

Global FX Insights

by LMAX Exchange Research & Analytics

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

Euro at Critical Inflection Point on ECB Day [Wake-up Call](#)

The Euro has finally traded down to a critical inflection point as it sits just off the post Brexit vote extreme low of 1.0910. And all of this is happening on ECB decision day, an event that easily has the ability to inspire the type of volatility that could drive EURUSD a good deal lower.

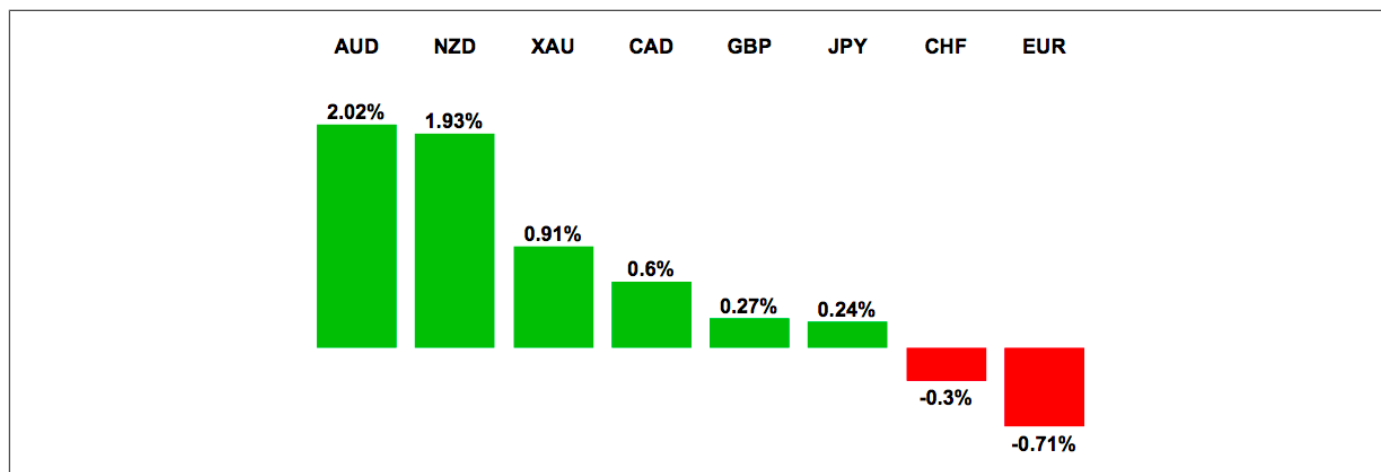
Technical highlights [Daily Video](#)

- **EURUSD** Fast approaching 1.0900
- **GBPUSD** Expected to be well capped
- **USDJPY** Considers fresh drop
- **EURCHF** Stuck in defined range
- **AUDUSD** Into critical resistance
- **USDCAD** Poised for bullish break
- **NZDUSD** Looking for lower top
- **US SPX 500** Slowly rolling over
- **GOLD** (spot) Sights set on 1300 retest
- **Feature** – USDMXN Limited setbacks

Fundamental highlights

- **EURUSD** Euro staring at ECB policy decision
- **GBPUSD** Pound focuses in on UK retail sales
- **USDJPY** Yen pulled in two directions, goes nowhere
- **EURCHF** SNB strategy exposed if risk comes off
- **AUDUSD** Aussie gets whacked on soft jobs report
- **USDCAD** A dovish net takeaway from BoC decision
- **NZDUSD** Dealers cite plenty of Kiwi offers up here
- **US SPX 500** US claims, Philly Fed, housing ahead
- **GOLD** (spot) Nervous market buying yellow metal
- **Feature** – USDMXN Peso getting help from Clinton

Five day performance v. US dollar



Suggested reading

- **Growing Harder to Spot Troubles**, L. Kawa Bloomberg (October 19, 2016)
- **The Silence of the Lambs**, D. DiMartino Booth, DiMartino Booth (October 19, 2016)

EURUSD – technical overview

Setbacks have extended back into the 1.0900s thus far, with the market now contemplating the establishment below critical resistance in the form of the 1.0912 June low. A clear break below this level could open a more accelerated decline into the 1.0500s over the coming weeks. At this point, the pressure is firmly anchored to the downside, with any rallies expected to be well capped ahead of 1.1200. Ultimately, only back above 1.1367 would compromise the bearish structure.



