**Tuesday, January 21, 2020**

Get Global FX Insights via email - click here

# Global FX Insights

**by LMAX Group Research & Analytics**

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

## Fear of outbreak triggers risk off

Wake-up call

**Markets get back to fuller trade, with the US returning after being out for MLK Day. There has been an early wave of risk liquidation, with many attributing the selloff to worry associated with a possible spreading of the deadly coronavirus, which already has been reported as moving outside of China to South Korea, Thailand and Japan.**

## Technical highlights

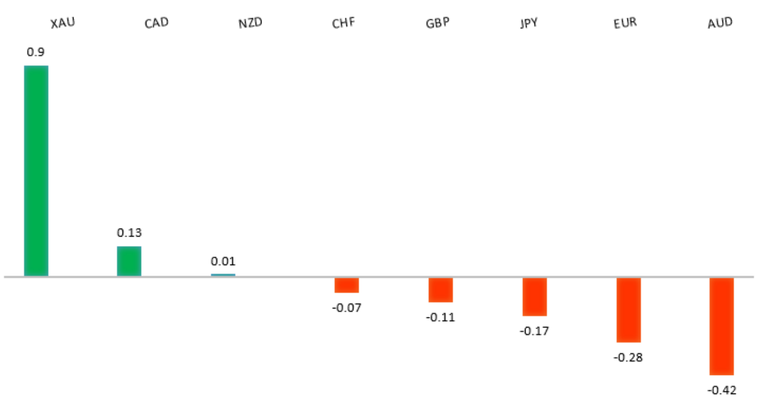
Daily Video

- EURUSD Carving out longer term bottom
- GBPUSD Setbacks should be well supported
- USDJPY Additional upside should be limited
- EURCHF Confined to tighter consolidation
- AUDUSD Room for recovery to extend
- USDCAD Breaks down to multi-month low
- NZDUSD Slow and steady recovery in works
- US SPX 500 Uptrend begging for correction
- GOLD (spot) Fresh upside extension underway
- BTCUSD Constructive while above 6,000
- ETHUSD Solid support zone around 100

## Fundamental highlights

- EURUSD German and Eurozone sentiment data
- GBPUSD UK employment reads stand out
- USDJPY BOJ holds as widely expected
- EURCHF SNB challenge to weaken Franc intensifies
- AUDUSD Wuhan coronavirus weighs on Aussie
- USDCAD Canada manufacturing sales ahead
- NZDUSD Kiwi suffers from risk liquidation
- US SPX 500 Stocks more sensitive to downside risk
- GOLD (spot) Pick up in hard asset demand
- BTCUSD More institutional demand expected
- ETHUSD Ether exposed to traditional markets

## 5 Day Performance vs. US dollar

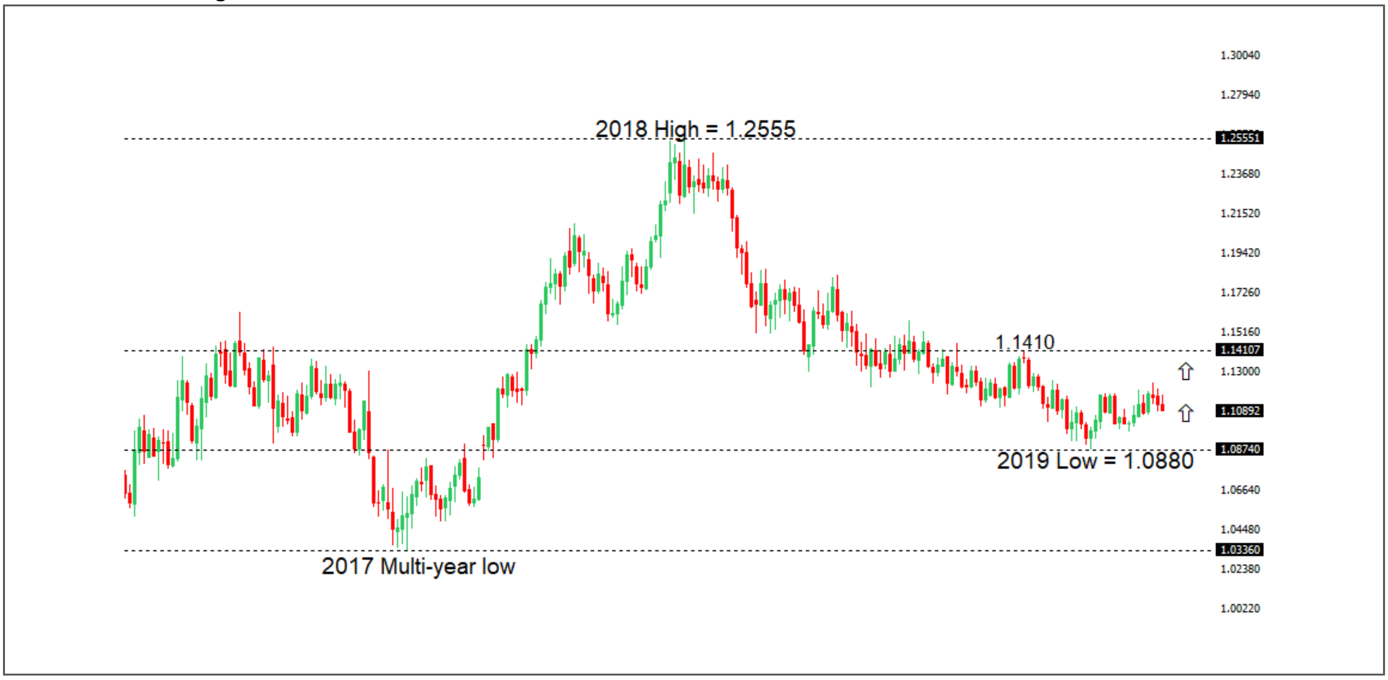



## Suggested reading

- Christine Lagarde Gets a Heavy Pointer on Her ECB Review, F. Giugliano, **Bloomberg** (January 20, 2020)
- What Could Spoil 2020?, A. Kaletsky, **Project Syndicate** (January 16, 2019)

