

Wednesday, April 18, 2018

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# Global FX Insights

by LMAX Exchange Research & Analytics

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

## Short Term Noise from Stocks [Wake-up call](#)

We're into the midweek and although we've seen renewed demand in the equity markets, the currency market isn't really confirming the price action as such and it all feels like nothing more than a little short term noise, easily capable of resulting in another big selloff into this rally.

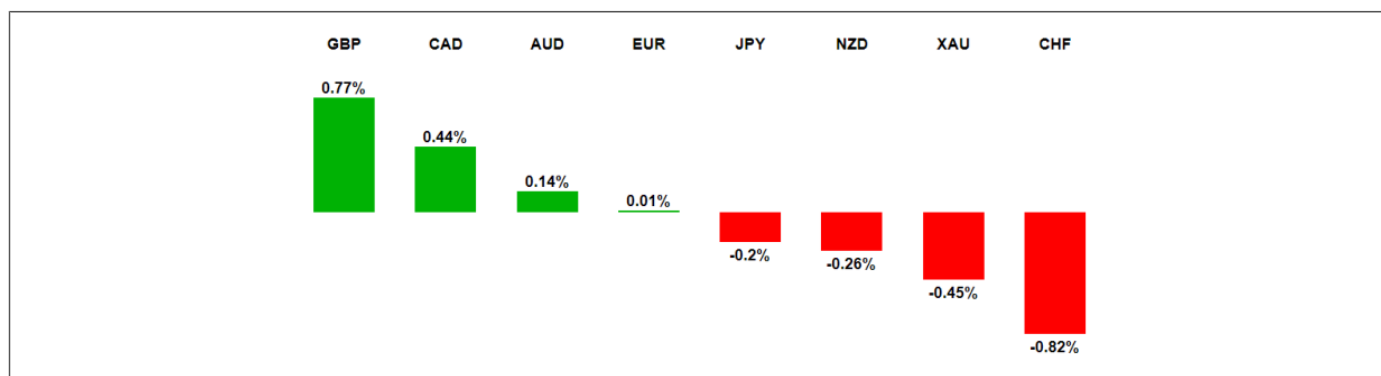
### Technical highlights [Daily Video](#)

- **EURUSD** Tight range warns of volatility
- **GBPUSD** Looking tired after fresh high
- **USDJPY** Bearish while below 108.00
- **EURCHF** Closing in on 1.2000 retest
- **AUDUSD** Looking for next lower top
- **USDCAD** Setbacks should be limited
- **NZDUSD** Stalls out into big resistance
- **US SPX 500** Slowly starting to roll
- **GOLD** (spot) Bullish above 1375
- **BTCUSD** Trying to bounce off low
- **ETHUSD** Pressure taken off downside

### Fundamental highlights

- **EURUSD** Eurozone inflation and construction
- **GBPUSD** Surging Pound could cool on CPI print
- **USDJPY** Yen tracking with traditional correlations
- **EURCHF** SNB policy strategy likely to get tougher
- **AUDUSD** Aussie watching bigger picture themes
- **USDCAD** BoC decision stands out on Wednesday
- **NZDUSD** Kiwi looking ahead to Thursday risk
- **US SPX 500** Policy normalisation and inflation
- **GOLD** (spot) Metal demand reflects uncertainty
- **BTCUSD** Crypto headwinds challenge Bitcoin
- **ETHUSD** Ethereum exposed on macro pressure

## Five day performance v. US dollar



## Suggested reading

- **Short Selling as A Business Model**, M. Levine, Bloomberg (April 16, 2018)
- **Santander's Blockchain FX Service**, M. Arnold, Financial Times (April 17, 2018)

## EURUSD – technical overview

The major pair has been mostly sideways in 2018, resulting in a contracted range that has taken the form of a triangle. At this point, with the price consolidating past 2/3 of the way to the apex, there is risk for that next breakout. Key levels to watch over the coming sessions will be 1.2477 and 1.2215. Above 1.2477 will open a move to a fresh 2018 and +3 year high, exposing massive falling trend-line resistance off the record high from 2008 which comes in around 1.2600. Back below 1.2215 will open the door for a deeper correction targeting a retest of the December 2017 low at 1.1720.



- R2 1.2477 – 27Mar high – Strong
- R1 1.2415 – 17Apr high – Medium
- S1 1.2300 – 12Apr low – Medium
- S2 1.2216 – 6Apr low – Strong

## EURUSD – fundamental overview

The Euro continues to struggle with direction and the market is unsure which way the single currency wants to break. It seems monetary policy and yield differentials have been more Euro bearish, while US protectionism and the threat of trade wars have been more supportive. As far as today's docket goes, key standouts come in the form of Eurozone construction output and inflation, followed up by the Fed Beige Book. We also get more Fed speak, this time from Dudley and Quarles.

