Thursday, June 27, 2019

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Commodity Currencies Holding Up

Wake-up call

The most interesting thing about price action in financial markets this week, if we're not talking about the massive resurgence in demand for Bitcoin, is the ongoing bid in risk correlated currencies like Aussie, Kiwi and Cad, despite profit taking in equities markets. Here's what's keeping these currencies supported.

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Technical highlights

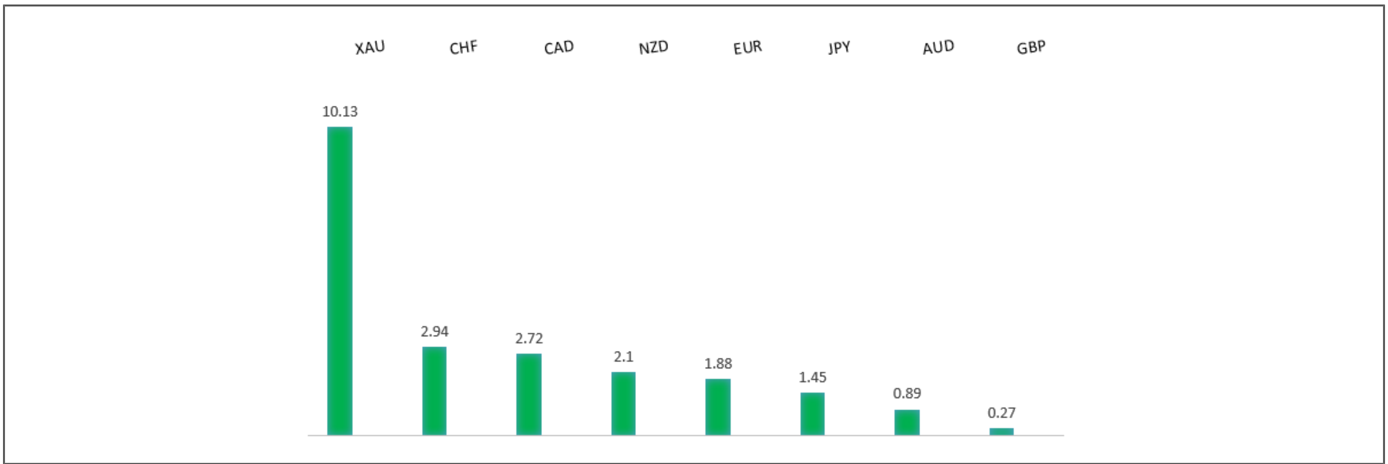
Daily Video

- EURUSD Signs of major trend reversal
- GBPUSD Risk for bullish breakout
- USDJPY Gravitating to 2018/19 lows
- EURCHF Room for additional downside
- AUDUSD Evidence of longer term basing
- USDCAD Sights set on retest of 2019 low
- NZDUSD Double bottom triggered on daily
- US SPX 500 Record run looking exhausted
- GOLD (spot) Higher low sought for next run
- BTCUSD Due for healthy corrective decline
- ETHUSD Upside should be limited for now

Fundamental highlights

- EURUSD Eurozone confidence and sentiment
- GBPUSD Mark Carney talks no-deal provisions
- USDJPY Japan PM talks readiness to act
- EURCHF SNB's job a lot harder in 2019
- AUDUSD Australia PM Morrison on free trade
- USDCAD Loonie getting boost from OIL run
- NZDUSD RBNZ holds on rates as widely expected
- US SPX 500 Investor risk appetite not as strong
- GOLD (spot) Macro players buying in size
- BTCUSD Crypto adoption gaining momentum
- ETHUSD Ether still needs to worry about risk off

5 Day Performance v. US dollar



Suggested reading

- Rising Oil Prices Will Test Frackers L. Denning, **Bloomberg** (June 26, 2019)
- Fed Chair on Risks to Global Economy, **Financial Times** (June 26, 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 May. 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 1.1448** – 20 March high – Strong
- **R1 1.1412** - 25 June high – Medium
- **S1 1.1283** - 21 June low – Medium
- **S2 1.1181** – 18 June low – Strong