- R2 1.1068 – 12Oct low – Strong
- R1 1.1026 – 18Oct high – Medium
- S1 1.0955 – 19Oct low – Medium
- S2 1.0912 – 24Jun low – Strong

EURUSD – fundamental overview

The Euro comes into Thursday trade on its heels, having been under pressure and relatively underperforming over the past week. The single currency has finally traded down to a critical inflection point as it sits just off the post Brexit vote extreme low of 1.0910. If that level gets taken out, it could open the door for a deeper drop into the 1.0500 area. All of this is happening on ECB day that easily has the ability to inspire the type of volatility that could drive EURUSD much lower. While the ECB is widely expected to leave monetary policy unchanged, the key focus will be on whether or not there are any messages from Draghi about potential tapering, his comfort with policy as is or talk of no need for further QE. Such talk will likely give the Euro a major boost, while anything that leans more dovish, leaving the door open for additional accommodation, will suggest that stops below 1.0900 will get taken out. Other data out includes German PPI, US claims, the Philly Fed and US existing home sales.

GBPUSD – technical overview

The latest break below 1.2800 opens the door for the next major downside extension exposing fresh +30 year lows into the 1.1500 to 1.2000 area. At this point, any rallies are classified as corrective, with only a break back above previous support turned resistance at 1.2796 to take the immediate pressure off the downside and delay bearish momentum.



- R2 1.2444 – 10Oct high – Strong
- R1 1.2373 – 11Oct high – Medium
- S1 1.2175 – 18Oct low – Medium
- S2 1.2089 – 11Oct low – Strong

GBPUSD – fundamental overview

After showing promise of extending Tuesday's impressive gains, the Cable rate fell flat on Wednesday and is consolidating into Thursday. On Wednesday, the market tried to push higher after UK employment data exceeded expectation, but ongoing fear over Brexit fallout continues to do a good job capping rallies. News of German officials refusing to allow any Brexit negotiations until Article 50 is triggered has been the latest story to knock confidence in the Pound. Looking ahead, we could get a volatile day with UK retail sales and the ECB decision on tap. While it's clear retail sales will have a direct impact, the ECB decision should also be watched as it will influence the EURGBP cross rate. Other data out today includes US claims, the Philly Fed and US existing homes sales.

USDJPY – technical overview

The broader pressure remains on the downside after the market was unable to establish above a previous lower top at 104.32. Key support now comes in at 102.81, with a drop below to strengthen the bearish outlook and expose a potential retest of the 2016 low down around 99.00. At this point, a daily close back above 104.63 would be required to signal a bullish shift in the structure.



- R2 105.00 – Psychological – Strong
- R1 104.63 – 13Oct high – Medium
- S1 103.17 – 19Oct low – Medium
- S2 102.81 – 10Oct low – Strong

USDJPY – fundamental overview

The major pair continues to get caught between flows from risk on sentiment and broad based US Dollar selling. On the one side, any upticks in equities are supportive of the pair, while on the other side, broad based selling in the US Dollar is Yen supportive. So in the end, the net result is a Yen that isn't really able to go anywhere at all this week. Looking ahead, the key focus for today will be on fallout from the ECB decision, US initial jobless claims, the Philly Fed survey and US existing home sales.

EURCHF – technical overview

Not much doing here over the past several days, with the market confined to a range trade, roughly between 1.0800 and 1.1000. At this point, a daily close above 1.1000 or back below 1.0800 will be required for clearer directional insight. Until then, look for dips to be supported and rallies well capped.



- R2 1.1014 – 24Jun high – Strong
- R1 1.0911 – 12Oct high – Medium
- S1 1.0846 – 19Oct low – Medium
- S2 1.0778 – 16Jun low – Strong

EURCHF – fundamental overview

Overall, SNB smoothing activity to prop EURCHF has been helping to elevate the cross, but at the same time, upside moves haven't been sustainable with the cross rate continuing to get sold aggressively into rallies towards 1.1000. Ultimately, this is a market going nowhere right now and it seems stops need to get taken out below 1.08000 or above 1.1000 for clearer insight. Central bank policies from around the globe have been helping to support EURCHF for a long time. But with these policies now exhausted, it could invite additional Franc demand if sentiment continues to roll over in the sessions ahead.

