Friday, June 14, 2019

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Where things stand heading into the weekly close

Wake-up call

When we look at this week's price action, what stands out is relative weakness in risk correlated commodity bloc FX, despite US equities trading in positive territory. However, the price action is less perplexing when breaking it down, with the weakness less a function of risk sentiment and more about country specific negative drivers.

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Technical highlights

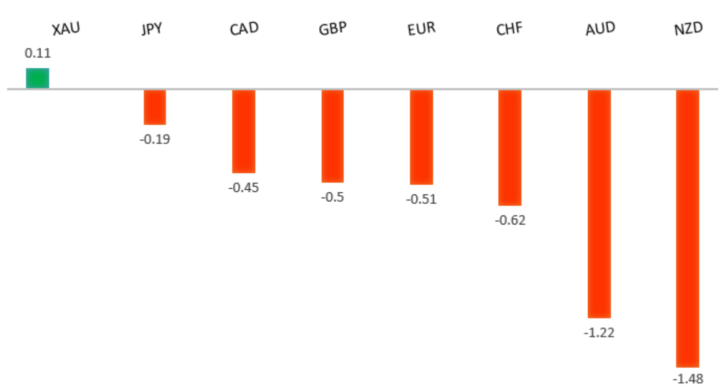
Daily Video

- EURUSD Balance of risk points higher
- GBPUSD Supported into major zone
- USDJPY Room for additional decline
- EURCHF Below 1.1200 opens deeper dip
- AUDUSD Signs of longer term basing
- USDCAD Consolidates off yearly high
- NZDUSD Daily studies turning back up
- US SPX 500 Lower top for next drop
- GOLD (spot) Higher low for next push
- BTCUSD Extended studies need to unwind
- ETHUSD Risk for more correction, consolidation

Fundamental highlights

- EURUSD IMF outlook less optimistic for EZ
- GBPUSD Locals worrying about hard Brexit again
- USDJPY Geopolitical tension creeps into markets
- EURCHF SNB's job getting a lot harder in 2019
- AUDUSD Aussie hit on calls for further rate cuts
- USDCAD Canadian Dollar holds up on OIL bounce
- NZDUSD Kiwi manufacturing PMIs look ugly
- US SPX 500 Investor risk appetite not as strong
- GOLD (spot) Macro players still buying dips
- BTCUSD Major credit cards and Facebook crypto
- ETHUSD Risk associated with global economy

Five Day performance v. US dollar



Suggested reading

- The Market Puts the Fed in a Bad Position, J. Authers, **Bloomberg** (June 14, 2019)
- The Yield Curve is Pointing to a Soft Landing, S. Oh, **MarketWatch** (June 12, 2019)

EURUSD – technical overview

The major pair has extended its run of declines off the 2008 high, trading down to a fresh multi-month low in May. But with the downtrend looking exhausted, the prospect for a meaningful higher low is more compelling, with a higher low sought out above the multi-year low from 2017, ahead of the next major upside extension. Only a weekly close back below the psychological barrier at 1.1000 would compromise this outlook. Back above 1.1450 will strengthen the view.

- **R2 1.1400** – Figure – Medium
- **R1 1.1348** - 7 June high – Strong
- **S1 1.1251** - 7 June low – Medium
- **S2 1.1200** – 6 June low – Strong

EURUSD – fundamental overview

The IMF said its central forecast for Eurozone growth was precarious, while the EU-Italy spat remains unresolved. Still overall, the ongoing soft Dollar trade campaign from the US administration and building expectations for a Fed rate cut, are more than offsetting any attempts to sell the Euro on concerns about a softer outlook for the Eurozone economy. Looking at the Friday calendar, we'll get some ECB speak, but it's really all about a batch of data out of the US that includes retail sales, industrial production and Michigan confidence.

EURUSD - Technical charts in detail

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GBPUSD – technical overview

The major pair has stumbled since putting in an impressive recovery off the multi-month low in early January. Still, the broader recovery still helps to support the case for a longer-term developing uptrend off the 2016 low. Pullbacks are now viewed as corrective on the daily chart, with dips expected to be supported well ahead of the yearly low in the 1.2400s. Look for a weekly close back above 1.3000 to strengthen the outlook.

