

Friday, May 17, 2019

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Global FX Insights

by LMAX Exchange Research & Analytics

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

China Willing to Play Hardball 🗣️ [Wake-up call](#)

Global markets continue to keep a close on eye on updates relating to US-China trade as the week gets set to close out. Stocks have come back under some pressure on Friday, with many worrying about reports China may not be interested in continuing trade negotiations with the US.

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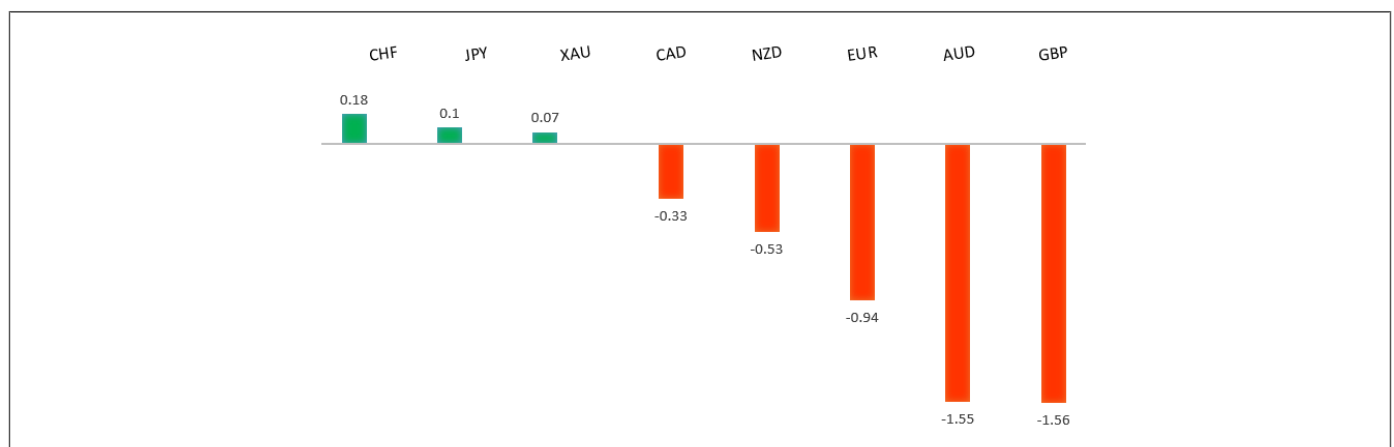
Technical highlights 📺 [Daily Video](#)

- [EURUSD](#) Plenty of demand into dips
- [GBPUSD](#) Setbacks well supported in 2019
- [USDJPY](#) Room for additional decline
- [EURCHF](#) Confined to well defined range
- [AUDUSD](#) Bullish reversal anticipated
- [USDCAD](#) Lots of choppy up and down
- [NZDUSD](#) Inclined to hold up on dips
- [US SPX 500](#) Uptrend looking exhausted
- [GOLD](#) (spot) Higher low for next push
- [BTCUSD](#) Extended studies need to unwind
- [ETHUSD](#) At risk for short term correction

Fundamental highlights

- [EURUSD](#) EZ construction and inflation readings
- [GBPUSD](#) Boris Johnson looking to replace May
- [USDJPY](#) US Michigan confidence readings on tap
- [EURCHF](#) SNB's job getting a lot harder in 2019
- [AUDUSD](#) Soft Aussie jobs report increases cut odds
- [USDCAD](#) Governor Poloz remains upbeat
- [NZDUSD](#) Kiwi tracking global macro picture
- [US SPX 500](#) Investor risk appetite not as strong
- [GOLD](#) (spot) Macro players still buying dips
- [BTCUSD](#) Mainstream adoption opens big push
- [ETHUSD](#) Excitement around web 3.0 a plus