## EURUSD – Technical charts in detail

**Watch now**

## GBPUSD – technical overview

Setbacks have been very well supported in 2018, with the market confined to a well defined uptrend. The latest break to a fresh yearly high above 1.4346 has confirmed the next meaningful higher low at 1.3712, opening an eventual measured move upside extension to the 1.5000 area. However, the major pair may not be ready to extend the run just yet in 2018, with daily studies starting to look stretched following what has already been an aggressive move early in the year. This leaves the door open for a more significant corrective decline, with room to easily extend back below 1.4000. Key short term support comes in at 1.4146 and a break below would strengthen this outlook.



- R2 1.4400 – Figure – Medium
- R1 1.4377 – 17Apr/2018 high – Medium
- S1 1.4221 – 13Apr low – Medium
- S2 1.4146 – 12Apr low – Strong

## GBPUSD – fundamental overview

The Pound has rallied up to a fresh post EU referendum high, though none of the demand has come from Brexit developments, with most of the price action resulting from this latest wave of broad based US Dollar weakness, on the back of fears of soft US Dollar policy and trade wars. Still, the UK currency is the best performer amongst the developed currencies and the relative strength could be coming from a global investor community looking for a safe diversification alternative away from the US Dollar, now that most of the worst of Brexit has been priced out. Still, with UK earnings coming in soft the other day and with the Sterling appreciation to likely result in softer inflation, the Pound could be at risk for a reversal. More clarity will come via today's UK inflation readings. Later in the day, we get the Fed Beige Book and some more Fed speak, this time from Dudley and Quarles.

# GBPUSD – Technical charts in detail

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[Watch now](#)

## USDJPY – technical overview

The major pair has been trading to bottom out, after trading down to a 2018 low in the 104s. Still, a break and daily close back above 107.91 will be required to suggest the downside pressure has come off. Until then, risk remains for another topside failure and reversal back down towards the 2018 low.



- R2 107.91 – 21Feb high – Strong
- R1 107.79 – 13Apr high – Medium
- S1 106.62 – 9Apr low – Medium
- S2 105.67 – 2Apr low – Strong

## USDJPY – fundamental overview

The Yen has come under some mild pressure into Wednesday on the back of the Nikkei rally, while a lack of protectionist headlines out from the Trump-Abe summit is also being sourced for Yen weakness (USD demand). We haven't seen much of a reaction to Japan's soft trade data and the focus here continues to be on bigger picture themes on the macro front, with risk sentiment front and center. Looking ahead, we get the Fed Beige Book and some more Fed speak, this time from Dudley and Quarles.

## USDJPY – Technical charts in detail

**Watch now**

## EURCHF – technical overview

The market continues to trend higher, recently extending gains to a fresh multi-month high. The bullish price action has the market thinking about a retest of that major barrier at 1.2000 further up. In the interim, look for the current round setbacks to be very well supported, while only back below 1.1652 would delay the overall constructive tone.



- R2 1.2000 – Psychological – Strong
- R1 1.1950 – 17Apr/2018 high – Medium
- S1 1.1842 – 12Apr low – Medium
- S2 1.1768 – 9Apr 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 in 2018. 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 into 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. And so, we speculate the SNB continues to be active buying EURCHF to 1.2000 in an attempt to build some cushion ahead of what could be a period of intense Franc demand.

## 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 deeper setbacks seen towards the 0.7500 barrier over the coming sessions. A break back above 0.7917 would be required to negate the structure and force a shift in the outlook.