- **R2 1.2814** – 27 May high – Strong
- **R1 1.2764** – 7 June high – Medium
- **S1 1.2653** – 10 June low – Medium
- **S2 1.2610** – 3 June low – Strong

GBPUSD – fundamental overview

Boris Johnson has emerged as the runaway candidate to replace Theresa May, though any added certainty from this news is being offset, with the Pound pulling back from weekly highs. The voting down of the Labour Party's motion, that would have enabled lawmakers to block no-deal Brexit, has been the offsetting force, as it increases those odds for a hard Brexit come October 31. At the same time, dips in the Pound have been supported by US Dollar bearish themes of US administration trade policy and expectations for a Fed rate cut at the upcoming meeting. Looking at today's calendar, we get a Mark Carney appearance, along with a batch of US data that features retail sales, industrial production and Michigan confidence.
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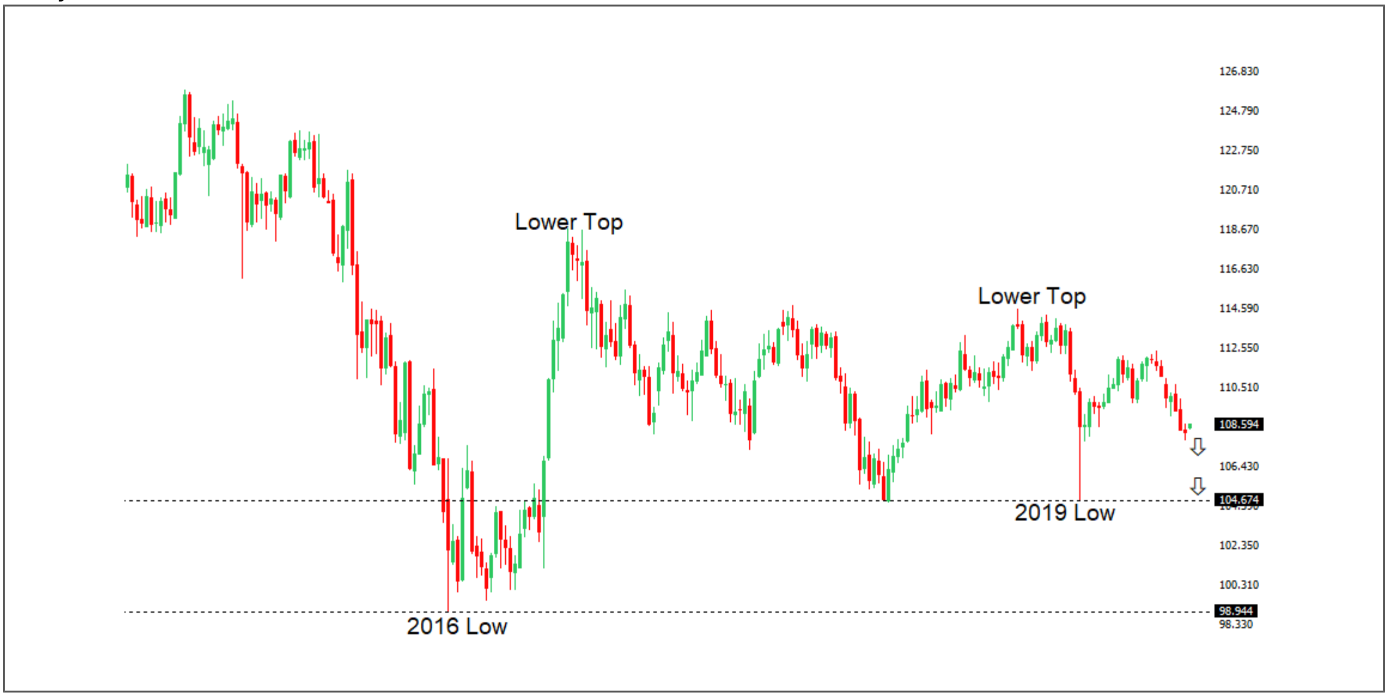
USDJPY – technical overview

Another topside failure has led to a sharp pullback, with the market unable to establish above a formidable resistance zone in the 112s. The recent drop back below 110.00 strengthens the bearish case, exposing the next major downside extension towards a retest of the January flash crash low in the 104s. Any rallies should now be well capped below 111.00, with only a break back above the yearly high at 112.40 to delay the bearish outlook.