# EURUSD – technical overview

**The downtrend off the 2018 high is looking exhausted** and the prospect for a meaningful higher low is more compelling. A higher low is now sought out above the multi-year low from 2017, ahead of the next major upside extension. Only a weekly close back below 1.0800 would compromise this outlook. Back above 1.1412 will strengthen the view.




- **R2 1.1250** – 6 August high – Strong
- **R1 1.1239** - 31 December high – Medium
- **S1 1.1077** - 20 January low – Medium
- **S2 1.1066** – 20 December low – Strong

# EURUSD – fundamental overview

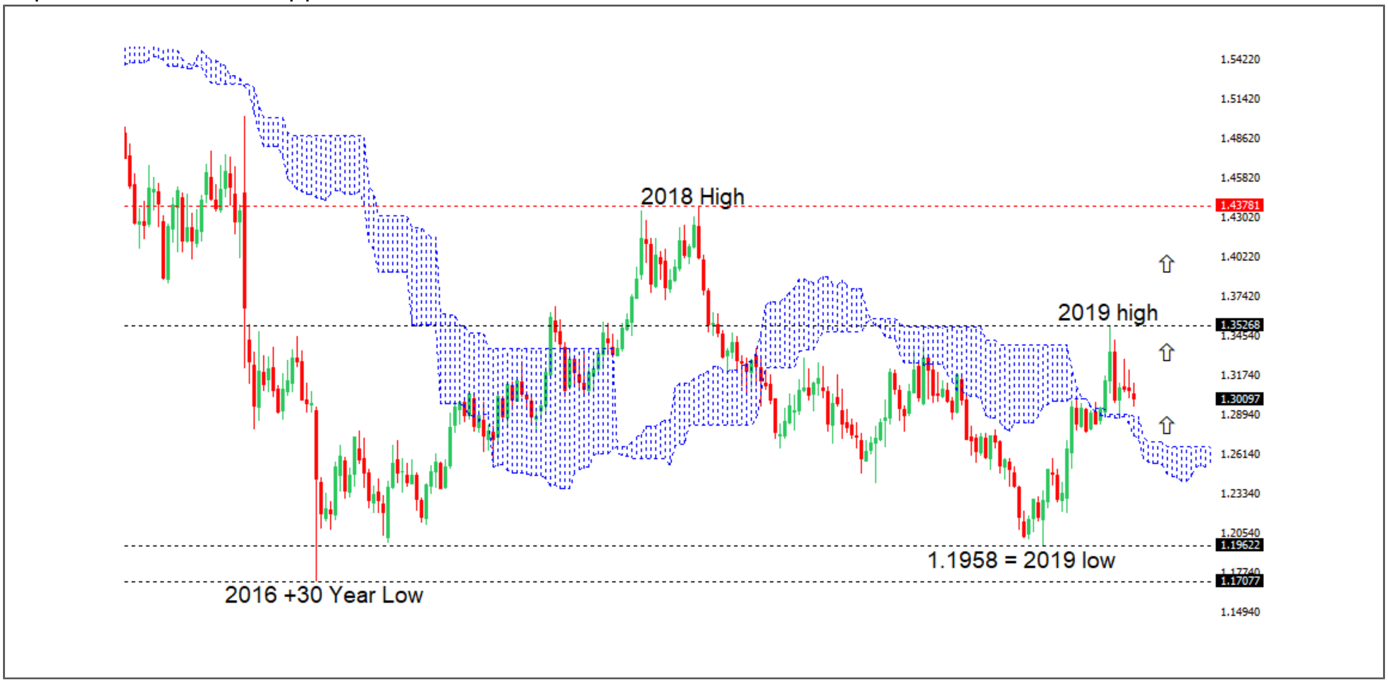
**The Euro has come under pressure in recent sessions**, though there hasn't been a whole lot to point at, as far as assigning any fundamental catalyst for the drop. We have seen some broad based US Dollar demand, but medium and longer term players are continuing to buy the Euro into dips. Looking ahead, key standouts come in the form of German and Eurozone sentiment data.

# EURUSD - Technical charts in detail

Watch now

# GBPUSD – technical overview

**The market has seen a recovery out from the lowest levels** since 2016, with the price now pushing back above the weekly Ichimoku cloud to signal a bullish structural shift. Ultimately, only back below the 1.2500 handle would compromise the newly established constructive medium and longer-term outlook. Next key resistance comes in the form of the monthly high from September 2017 at 1.3658, with setbacks expected to be well supported ahead of 1.2800.