EURUSD – fundamental overview

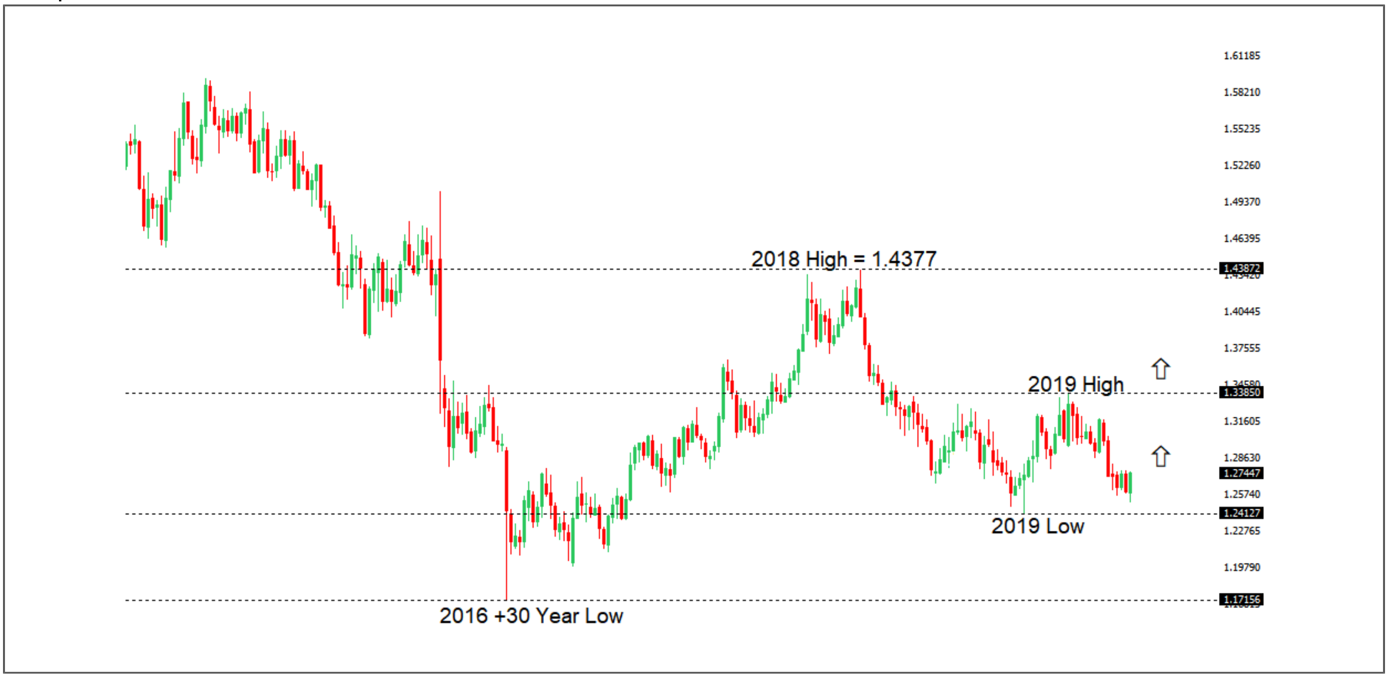
Despite ongoing concerns with the Eurozone outlook, the single currency has managed to find a good deal of support in recent weeks, with the market focused on USD bearish drivers. For the moment, the combination of a more dovish Fed and ramped up US protectionist trade policy, are the key market drivers, both of which are US Dollar bearish. On Wednesday, German GfK consumer confidence came in a little softer than forecast, but was offset by a well received France consumer confidence showing. Meanwhile, there were reports that it was 'unlikely' Italy would be revising its 2020 budget target. Still, any selling in the Euro found bids into dips, getting some more help from a weaker round of US data, after durable goods disappointing and the trade deficit came in wider. Looking ahead, we get Eurozone confidence and sentiment readings, some German inflation prints, and a batch of US data, this time in the form of GDP and core PCE, initial jobless claims and pending home sales.

EURUSD - Technical charts in detail

Watch now

GBPUSD – technical overview

The major has been well supported ahead of the 2019 low, helping to strengthen the case for a major base. Look for the market to start making its way back towards 1.3000, with a break above the psychological barrier to expose a retest of the 2019 high up at 1.3380. Only back below 1.2500 would compromise the constructive outlook.



- **R2 1.2814**– 21 May high – Medium
- **R1 1.2784** – 25 June high – Strong
- **S1 1.2637** – 20 June low – Medium
- **S2 1.2507** – 18 June low – Strong

GBPUSD – fundamental overview

Mark Carney was on the wires talking about the likelihood for more stimulus in the event of a no-deal Brexit, though overall, the comments were less about any expectation this would be the outcome and more about what would be if that outcome did play out. Meanwhile, other BOE members were on the wires with mostly supportive comments. On the political circuit, Boris Johnson downplayed his talk about a possible no-deal, saying it was a million to one shot. Still, there has been more worry about no-deal in recent days, which has weighed on the Pound a bit. But dips have also been supported on the bearish US Dollar themes and after Wednesday's US data produced a softer durable goods orders and wider deficit. Looking ahead, absence of first tier data on the UK docket will leave the focus on another batch of US data, this time in the form of GDP and core PCE, initial jobless claims and pending home sales.
Watch now

USDJPY – technical overview

The longer-term downtrend remains firmly intact, with the major pair gravitating back towards a retest of major support in the form of the 2018 and 2019 lows respectively, down in the 104s. Any rallies should now be well capped below 110.00, though only a break back above the yearly high at 112.40 would compromise the bearish outlook.

