#) OIL declines a big worry for Loonie
- [NZDUSD](#) Kiwi shrugs off negative drivers
- [US SPX 500](#) Fed model showing change
- [GOLD](#) (spot) Plenty of institutional demand
- [BTCUSD](#) Bitcoin optimism offsetting drawbacks
- [ETHUSD](#) Eth looking at longer-term prospects

5-Day Performance v. US dollar

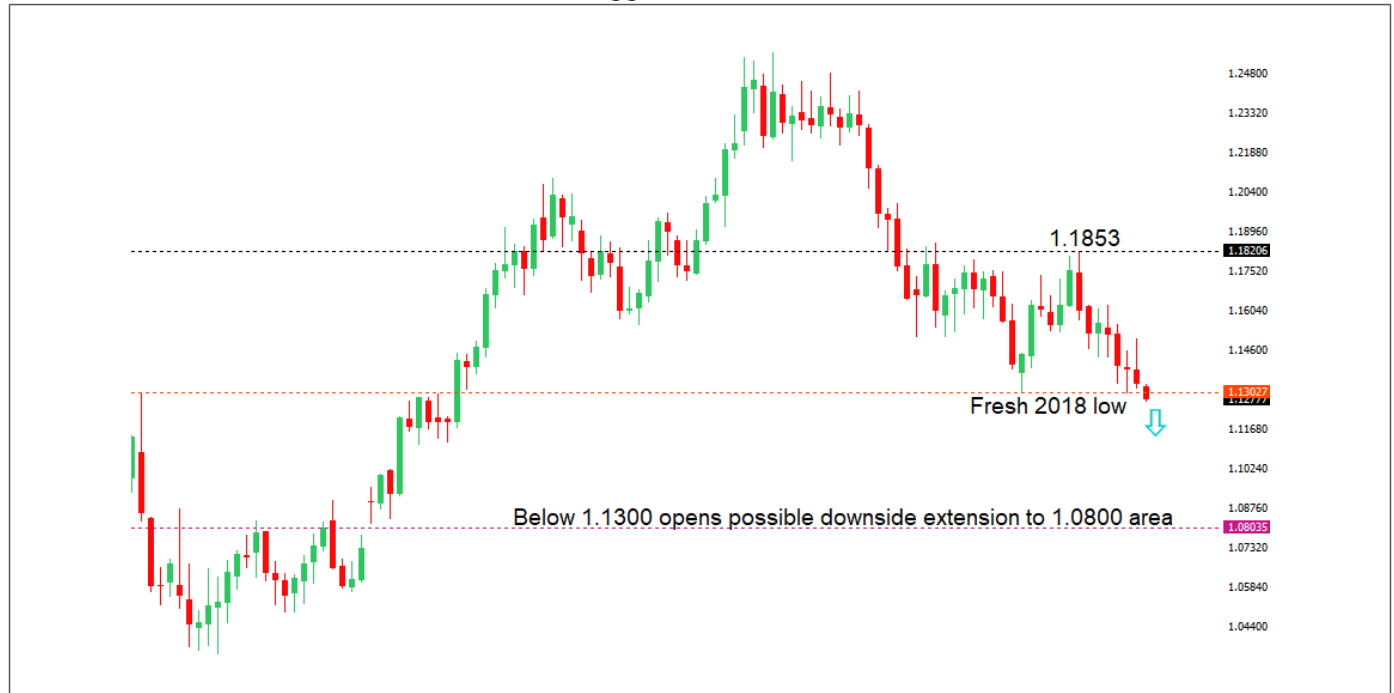


Suggested reading

- [Credit Markets Are Bracing for Something Bad](#), R. Burgess, **Bloomberg** (November 13, 2018)
- [Multiple Root Problems Behind Italy's Economic Woes](#), J. Han, **FT** (November 13, 2018)

EURUSD - technical overview

The Euro sits at a critical inflection point right now, trying to figure out whether it wants to hold up into dips for the start to a resumption of that bullish breakout from back in 2017 that led to a +3 year high earlier this year, or if it wants to keep extending this run of declines. A lot of this will hinge on how the market trades around 1.1300 in the sessions ahead. Any sustained break below 1.1300 could open another downside extension that targets the 1.0800 area. But if the market can hold up above 1.1300 on a daily close basis, we could see the start to a much bigger bullish move.