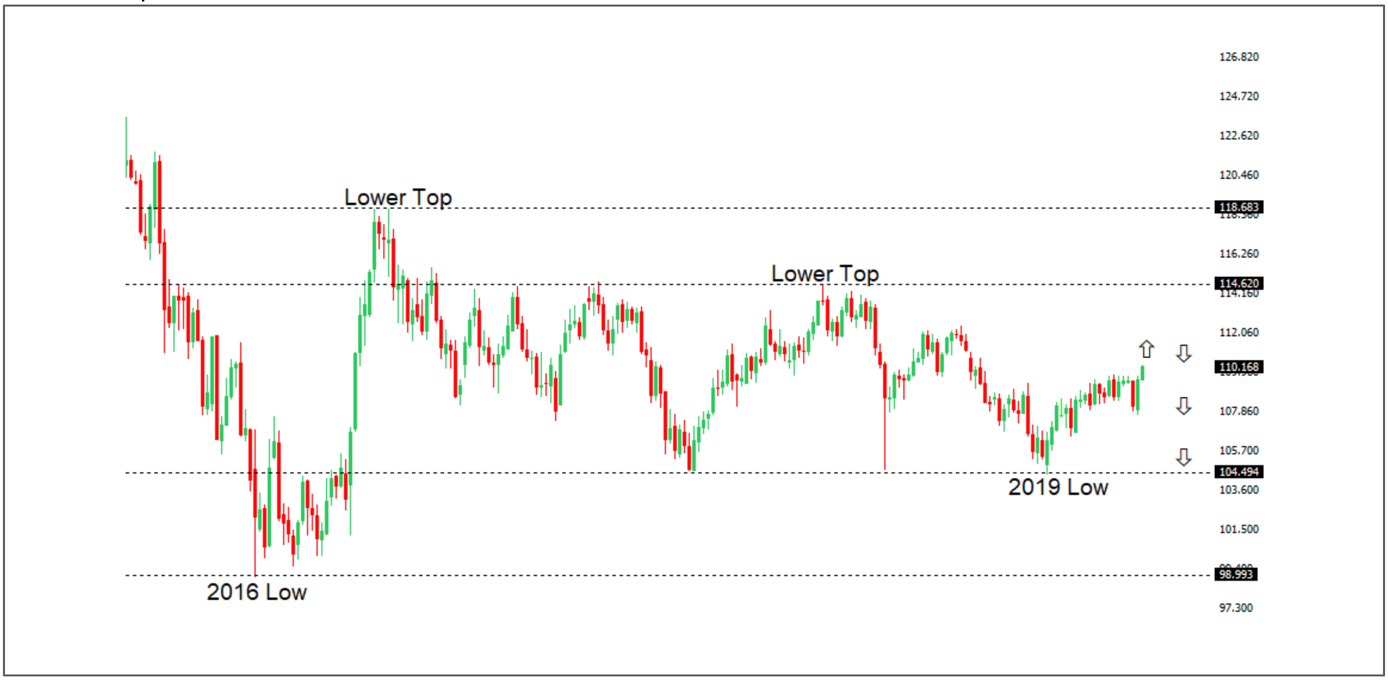

- **R2 1.3300** – Figure – Strong
- **R1 1.3285** – 31 December high – Medium
- **S1 1.2961** – 13 January low – Medium
- **S2 1.2905** – 23 December low – Strong

# GBPUSD – fundamental overview

**The Pound has continued to see downside pressure** in early 2020, as odds for a rate cut at the end of this month ramp up. Last Friday's softer than expected UK retail sales have only further weighed on the Pound, while worry associated with the UK Brexit outlook is also not helping matters. This has resulted in rate cut odds jumping to about 70%. Nevertheless, there continues to be sizable demand for the Pound on dips, from medium and longer term players. Looking ahead, UK employment data is the major standout on the Tuesday calendar.
Watch now

# USDJPY – technical overview

**Despite rally attempts, the longer-term downtrend** remains firmly intact. Rallies should continue to be well capped below 110.00 on a monthly closes basis, with deeper setbacks anticipated towards a retest of the yearly low, below which exposes critical support in the form of the 2016 low at 99.00 further down. Next major support comes in the form of the October 2018 low at 106.48. Only back above the 112.40, 2019 high would compromise the bearish outlook.




- **R2 110.68** – 21 May high – Strong
- **R1 110.29** – 17 January high – Strong
- **S1 109.01** – 9 January low – Medium
- **S2 107.65** – 8 January low – Strong

# USDJPY – fundamental overview

**The BOJ left policy on hold as was widely expected**, though the central bank did raise growth forecasts, citing government fiscal stimulus. The central bank is expected to leave policy in hold mode for the remainder of the year, as it tries to shift gradually towards normalisation. There was little reaction in the Yen to policy decision fallout, with most of the Yen recovery driven off risk liquidation flow. Global markets have been worrying about a jump in Wuhan coronavirus cases and the risk of this virus spreading around the globe. Looking ahead, there is no first tier data on the docket and the market will focus on bigger picture themes.

Watch now

# **EURCHF** – technical overview

**The market remains very well capped into offers and** the medium-term picture continues to favour the downside. A break back above 1.1060 would be required to take the immediate pressure off the downside. Below 1.0800 exposes the 1.0600 area.

