Wednesday, May 16, 2018

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Global Sentiment Takes a Turn for the Worse **Wake-up call**

Into Wednesday, the market has been consolidating recent moves, after the Dollar put in another impressive performance, extending its 2018 run against the Euro, Pound and New Zealand Dollar. German and Eurozone inflation and a batch of US data ahead.

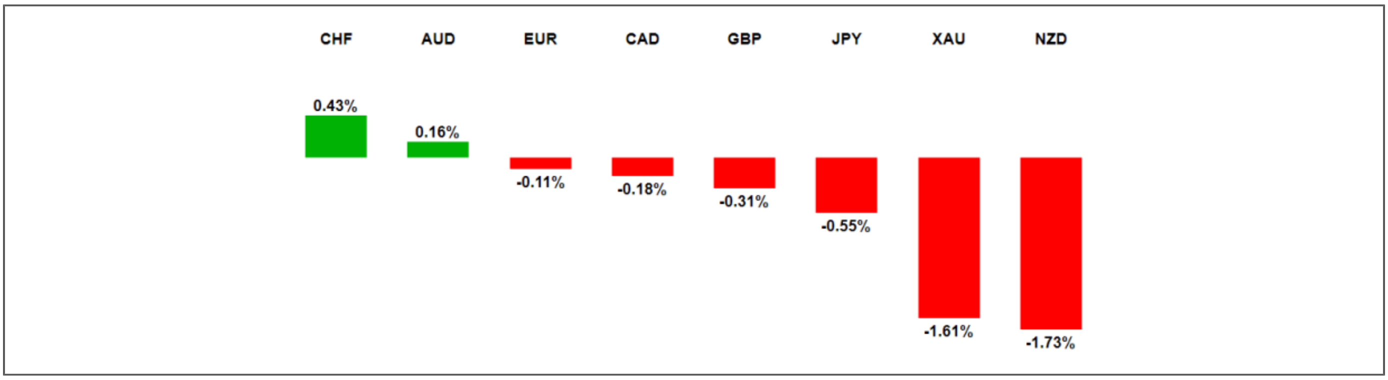
Technical highlights **Daily Video**

- **EURUSD** Getting closer to bottom
- **GBPUSD** Daily looking extended
- **USDJPY** Well capped into rallies
- **EURCHF** Into consolidation
- **AUDUSD** Looking for lower top
- **USDCAD** Bullish consolidation
- **NZDUSD** Upside seen limited
- **US SPX 500** Slowly rolling over
- **GOLD** (spot) Supported on dips
- **BTCUSD** Trying to turn back up
- **ETHUSD** Holding above Ichimoku

Fundamental highlights

- **EURUSD** Eurozone and German inflation data out
- **GBPUSD** BOE Broadbent and a colourful outlook
- **USDJPY** North Korea back in the headlines
- **EURCHF** SNB policy strategy to get tougher
- **AUDUSD** Australia wage prices soften
- **USDCAD** Plenty of risk surrounds NAFTA fate
- **NZDUSD** Kiwi gets a little help from upbeat GDT
- **US SPX 500** Fed model will be important to watch
- **GOLD** (spot) Metal demand reflects uncertainty
- **BTCUSD** Crypto headwinds challenge Bitcoin
- **ETHUSD** Ethereum exposed on US designation

Five day performance v. US dollar



Suggested reading

- **What Theresa Can Do About Her Brexit Woes**, L. Barber, **Financial Times** (May 11, 2018)
- **Fed Officials on the Flattening Yield Curve**, A. Bull, **Bloomberg** (May 15, 2018)

EURUSD – technical overview

The major pair has come under pressure in recent trade, breaking down to fresh 2018 lows and could be at risk for even deeper setbacks. A recent break below 1.2155 ended a period of consolidation that had been in play since the start of 2018 and has opened the door for this measured move downside extension towards the December 2017 low at 1.1720. A break and daily close back above 1.2000 would now be required at a minimum to alleviate the downside pressure. Should the market fail to extend declines and break back over 1.2000, it would set up a double bottom on the daily chart, projecting a move back towards the 1.2200 area.