5 day performance v. US dollar



Suggested reading

- [Irrational Equanimity Has Taken Over the Markets](#), J. Authers, **Bloomberg** (May 17, 2019)
- [Viewpoints from a Continent at a Crossroads](#), J. Sandy, **Financial Times** (May 17, 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 April. 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 1.1324** - 12 April high - Strong
- **R1 1.1264** - 13 May high - Medium
- **S1 1.1166** - 16 May low - Medium
- **S2 1.1111** - 26 April/**2019 low** - Medium

EURUSD - fundamental overview

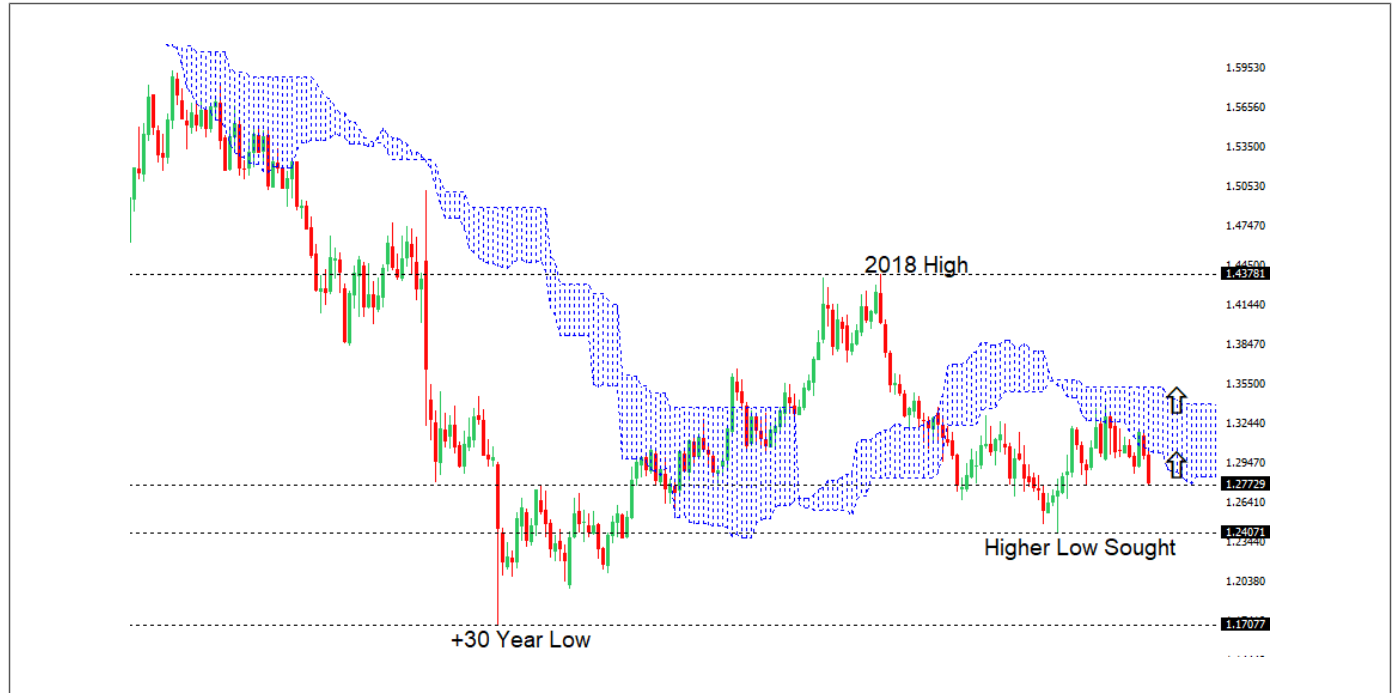
Eurozone trade surplus was larger than forecast, though ECB Coeure was on the wires with a dovish leaning communication. Meanwhile EXC Visco was out with some downbeat remarks about risks associated with fallout in the global economy, adding the ECB would not be disarmed in the event of a full blown recession. Stress around the outlook for the Italian economy has also worked back into the headlines this week. Looking ahead, we get Eurozone construction output, Eurozone inflation readings, and US Michigan confidence.

