

Tuesday, December 11, 2018

Get Global FX Insights via email - [click here](#)



# Global FX Insights

by LMAX Exchange Research & Analytics

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

## The Pound Has Held Up Quite Well Considering [Wake-up call](#)

The Pound has been front and centre in the world of FX this week, as the Brexit story works towards that next turn in the road. At the moment, the market sees one turn that will drive the currency off a cliff and another turn that takes the currency on a road to recovery. UK employment, Eurozone and German ZEW and US producer prices ahead.

[audio mp3="https://lemeaex2.files.wordpress.com/2018/12/11declmaxaudio.mp3"][/audio]

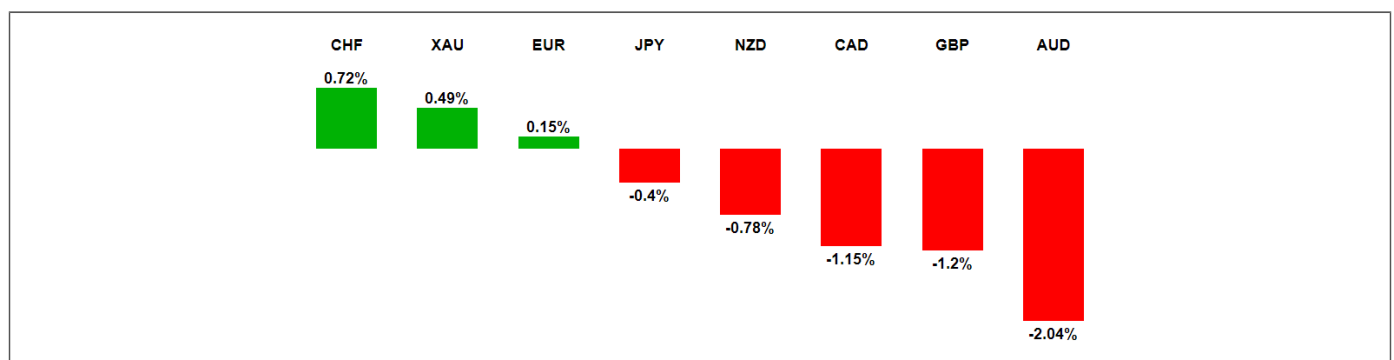
### Technical highlights [Daily Video](#)

- [EURUSD](#) Possible inverse H&S formation
- [GBPUSD](#) Setbacks classified as corrective
- [USDJPY](#) Risk for another topside failure
- [EURCHF](#) No directional insight at moment
- [AUDUSD](#) Setbacks could be supported
- [USDCAD](#) Well offered into resistance
- [NZDUSD](#) Stalls out ahead of key barrier
- [US SPX 500](#) Room for much larger drop
- [GOLD](#) (spot) Slowly working to bullish break
- [BTCUSD](#) Eyes September 2017 low
- [ETHUSD](#) Extension target at 75

### Fundamental highlights

- [EURUSD](#) Eurozone and German ZEW prints
- [GBPUSD](#) Pound slides on vote delay news
- [USDJPY](#) Yen direction linked to major themes
- [EURCHF](#) SNB resistant to demand for Franc
- [AUDUSD](#) Aussie gets help from USD outflow
- [USDCAD](#) Loonie struggling from slumping OIL
- [NZDUSD](#) Kiwi boosted on yield differentials
- [US SPX 500](#) Fed model front and centre
- [GOLD](#) (spot) Plenty of institutional demand
- [BTCUSD](#) Bitcoin vulnerable in current backdrop
- [ETHUSD](#) Eth exposed to global downturn

