

Global FX Insights

by LMAX Exchange Research & Analytics

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

Four Hikes in 2018! So Why Did the Dollar Sell Off? [Wake-up call](#)

The market is taking time to digest the latest Fed decision in which the central bank raised the federal funds rate 25 basis points as was widely expected, while signaling a fourth rate hike in 2018, something that was not so widely expected. ECB decision ahead.

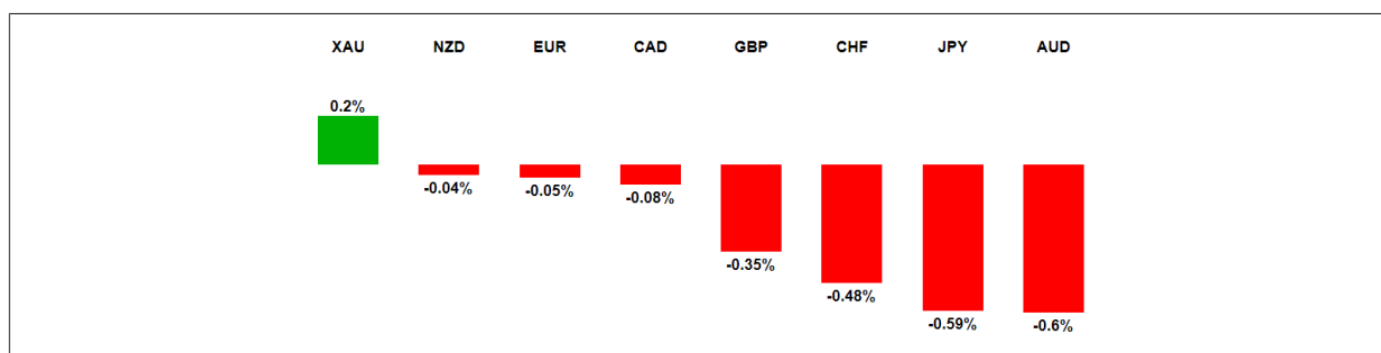
Technical highlights [Daily Video](#)

- **EURUSD** Room for recovery to extend
- **GBPUSD** Bullish back above 1.3620
- **USDJPY** Overall structure still bearish
- **EURCHF** Ready for return to 1.1500
- **AUDUSD** Upside move corrective
- **USDCAD** Plenty of choppy price action
- **NZDUSD** Recovery within downtrend
- **US SPX 500** Expected to stall out again
- **GOLD** (spot) Well supported on dips
- **BTCUSD** Contemplates next big drop
- **ETHUSD** Loses bullish grip

Fundamental highlights

- **EURUSD** German CPI, ECB decision ahead
- **GBPUSD** UK retail sales and Brexit updates
- **USDJPY** Yen recovers as equities falter post Fed
- **EURCHF** SNB battle ahead on equities extended
- **AUDUSD** Soft jobs report, weaker China data
- **USDCAD** Loonie nervous on NAFTA uncertainty
- **NZDUSD** Kiwi looking at investor appetite
- **US SPX 500** Fed model will be important to watch
- **GOLD** (spot) Metal demand reflects uncertainty
- **BTCUSD** Still feeling the effects of 2017 bubble
- **ETHUSD** Macro risk exposes correlated asset

Five day performance v. US dollar



Suggested reading

- **ECB Should Seize the Day and Call Time on QE**, M. Ashworth, Bloomberg (June 13, 2018)
- **What to Expect Next After May Avoids Rebellion**, G. Parker, Financial Times (June 13, 2018)

EURUSD – technical overview

Despite the latest round of setbacks into the 1.1500 area, the Euro remains confined to a medium term uptrend, with any additional weakness expected to be limited. Daily studies are already turning back up after the market finally dropped back to retest a major previous resistance turned support zone in the form of the breakout area from 2017. A daily close back above 1.1841 will strengthen the constructive outlook.