- **R2 1.1997** – 14May high – Strong
- **R1 1.1939** – 15May high – Medium
- **S1 1.1821** – 15May/**2018 low** – Medium
- **S2 1.1800** – Figure – Medium

EURUSD – fundamental overview

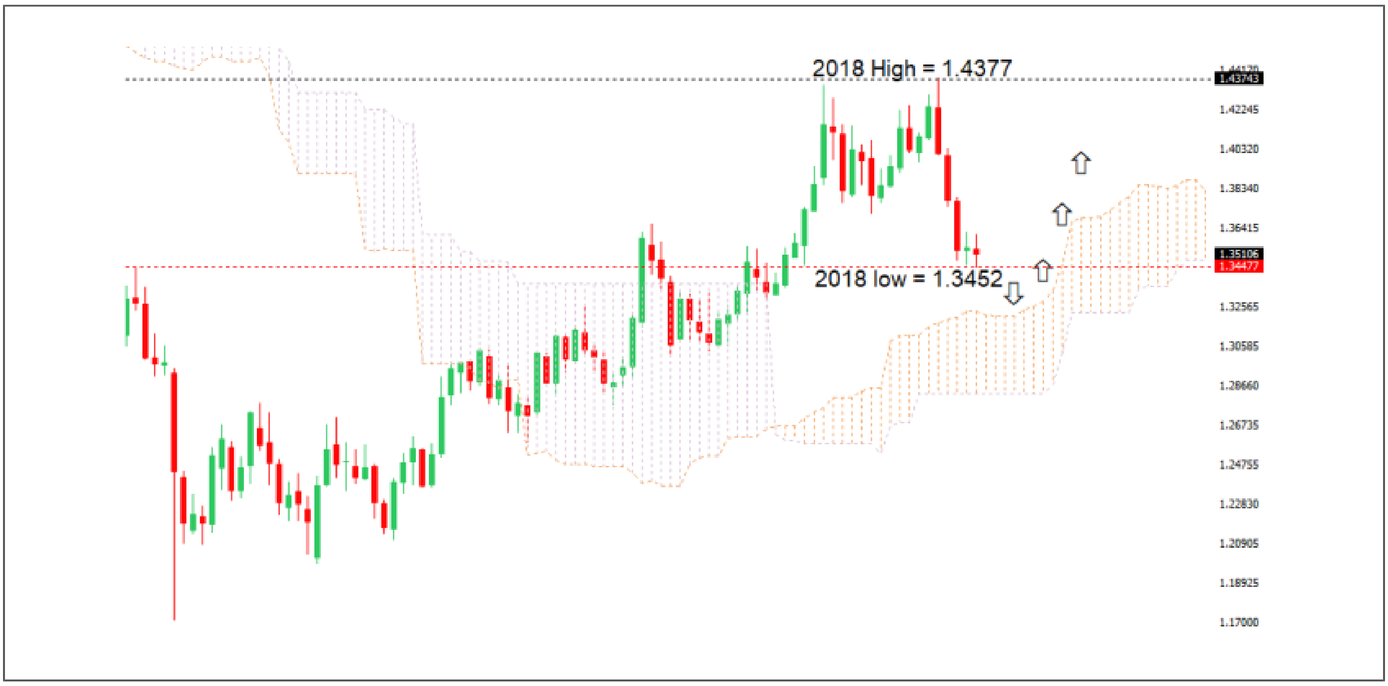
A struggling Euro will look to see if it can get any support from German and Eurozone inflation data, after the single currency sunk to another 2018 low on the back of discouraging German GDP and a push in the US ten year yield to its highest level since 2011. We also get a a batch of US data that include housing starts, building permits, industrial production and capacity utilization, along with some central bank speak from the likes of ECB's Coeure, ECB Praet and Fed Bostic.

EURUSD – Technical charts in detail

Watch now

GBPUSD – technical overview

Extended studies have opened the door for a healthy decline to a fresh 2018 low. Still, overall, the structure remains constructive on a medium to longer term basis and a higher low is sought out ahead of 1.3300 in favour of a bullish continuation. Ultimately back below 1.3000 would compromise the medium to longer term constructive outlook.