## 5-Day Performance v. US dollar

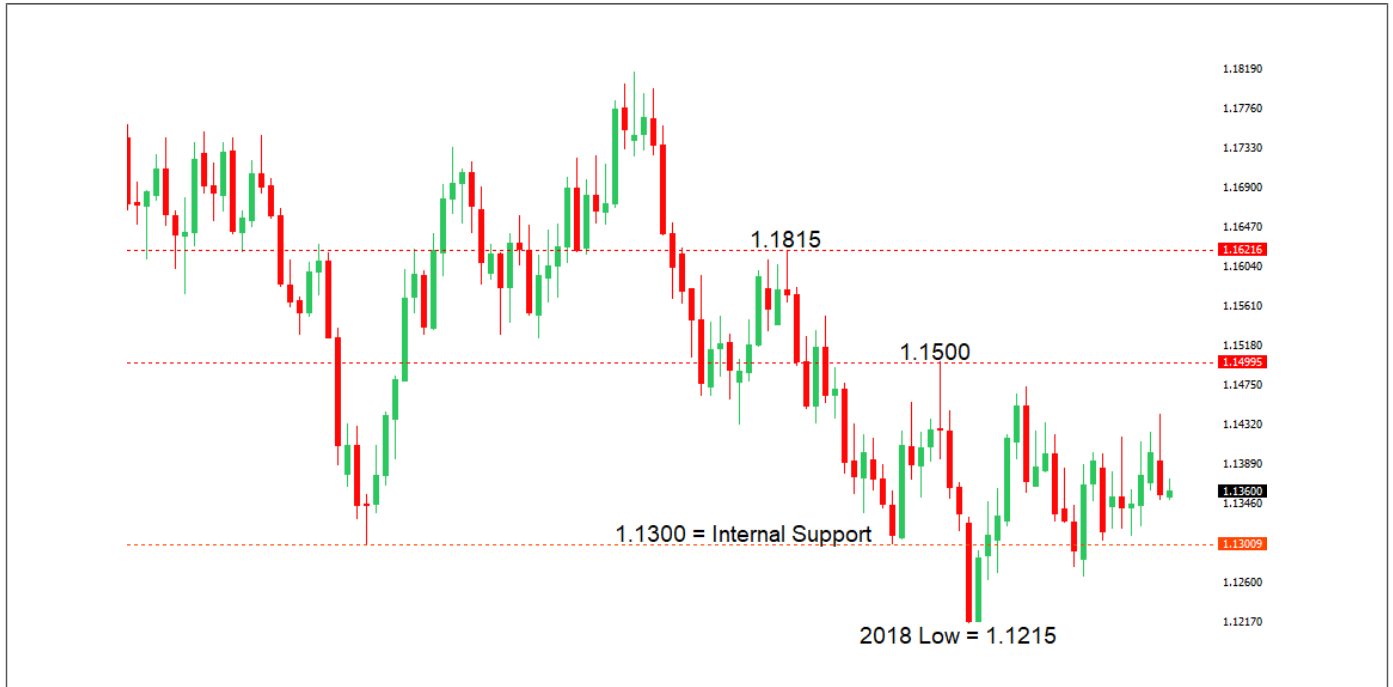


## Suggested reading

- [Hedge Fund Returns Aren't As Bad As They Appear](#), A. Brown, **Bloomberg** (December 7, 2018)
- [Why Economists think UK will be Poorer after Leaving EU](#), C. Giles, **Financial Times** (December 10, 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 in the sessions ahead. If the major pair can hold up above 1.1268 and push through 1.1473, it sets the stage for a bigger bullish move ahead. If however the market breaks back down below 1.1268, it will open the door for a retest of the 2018 low, below which exposes the possibility for an extension all the way down to 1.0800.



- **R2 1.1500** - 7Dec high - Strong
- **R1 1.1473** - 20Nov high - Medium
- **S1 1.1306**- 30Nov low - Medium
- **S2 1.1268** - 28Nov low - Strong

# EURUSD - fundamental overview

The Euro came under some pressure on Monday, with fallout from the latest setbacks on Brexit likely infecting the single currency. As much as the UK will suffer from more uncertainty if a deal is not reached, the Eurozone will also fall victim to a disorderly Brexit outcome and a prolonged period of uncertainty. Of course, the EU is also monitoring the drama in France and ongoing saga in Italy, while Eurozone investor confidence readings just came in with a big miss to the downside. All of this could serve as motivation for the EU to help the process along with the UK, so that Theresa May can get back to her government with a better deal. Looking ahead, we get German and Eurozone ZEW prints, followed by US producer prices.