- R2 1.1855 – 16May high – Strong
- R1 1.1841 – 7Jun high – Medium
- S1 1.1728 – 8Jun low – Medium
- S2 1.1618 – 1Jun low – Strong

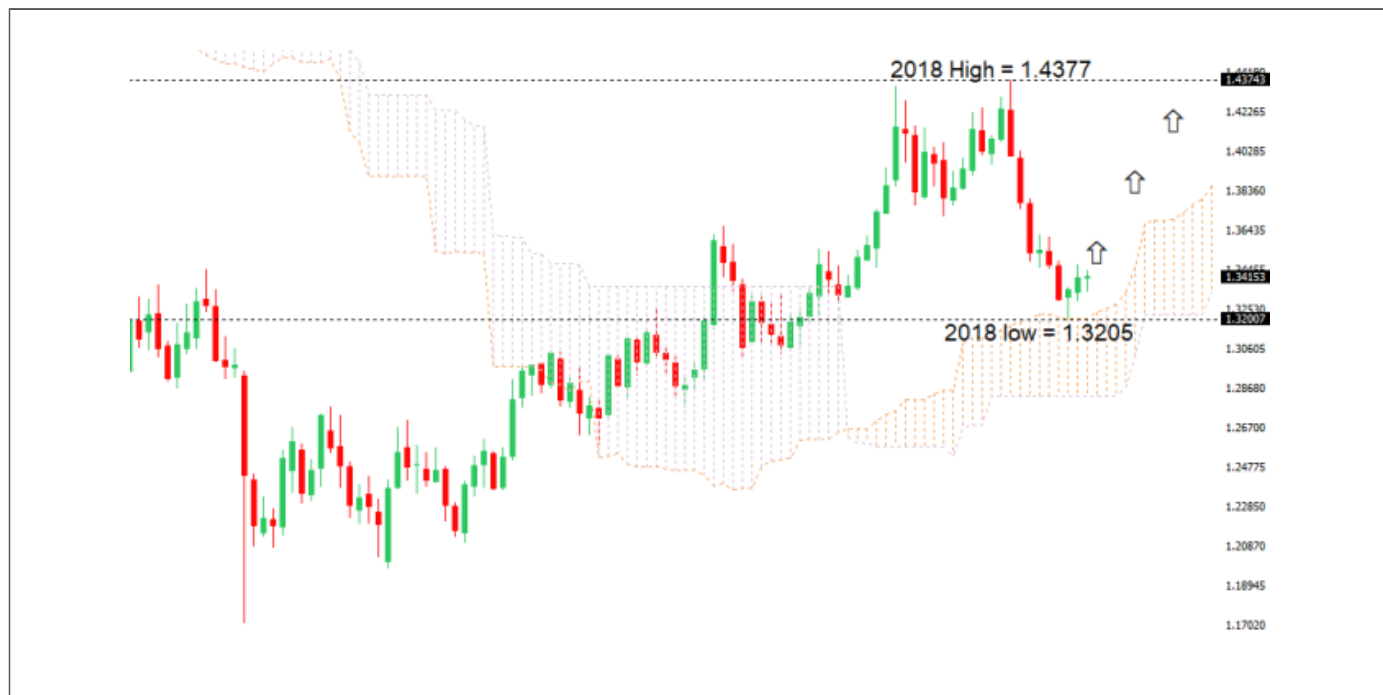
EURUSD – fundamental overview

The Euro continues to hold up well, even in the face of the latest Fed adjustment that called for a fourth rate hike in 2018. In reality, the Fed was a lot less hawkish than that shift in the dot plot suggested, with the central bank raising the rate on excess reserves by 5bps less, leaving the 2019 dot plot unchanged and downplaying concerns about rising inflation. Overall, there's been renewed demand for the Euro after the currency had been hit hard since mid-April. And more bids have come into the market, on the back of hawkish ECB speak and expectations for an ECB QE exit announcement at today's ECB meeting. A recent run of data out of the Eurozone has also been more encouraging, while defused risk associated with Eurozone politics have done nothing to hurt the Euro's cause either. Looking ahead, we get German CPI, US retail sales and US initial jobless claims, though the ECB decision will be the major focus.