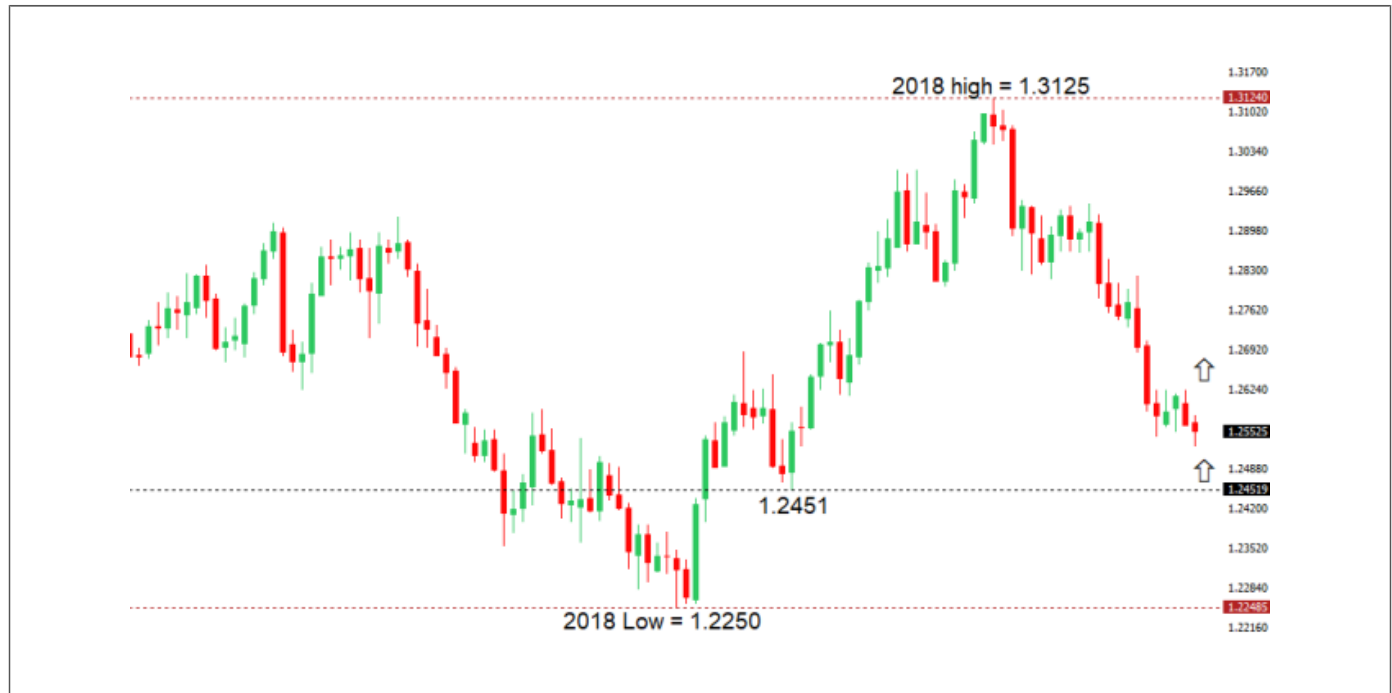
- R2 0.7917 – 14Mar high – Strong
- R1 0.7810 – 13Apr high – Medium
- S1 0.7694 – 10Apr low – Medium
- S2 0.7644 – 29Mar low – Strong

## AUDUSD – fundamental overview

Overall, the risk correlated commodity currency will continue to monitor developments on the global front, with any escalation in tension to add to the downside pressure. Looking ahead, we get the Fed Beige Book and some more Fed speak, this time from Dudley and Quarles.

## USDCAD – technical overview

Despite the latest round of weakness, overall, there are signs of basing after months of downside pressure. Look for any setbacks to now be well supported ahead of 1.2500, with a higher low sought out in favour of the next major upside extension through 1.3125 and towards 1.3500 further up.



- R2 1.2708 – 10Apr high – Strong
- R1 1.2624 – 11Apr high – Medium
- S1 1.2528 – 17Apr low – Medium
- S2 1.2500 – Psychological – Strong

## USDCAD – fundamental overview

The Bank of Canada is out later today and is expected to remain on hold, while delivering a balanced statement, given the downside risks to wage growth household debt, investment activity and global trade. This could weigh on the Loonie, if the central bank decides to downwardly revise its rate hike path on account of the added risk. In the lead up to the decision, the Canadian Dollar has enjoyed a nice period of recovery on the back of conciliatory global trade talk, last week's Bank of Canada Q1 survey which showed the business sales outlook improving, solid Canada housing starts and a rally in the price of OIL. But at a closer glance, it looks like the Loonie may have run too far and fast, especially with the fate of NAFTA remaining a major thorn at the Loonie's side. Other calendar events for Wednesday include the Fed Beige Book and some Fed speak from Dudley and Quarles.

## NZDUSD – technical overview

The market looks to be in the process of topping out, with the daily chart slowly rolling over in 2018. Rallies are now expected to be very well capped ahead of 0.7500, with only a break back above the psychological barrier to negate. Look for a renewed weakness in the sessions ahead, with a break back below 0.7300 to strengthen the outlook and accelerate declines towards 0.7000.