AUDUSD – technical overview

The market has struggled on rallies above 0.7700 and this suggests the rate could be looking to carve a lower top below the 2016 high at 0.7835 in favour of the next major downside extension. Look for a break back below 0.7421 to strengthen this outlook and accelerate declines towards 0.7000 in the days ahead. Ultimately, only back above 0.7758 will negate the bearish outlook and invite a retest of the 2016 highs.



- R2 0.7760 – 11Aug high – Strong
- R1 0.7730 – 19Oct high – Medium
- S1 0.7659 – 19Oct low – Medium
- S2 0.7557 – 14Oct low – Strong

AUDUSD – fundamental overview

A big turn of events for the Australian Dollar into Thursday after Aussie employment came in much weaker than expected, while also producing downward revisions. The market was looking for a +15k print and instead got -9.8k. What was even more disturbing for the RBA was the 53k loss of full time jobs. All of this makes it more realistic the RBA would need to once again reconsider the possibility of additional rate cuts over the coming months. Looking ahead, US initial jobless claims, the Philly Fed and US existing home sales stand out. Volatility is also expected from the ECB policy decision.

USDCAD – technical overview

This market looks to be in the process of carving out a longer-term base off the 1.2461, 2016 low. Look for any additional weakness to be supported ahead of 1.2900 in favour of the next major upside extension towards a measured move objective into the 1.3500-1.4000 area. Ultimately, only back below 1.2764 would delay the constructive outlook.



- R2 1.3184 – 17Oct high – Strong
- R1 1.3141 – 19Oct high – Medium
- S1 1.3053 – 18Oct low – Medium
- S2 1.3006 – 19Oct low – Strong

USDCAD – fundamental overview

The Canadian Dollar is coming off a day of choppy price action as the market tried to make sense of the latest Bank of Canada policy decision. Although the BoC didn't downgrade forecasts as much as the market thought it would, which initially helped to prop the Loonie, the fact that the statement still leaned to the dovish side was enough to reverse any positive Canadian Dollar flow. Moreover, at the conference, BoC Poloz highlighted the central bank had been discussing the implementation of additional stimulus, while indicating housing measures would not stop them from easing monetary policy further. Looking ahead, we get an ECB decision and batch of US data that features jobless claims, the Philly Fed and existing home sales.

NZDUSD – technical overview

Setbacks have stalled out ahead of psychological barriers at 0.7000 for now, though the pressure has shifted back to the downside with the market now expected to be very well capped on rallies. Look for a fresh lower top ahead of 0.7350 in favour of the next major downside extension below 0.7000 and towards medium-term support at 0.675 further down.