EURUSD - Technical charts in detail

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GBPUSD – technical overview

The major pair has put in an impressive recovery off the multi-month low in early January, helping 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 ahead of 1.2700. Look for a weekly close back above 1.3400 to strengthen the outlook.



- **R2 1.3000** – Psychological – Strong
- **R1 1.2924** – 15 May high – Medium
- **S1 1.2782** – 17 May low – Medium
- **S2 1.2773** – 14 February low – Strong

GBPUSD – fundamental overview

Conservative members of Parliament came to an agreement with the PM on a timetable for a leadership race to replace her in June. Boris Johnson confirmed he would be in the running to succeed PM May. Absence of first tier UK data on Friday, will leave the focus on Brexit and some Michigan confidence data out of the US.

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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. Last week's drop below 109.70 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 112.00, with only a break back above the yearly high at 112.40 to delay the bearish outlook.



- **R2 110.30** - 8 May high - Strong
- **R1 110.04** - 17 May high - Medium
- **S1 109.02** - 13 May low - Medium
- **S2 107.51** - 4 January low - Strong

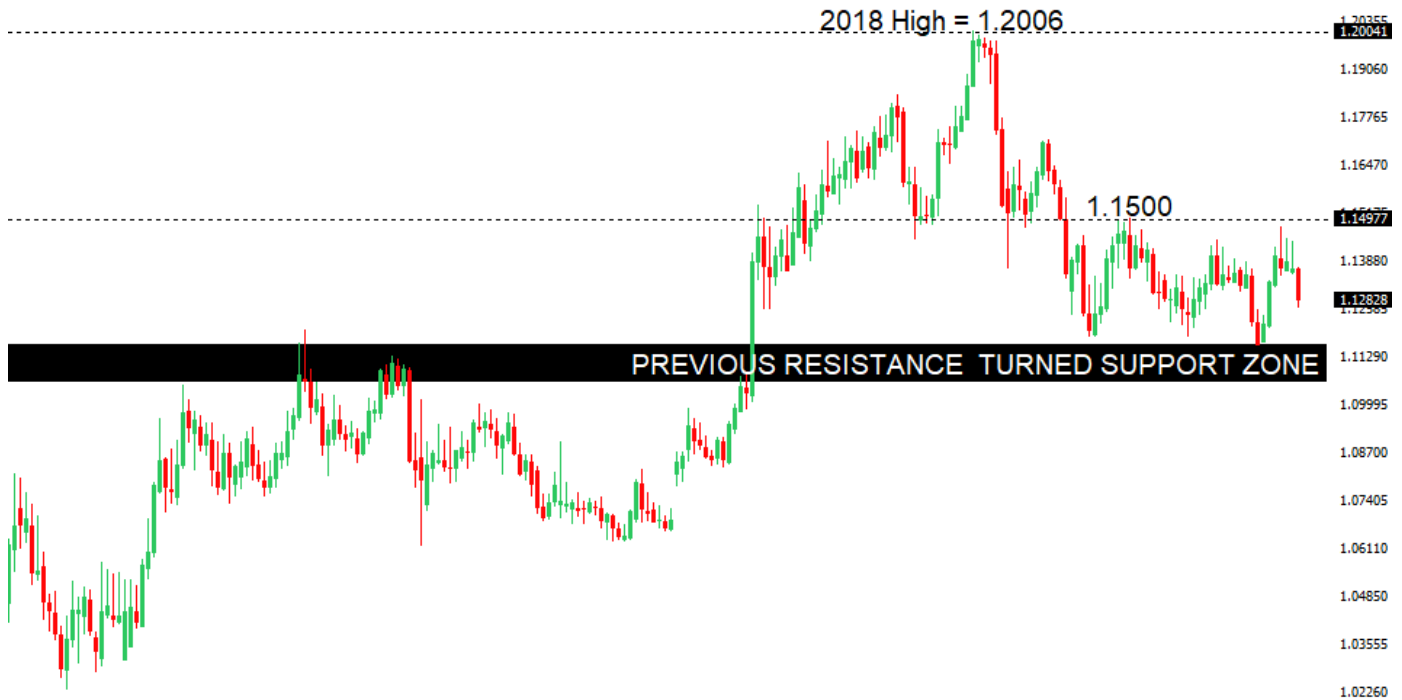
USDJPY - fundamental overview

The outlook here continues to be contingent on the outlook for global sentiment. The market hasn't spent any time reacting to the hotter than expected Japan PPI data. Looking ahead, the calendar is exceptionally thin, with only Michigan confidence readings standing out.

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EURCHF – technical overview

The market continues to do a good job adhering to a medium-term range, with rallies well capped towards 1.1500 and dips well supported into the 1.1200 area. At this stage, there is no clear trend, and it will take a sustained break back above 1.1500 or below 1.1200 for directional insight.



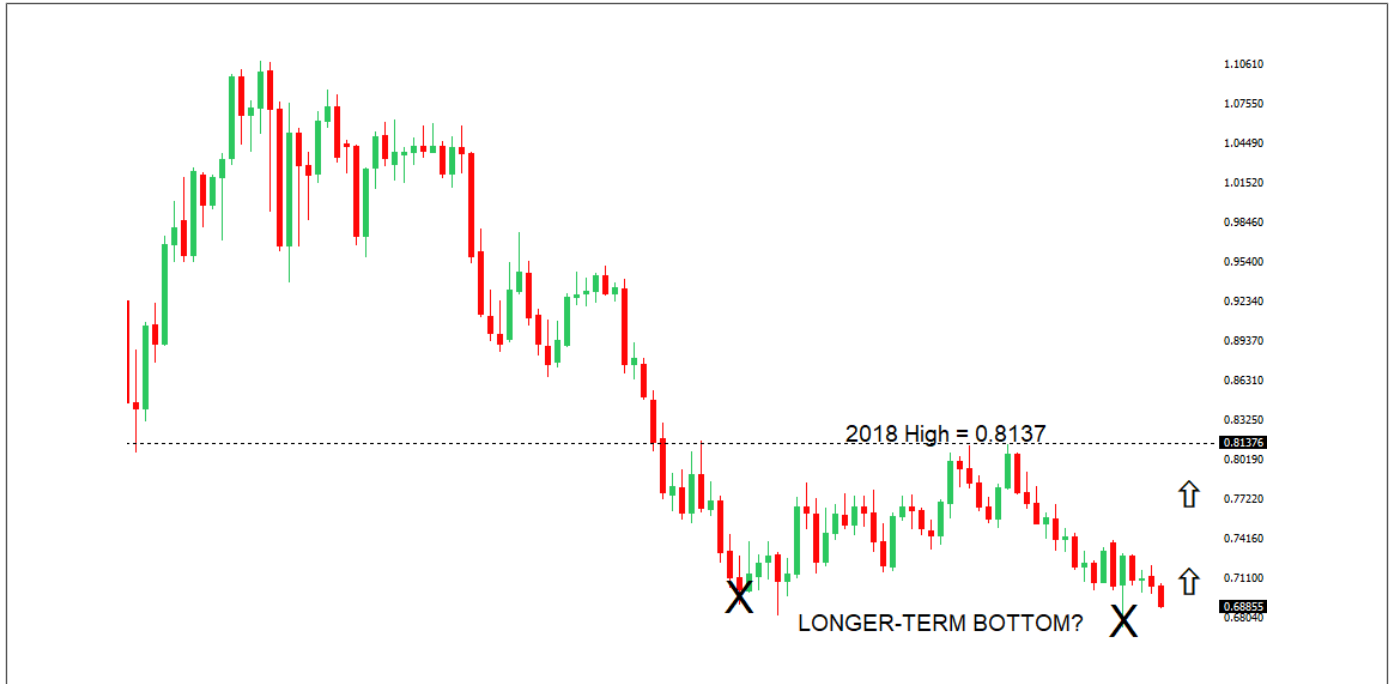
- **R2 1.1477** – 23 April/2019 **high** – Strong
- **R1 1.1446** – 30 April high – Medium
- **S1 1.1265** – 15 May low – Medium
- **S2 1.1246** – 9 April low – Strong