- **R2 109.93** – 30 May high – Strong
- **R1 109.02** – 13 May low – Medium
- **S1 108.00** – Figure – Medium
- **S2 107.81** – 5 June low – Strong

USDJPY – fundamental overview

Overall, most of the movement in the major pair is being directed by investor appetite, with the Yen still tracking with traditional correlations. We had seen some demand for the major pair earlier in the week, yet optimism from this run has faded as US protectionist communications ramp up and geopolitical tension are on the rise. This in conjunction with expectations for a Fed rate cut, are keeping the major pair well capped into rallies. Looking at the calendar, we get a batch of data out of the US that includes retail sales, industrial production and Michigan confidence.

Watch now

EURCHF – technical overview

The latest breakdown below critical range support in the 1.1200 area, has opened the door for an acceleration of declines that targets a move back towards initial support in the form of the 1.1000 psychological barrier. The market is trading at its lowest level in nearly two years and at this point, it would take a daily close back above 1.1279 to take the immediate pressure off the downside.

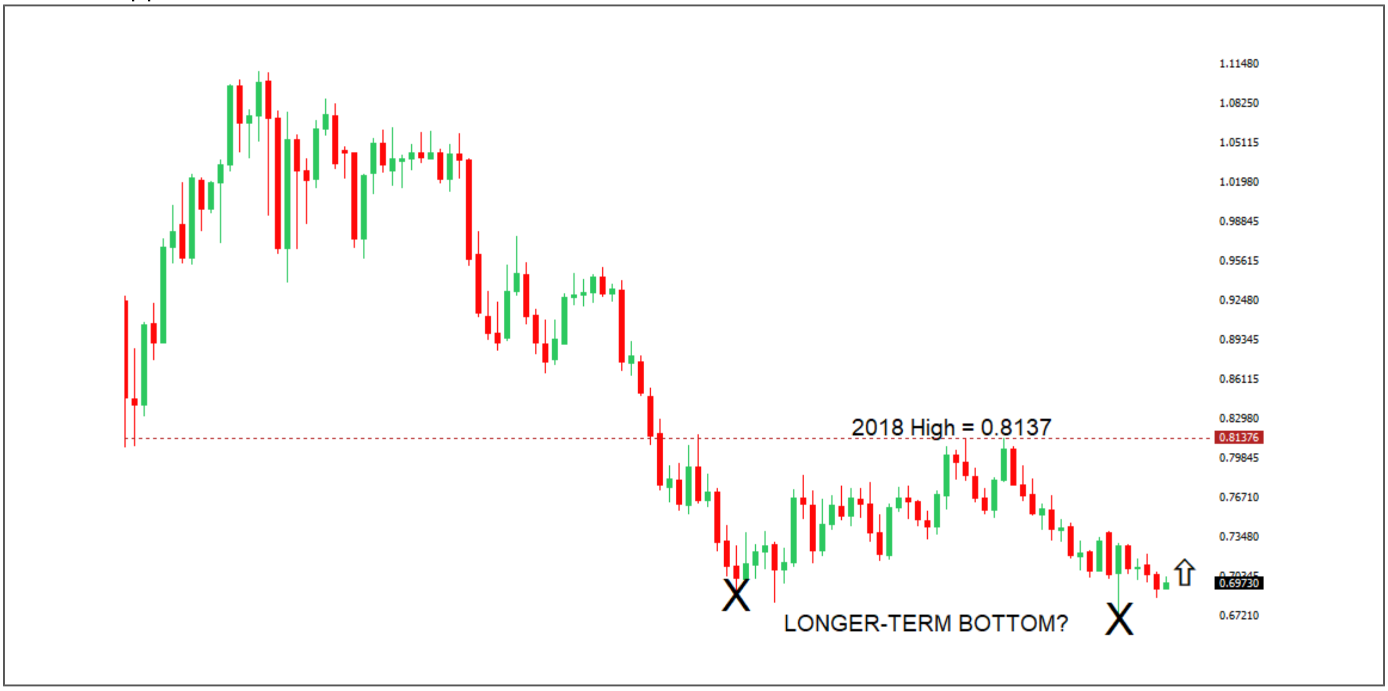
- **R2 1.1279** – 28 May high – Strong
- **R1 1.1265** – 12 June high – Medium
- **S1 1.1120** – 3 June/**2019 low** – Medium
- **S2 1.1100** – Figure – Medium

