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Global FX Insights

by LMAX Exchange Research & Analytics

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Back to Brussels 🎧 [Wake-up call](#)

Politics aside, if there's a good job to be awarded, it should definitely go to Theresa May for her ability to hang in these past few weeks, in the face of tremendous opposition, while contending with what many believe to be an impossible situation. Looking at the calendar, May is in Brussels, while the SNB and ECB deliver their latest decisions.

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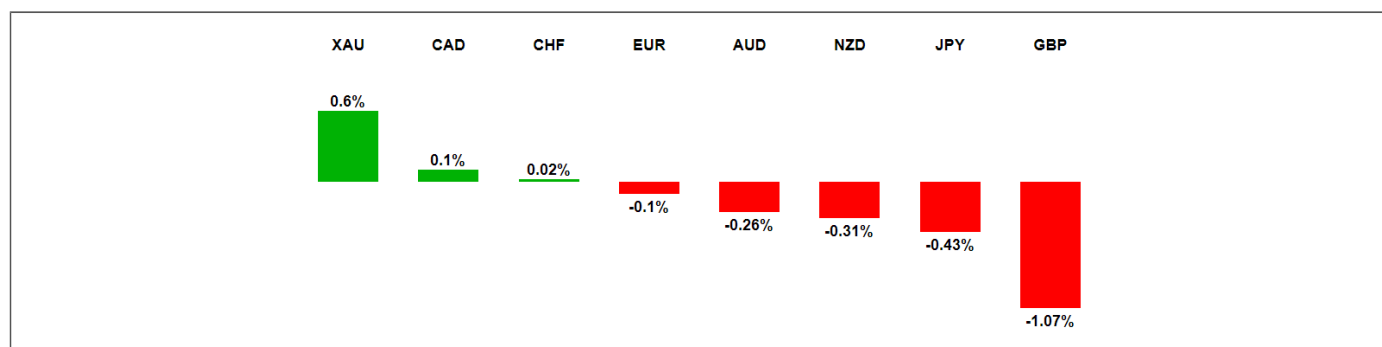
Technical highlights 📺 [Daily Video](#)

- [EURUSD](#) Waiting for next big break
- [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](#) ECB policy decision stands out
- [GBPUSD](#) May survives, back to Brussels
- [USDJPY](#) Yen direction linked to major themes
- [EURCHF](#) SNB meeting will be watched
- [AUDUSD](#) Aussie holds up well on USD selling
- [USDCAD](#) Loonie struggles on slumping OIL
- [NZDUSD](#) NZ Treasury forecast downgrades
- [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