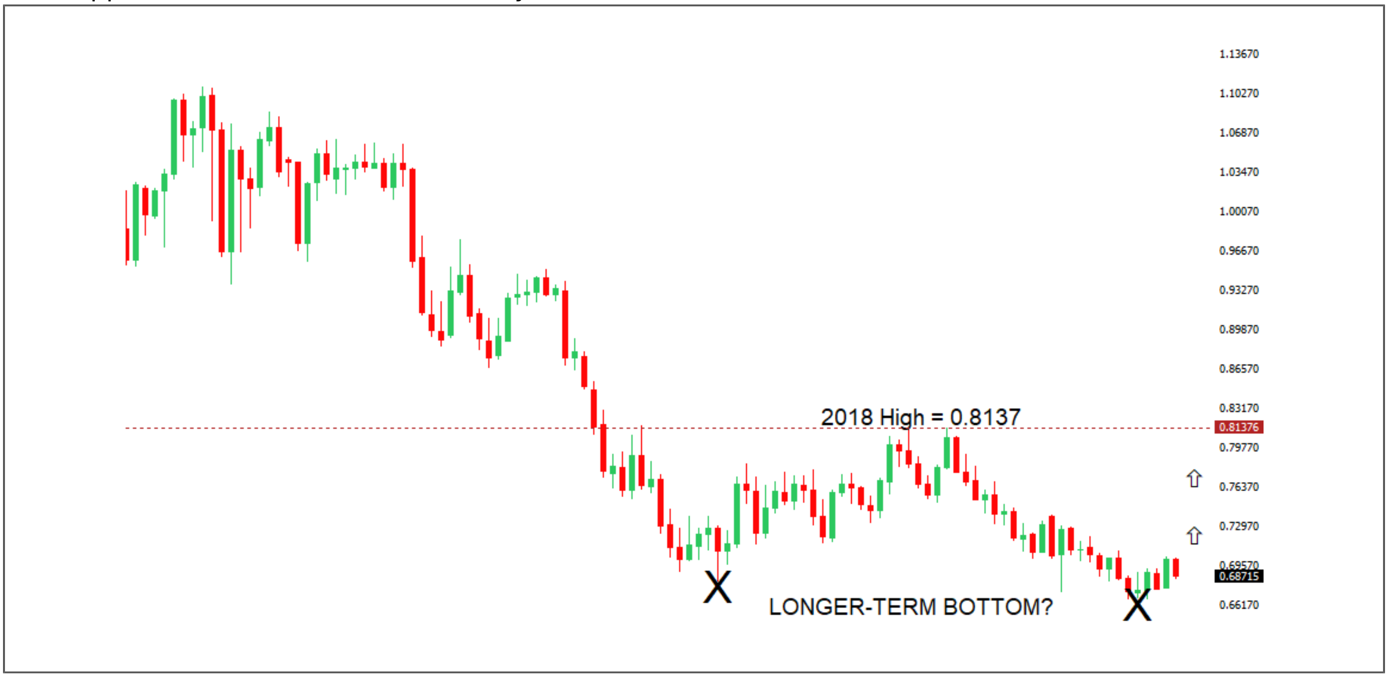

- **R2 1.1060** – 17 October high – Strong
- **R1 1.0906** – 27 December high – Medium
- **S1 1.0731** – 17 January/**2019 low** – Medium
- **S2 1.0700** – Figure – Strong

# **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, and from a US administration that has put Switzerland on its currency manipulator watchlist. Any signs of risk liquidation in 2020, 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 under pressure over the past** several months, but has also been well supported on dips. The price action suggests we could be seeing the formation of a major base, though it would take a clear break back above 0.7100 to strengthen this outlook. In the interim, look for setbacks to continue to be well supported above 0.6700 on a weekly close basis.