EURUSD – Technical charts in detail

GBPUSD – technical overview

Overall, the structure remains constructive on a medium to longer term basis, despite a recent round of intense setbacks. The market will look to hold up above the weekly Ichimoku cloud and a higher low is sought out for a bullish continuation. Ultimately, only a sustained break back below 1.3000 would force a rethink, while a continued recovery and push back above 1.3620 will strengthen the constructive outlook.



- R2 1.3492 – 22May high – Strong
- R1 1.3473 – 7Jun high – Medium
- S1 1.3343 – 12Jun low – Medium
- S2 1.3296 – 4Jun low – Strong

GBPUSD – fundamental overview

Theresa May has managed to kick the can down the road yet again, avoiding disaster in the House of Commons this week, while this latest Fed decision has not come in as hawkish as it appeared to be after the Fed called for an additional rate hike in 2018. All of this has helped to offset Pound declines from a softer batch of UK data this week and the market will now turn its attention to today’s UK retail sales for additional insight. Of course, updates relating to Brexit, fallout from the ECB decision and US retail sales will also factor into today’s price action.

GBPUSD – Technical charts in detail

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USDJPY – technical overview

Rallies continue to be very well capped in the major pair, with the medium-term outlook still favouring lower tops and lower lows. A recent topside failure resulting in a bearish outside week has strengthened the outlook, which may have set the stage for a drop back down to retest the 2018 low in the 104s. A break back above 111.40 would now be required to take the pressure off the downside.



- R2 111.40 – 21May high – Strong
- R1 110.69 – 13Jun high – Medium
- S1 109.20 – 8Jun low – Medium
- S2 108.73 – 1Jun low – Strong

USDJPY – fundamental overview

Overall, the major pair is still very much correlated to risk sentiment and less focused on Japanese data. Investor appetite has been running strong despite ongoing worry of global trade wars, which has helped to inspire recent Yen declines, but yield differentials also play a part here and this has been something that has factored into the latest recovery in the Yen (USDJPY lower), after the Fed decision came in less hawkish than expected, even with the shift in the dot plot that now calls for four rate hikes in 2018 (**See today's call**). The stock market has however been less comfortable with the four rate hikes, while being bothered by the news of more US tariff announcements (China), something that only adds to the lure of the Yen. Looking ahead, the market will continue to digest the Fed decision, while watching fallout from the ECB, headlines relating to US protectionism and absorbing US retail sales.

Watch now

EURCHF – technical overview

The market is working off an intense round of setbacks resulting in extended studies and a fresh 2018 low. Overall however, the rate has been trending higher and only a sustained break back below this recently established yearly low in the 1.1300s would suggest otherwise. Looking for a daily close back above 1.1641 to strengthen the outlook.



- R2 1.1700 – Figure – Strong
- R1 1.1641 – 6Jun high – Medium
- S1 1.1508 – 5Jun low – Medium
- S2 1.1369 – 29May/2018 low – Strong

EURCHF – fundamental overview

The SNB will need to be careful right now, as its strategy to weaken the Franc could face headwinds from the US equity market. The record run in the US stock market has been a big boost to the SNB’s strategy with elevated sentiment encouraging Franc weakness. Of course, the SNB is no stranger to this risk, given a balance sheet with massive exposure to US equities. But any signs of a more intensified liquidation on that front in 2018, will likely invite a very large wave of demand for the Franc, which will put the SNB in a more challenging position to prevent appreciation in the Franc.

AUDUSD – technical overview

Overall, it's been a sequence of lower tops and lower lows on the daily chart, with setbacks extending below the 0.7500 barrier and exposing a possible retest of the 2017 low at 0.7330 further down. Any rallies are classified as corrective in search of a lower top for bearish continuation, with only a break back above 0.7815 to take the immediate pressure off the downside.