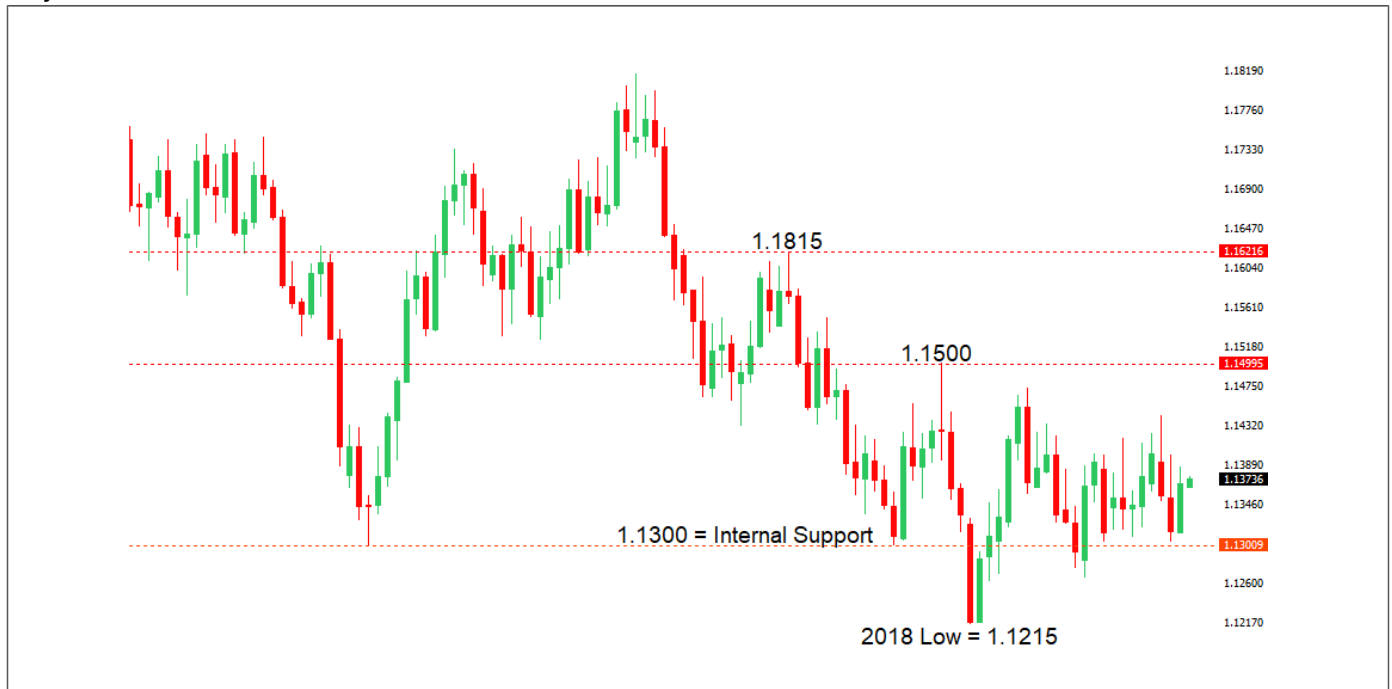


Suggested reading

- [Efficient Market Hypothesis Taking a Beating](#), R. Burgess, **Bloomberg** (December 10, 2018)
- [America Should be Wary of Cheap OIL](#), G. Bobillot, **Financial Times** (December 12, 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

German CPI readings have met expectation and the market will be looking to the ECB meeting for some more clarity with respect to the central bank's outlook. The consensus has the ECB announcing an end to net asset purchases, with bond holdings to be capped at EUR2.6 trln, pushing the central bank slowly into the next phase of normalisation. At the same time, given that unconventional move earlier this year to halt any consideration for a rate hike until the summer of 2019, we suspect there will be plenty of effort made to make it clear that policy remains accommodative. Perhaps more colour will be offered in staff projections. It will also be worth keeping an eye on developments out of Brussels, as Theresa May works to renegotiate her Brexit deal. US initial jobless claims are due in North America.

EURUSD - Technical charts in detail

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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. The 78.6% fib retrace off the major 2016 high to low move, which comes in at 1.2385 is the next big level below. 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 1.2478** – 12Dec/2018 low – Medium
- **S2 1.2385** – 78.6% of 2016-2018 – Strong

GBPUSD – fundamental overview

Politics aside, if there's a good job to be awarded, it should definitely go to Theresa May for her ability to hang in these past few weeks, in the face of tremendous opposition, while contending with what many believe to be an impossible situation. The UK PM has just survived a no confidence vote and will now head off to Brussels to see just how unwilling the EU is to compromise and stretch for additional reassurances to the deal, so that May can return with something more substantive for her government to approve. For the moment, optimism has worked its way back into the Pound, with the currency recovering from fresh 2018 lows against the Buck below 1.2500. US initial jobless claims are due out later in the day.

GBPUSD - Technical charts in detail

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 113.53** - 12Dec high - Medium
- **S1 112.25** - 10Dec low - Medium
- **S2 111.38** - 26Oct low - Strong