# EURUSD - Technical charts in detail

# GBPUSD - technical overview

The latest breakdown below 1.2660 has opened the door for a bearish continuation that could ultimately invite a retest of the +30 year low from October 2016 at 1.1840. However, at this stage, we still view the pullback in 2018 as a correction within a developing uptrend off the 2016 low and will be looking for a higher low to carve out well ahead of 1.1840, in favour of a push back to the topside. For this to play out, the market will ideally need to hold above some meaningful support in the 1.2300s. Below 1.2500 would expose the 78.6% fib retrace off the major 2016 high to low move, which comes in at 1.2385. A break back above 1.2760 will now be required to take the immediate pressure off the downside.



- **R2 1.2850** - 29Nov high - Strong
- **R1 1.2760** - 10Dec high - Medium
- **S1 1.2507** - 10Dec/2018 low - Medium
- **S2 1.2385** - 78.6% of 2016-2018 - Strong

# GBPUSD - fundamental overview

The Pound suffered another major blow on Monday, extending its run of 2018 declines, that now has many worrying about the exchange rate dropping back through the +30 year low from October 2016, which came in the immediate aftermath of the EU referendum. UK parliament has been expressing outrage with the latest delay of the vote on the PM's deal, a vote that was supposed to happen today. And yet, the PM has promised the vote will indeed occur, simply buying more time to deliver on the best possible Brexit deal, before the decision is put back into parliament. The PM believes further reassurances in the form of writing on the Irish backstop, could be what delivers the deal, and she will be working with the EU to try and make it happen. Monday's round of discouraging UK data in the form of manufacturing production, trade and GDP didn't do anything to help the Pound's cause either. Looking ahead, the market will continue to monitor the Brexit updates, while taking in UK employment and US producer prices.

# GBPUSD - Technical charts in detail

---

[Watch now](#)

# 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 the next major downside extension towards critical support around 109.75. Ultimately, only a break back above 114.75 would negate the bearish outlook. Below 111.38 strengthens the bearish outlook.



- **R2 114.22** - 12Nov high - Strong
- **R1 113.38** - 10Dec high - Medium
- **S1 112.25** - 10Dec low - Medium
- **S2 111.38** - 26Oct low - Strong