- **R2 1.3667 –** 2May high – Strong
- **R1 1.3618 –** 10May high – Medium
- **S1 1.3452** – 15May/**2018 low** – Strong
- **S2 1.3303** – 15Dec low – Strong

GBPUSD – fundamental overview

BOE Broadbent was on the wires painting a lovely picture of the UK economy, describing it as entering a "menopausal" phase after passing peak productivity. The Pound has struggled quite a bit over the past several weeks as economic data has taken a turn for the worse, forcing a more dovish pricing of BOE normalisation. Meanwhile, UK political woes relating to Brexit have also intensified, not doing anything to help Sterling's cause. Tuesday's solid UKk employment data has done little to inspire renewed demand thus far, with the market still consumed with broad based US Dollar demand as the US ten year rallies to its highest level since 2011. Looking ahead, the UK economic calendar is quiet and the focus will be on a batch of US data in the form of housing starts, building permits, industrial production and capacity utilization, along with central bank speak from Fed Bostic.

GBPUSD – Technical charts in detail

Watch now

USDJPY – technical overview

The major pair has been attempting to bottom out after trading down to a 2018 low in the 104s. Still, the medium term trend continues to point lower, and there is risk the rally could soon stall out into important resistance towards 112.00 in the form of a falling trend-line and the Ichimoku cloud bottom.

- **R2 111.00** – Figure – Strong
- **R1 110.49** – 2Feb high – Medium
- **S1 109.16** – 11May low – Medium
- **S2 108.65** – 4May low – Strong

USDJPY – fundamental overview

The Yen has come under pressure in recent weeks (USDJPY higher), with the currency falling victim to broad based US Dollar demand as the focus shifts to yield differentials. The recent tweak in the Fed statement acknowledging inflation no longer below target has backed up this view. However, the major pair is still very much correlated to risk sentiment and the negative risk implications of policy normalization, trade wars, and any renewed signs of escalating geopolitical tension (USDJPY lower). As far as geopolitical tension goes, North Korea is back in the headlines as it reportedly looks to harden its nuclear stance. Looking ahead, we get a batch of US data in the form of housing starts, building permits, industrial production and capacity utilization, along with central bank speak from Fed Bostic.

USDJPY – Technical charts in detail

Watch now

EURCHF – technical overview

The market has entered an overdue corrective phase after trading back above 1.2000 for the first time since January 2015. Technical studies were highly extended when the market crossed through the barrier and this has led to a necessary corrective decline to allow for the extended readings to unwind. Ultimately, the next meaningful higher low is now sought out into this dip, ideally above 1.1600.