- **R2 1.1369** - 9Nov high - Medium
- **R1 1.1331** - 12Nov high - Medium
- **S1 1.1216**- 12Nov/**2018 low** - Medium
- **S2 1.1200** - Figure - Strong

EURUSD - fundamental overview

Italy submitted a revised draft budget for the year ahead that maintains its 1.5% growth target and a budget deficit of 2.4% of GDP for 2019, which is what Italian officials said they would be doing despite calls for adjustments at the request of the European commission. Overall, the US Dollar has come off after a strong start to the week that had the Euro sinking to a fresh 2018 low. Data out on Wednesday includes German GDP, Eurozone industrial production and GDP and US CPI. Updates on Brexit and Italy will also be monitored.

EURUSD - Technical charts in detail

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GBPUSD - technical overview

On a medium to longer term basis, the outlook is still looking constructive off the +30 year low from 2016, with a higher low sought ahead of the next major upside extension back towards and through the current 2018 high. Right now, the major pair will need to hold up into the latest round of setbacks, ideally above 1.2800 on a daily close basis, and push back through critical resistance in the form of the September high at 1.3300 if it wants to strengthen bullish prospects.



- **R2 1.3100** - Figure - Medium
- **R1 1.3048** - 13Nov high - Strong
- **S1 1.2828** - 12Nov low - Medium
- **S2 1.2761** - 1Nov low - Strong

GBPUSD - fundamental overview

The Pound will get a lot of attention today, as the UK cabinet soaks in the 500 pages of draft agreement that was reached between Theresa May and the EU. It hasn't been an easy go with Brexit and how things unfold today will definitely play a part in shaping the Pound's direction. There is a full Cabinet meeting scheduled at 14:00 London time. Economic data should not be forgotten either, with some important inflation reads out also, in the form of consumer and producer prices.

GBPUSD - Technical charts in detail

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USDJPY - technical overview

Rallies continue to be very well capped on a medium-term basis, with the outlook still favouring lower tops and lower lows. Look for yet another topside failure ahead of 114.00, in favour of the next major downside extension towards key support around 109.75. Ultimately, only a break back above 114.75 would negate the bearish outlook.



- **R2 114.56** - 5Oct high - Strong
- **R1 114.22** - 12Nov high - Medium
- **S1 113.48** - 8Nov low - Medium
- **S2 112.95** - 7Nov low - Strong

USDJPY - fundamental overview

Most of the price action in the major pair has been about broad based US Dollar demand on the attractive yield differentials, as the Fed pushes forward with policy normalisation. Of course, another major driver here is risk sentiment and in 2018, with US equities still tracking close to record highs, this has also helped to inspire the demand we've seen since the major pair bottomed out in March. At the same time, there has been some selling in the stock market in recent weeks and if this latest attempt to recover falls short ahead of another downturn, we could quickly see a resurgence in Yen demand. The market will also need to keep an eye on US trade policy in the aftermath of the midterm elections. If the Dems are able to slow the administration down, it could lead to more USD support. If however the administration is still able to push ahead, this could invite a round of profit taking on USD longs. Looking ahead, US CPI is the main standout on the calendar for the remainder of the day.

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EURCHF - technical overview

The market has been in the process of recovering out from a 2018 low coinciding with critical support in the 1.1200 area. However, at this stage, there is no clear directional bias, with the price action deferring to a neutral state. Back above 1.1560 would get some bullish momentum going for a push to 1.2000, while back below 1.1200 would be quite bearish.



- **R2 1.1560**- 8Aug high - Strong
- **R1 1.1502** - 22Oct high - Medium
- **S1 1.1313** - 27Sep low- Medium
- **S2 1.1224**- 18Sep low - Strong

EURCHF - fundamental overview

The SNB remains uncomfortable with Franc appreciation and continues to remind the market it will need to be careful about any attempts at trying to force an appreciation in the currency. But the SNB will also need to be careful right now, as its strategy to weaken the Franc is facing headwinds from a less certain global outlook. Any signs of sustained risk liquidation between now and year end, will likely invite a very large wave of demand for the Franc that will put the SNB in the more challenging position of needing to back up its talk with action, that ultimately, may not prove to be as effective as it once was, given where we're at in the monetary policy cycle.