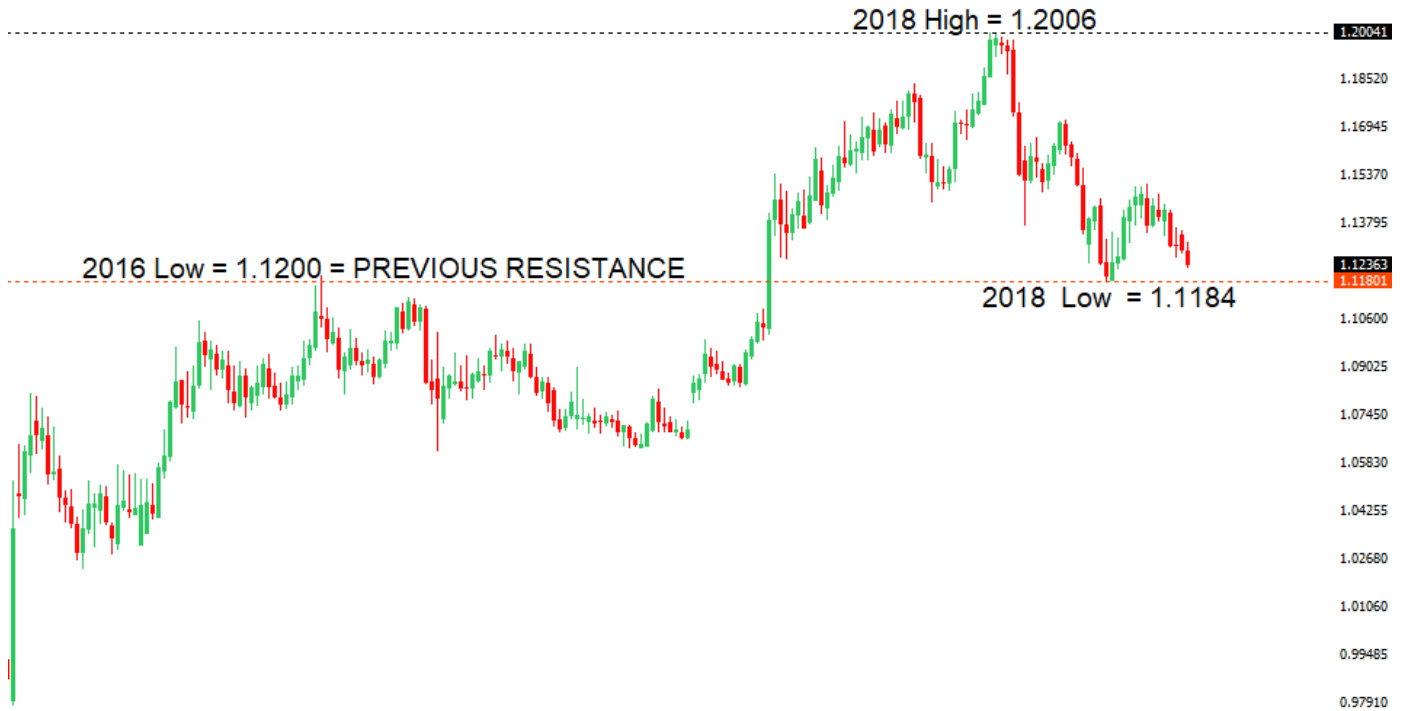
# USDJPY - fundamental overview

**The major pair is correlating with the bigger picture drivers**, with US Dollar yield differentials and risk sentiment dictating the flow. Renewed downside pressure in the US equities market has been capping USDJPY in recent weeks, while an expectation the Fed could deviate from a more hawkish course in 2019 is also weighing. We did however see some demand on Monday as US equities attempted to recover, though, the picture hasn't changed and the market should continue to struggle on attempts to the topside. It's also important to remember the potential impact of trade wars in 2019, with the US administration adopting a soft Dollar policy capable of inviting another source of USD outflow and Yen demand. Looking ahead, US producer prices are the key standout on the calendar.

[Watch now](#)

# EURCHF - technical overview

The market has been in the process of consolidating off the 2018 low, which coincided 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 1.1500 would get some bullish momentum going for a push to 1.2000, while back below 1.1200 would be quite bearish.



- **R2 1.1435**- 16Nov high - Strong
- **R1 1.1359** - 22Nov high - Medium
- **S1 1.1224** - 18Sep low- Medium
- **S2 1.1185**- 7Sep/2018 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 have been turning back up from stretched medium term readings, with the recent break back above 0.7300 suggesting a meaningful base could be in the process of carving out. This puts the shorter-term pressure back on the topside, with the focus on a push to the psychological barrier at 0.7500. A drop below 0.7165 would be required to shift the focus back on the downside.