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, 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

The market has been very well supported on dips since breaking down in early January to multi-year lows. The price action suggests we could be seeing the formation of a major base, though it would take a clear break back above 0.7023 to strengthen this outlook. In the interim, look for setbacks to continue to be well supported ahead of 0.6800.



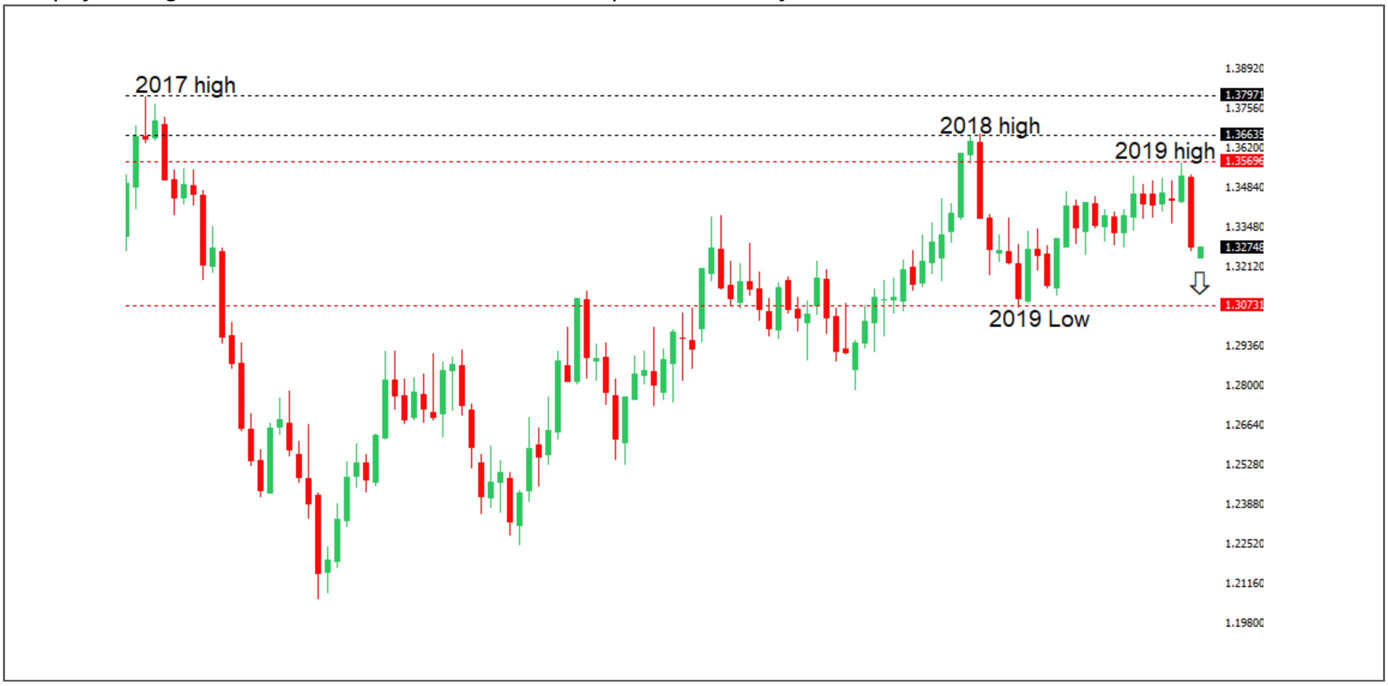
- **R2 0.7070** – 30 April high – Strong
- **R1 0.7023** – 7 June high – Medium
- **S1 0.6893** – 14 June low – Medium
- **S2 0.6865** – 17 May low – Strong