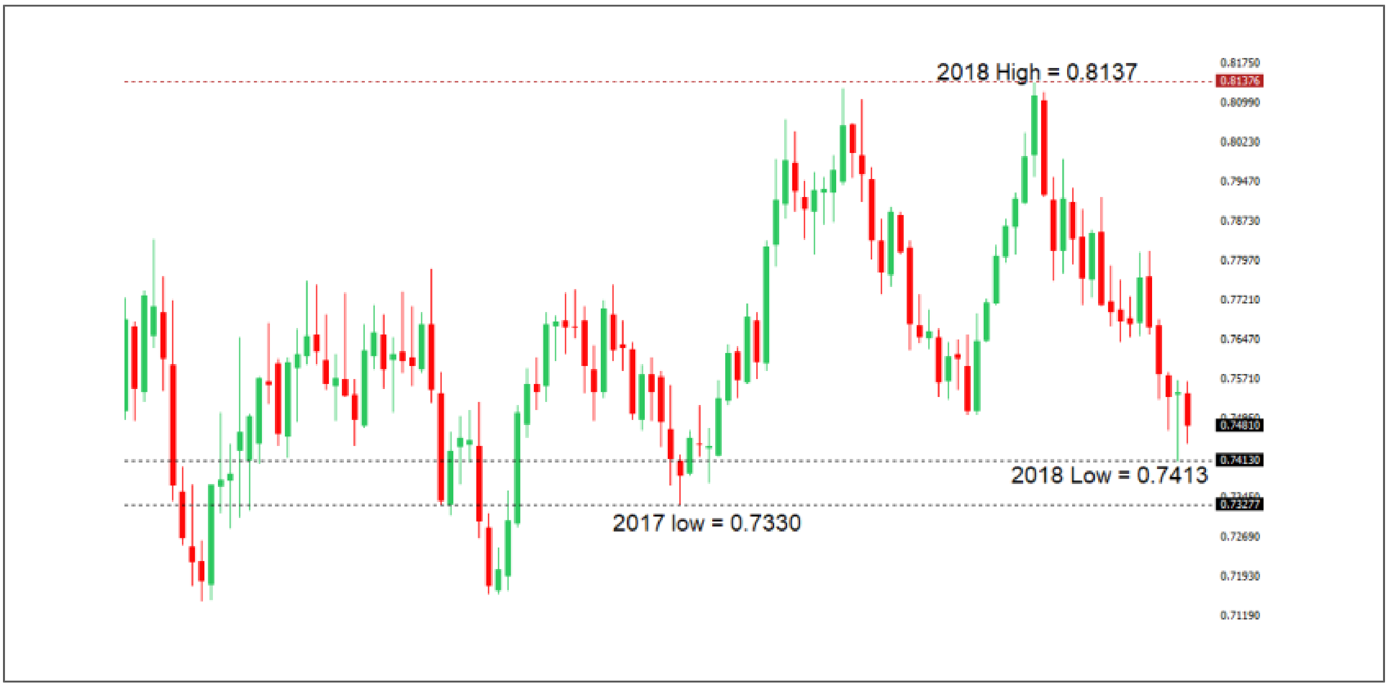
- **R2 1.2006** – 20Apr/**2018 high** – Strong
- **R1 1.1942** – 15May high – Medium
- **S1 1.1834** – 15Jan high – Strong
- **S2 1.1800** – Figure – Medium

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 Q2 2018, will likely invite a very large wave of demand for the Franc, which will put the SNB in a more challenging position to weaken the Franc.

AUDUSD – technical overview

The market has been in the process of rolling over after failing to sustain a break above 0.8100 earlier this year. This has set up 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 0.7700 required to take the immediate pressure off the downside.



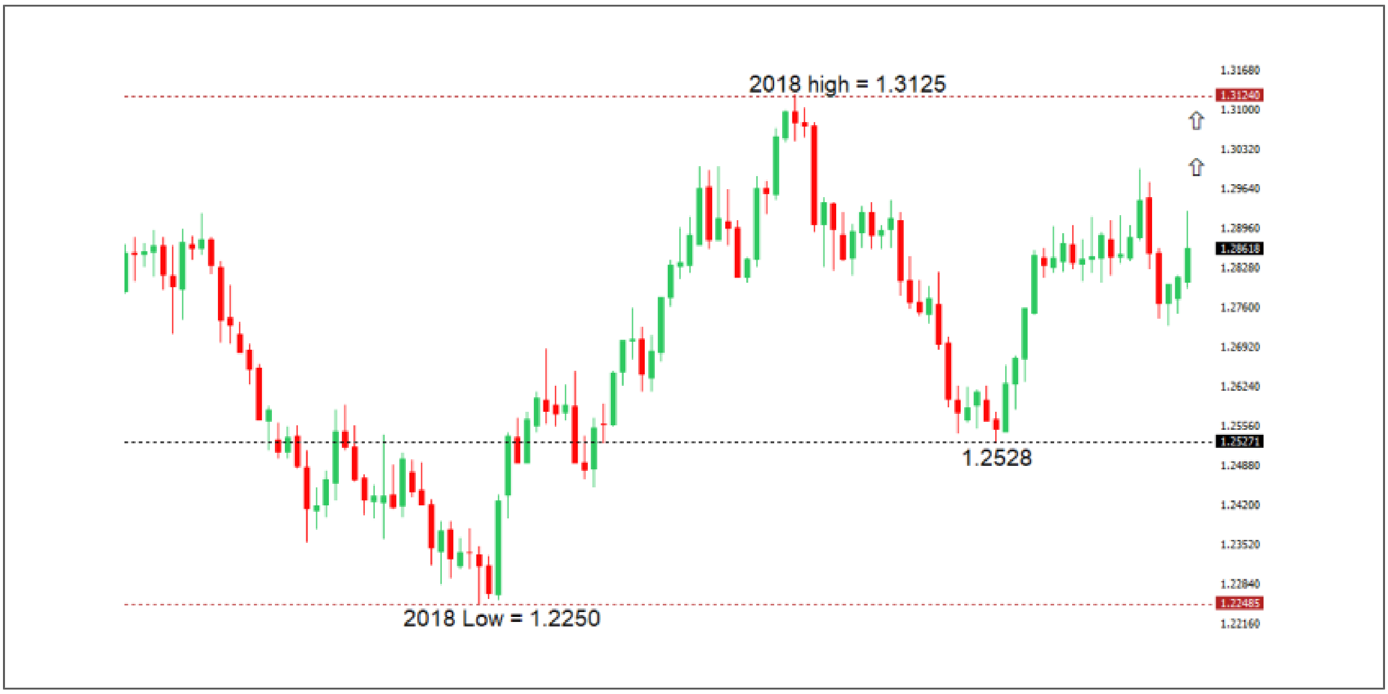
- **R2 0.7600** – Figure – Medium
- **R1 0.7568 –** 11May high – Medium
- **S1 0.7413** –9May/**2018 low** – Medium
- **S2 0.7330**– 9May/**2017 low** – Strong