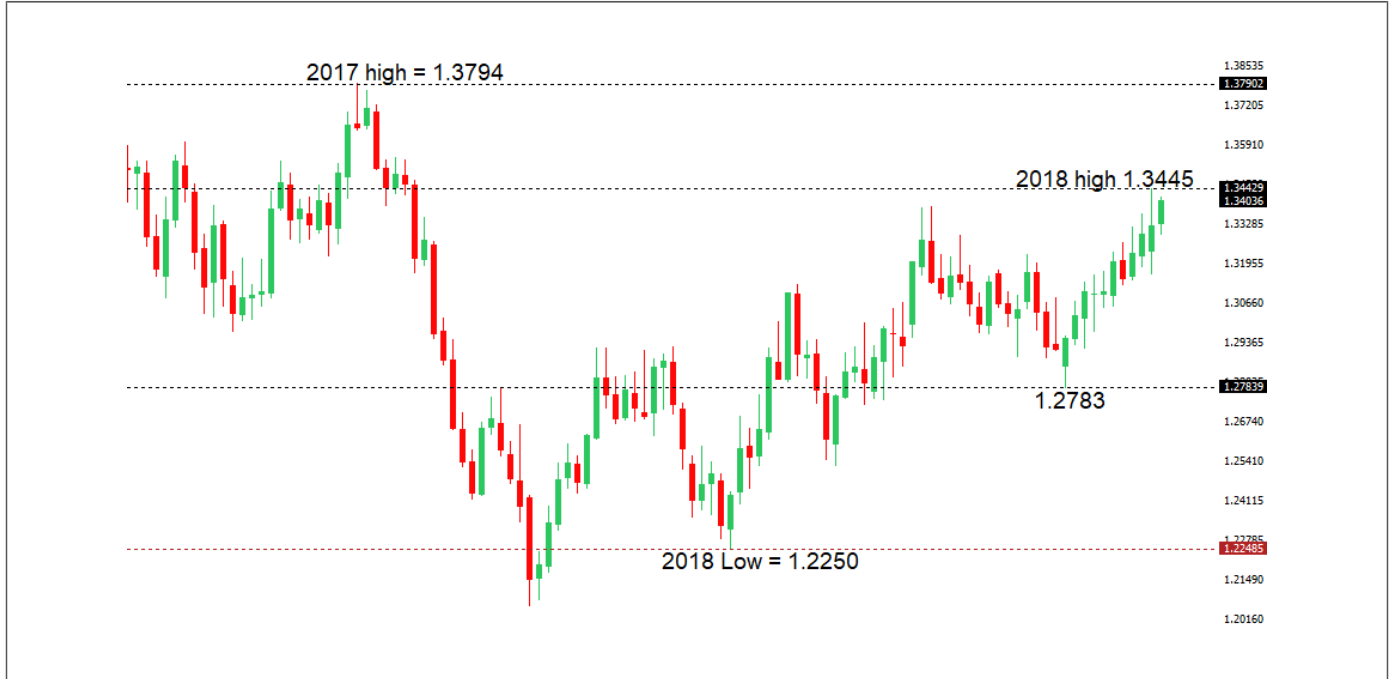
- **R2 0.7394** - 4Dec high - Strong
- **R1 0.7274** - 6Dec high - Medium
- **S1 0.7179** - 10Dec low - Medium
- **S2 0.7165** - 13Nov low - Strong

# AUDUSD - fundamental overview

While the Australian Dollar has been contending with risk off flow, the currency has managed to benefit from a little bounce in stocks on Monday and an overall expectation the Fed will be shifting gears in 2019, moving away from its rate hike timeline, towards a policy outlook that leans back to the more accommodative side. The possibility of a pause has been floating around and the impact on yield differentials will invite more Aussie demand on the US Dollar outflow. Commodity prices are also looking a little more bid these days as uncertainty creeps in, and a breakout in the price of GOLD could be another prop to Aussie that offsets any concurrent risk off flow. Looking ahead, US producer prices are the key standout on the calendar for the remainder of the day.

# USDCAD - technical overview

The market has been consistently sold into rallies ahead of 1.3500, which could still invite a deeper decline before the next upside extension gets underway. Still, look for any weakness to be well supported, with only a break back below 1.2700 to negate the bigger picture constructive outlook.