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 in 2019, 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 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 0.7400 to strengthen this outlook. In the interim, look for setbacks to continue to be well supported on dips below 0.7000 and ahead of 0.6800.



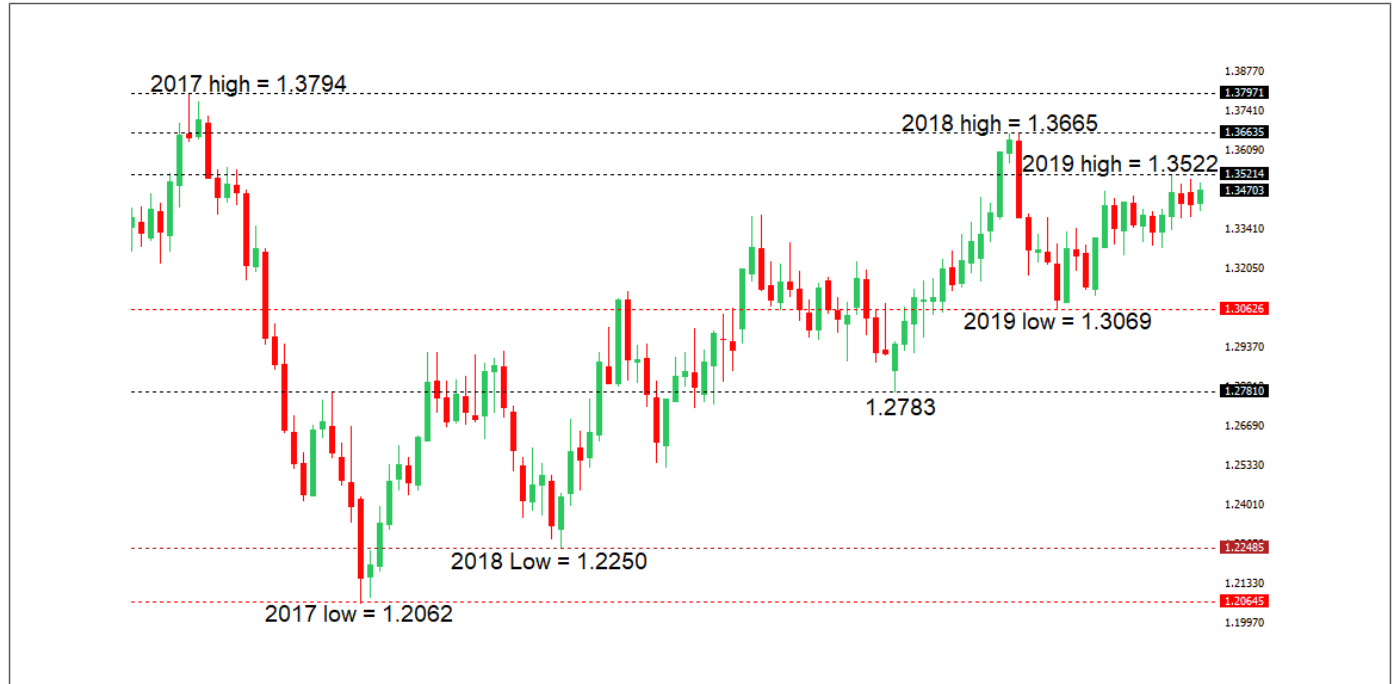
- **R2 0.6960** – 14 May high – Strong
- **R1 0.6927** – 16 May high – Medium
- **S1 0.6850** – Mid-Figure – Medium
- **S2 0.6800** – Figure – Strong