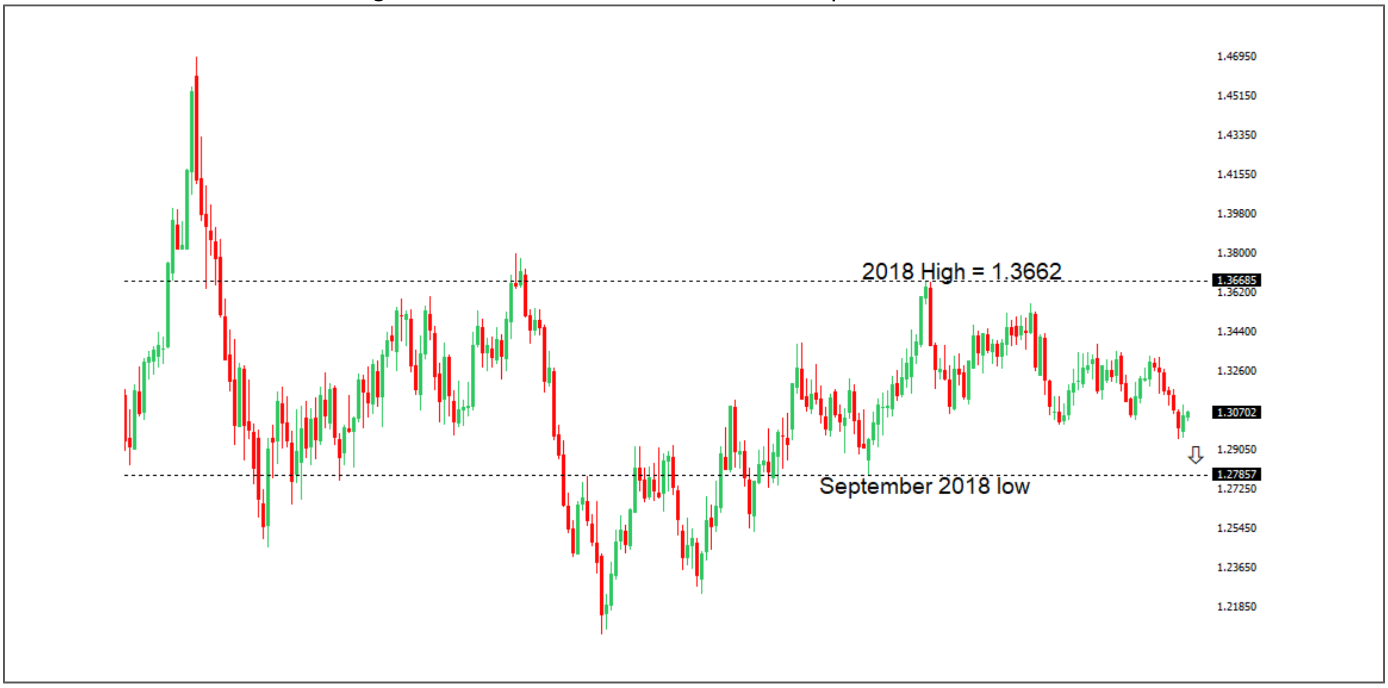

- **R2 0.7032** –31 December high – Strong
- **R1 0.6958** – 6 January high – Medium
- **S1 0.6850** – 8 January low – Medium
- **S2 0.6838** – 17 December low – Strong

# AUDUSD – fundamental overview

**The Australian Dollar is holding up relatively well** when considering the fact that it has been contending with brush fires and this latest downside pressure from the news of a jump in Wuhan coronavirus cases in China. Fear of the virus spreading abroad has opened some risk liquidation into Tuesday trade. Looking ahead, there is no first tier data on the docket and the market will focus on bigger picture themes.

# USDCAD – technical overview

**The downturn in late 2019 has resulted in a medium-term shift** in the trend, with the pressure back on the downside. The break back below major psychological support at 1.3000 now exposes deeper setbacks towards the 1.2782 low from September 2018. At this stage, the market would need to push back above the November 2019 high at 1.3328 to take the immediate pressure off the downside.



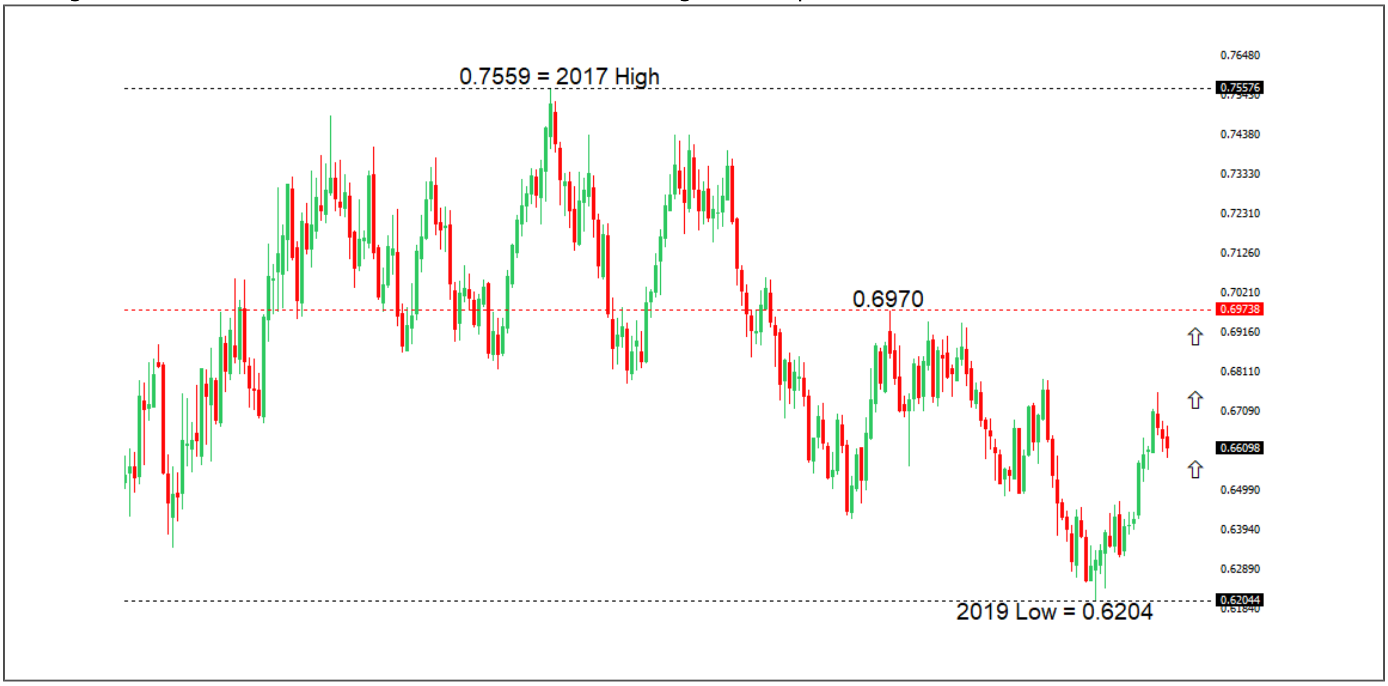

- **R2 1.3182** – 20 December high – Strong
- **R1 1.3105** - 9 January high – Medium
- **S1 1.3000** – Psychological – Strong
- **S2 1.2952** – 31 December/**2019 low** – Strong

# USDCAD – fundamental overview

**The Canadian Dollar has been well bid in recent weeks, but hasn't been able to muster** much additional positive momentum in recent sessions. A sharp pullback in the price of OIL has unquestionably been an offsetting variable. Looking ahead, Canada manufacturing sales is the only notable standout on the Tuesday calendar.