- **R2 1.3500** - Psychological - Strong
- **R1 1.3445** - 6Dec/2018 high - Medium
- **S1 1.3253** - 5Dec low - Medium
- **S2 1.3161** - 3Dec low - Strong

# USDCAD - fundamental overview

The Canadian Dollar has come under a lot of pressure over the past several weeks on the back of a massive slide in the price of OIL. The commodity has since stabilised, though the setbacks are worrying and have continued to weigh on the Loonie. A solid run of Canadian data has helped to offset some of the downside pressure (USDCAD upside), after last week's stellar jobs report was followed up by above forecast Canada housing starts. Looking ahead, absence of first tier data out of Canada, will leave the focus on OIL, risk sentiment and US producer prices.



## 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.



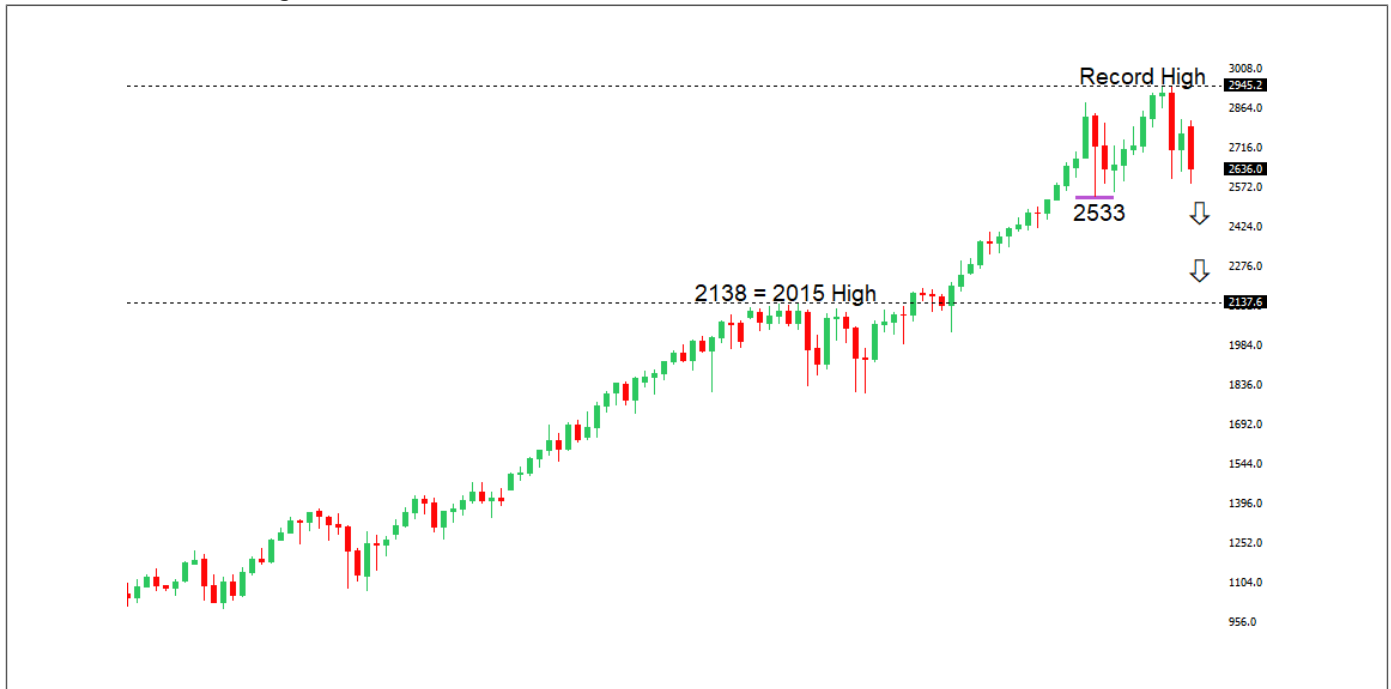
- **R2 0.7000** - Psychological - Strong
- **R1 0.6970** - 4Dec high - Medium
- **S1 0.6839** - 29Nov low - Medium
- **S2 0.6754** - 27Nov low - Strong