- **R2 108.80** – 11 June high – Strong
- **R1 108.15** – 20 June high – Medium
- **S1 106.78** – 25 June low – Medium
- **S2 106.00** – Figure – Strong

USDJPY – fundamental overview

Japan's PM was out on Wednesday saying he wouldn't hesitate to take measures in order to counter any downside risks. The major pair found some demand on the comments, though dealers continued to report heavy offers into rallies, on the back of soft Dollar themes, discouraging US economic data and some profit taking in the equities markets. Looking ahead, we get a batch of US data in the form of GDP and core PCE, initial jobless claims and pending home sales.
Watch now

EURCHF – technical overview

The latest breakdown below critical range support in the 1.1200 area, has opened the door for an acceleration of declines that targets a move back towards initial support in the form of the 1.1000 psychological barrier. The market is trading at its lowest levels in nearly two years and at this point, it would take a daily close back above 1.1279 to take the immediate pressure off the downside.

- **R2 1.1279** – 28 May high – Strong
- **R1 1.1265** – 12 June high – Medium
- **S1 1.1057** – 20 June/**2019 low** – Medium
- **S2 1.1000** – Psychological – 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, 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 on dips 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 0.7023 to strengthen this outlook. In the interim, look for setbacks to continue to be well supported ahead of 0.6800.

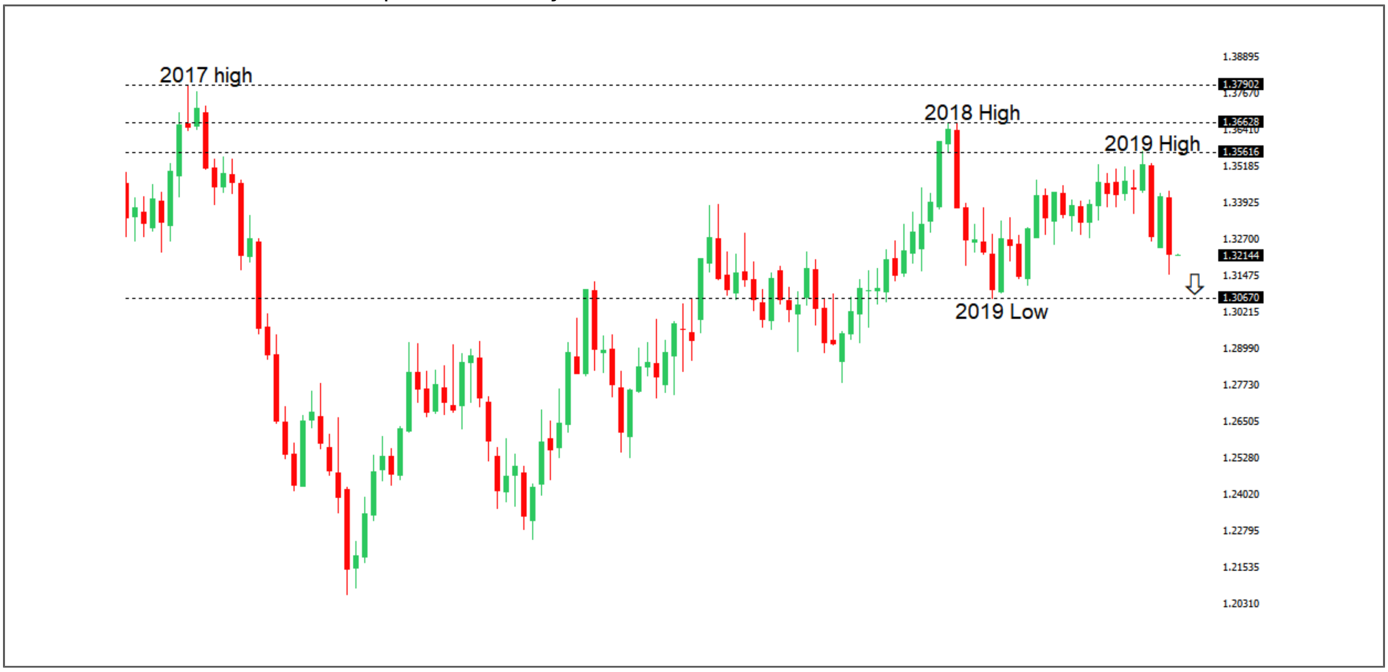
- **R2 0.7023** – 7 June high – Strong
- **R1 0.7000** – Psychological – Medium
- **S1 0.6879** – 20 June low – Medium
- **S2 0.6832** – 18 June low – Strong

AUDUSD – fundamental overview

The Australian Dollar has done a good job holding up on dips, with medium and longer-term players more inclined to be buying the commodity currency against the Buck, in light of a more dovish Fed outlook and soft Dollar policy out from the US administration. Aussie has also benefited from rallying commodities prices and comments from RBA Lowe earlier this week, after the central banker said it was appropriate to question how much more the central bank could ease policy. Meanwhile, Wednesday US data came in soft, giving Aussie a further prop. On the political front, Aussie PM Morrison urged Indo-Pacific nations to 'step up their commitment to free trade' given the risks associated with fallout between the US and China. Looking ahead, we get a batch of US data in the form of GDP and core PCE, initial jobless claims and pending home sales.