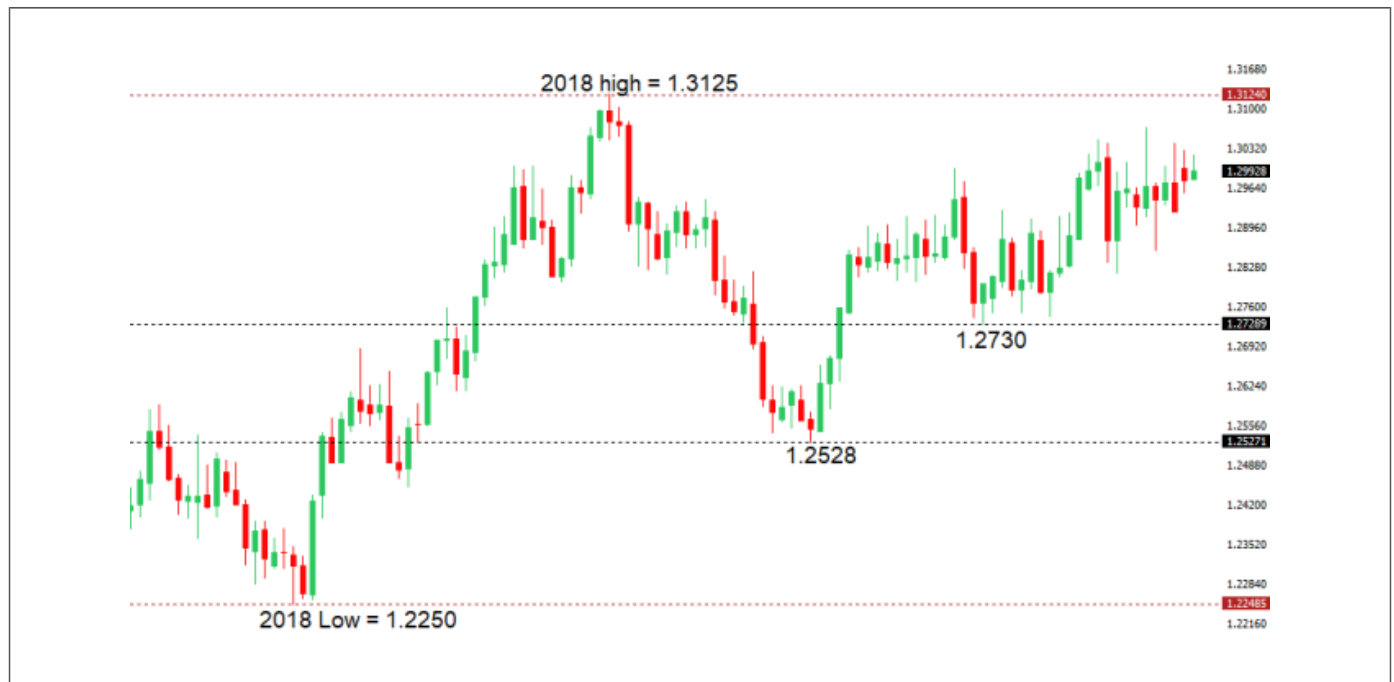
- R2 0.7700 – Figure – Strong
- R1 0.7677 – 6Jun high – Medium
- S1 0.7561 – 8Jun low – Medium
- S2 0.7477 – 30May low – Strong

AUDUSD – fundamental overview

The Australian Dollar hasn't been able to take advantage of a post Fed US Dollar selloff, with the currency hit on discouraging components in the latest Aussie jobs report and a batch of weak China data. We've also seen a downturn in risk sentiment post Fed, with the news of more US tariffs (China) weighing. Overall, the Australian Dollar will monitor the bigger picture drivers, leaving the currency in a position where it will need to decide if it wants to be rallying on the back of renewed broad based weakness in the US Dollar on account of US protectionism and soft Dollar policy, or selling off on what could be resulting deterioration in global sentiment. Looking ahead, we get fallout from the ECB decision, US retail sales and more updates on US protectionism.

USDCAD – technical overview

Overall, there are signs of basing after months of downside pressure. Look for any setbacks to now be well supported ahead of 1.2700, in favour of the next major upside extension through 1.3125 and towards 1.3500 further up. Ultimately, a break back below 1.2730 would be required to negate the medium term constructive outlook.