AUDUSD – fundamental overview

The Australian Dollar has been weighed down in the latter portion of the week, in the aftermath of Thursday's disappointing economic data and early Friday calls for additional rate cuts out from some of the major Aussie banks. Still, overall, the Australian Dollar has been well supported into dips. The market seems to be more focused on the US Dollar side of the equation, amidst soft Dollar US trade policy and building expectations for a Fed rate cut. Looking at the calendar, we get a batch of data out of the US that includes retail sales, industrial production and Michigan confidence.

USDCAD – technical overview

Despite breaking to a fresh yearly high in recent sessions, overall, the market has entered a period of choppy consolidation in 2019. However, the longer-term structure remains constructive, with dips expected to be well supported for fresh upside back above the 2018/multi-month high at 1.3665. Back below the psychological barrier at 1.3000 would be required to delay the outlook.



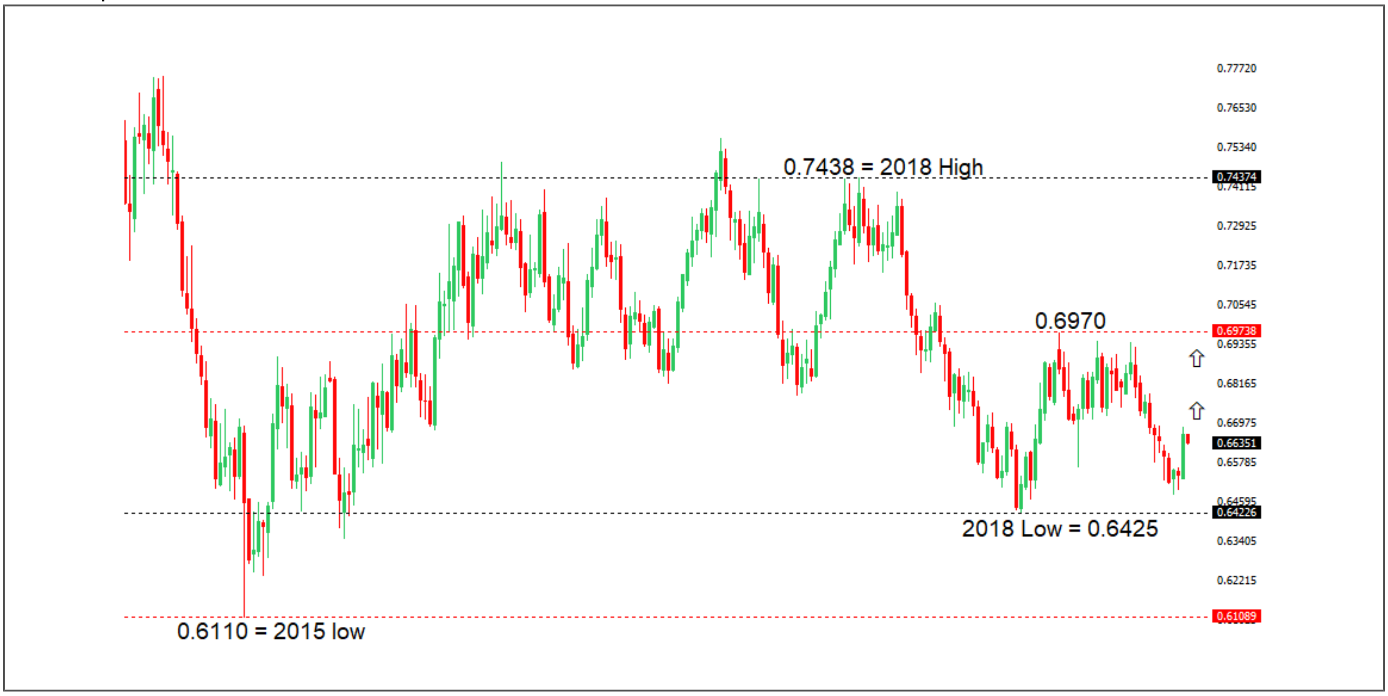
- **R2 1.3431** – 6 June high – Strong
- **R1 1.3368** - 7 June high – Medium
- **S1 1.3239** – 10 June low – Strong
- **S2 1.3200** – Figure – Medium