AUDUSD – fundamental overview

Australia's wage price index came in on the softer side early Wednesday, though setbacks have been well supported, with the commodity currency benefiting from profit taking on shorter term Dollar longs. But overall, Aussie rallies have been well capped, with the US Dollar still looking to stay in the driver's seat. Yield differentials have come back into focus in recent weeks, which has been a major driver of the selloff in the commodity currency to fresh 2018 lows. The Fed seems to be committed to moving forward with policy normalization, while the RBA is content to sit back and remain on hold for now. Tuesday's push in the US ten year yield to its highest levels since 2011 has only emboldened the yield differential theme. Looking ahead, we get a batch of US data in the form of housing starts, building permits, industrial production and capacity utilization, along with central bank speak from Fed Bostic.

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 1.2500, in favour of the next major upside extension through 1.3125 and towards 1.3500 further up. Ultimately, a break back below 1.2500 would be required to negate the medium term constructive outlook.



- **R2 1.2998**– 8May high – Strong
- **R1 1.2925** – 15May high – Medium
- **S1 1.2730** – 11May low – Medium
- **S2 1.2660** – 18Apr high – Strong

USDCAD – fundamental overview

Overall, the US Dollar recovery will be tough to fight against after the Fed hawkishly tweaked its statement at the latest meeting to acknowledge inflation no longer running below target. Fed Powell has since dismissed concerns about negative shocks to financial markets from policy normalisation, while the US 10 year has pushed up to its highest level since 2011. Moreover, with NAFTA risk still very much alive, there continues to be downside risk attached to the Canadian Dollar's fate.Looking ahead, we Canada manufacturing shipments and a batch of US data in the form of housing starts, building permits, industrial production and capacity utilization. We also get central bank speak from Fed Bostic and BoC Schembri

NZDUSD – technical overview

Setbacks have intensified in recent days, leaving daily studies oversold and at risk for a corrective bounce. But any rallies are now expected to be very well capped ahead of 0.7200, with only a break back above the psychological barrier to negate the bearish outlook. The market decline has now extended below the critical psychological barrier at 0.7000, resulting in fresh 2018 lows as well, with the next key level of support coming in down at the 0.6781 2017 low.