## NZDUSD - fundamental overview

The New Zealand Dollar continues to hold up well despite the risk off flow in financial markets. The strength comes on the back of broad based US Dollar weakness, as prospects for a scaled back Fed outlook increase and yield differentials move out of the Buck's favour. Last Friday's softer US jobs report has only strengthened this case, adding to USD bearishness. At the same time, last week's healthy GDT auction print was also a welcome surprise and an encouraging sign. Looking ahead, US producer prices is the only notable standout on the calendar for the remainder of the day.

## 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.



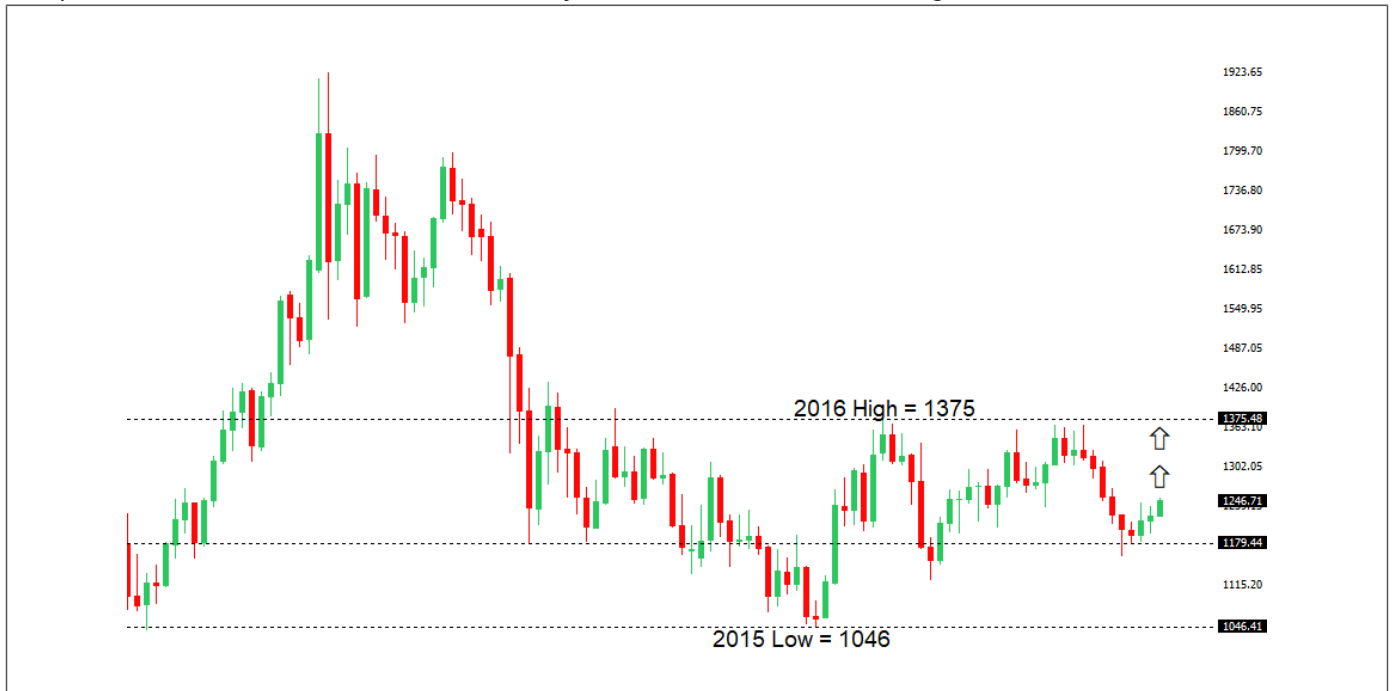
- **R2 2824** - 17Oct high - Strong
- **R1 2700** - Figure - Medium
- **S1 2584** - 10Dec low - Strong
- **S2 2533** - 6Feb/2018 low - Medium

## 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 into 2019, 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 on the daily 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 1251** - 10Dec 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

---

**An extended period of range contraction** has come to an end, with the market breaking down below the apex of a massive triangle formation in 2018. The decline has resulted in fresh yearly lows and warns of a deeper setbacks that could accelerate to the September 2017 low at 2,975. At this stage, it would take a break back above previous support in the 6,000 area to take the pressure off the downside.