USDCAD – fundamental overview

The Canadian Dollar has done a good job recovering out from recent yearly lows against the Buck. The Loonie had taken hits on a more dovish Bank of Canada decision and sinking OIL prices. But setbacks were well supported, with the the greater focus on ramped up soft US Dollar trade policy and increased prospects for a Fed rate cut. OIL has also since attempted to stabilise, while last week's robust Canada employment report came in stark contrast to a concerning US jobs report. Looking at the calendar for today, absence of first tier data out of Canada will leave the focus on OIL prices and a batch of US readings that include retail sales, industrial production and Michigan confidence.

NZDUSD – technical overview

Despite recent weakness, there's a case to be made for a meaningful low in place at 0.6425 (2018 low). As such, look for setbacks to be well supported above the latter, in anticipation of renewed upside, with only a close below to compromise the outlook. At the same time, a push back above 0.6700 will be required to take pressure off the downside.



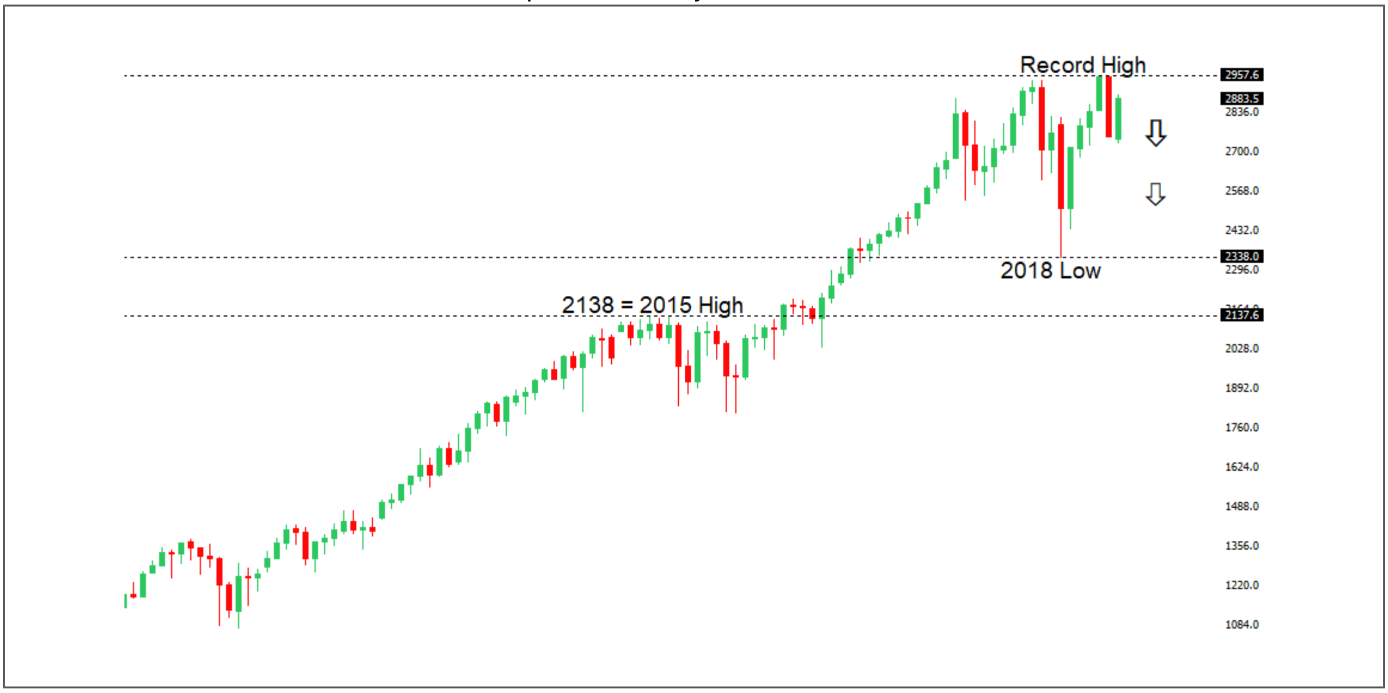
- **R2 0.6612** – 11 June high – Medium
- **R1 0.6588** – 13 June high – Medium
- **S1 0.6528** – 14 June low – Medium
- **S2 0.6482** – 23 May/**2019 low** – Strong