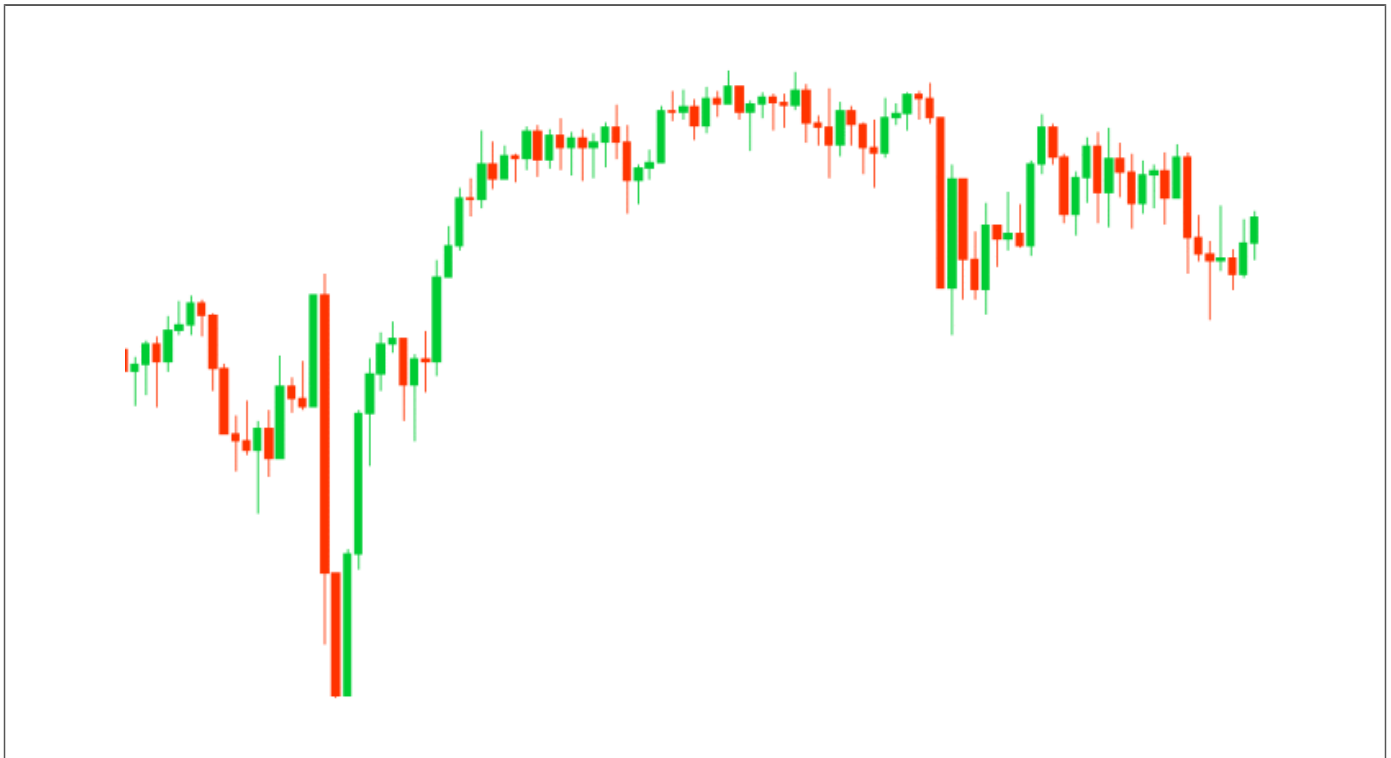
- R2 0.7330 – 27Sep low – Strong
- R1 0.7250 – 19Oct high – Medium
- S1 0.7129 – 18Oct low – Medium
- S2 0.7077 – 14Oct low – Strong

NZDUSD – fundamental overview

The New Zealand Dollar has been doing its best to recover over the past several sessions after the currency stalled out just shy of major psychological barriers at 0.7000. Firmer commodities, improved risk sentiment and softer US economic data have all contributed to Kiwi gains, though the currency has also managed to relatively outperform over the past week on an improvement in local data. Still, dealers cite plenty of sell interest into this rally, with medium-term players looking to build into shorts on the favourable US Dollar yield differentials, prospect for a downturn in global sentiment and more dovish leaning RBNZ. It's worth noting that Kiwi is getting some positive flow against its Aussie cousin after Aussie jobs came in much softer. Looking ahead, the ECB decision, US initial jobless claims, the Philly Fed and US existing home sales stand out.

US SPX 500 – technical overview

Signs of a potential top after the market recently broke below critical support at 2147. This now opens the door for a meaningful period of weakness exposing a more pronounced decline towards the June base at 1990. Look for any rallies to now be well capped ahead of 2180, with only a daily close back above this level to compromise the newly adopted bearish outlook. Below 2108 accelerates.



- R2 2194.00 – 15Aug/Record high – Strong
- R1 2180.00 – 222Sep high – Medium
- S1 2108.00 – 12Sep low – Medium
- S2 2073.00 – 6Jul low – Strong

US SPX 500 – fundamental overview

There is a growing concern for stock market bulls that we have reached the limits of monetary policy accommodation and investors will no longer be able to benefit from government and central bank artificial support. Up until recently, softer US economic data had actually been a prop to equities on the assumption it would keep the Fed in accommodative mode. But there has been a notable shift of late, especially now that it looks like the Fed will be hiking, and we are starting to see signs of a deterioration in stocks even when data comes in soft. Perhaps the added hiccups of US election risk, Brexit risk and Deutsche Bank risk are also weighing on sentiment. Right now, the September base at 2108 will be the key level to watch. If that goes, the market could really fall off. For today, all eyes are on the ECB, US claims, the Philly Fed and existing home sales.

GOLD (SPOT) – technical overview

Despite the latest major setback, the overall structure remains highly constructive with the market in the process of carving out a longer-term base. Look for additional weakness to be very well supported above 1235, with only a close back below this level to delay the bullish outlook and give reason for pause.