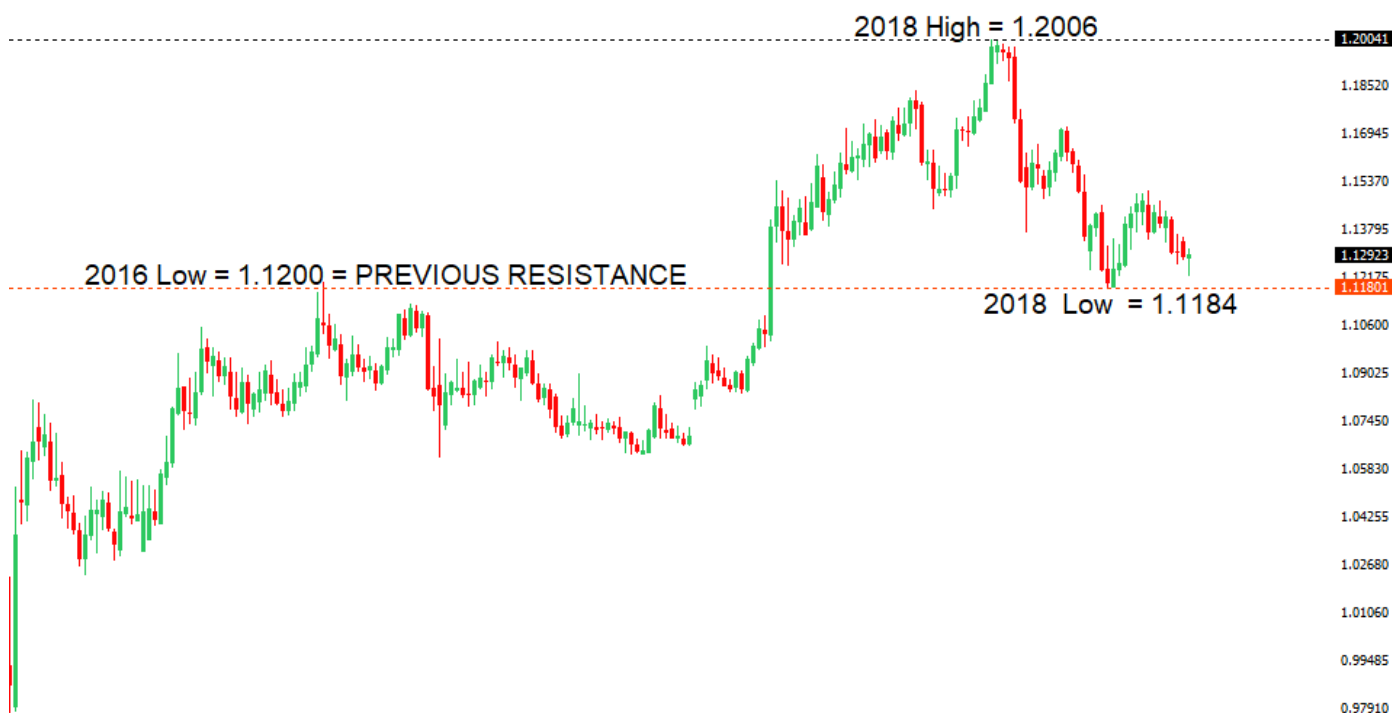
USDJPY - fundamental overview

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. There has been some demand this week, as US equities attempt to recover on positive news out from the US-China trade front, though ultimately, the picture hasn't changed and the market should continue to struggle on attempts to the topside. It's important to remember the US administration has adopted a soft Dollar policy, easily capable of inviting another source of USD outflow and Yen demand into 2019. Looking ahead, US initial jobless claims are out in North America.

[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 this week 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. US initial jobless claims is the only notable 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.



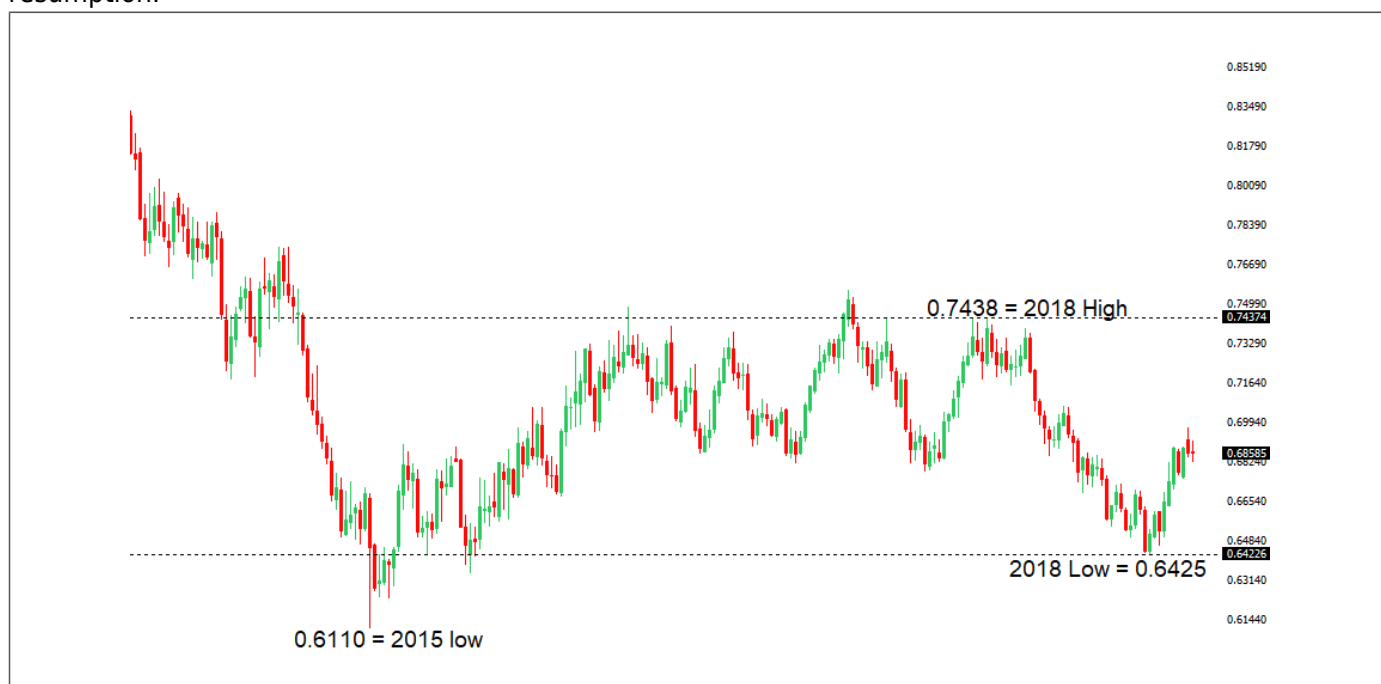
- **R2 1.3500** - Psychological - Strong
- **R1 1.3445** - 6Dec/2018 high - Medium
- **S1 1.3253** - 5Dec low - Medium
- **S2 1.3161** - 3Dec low - Strong