- R2 1.3125– 19Mar/2018 high – Strong
- R1 1.3068 – 5Jun high – Medium
- S1 1.2858 – 6Jun low – Medium
- S2 1.2819 – 31May low – Strong

USDCAD – fundamental overview

The Canadian Dollar is trying to figure out if it should be rallying in reaction to a US protectionism initiative that ultimately should lead to a softer US Dollar by the design of the US administration, or if it should be selling off given the direct impact on the Canadian economy. Canada has not been happy with US tariffs and reports of additional penalties, all of which opens the door to more uncertainty over the fate of NAFTA. And these worries have only intensified post G7 on tension between Trump and Trudeau. Ultimately, all of this should keep the Canadian Dollar well capped into rallies, despite the soft US Dollar policy. We have however seen some demand for the Loonie in the aftermath of a Fed decision that proved to be more dovish than expected at a closer glance. Looking ahead, we get the Canada new house price index, fallout from the ECB decision, US retail sales and more updates on US protectionism.

NZDUSD – technical overview

The market is in the process of turning up after trading down to a fresh 2018 low. But any rallies are now expected to be very well capped ahead of 0.7200, with only a break back above the barrier to negate the bearish outlook.



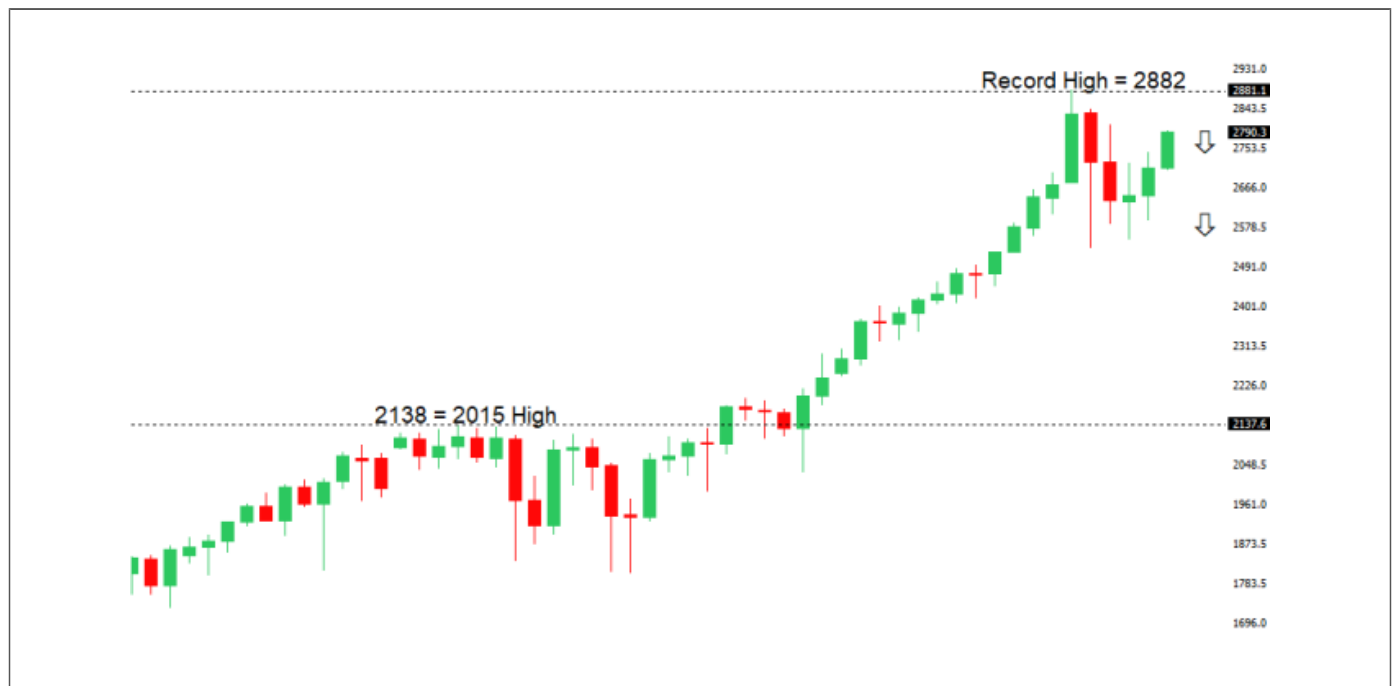
- R2 0.7097 – 27Apr high – Strong
- R1 0.7061 – 6Jun high – Medium
- S1 0.6961 – 1Jun low – Strong
- S2 0.6900 – Figure – Medium