# NZDUSD – technical overview

**There's a case to be made** for a meaningful bottom, with the market rallying out from longer-term cycle low area around 0.6200. As such, look for setbacks to be well supported in the days ahead, in anticipation of a continued recovery. Only a weekly close below 0.6200 would give reason for rethink. Back above 0.6800 strengthens the outlook and takes the medium to longer-term pressure off the downside.



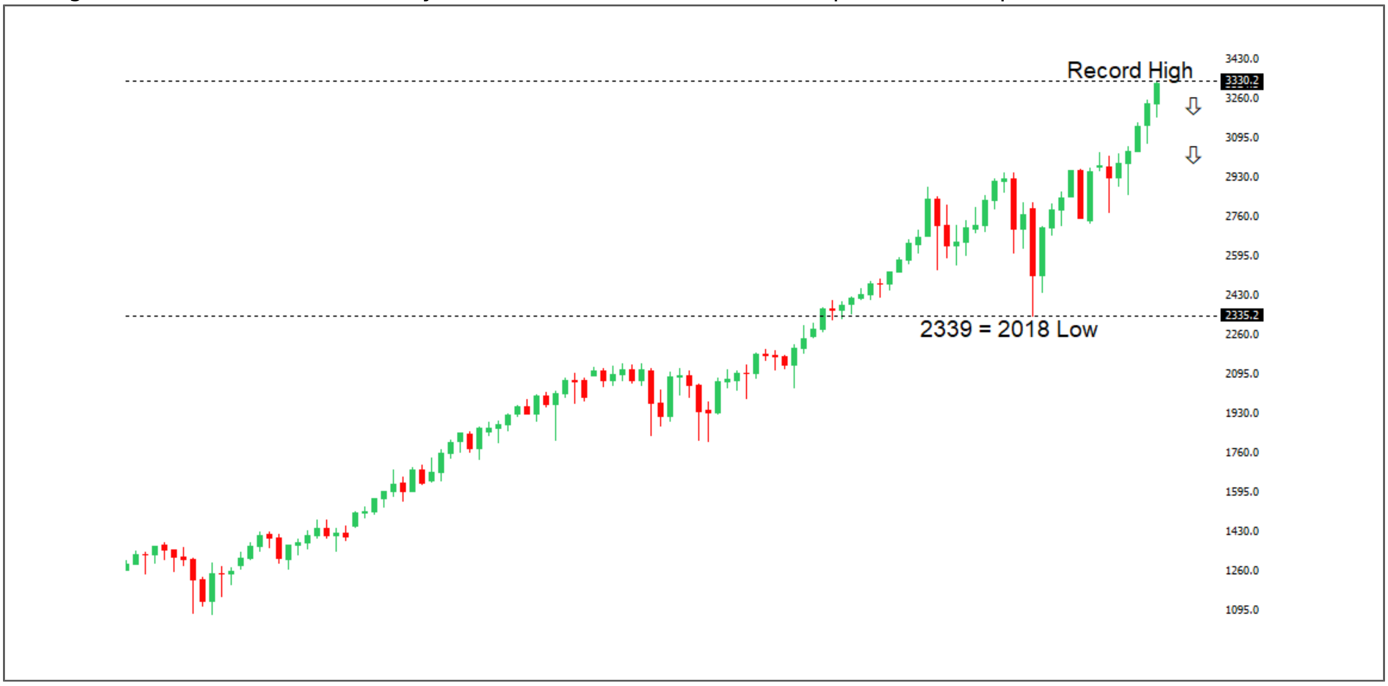

- **R2 0.6756** – 31 December high – Strong
- **R1 0.6700** – Figure – Medium
- **S1 0.6600** – Figure – Medium
- **S2 0.6554** – 18 December low – Strong

# NZDUSD – fundamental overview

**Kiwi is trying to hold up into the latest round of setbacks**, but is facing additional downside pressure from risk off flow. The latest round of risk liquidation comes from fear of the Wuhan coronavirus spreading beyond China's borders. Looking ahead, there is no first tier data on the docket and the market will focus on bigger picture themes.

# 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 a major correction targeting an eventual test of the 2018 low at 2339. The initial level of major support comes in at 3070, with a break below to strengthen the outlook. A monthly close above 3300 would be required to compromise the outlook.