AUDUSD – fundamental overview

It's been a tough go for the **Australian Dollar** of late, with the currency standing out as a relative underperformer. The combination of worry associated with the US-China trade outlook, disappointing China data, and softer Aussie data, have been the primary drivers behind the move. This week's ugly employment numbers have added to the downside pressure, with many now pricing in a rate cut at the next meeting. Looking ahead, the market will continue to monitor developments on the trade front, while also taking in Michigan confidence readings.

USDCAD – technical overview

Despite breaking to a fresh yearly high in recent days, 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 1.3522** – 24 April/**2019 high** – Strong
- **R1 1.3500** - Psychological – Medium
- **S1 1.3400** - Figure – Medium
- **S2 1.3377** - 1 May low – Strong

USDCAD – fundamental overview

The Bank of Canada said slowdown in economic growth had slightly increased risk to the financial system, though the economy remained resilient. BoC Poloz continued with his upbeat line as well. Canada manufacturing came out better than forecast. Looking ahead, absence of first tier data out of Canada will leave the focus on Michigan confidence readings.

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 ahead of 0.6500 in anticipation of renewed upside, with only a break back below 0.6500 to compromise the outlook. At the same time, a push back above 0.6700 will be required strengthen the constructive outlook.



- **R2 0.6694** – 19 April high – Strong
- **R1 0.6631** – 7 May high – Medium
- **S1 0.6525** – 8 May/**2019 low** – Medium
- **S2 0.6500** – Psychological – Strong

NZDUSD – fundamental overview

The New Zealand Dollar continues to suffer from a combination of softer local data, a recent RBNZ rate cut, and a downturn in global sentiment. Looking ahead, the market will keep an eye on the bigger picture macro themes, while also taking in 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 2786, with a break below to strengthen the outlook. A sustained move above 3000 would be required to delay the outlook.



- **R2 3000** –Psychological – Very Strong
- **R1 2961** – 1 May/**Record** – Medium
- **S1 2798** – 14 May low – Medium
- **S2 2786** – 25 March low – Strong

US SPX 500 – fundamental overview

Although we've seen the market extend to another record high in recent days, mostly on the back of the Fed's dovish shift 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 1325** - 25 March high - Strong
- **R1 1311** - 10 April high - Medium
- **S1 1266** - 23 April/**2019 low** - Medium
- **S2 1233** - 14 December 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. But the rally has now resulted in severely extended technical readings after overshooting a previous support zone in the 6k area. As such, look for additional upside to be limited, to allow for these technical readings to unwind from stretched readings. Setbacks should ideally be supported ahead of 5,000, in favour of the next push through the July 2018 high at 8,500.



- **R2 8,491** - July 2018 high - Strong
- **R1 8,329** - 16 May/2019 high - Medium
- **S1 6,850** - 12 May low - Medium
- **S2 5,669** - 24 April high - Strong

BTCUSD - fundamental overview

Bitcoin has enjoyed a stellar rally over the past few weeks, with demand increasing along the way. Last week'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. The story about an institutional cryptocurrency prime dealer partnering with M.Y. Safra Bank is yet another positive headline keeping the market in bull mode.

BTCUSD - Technical charts in detail

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ETHUSD - technical overview

The recovery has accelerated to a fresh 2019 high, surging through medium-term resistance at 255. The upside break suggests the market is now looking to establish a meaningful base, in favour of continued upside in the weeks and months ahead. Still, shorter-term, the run is looking stretched and a period of consolidation is expected, to allow for extended readings to unwind.



- **R2 300** - Psychological - Strong
- **R1 279** - 16 May/2019 high - Medium
- **S1 166** - 5 May low - Medium
- **S2 149** - 26 April low - 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 an adjustment lower.



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