NZDUSD – fundamental overview

The New Zealand Dollar has held up surprisingly well of late, when considering an outlook for the Kiwi rate that is decidedly less rosy on account of diverging monetary policy and yield differentials. The RBNZ has pushed back its timeline for rate hikes, while Governor Orr has also welcomed New Zealand Dollar weakness. The RBNZ also released a paper in May outlining its willingness to consider a more dovish course. Kiwi demand has come from external factors with a less hawkish than expected Fed decision and soft Dollar policy driving the flow. Still, we would expect the currency to face headwinds on the local fundamentals and correlation with risk appetite, which seems to be fading into the latter half of the week. Looking ahead, we get fallout from the ECB decision, US retail sales and more updates on US protectionism.

US SPX 500 – technical overview

A market that has been extended on the monthly chart is finally showing signs of stalling out off the January record high, allowing for stretched monthly readings to unwind. Any rallies should now be very well capped ahead of 2800 in favour of continued weakness back below the yearly low and eventually towards a retest of strong longer-term resistance turned support in the form of the 2015 high at 2140.



- R2 2807 – 13Mar high – Strong
- R1 2800 – Psychological – Medium
- S1 2704 – 15May low – Medium
- S2 2656 – 8May low – Strong

US SPX 500 – fundamental overview

Investor immunity to downside risk is not looking as strong these days and there's a clear tension out there as the VIX starts to think about bottoming out off unnervingly depressed levels. The combination of Fed policy normalisation (four rate hikes now signaled in 2018), US protectionism, and geopolitical tension have been capping the market into rallies in 2018, with any renewed setbacks at risk of intensifying on the prospect for the reemergence of inflationary pressures. Overall, we expect the bigger picture theme of policy normalisation to continue to weigh on investor sentiment into rallies. The Fed has also finally acknowledged inflation no longer running below target, something that makes equity market valuations far less attractive at current levels, given the implication this could have 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.

GOLD (SPOT) – technical overview

Setbacks have been well supported over the past several months, with the market continuing to put in higher lows and higher highs. Look for some more chop followed by an eventual push above massive resistance in the form of the 2016 high at 1375. This will then open the door for a much larger recovery in the months ahead. In the interim, setbacks are expected to be well supported ahead of 1250.



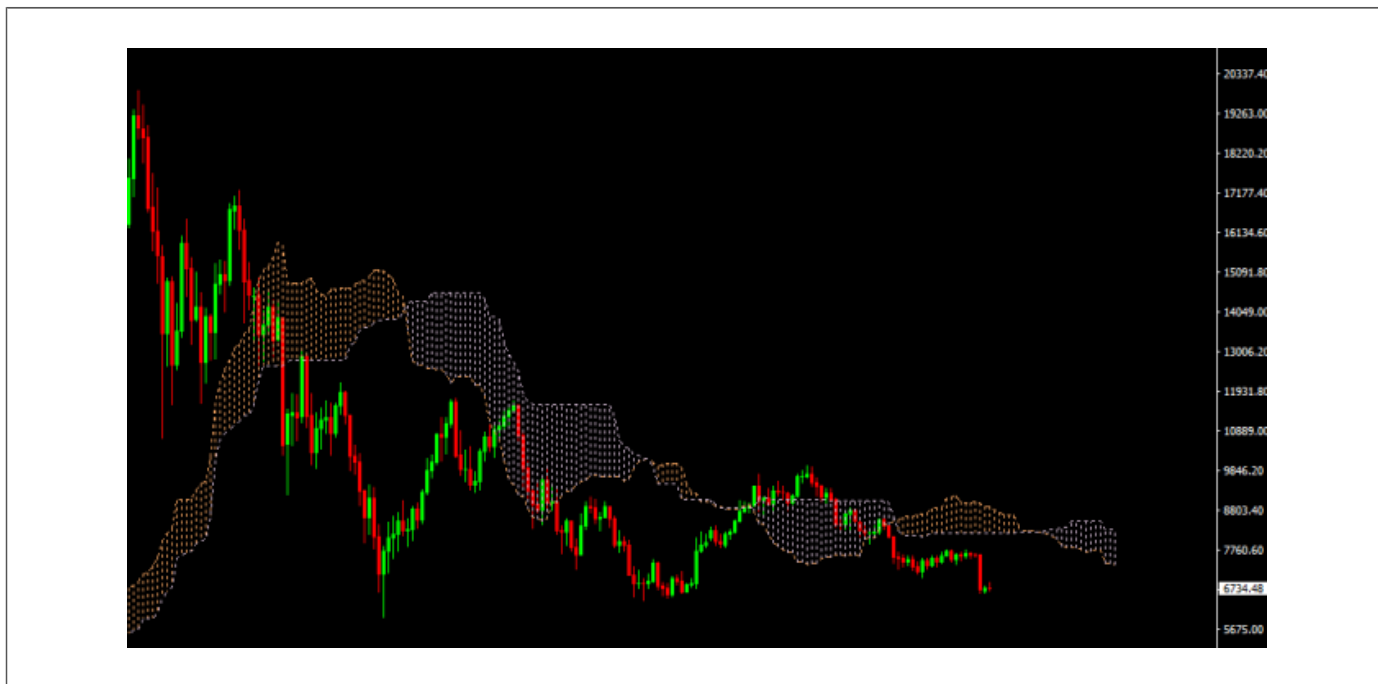
- R2 1375 – 2016 high – Very Strong
- R1 1326 – 11May high – Medium
- S1 1289 – 1Jun low – Medium
- S2 1282 – 21May/2018 low – Strong