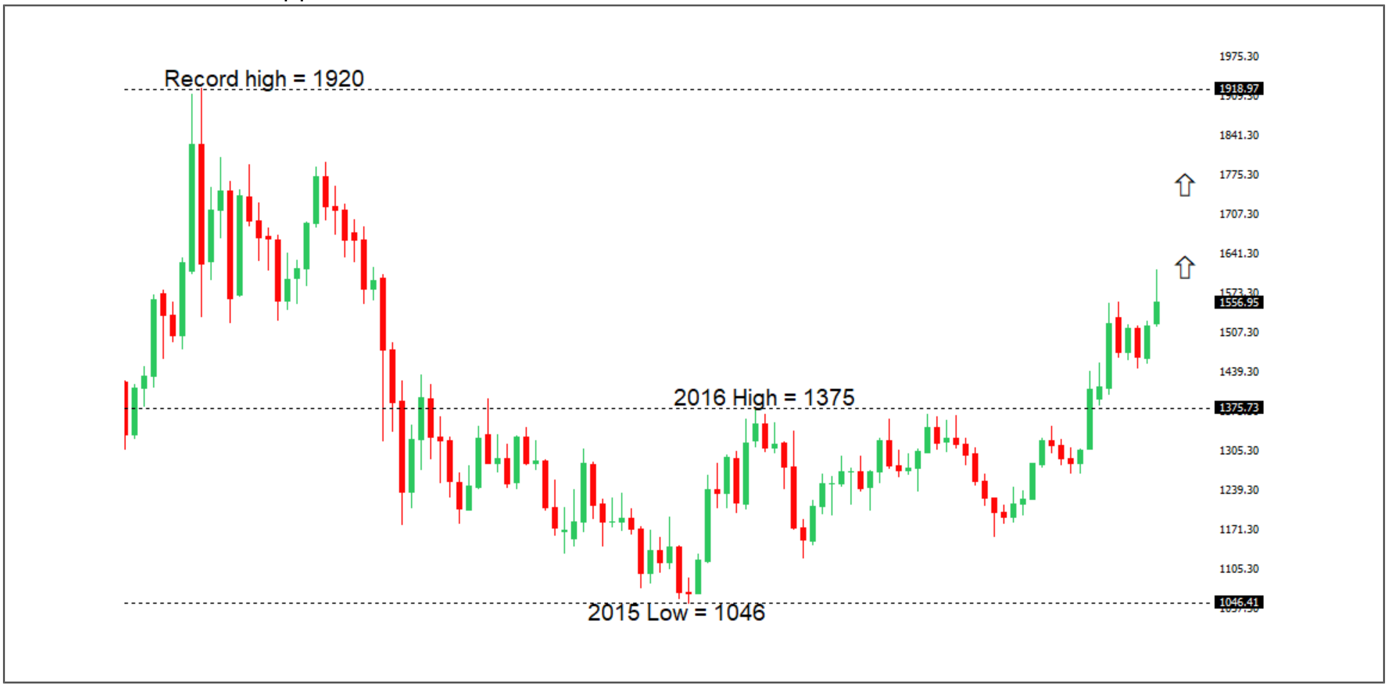

- **R2 3350** – Psychological – Strong
- **R1 3332** – 17 January/**Record high** – Strong
- **S1 3200** – Psychological – Medium
- **S2 3070** – 3 December low – Strong

# US SPX 500 – fundamental overview

**Although we've seen the market extending to fresh record highs**, with so little room for additional central bank accommodation, given an already depressed interest rate environment, the prospect for a meaningful extension of this record run, on easy money policy incentives, should no longer be as enticing to investors as it once was. Meanwhile, tension on the global trade front and geopolitical risk, should continue to be a drag on investor sentiment into 2020, despite any signs that would suggest otherwise. 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

**The 2019 breakout above the 2016 high** at 1375 was a significant development, and suggests the market is in the early stages of a bullish move that follows a multi-month consolidation. The next major level of resistance comes in around 1650 (measured move extension target), while in the interim, look for any setbacks to be well supported above 1400.



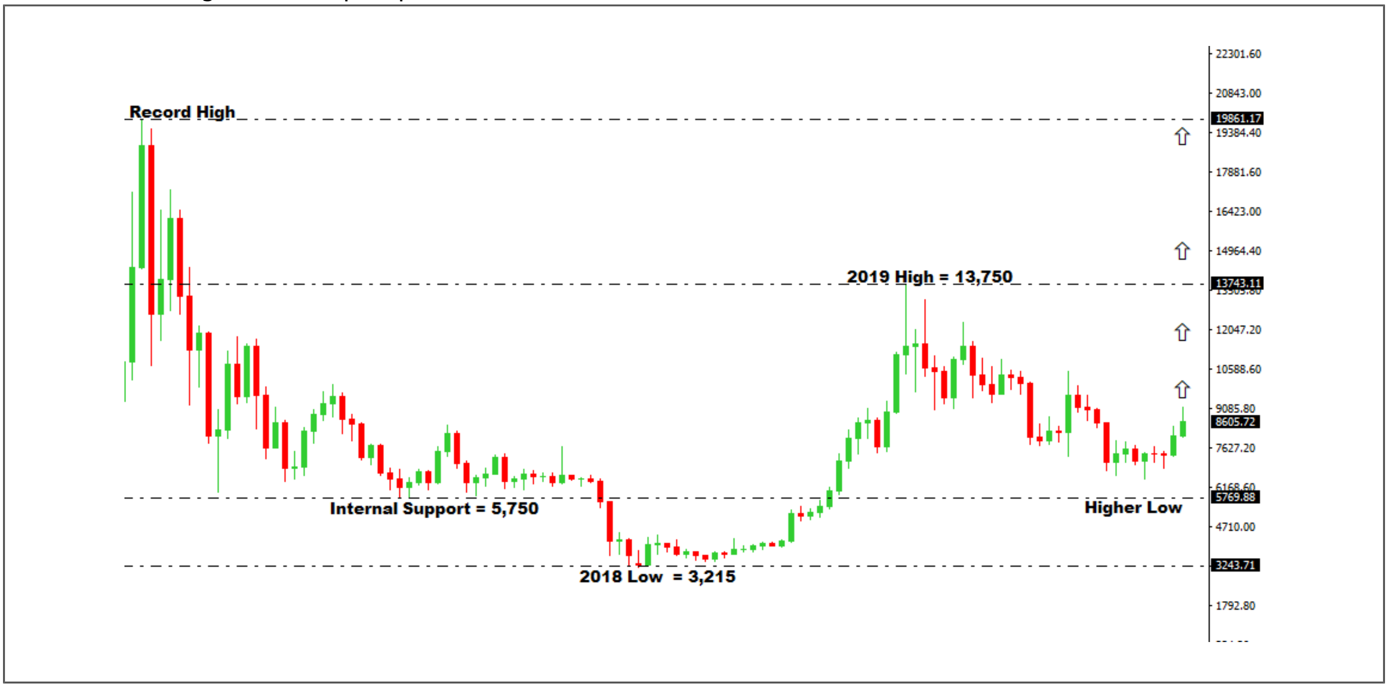

- **R2 1650** – Measured move target – Strong
- **R1 1612** – 8 January/**2019 high** – Medium
- **S1 1500** – Psychological – Medium
- **S2 1445**– 12 November low – Strong

# 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

**Setbacks should be very well supported** in the 6,000 area, with a higher low sought out in favour of a bullish continuation back above the 2019 high and towards the record high from late 2017 further up. Ultimately, only a weekly close below 5,750 would compromise the constructive outlook. Back above 10,468 further encourages bullish prospect.