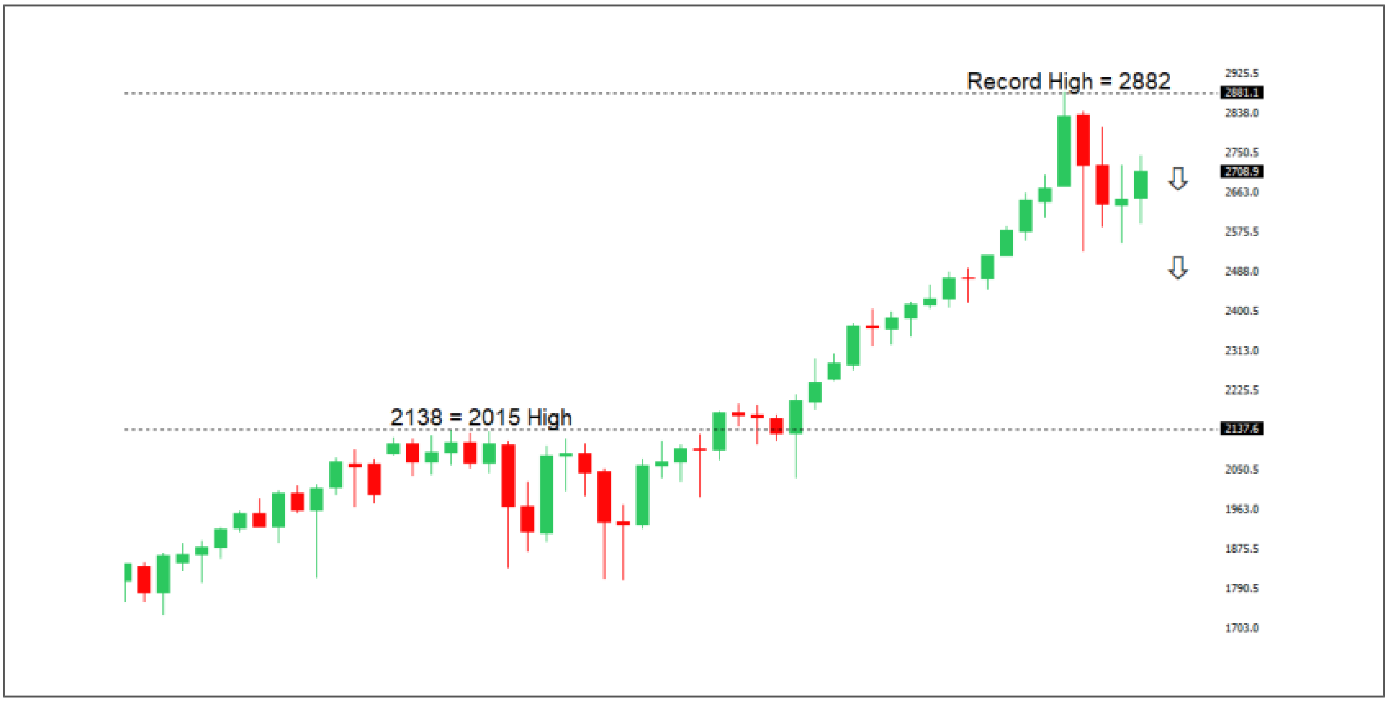
- **R2 0.6988** – 11May high – Strong
- **R1 0.6925** – 15May high – Medium
- **S1 0.6855** – 15May/**2018 low** – Strong
- **S2 0.6781** – 17Nov/**2017 low** – Medium

NZDUSD – fundamental overview

No surprise to see the New Zealand Dollar at the bottom of the pack right now given last week's more dovish leaning RBNZ policy decision. The RBNZ's decision to push back its forecast for the next OCR hike has also been followed up by Governor Orr's welcoming of a lower Kiwi rate. All of this has intensified the yield differential narrative, with the US Dollar in demand across the board as the market processes the reality of a Fed committed to moving forward with its policy normalisation. The hawkish tweak in the latest Fed statement acknowledging inflation no longer running below target has been a major source of Dollar demand, with this outlook strengthened further since, on account of Fed Powell's dismissal of negative impact of higher rates on financial markets and the push in US tens to their highest level since 2011. Kiwi has found some demand into Wednesday on short term profit taking from USD longs and a well received GDT auction result, though offers are reported into rallies. Looking ahead, we get a batch of US data in the form of housing starts, building permits, industrial production and capacity utilization, along with central bank speak from Fed Bostic.