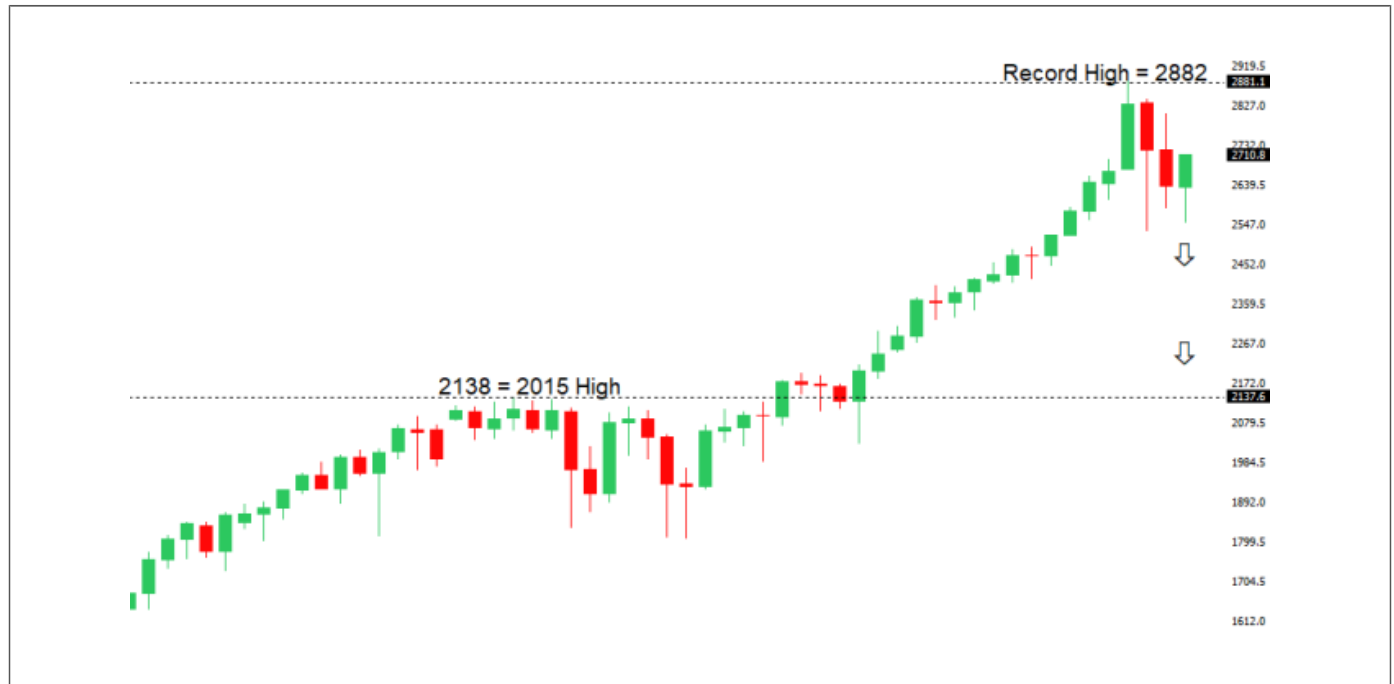
- R2 0.7438 – 16Feb/2018 high – Strong
- R1 0.7396 – 13Apr high – Medium
- S1 0.7304 – 10Apr low – Medium
- S2 0.7244 – 6Apr low – Strong

## NZDUSD – fundamental overview

The combination of escalating trade tension, fallout from an end to a near decade long post crisis global monetary policy accommodation and less than stellar economic data out of New Zealand in recent weeks, including four consecutive negative GDT auction prints, is all starting to weigh on the Kiwi rate after the market had pushed into some medium term resistance towards 0.7500. Dealers had been talking decent sell orders ahead of 0.7400 and this has materialised over the past few sessions. Looking ahead, we get the Fed Beige Book and some more Fed speak, this time from Dudley and Quarles. Early Thursday, the market will turn to the latest Kiwi inflation readings.

## US SPX 500 – technical overview

A severely overbought market 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 towards the 2015 high at 2138.



- R2 2743 – 21Mar high – Strong
- R1 2726 – 22Mar high – Medium
- S1 2585 – 6Apr low – Medium
- S2 2533 – 6Feb/2018 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 driving the market lower, with 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.

## 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 around 1300.



- R2 1375 – 2016 high – Very Strong
- R1 1366 – 25Jan/2018 high – Medium
- S1 1320 – 6Apr low – Medium
- S2 1303 – 2Mar 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

A break back above short term resistance at 7500 has taken the immediate pressure off the downside, with scope for a correction further up towards 9200. Still, the overall pressure still leaves the market in a downtrend and it is going to take a recovery back above 12000 to suggest otherwise.



- R2 9,200 – 21Mar high – Strong
- R1 8,643 – 26Mar high – Medium
- S1 6,420 – 1Apr low – Medium
- S2 6,000 – 6Feb/2018 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.

## BTCUSD – Technical charts in detail

## ETHUSD – technical overview

Signs of recovery, with the market rallying out from the 2018 low and pushing back above some consolidation resistance. This opens the door to more significant resistance at 590, though a clear break back above the 590 level will be required to officially take the immediate pressure off the downside. Until then, the pressure remains on the downside and the market could be looking for a lower top ahead of a bearish resumption.



- R2 590 – 21Mar high – Strong
- R1 545 – 24Mar high – Medium
- S1 412 – 12Apr/2018 low – Strong
- S2 358 – 1Apr/2018 low – Strong

## ETHUSD – fundamental overview

Setbacks in the price of ETH have been more intense than those of Bitcoin in 2018. 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.



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