- **R2 5,050** - 20Nov high - Strong
- **R1 4,480** - 29Nov high - Strong
- **S1 3,274**- 7Dec/2018 low -Medium
- **S2 2,975** - Sep 2017 low - Very Strong

## BTCUSD - fundamental overview

---

**Bitcoin is facing intense headwinds** from broader risk liquidation themes and has sunk to fresh 2018 lows. The cryptocurrency has already been struggling to find its place in 2018, with the decentralised technology space still very young and yet to fully prove concept. The current backdrop of global sentiment deterioration only makes things more challenging in the space and we are seeing investors head for the exits as a result. This could open a bigger drop below \$3,000 before the market looks for stability. Still, overall, the cryptocurrency and the technology it rests on continue to show a lot of potential looking out and we expect the market will regain composure once this sell-off plays out.

## BTCUSD - Technical charts in detail

---

[Watch now](#)

## ETHUSD - technical overview

The market remains under pressure in 2018, extending its run of intense declines to fresh 2018 lows below 100. Medium term studies are however stretched, which could warn of the start to a correction. Still, it would take a break back above 200 right now to take the pressure off the downside. The next major downside extension target comes in at a 75, a measured move extension target following a recent \$90 consolidation between 165 and 255.



- **R2 165** - Previous Support - Strong
- **R1 128** - 28Nov high - Strong
- **S1 83** - 7Dec/2018 low - Medium
- **S2 75** - Measured Move - 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 below \$100, 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 we expect significant demand will emerge well ahead of \$50.



Any opinions, news, research, analyses, prices or other information ("information") contained on this document, constitutes marketing communication and it has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Further, the information contained within this Blog does not contain (and should not be construed as containing) investment advice or an investment recommendation, or an offer of, or solicitation for, a transaction in any financial instrument. LMAX Exchange has not verified the accuracy or basis-in-fact of any claim or statement made by any third parties as comments for every Blog entry.

LMAX Exchange will not accept liability for any loss or damage, including without limitation to, any loss of profit, which may arise directly or indirectly from use of or reliance on such information. No representation or warranty is given as to the accuracy or completeness of the above information. While the produced information was obtained from sources deemed to be reliable, LMAX Exchange does not provide any guarantees about the reliability of such sources. Consequently any person acting on it does so entirely at his or her own risk. It is not a place to slander, use unacceptable language or to promote LMAX Exchange or any other FX, Spread Betting and CFD provider and any such postings, excessive or unjust comments and attacks will not be allowed and will be removed from the site immediately.

LMAX Exchange will clearly identify and mark any content it publishes or that is approved by LMAX Exchange.

FX and CFDs are leveraged products that can result in losses exceeding your deposit. They are not suitable for everyone so please ensure you fully understand the risks involved. The information on this website is not directed at residents of the United States of America, Australia (we will only deal with Australian clients who are "wholesale clients" as defined under the Corporations Act 2001), Canada (although we may deal with Canadian residents who meet the "Permitted Client" criteria), Singapore or any other jurisdiction where FX trading and/or CFD trading is restricted or prohibited by local laws or regulations.

LMAX Limited operates a multilateral trading facility. LMAX Limited is authorised and regulated by the Financial Conduct Authority (firm registration number 509778) and is a company registered in England and Wales (number 6505809). Our registered address is Yellow Building, 1A Nicholas Road, London, W11 4AN.