US SPX 500 – technical overview

A market is that has been extended on the monthly chart is finally showing signs of rolling over 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 2138.



- **R2 2807** – 13Mar high – Strong
- **R1 2743** – 14May high – Medium
- **S1 2656** – 8May low – Medium
- **S2 2595** – 3May 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 rise from unnervingly depressed levels. The combination of Fed policy normalisation, ramped up 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 pressure. Overall, we expect the bigger picture theme of policy normalisation to continue to weigh on investor sentiment into rallies. The latest Fed decision emboldens our view, with the central bank acknowledging inflation no longer running below target, something that makes equity market valuations far less attractive at current levels. We also 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.

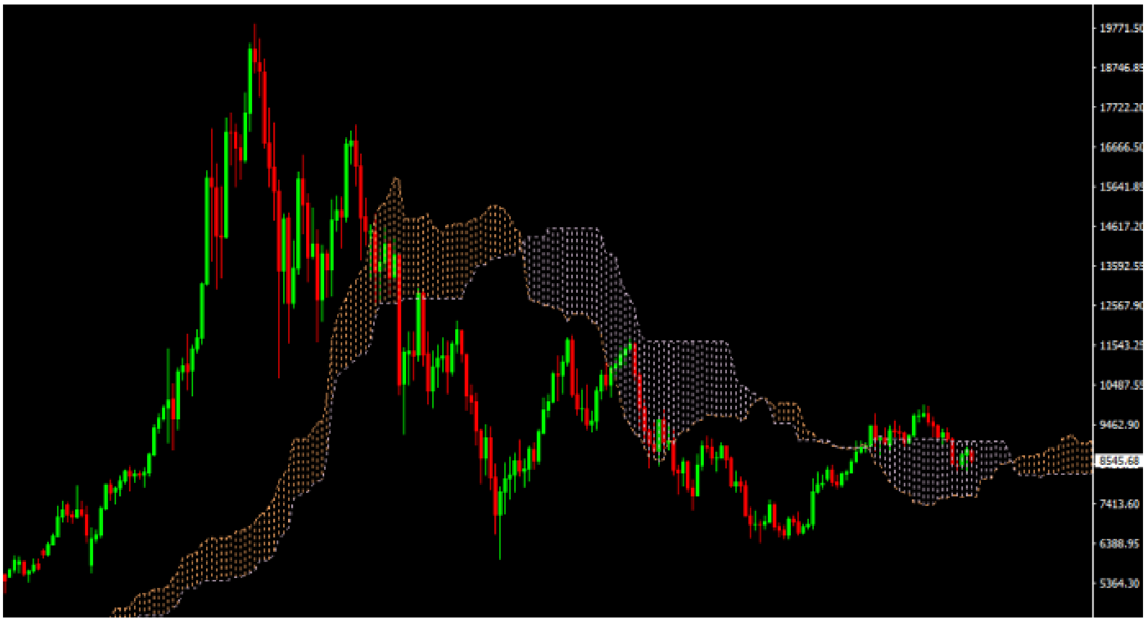
- **R2 1375 – 2016 high** – Very Strong
- **R1 1326** – 11May high – Medium
- **S1 1287** – 28Dec low – Medium
- **S2 1250** – Psychological – Strong

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

A recent break back above the daily Ichimoku cloud has encouraged the recovery prospect, with scope for additional upside towards more meaningful resistance up around 12,000. Still, the overall pressure remains on the downside and a break back above 12,000 will be required to force a bullish structural shift and get the market thinking about getting back to the type of demand seen in 2017. In the interim, look for any setbacks to be well supported ahead of the yearly low around 6,000.