NZDUSD – fundamental overview

Kiwi has done a good job holding up into dips, despite downside pressure from a run of softer local data and clear dovish shift in RBNZ policy that had resulted in a rate cut last month. The market has even held up well considering Friday's surprisingly weak NZ manufacturing PMI data. It seems the impact of US administration soft Dollar trade policy is playing a bigger role as we head towards the second half of the year. We've also been hearing more talk of a possible rate cut from the Fed, further supporting Kiwi, despite all of the Kiwi negative drivers. Looking at the calendar, we get a batch of data out of the US that includes retail sales, industrial production and Michigan confidence.

US SPX 500 – technical overview

There have been signs of a major longer term top, after an exceptional run over the past decade. Any rallies from here, are expected to be very well capped, in favour of renewed weakness targeting an eventual retest of strong longer-term previous resistance turned support in the form of the 2015 high at 2140. The initial level of major support comes in around 2600, with a break below to strengthen the outlook. A sustained move above 3000 would be required to delay.



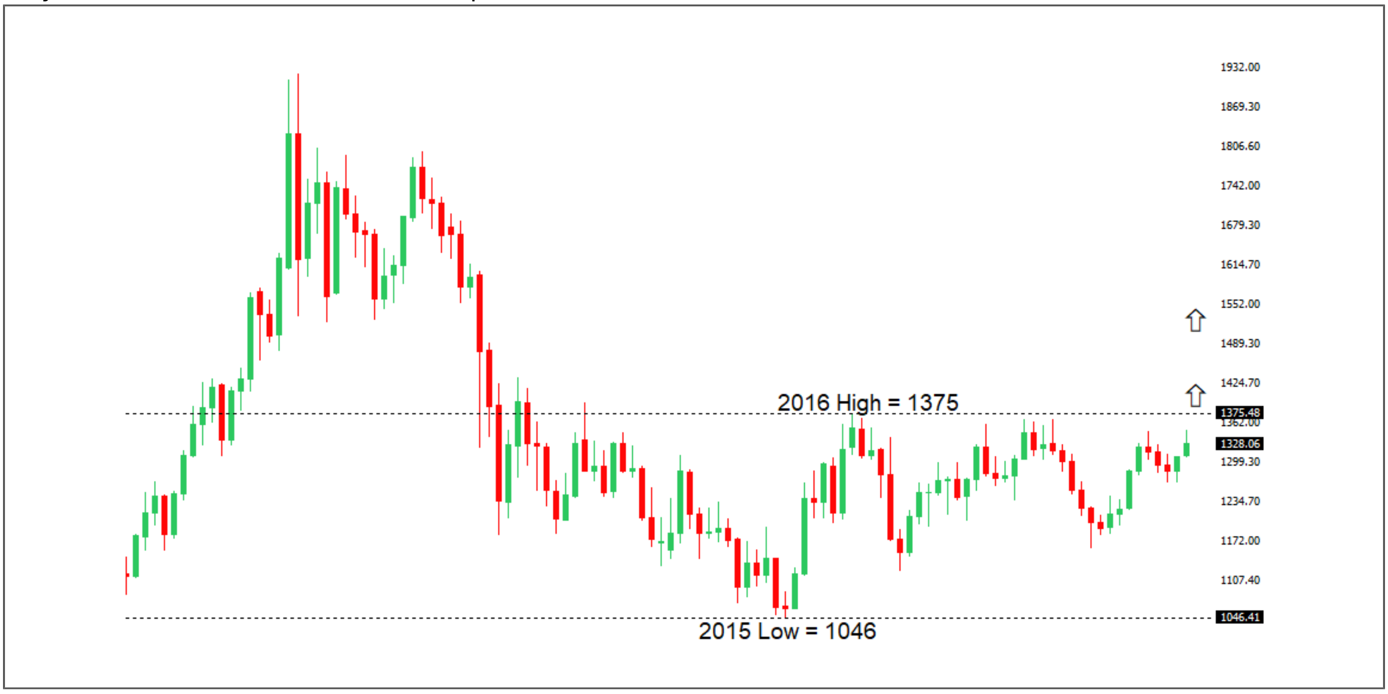
- **R2 2960** – 2019/**Record high** – Strong
- **R1 2911** – 11 June high – Medium
- **S1 2801** – 5 June low – Medium
- **S2 2729** – 3 June low – Strong