AUDUSD - technical overview

Technical studies are stretched on a medium term basis, though the market has been unable to make any meaningful recoveries out from its lowest levels since February 2016. At this stage, the market will need to establish back above 0.7316 to take the immediate pressure off the downside. Until then, risk remains for fresh downside below the 0.7000 psychological barrier, which defends against a retest of the 2016 low down at 0.6830.



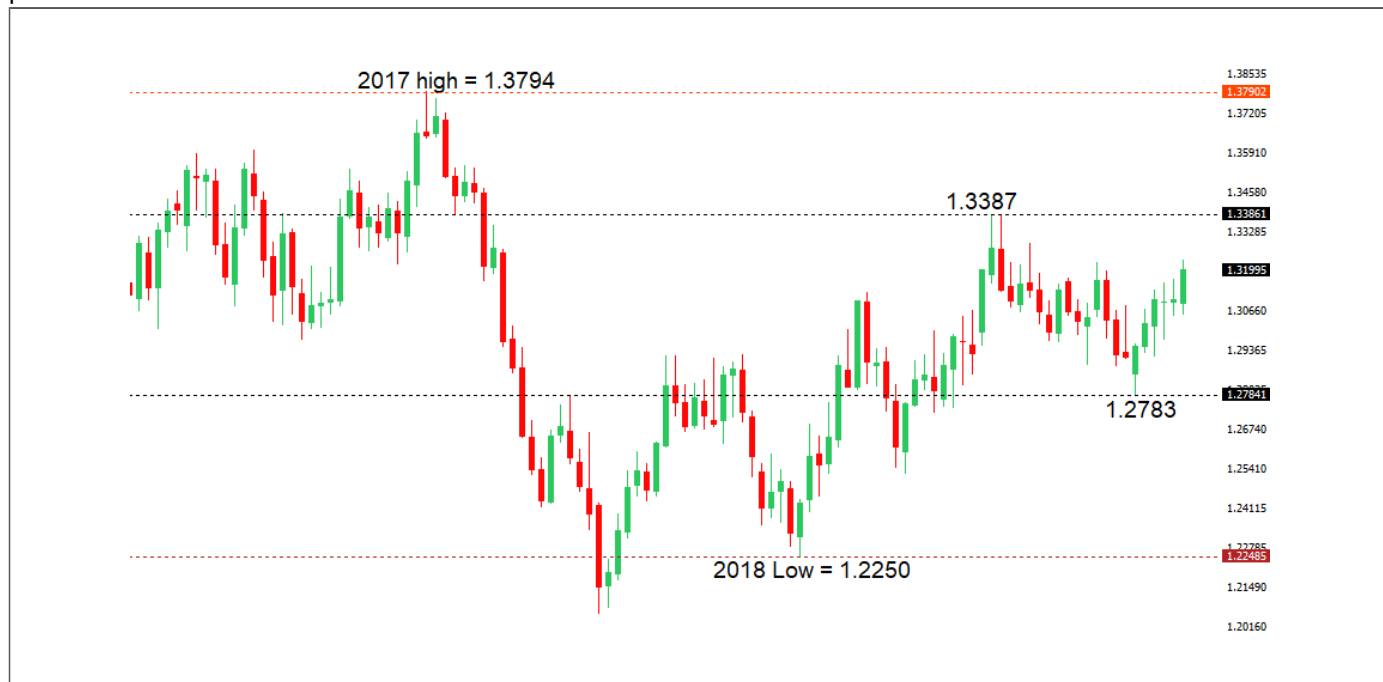
- **R2 0.7316** - 26Sep high - Strong
- **R1 0.7303** - 8Nov high - Medium
- **S1 0.7200** - Figure - Medium
- **S2 0.7160** - 17Oct high - Medium

AUDUSD - fundamental overview

Overall, a lot of what happens here will likely hinge on the outlook for global trade and risk sentiment. Economic data out of Australia has been better of late, which has helped to rally Aussie out from a +2.5 year low against the Buck, though Aussie will continue to face headwinds from yield differentials that favour the US Dollar and flight to safety bids that also work in the Buck's favour. Today's China data hasn't factored into price action, with the results offsetting after retail sales were a miss, but industrial production came in above forecast on the headline. Looking ahead, US CPI is the key standout on the calendar for the remainder of the day.