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 this week. Looking ahead, we get Canada ADP employment, Canada new house prices and US initial jobless claims.

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.



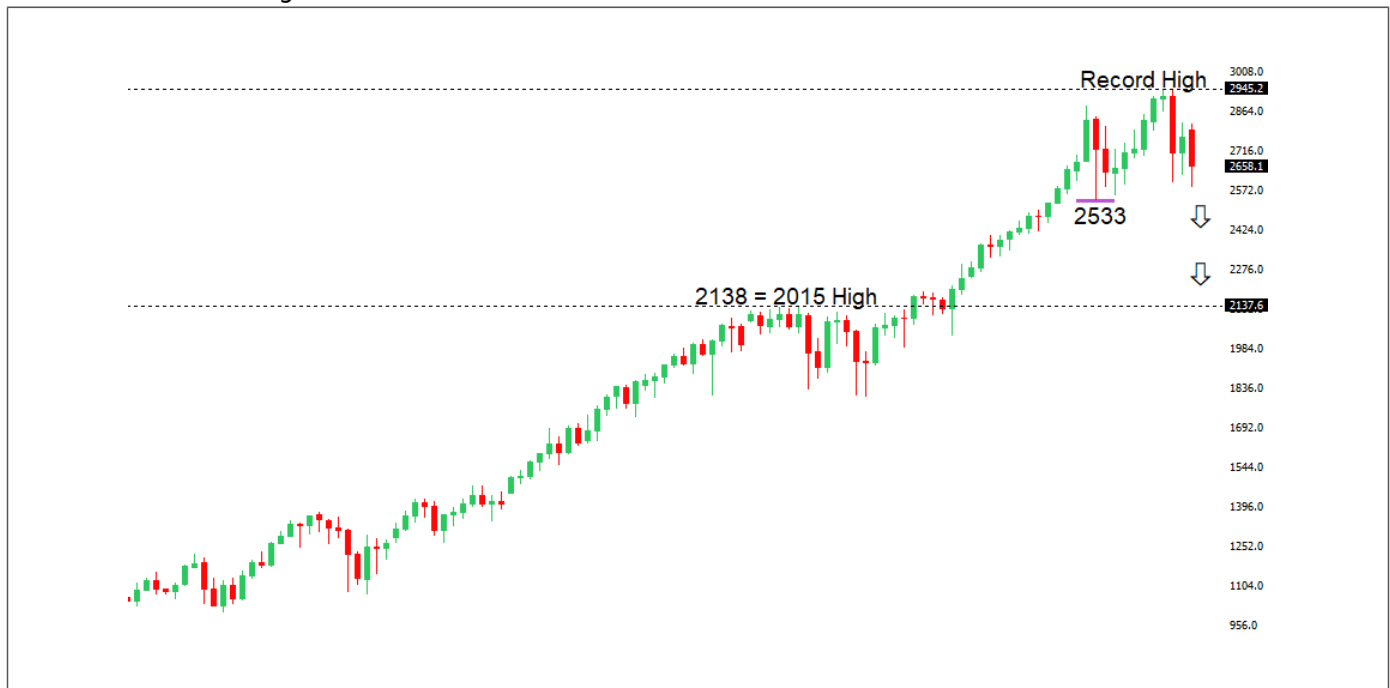
- **R2 0.7000** – Psychological – Strong
- **R1 0.6970** – 4Dec high – Medium
- **S1 0.6839** – 29Nov low – Medium
- **S2 0.6754** – 27Nov low – Strong