US SPX 500 – fundamental overview

Although we've seen the market extend to another record high in 2019, exhausted monetary policy tools post 2008 crisis suggest the prospect for a meaningful extension of this record run at this point in the cycle is not realistic. Meanwhile, ramped up tension on the global trade front, should continue to be a drag on investor sentiment. We recommend keeping a much closer eye on the equities to ten year yield comparative going forward, as the movement here is something that could be a major stress to the financial markets looking out.

GOLD (SPOT) – technical overview

There are signs that we could be seeing the formation of a more significant medium to longer-term structural shift that would be confirmed if a recovery out from sub-1200 levels can extend back through big resistance in the form of the 2016 high at 1375. In the interim, look for setbacks to be well supported, with only a close back below 1250 to compromise the constructive outlook.



- **R2 1363** – **2018 high** – Strong
- **R1 1349** – 7 June/**2019 high** – Medium
- **S1 1300** – Psychological – Medium
- **S2 1266** – 23 April/**2019 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

The market has enjoyed a nice run since breaking out above a consolidation between Q4 2018 and Q1 2019., though the rally has resulted in extended technical readings after racing through the July 2018 peak at 8,500. Next key resistance comes in at the 10k psychological barrier. Overall, look for additional upside to be limited for now, to allow for these technical readings to unwind from stretched readings, before the market considers a meaningful push beyond 10k. Setbacks should ideally be supported ahead of 6,000.

- **R2 9,979** – April 2018 high – Strong
- **R1 9,094** – 30 May/**2019 high** – Medium
- **S1 7,432** – 23 May low – Medium
- **S2 7,000** – 17 May low – Strong

BTCUSD – fundamental overview

Bitcoin is finally taking an overdue breather after enjoying a stellar rally over the past few weeks. Last month's resiliency in the face of the hack at a major exchange has given the crypto asset a huge credibility boost, while reports of mainstream adoption haven't hurt the cause either. Household names like Starbucks, Microsoft, TD Ameritrade and Whole Foods are all making moves in the space, while governments have been more receptive to working with the crypto asset, and the latest reports have major credit card companies backing Facebook's new digital currency.

BTCUSD - Technical charts in detail

Watch now

ETHUSD – technical overview

The recovery has recently accelerated to a fresh 2019 high, surging through medium-term resistance at 255 and exposing next key resistance at 355. The upside break suggests the market is now looking to establish a meaningful base, in favour of bullish structural shift. Still, shorter-term, the run is looking stretched and before we see that test of 355, we could see rallies well capped, to allow for extended readings to unwind before the market gets going again. Setbacks should now be well supported into the 200 area.

- **R2 300** – Psychological – Strong
- **R1 289** – 31 May/**2019 high** – Medium
- **S1 226** – 10 June low – Medium
- **S2 200** – Psychological – Strong

ETHUSD – fundamental overview

There has been a lot more buzz around adoption as the price of Bitcoin surges, with many mainstream names coming out in support of blockchain integration. Demand for web 3.0 applications is on the rise, and the blockchain with the biggest front end application potential is Ethereum. We've started to see some catch up as well, with ETH finding relative strength off cycle lows versus its older cousin. At the same time, worry associated with fallout in the global economy, is worry that should weigh more heavily on risk correlated crypto assets like ETH. And considering the possibility an overextended Bitcoin runs into profit taking, there is risk we soon see a healthy adjustment back to the downside.