USDCAD - technical overview

The market has been consistently sold into rallies since topping out in June, which could still invite a deeper decline before the next upside extension gets underway. Still, look for any weakness to be well supported ahead of 1.2500 with only a break back below this psychological barrier to negate the bigger picture constructive outlook.



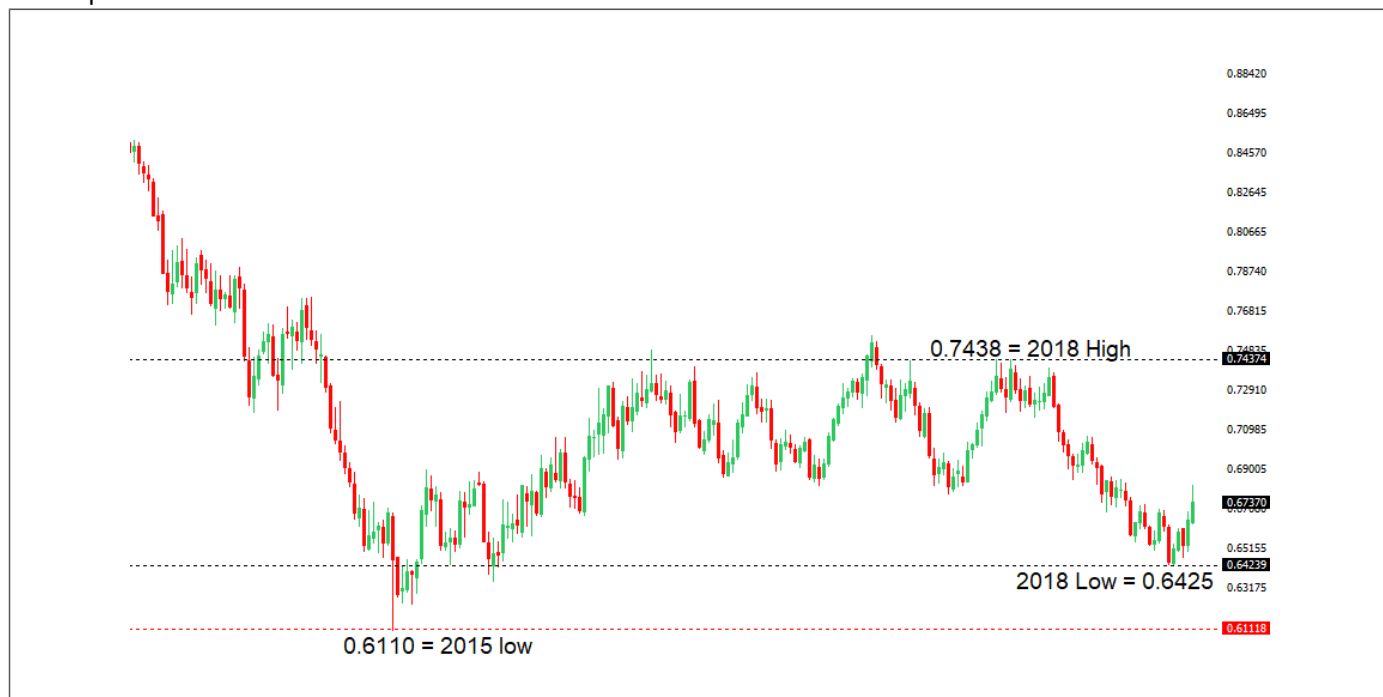
- **R2 1.3291** - 20Jul high - Strong
- **R1 1.3264** - 13Nov high - Medium
- **S1 1.3088** - 8Nov low- Medium
- **S2 1.3049** - 2Nov low - Strong

USDCAD - fundamental overview

The Canadian Dollar has taken some hits over the past week and it hasn't been all about broad based demand for the US Dollar either. The collapse in the price of OIL off the 2018 high has been turning heads, with the commodity down over 25% since topping out in early October. A market that was very worried about supply back in October, has been reconsidering this view as data shows more than thought. As far as the calendar goes, absence of first tier data out of Canada will leave the Tuesday focus on OIL prices, risk sentiment and US CPI readings.