NZDUSD – fundamental overview

The New Zealand Dollar continues to hold up well despite an air of risk off flow in financial markets and this latest news of New Zealand Treasury downgrades to GDP and budget surplus forecasts. Most of the recent 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. We've also seen some demand off the lows in equities this week that have further contributed to support, while RBNZ Governor Orr's comment the other day that Kiwi has been "well-behaved in that it's level can be explained by economic fundamentals," hasn't hurting the risk correlated commodity currency either. Looking ahead, only US initial jobless claims stand out.

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.



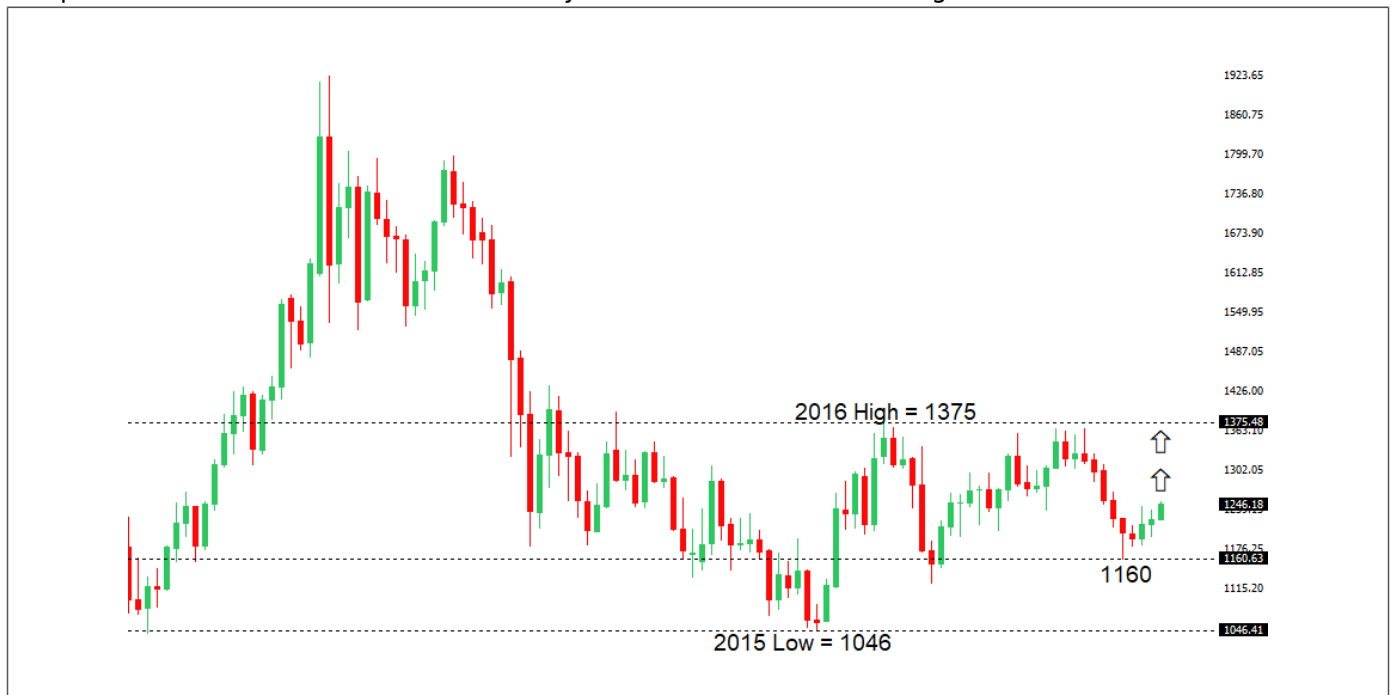
- **R2 2824** - 17Oct high - Strong
- **R1 2700** - Figure - Medium
- **S1 2584** - 10Dec low - Strong
- **S2 2533** - 6Feb/2018 low - Medium

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

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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.



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