- R2 1302.50 – 1Sep low – Strong
- R1 1277.20 – 5Oct high – Medium
- S1 1241.45 – 7Oct low – Medium
- S2 1234.95 – 7Jun low – Strong

GOLD (SPOT) – fundamental overview

Broad based US Dollar demand on hawkish Fed speak and expectations for a Fed hike have been cited as major drivers behind GOLD's slide over the past several weeks. But overall, GOLD has been very well supported in 2016, with the yellow metal finding solid demand from medium and longer-term players on the back of fears over the limitations of exhausted monetary policy, extended global equities, systemic risk and a bet that record low inflation will eventually start to turn up. All of this will almost certainly continue to keep the commodity in demand, even if the Buck is propped, with many market participants fleeing to the hard asset as the grand dichotomy of record high equities and record low yields comes to an unnerving climax. For now, it seems like this minor bout of US Dollar selling has been helping to give the yellow metal an added boost.

Feature – technical overview

USDMXN is in the process of correcting off fresh record highs from late September. While there is still scope for additional declines in the sessions ahead, ultimately, the uptrend remains intact and a higher lower is now sought out ahead of a bullish resumption and break to another record high through major psychological barriers at 20.0000. At this point, only back below 17.9030 would compromise the highly constructive outlook.



- R2 19.3810 – 7Oct high – Strong
- R1 19.0990 – 13Oct high – Medium
- S1 18.5000 – Psychological – Medium
- S2 17.9030 – 16Aug low – Strong

Feature – fundamental overview

The Mexican Peso has been holding up relatively well in recent days, particularly after the currency had sunk to fresh record lows in late September. It seems the Banxico's efforts to dissuade the market from selling Pesos have been effective, at least in the short term, after the central bank raised rates the other week. Meanwhile, a major bank is calling for more tightening in financial conditions from the Banxico over the coming months so that investors will be increasingly uncomfortable holding more expensive short Peso exposure. Broad based US Dollar selling on a softer run of US data and the likelihood for a Clinton victory in the US election have also been supporting the Peso. Still, overall, the impact of higher rates on a struggling local economy is not ideal, while risk for liquidation on a fear of higher US rates are things that could easily offset the Peso's run and once again invite renewed downside pressure on the EM currency. For today, keep an eye on US claims, the Philly Fed and US existing home sales.



Any opinions, news, research, analyses, prices or other information ("information") contained on this document, constitutes marketing communication and it has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Further, the information contained within this Blog does not contain (and should not be construed as containing) investment advice or an investment recommendation, or an offer of, or solicitation for, a transaction in any financial instrument. LMAX Exchange has not verified the accuracy or basis-in-fact of any claim or statement made by any third parties as comments for every Blog entry.

LMAX Exchange will not accept liability for any loss or damage, including without limitation to, any loss of profit, which may arise directly or indirectly from use of or reliance on such information. No representation or warranty is given as to the accuracy or completeness of the above information. While the produced information was obtained from sources deemed to be reliable, LMAX Exchange does not provide any guarantees about the reliability of such sources. Consequently any person acting on it does so entirely at his or her own risk. It is not a place to slander, use unacceptable language or to promote LMAX Exchange or any other FX, Spread Betting and CFD provider and any such postings, excessive or unjust comments and attacks will not be allowed and will be removed from the site immediately.

LMAX Exchange will clearly identify and mark any content it publishes or that is approved by LMAX Exchange.

FX and CFDs are leveraged products that can result in losses exceeding your deposit. They are not suitable for everyone so please ensure you fully understand the risks involved. The information on this website is not directed at residents of the United States of America, Australia (we will only deal with Australian clients who are "wholesale clients" as defined under the Corporations Act 2001), Canada (although we may deal with Canadian residents who meet the "Permitted Client" criteria), Singapore or any other jurisdiction where FX trading and/or CFD trading is restricted or prohibited by local laws or regulations.

LMAX Limited operates a multilateral trading facility. LMAX Limited is authorised and regulated by the Financial Conduct Authority (firm registration number 509778) and is a company registered in England and Wales (number 6505809). Our registered address is Yellow Building, 1A Nicholas Road, London, W11 4AN.