NZDUSD - technical overview

The market has been in the process of recovering out from +2.5 year lows and is looking to extend the correction following the latest break back above consolidation resistance around 0.6725. This sets the stage for a push that could extend back towards the psychological barrier at 0.7000 before the market considers the legitimacy of the recovery and prospect for a more significant bullish structural shift or bearish resumption.



- **R2 0.6860** - 9Jul high - Strong
- **R1 0.6818** - 7Nov high - Medium
- **S1 0.6713** - 7Nov low - Medium
- **S2 0.6633** - 5Nov low - Strong

NZDUSD - fundamental overview

Despite some recent demand and outperformance against its commodity currency cousins, the outlook for risk markets is still very much in question, as the weight of Fed policy normalisation starts to resonate with investors, and global trade uncertainty still hangs around in the background. Kiwi has managed to shrug off some softer data earlier in the week and renewed downside pressure in stocks, but this outperformance shouldn't continue if risk sentiment deteriorates further. Looking ahead, US CPI is the main standout on the docket.

US SPX 500 - technical overview

A market that has been extended on the monthly chart is at risk for a major correction, with the possibility for a massive topping formation. Any rallies should now continue to be very well capped ahead of 3000, in favour of renewed weakness back below the 2530 area yearly low (neckline) and towards a retest of strong longer-term resistance turned support in the form of the 2015 high at 2140. Only a weekly close above 3000 would negate the outlook.



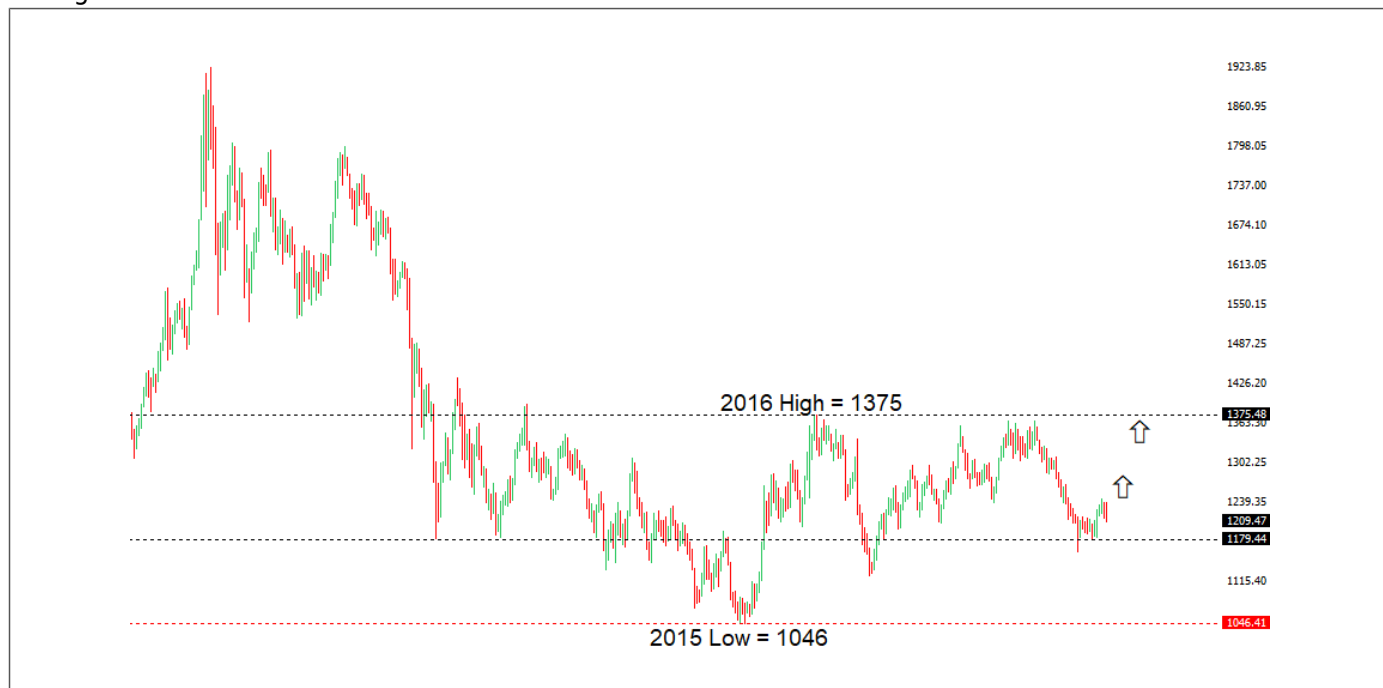
- **R2 2824** - 17Oct high - Strong
- **R1 2800** - Figure - Medium
- **S1 2603** - 29Oct low - Strong
- **S2 2594** - 3May low - Medium