- **R2 10,468**– 26 October high – Strong
- **R1 9,000** – Round number – Medium
- **S1 7,000** – Psychological – Strong
- **S2 6,430** – 18 December low – Strong

# BTCUSD – fundamental overview

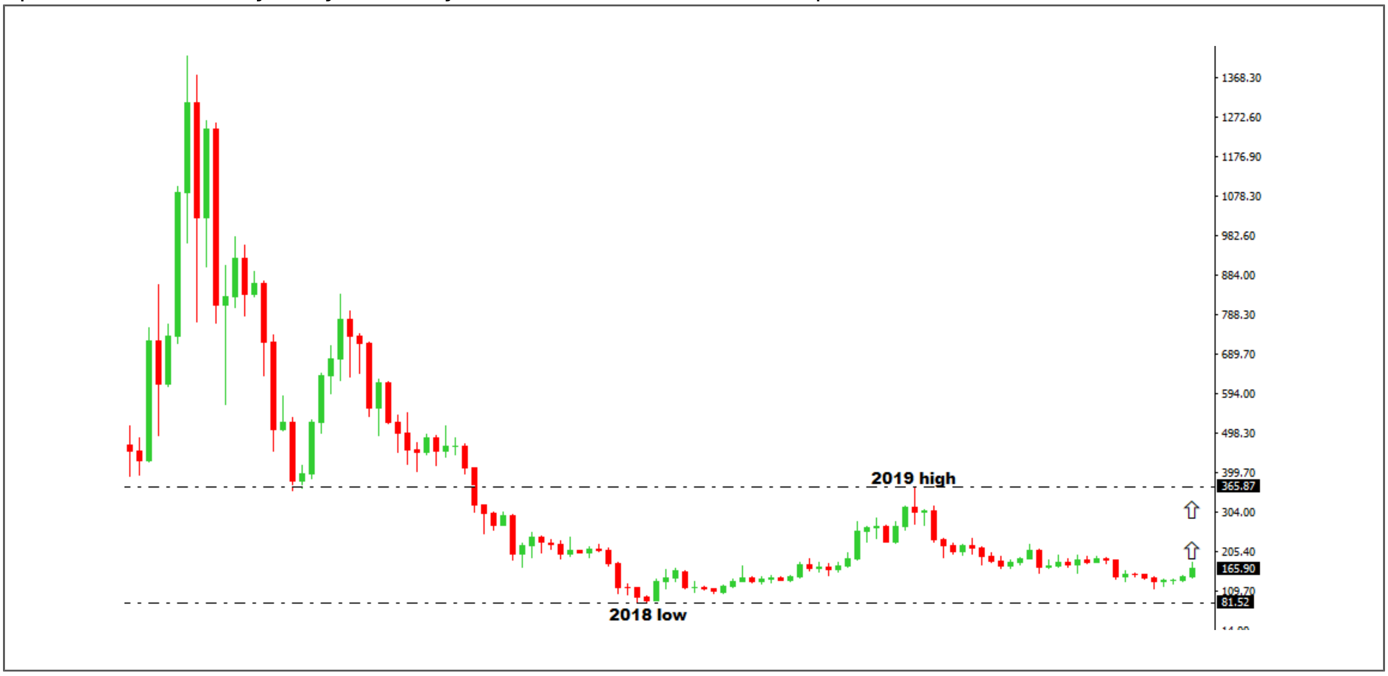
**Bitcoin demand is expected to pick up in 2020**, with market forces to likely make a stronger argument for the emerging cryptocurrency. In a world where rates are at historic lows and the equity market looks to be inching closer to major capitulation, the idea of owning a decentralised, limited supply currency, becomes increasingly attractive as a store of value. Moreover, there is plenty of development going on in the decentralised technology space, which should only add to the draw.

# BTCUSD - Technical charts in detail

Watch now

# ETHUSD – technical overview

**The market is in the process of a major correction** after a surge in the second quarter of 2019. Look for setbacks to be well supported above of previous resistance turned support at 100 on a weekly close basis, in favour of the next major higher low and bullish resumption back towards and through the 2019 high up at 363. Ultimately, only a weekly close below 100 would compromise the outlook.




- **R2 225** – 19 September high – Strong
- **R1 200** – Psychological – Medium
- **S1 117** – 18 December low – Medium
- **S2 102** – 6 February/**2019 low** – Strong

# ETHUSD – fundamental overview

**There is plenty of Ether demand built up** in the 80-100 area, with so much optimism around prospects for the blockchain given all of the development going on in the decentralised finance space. At the same time, macroeconomics will likely play a negative role in 2020, at least relative to the price of Bitcoin, with Eth expected to underperform in a risk off backdrop, in light of Ethereum's higher sensitivity and correlation with risk themes.