GOLD (SPOT) – fundamental overview

Solid demand from medium and longer-term players persists, with these players more concerned about exhausted monetary policy, extended global equities, political uncertainty, systemic risk and geopolitical threats. All of this should continue to 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. Certainly the US Dollar under pressure has added to the metal’s bid tone as well, but there is a growing sense that even in a scenario where the US Dollar is bid for an extended period, GOLD will hold up on risk off macro implications. The 2016 high at 1375 is a massive level that if broken and closed above, could be something that triggers a widespread panic and rush to accumulate more of the hard asset.

BTCUSD – technical overview

The overall pressure remains on the downside and a break back above 10,000 will be required at a minimum to alleviate this pressure. Still, the market is working hard to hold up above the yearly low from February into this latest drop to keep the possibility open for higher base off the yearly low and renewed upside momentum.



- R2 7,770 – 3Jun high – Strong
- R1 7,040 – 29May low – Medium
- S1 6,100 – 13Jun low – Strong
- S2 6,000 – 6Feb/2018 low – Very Strong

BTCUSD – fundamental overview

Bitcoin has been under pressure in 2018, with ramped up regulatory oversight and government crackdowns forcing many holders to exit positions. The market is also coming back to earth after a euphoric 2017 run that had bubble written all over. Bitcoin has struggled on the transaction side as well, with transactions per second still a major drawback, even with the Lightning network making some progress on this front. Still overall, while Bitcoin may be exposed against the US Dollar and other fiat, its store of value lure should continue to make it highly attractive within the crypto space.

BTCUSD – Technical charts in detail

[Watch now](#)

ETHUSD – technical overview

The market remains under pressure after being unable to hold back above the daily Ichimoku cloud, leaving the downtrend firmly intact. While the price holds below the cloud, there is scope for deeper setbacks back towards a retest and possible break of the 2018 low. Back above 630 will be required at a minimum, to take the immediate pressure off the downside.



- R2 838 – 6May high – Strong
- R1 630 – 3Jun high – Medium
- S1 450 – 13Jun low – Strong
- S2 400 – Psychological – Strong

ETHUSD – fundamental overview

Ether remains under pressure in 2018 and we see more downside risk here given Ethereum's bigger exposure to regulatory oversight and extended global equities. Monetary policy normalization and an anticipated reduction in global risk appetite should put a tremendous strain on ERC20 projects that have been all about a move into risky assets over a period of time in which such investment has been widely encouraged on account of super accommodative central bank and government policies.



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