US SPX 500 - fundamental overview

Investor immunity to downside risk is not as strong these days. The combination of Fed policy normalisation, US protectionism, ongoing White House drama and geopolitical tension are all warning of capitulation ahead, despite this latest run to record highs. The Fed has also finally acknowledged inflation no longer running below target in 2018, something that could very well result in even less attractive equity market valuations given the implication on rates. We recommend keeping a much closer eye on the equities to ten year yield comparative going forward, as this could be something that inspires a more aggressive decline in the fourth quarter.

GOLD (SPOT) - technical overview

The market has been showing signs of wanting to turn back up after establishing back above the daily Ichimoku chart. There are also signs that we could be seeing the formation of a more significant medium to longer-term structural shift that would be confirmed if this latest recovery can extend back through big resistance in the form of the 2016 high at 1375. Look for setbacks to be well supported ahead of 1200, with only a close back below 1150 to compromise the constructive outlook. A daily close above 1250 will strengthen the outlook.



- **R2 1266** - 9Jul high - Strong
- **R1 1244** - 26Oct high - Medium
- **S1 1196** - 13Nov low - Medium
- **S2 1160** - 16Aug/2018 low - Strong

GOLD (SPOT) - fundamental overview

The yellow metal continues to be well supported on dips with solid demand from medium and longer-term accounts. These players are more concerned about exhausted monetary policy, extended global equities, political uncertainty, systemic risk and trade war threats. All of this should keep the commodity well supported, 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.

BTCUSD - technical overview

Considering the intensity of declines already seen this year, if the market does break to the topside, it could be a bullish signal that gets the trend moving up again. But we would need to see a break above the July lower top at around 8,500 for confirmation. Until then, a bearish continuation back towards the September 2017 low around 2,975 can not be ruled out.



- **R2 7,000** - Psychological - Strong
- **R1 6,648** - 21Oct high - Medium
- **S1 6,213** - 12Oct low -Medium
- **S2 6,000** - Psychological - Strong

BTCUSD - fundamental overview

Overall, Bitcoin is doing its best to try and hold up above \$6,000 in 2018 after undergoing a massive decline off the record high from December 2017. At the moment, the market has found some stability around the \$6,000 barrier, with buyers stepping in on the view that the regulatory challenges will eventually work themselves out, leaving a very bullish picture for a technology with tremendous potential and increasing adoption. Still, there has been concern in the shorter-term on account of regulatory challenges in the space and downside pressure in global equities.

BTCUSD - Technical charts in detail

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ETHUSD - technical overview

The market remains under pressure in 2018, extending its run of intense declines to fresh 2018 lows. Medium term studies are however stretched, which could warn of the start to a recovery. Still, it would take a break back above 255 right now to take the pressure off the downside and suggest that the market could be starting to turn bullish again.



- **R2 321** - 18Aug high - Strong
- **R1 255** - 22Sep high - Medium
- **S1 188** - 12Oct low - Medium
- **S2 165** - 12Sep/2018 low - Strong

ETHUSD - fundamental overview

Overall, we've seen quite a bit of weakness in the price of Ether in 2018 and there's still legitimate risk for deeper setbacks, given technical hurdles within the protocol, ongoing regulatory challenges and a global macro backdrop exposing risk correlated projects on the Ethereum blockchain. Monetary policy normalisations around the globe and an anticipated reduction in global risk appetite are placing a tremendous strain on ERC20 projects that have yet to even produce proper use cases and proof of concept. At the same time, longer term prospects are looking quite bright and after a drop of well over 70% off the record high, the market is starting to find some stability.



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