- **R2 12,000** – Feb/Mar highs – Strong
- **R1 9,980** – 5May high – Medium
- **S1 8,195** – 11May low – Medium
- **S2 7,820** – 17Apr low – Strong

BTCUSD – fundamental overview

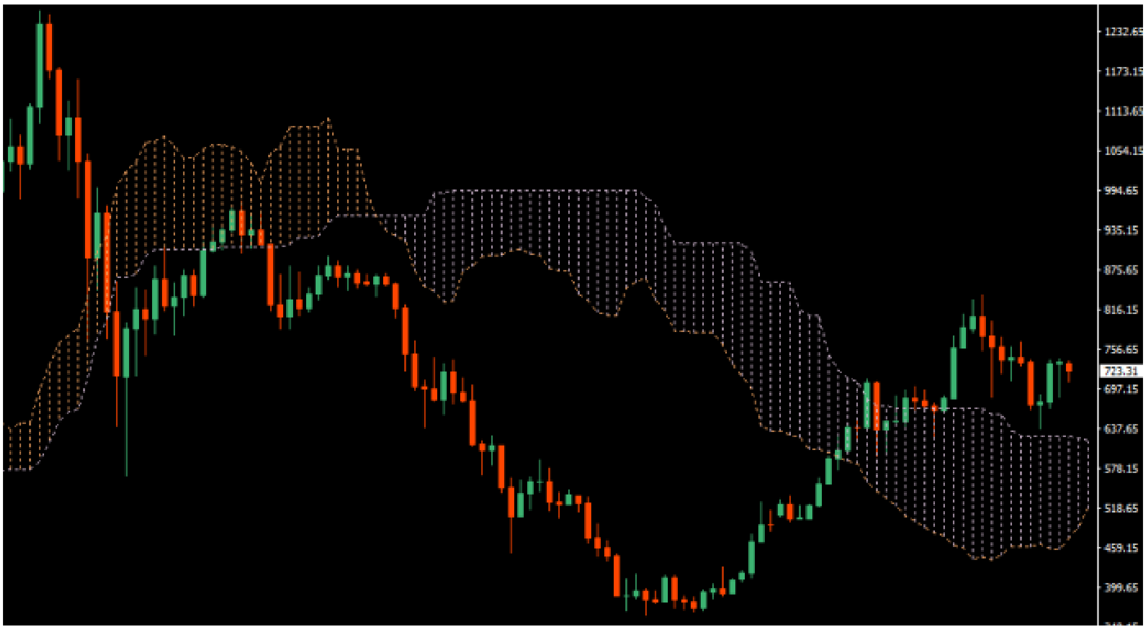
The crypto asset has come under pressure in 2018, with ramped up regulatory oversight and potential government crackdowns forcing many holders to exit positions. The market is also coming back to earth after a euphoric 2017 run that had bubble written all over. Bitcoin has struggled on the transaction side as well, with transactions per second a major drawback, along with a mining community that has been less willing to process transactions due to the lower fees. The Lightning network has been a welcome development and is helping to ramp up transaction speed, which has been behind some of the recovery off the 2018 low, though it seems the combination of a massive bubble, more regulatory oversight, a market that is still trying to convince of its proof of concept, and the threat of a reduction in global risk appetite, could all result in even deeper setbacks ahead once the current correction fades away.

BTCUSD – Technical charts in detail

Watch now

ETHUSD – technical overview

Signs of recovery, with the market rallying out from the 2018 low and trading back above the daily Ichimoku cloud for the first time since February. This opens the door for additional upside in the days ahead, with the next major obstacle coming in around 980. Setbacks should be well supported ahead of 595, with only a break back below to negate the constructive outlook.



- **R2 895** – 27Feb high – Medium
- **R1 800** – Figure – Strong
- **S1 636** – 12May low– Medium
- **S2 595** – 25Apr high – Strong

ETHUSD – fundamental overview

The market has been watching the price of Ether with added interest as reports swirl of US deliberations regarding its status and designation. Overall, despite a recent recovery, the cryptocurrency remains under pressure in 2018 and setbacks have been more intense than those of Bitcoin. Though both markets are going through a period of shakeup following bubble activity in 2017, there has been a bigger exodus from ETH with this cryptocurrency more heavily correlated to risk in global markets. The reduction in global risk appetite has put a strain on the investment in projects on the blockchain and with most of the blockchain projects built on the Ethereum protocol, it makes sense to see this market more negatively impacted than bitcoin, which is considered to be the store of value digital currency.