USDCAD – technical overview

Despite breaking to a fresh yearly high in May, overall, the market remains confined to choppy consolidation. 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.



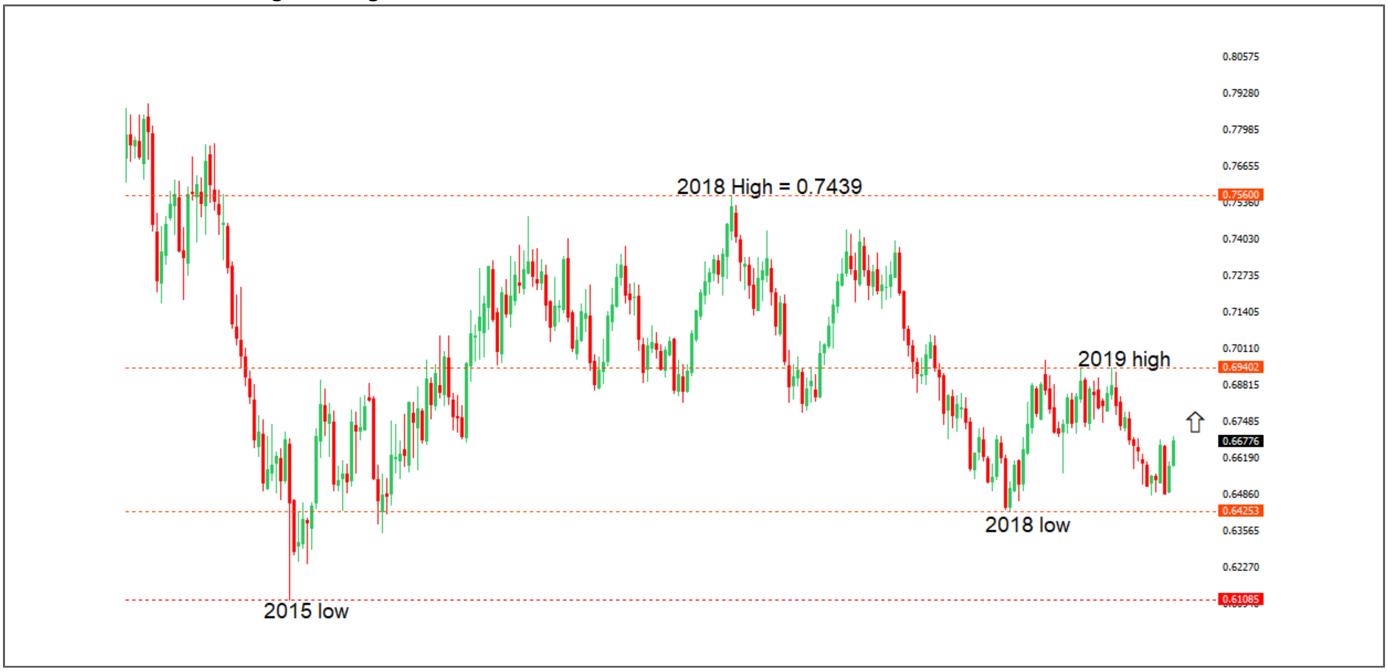
- **R2 1.3287**– 20 June high – Strong
- **R1 1.3230** - 21 June high – Medium
- **S1 1.3107** – 26 June low – Medium
- **S2 1.3069** – 1 February/**2019 low** – Strong

USDCAD – fundamental overview

It's been more about US Dollar weakness of late, in the face of a dovish shift in the Fed outlook and ongoing soft Dollar trade policy efforts from the US administration. Meanwhile, the price of OIL is back on the mend, which has done a good job offsetting Loonie bearishness from last week's softer Canada retail sales. Tuesday's Canada wholesale sales beat and Wednesday's softer US data reads have also helped to inspire some mild outperformance in the Loonie. Looking ahead, absence of first tier data out of Canada, leaves the primary focus on a batch of US data in the form of GDP and core PCE, initial jobless claims and pending home sales.

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 above the latter, in anticipation of renewed upside, with only a close below to compromise the outlook. The latest break back above 0.6682 has triggered a double bottom, further strengthening the constructive outlook.



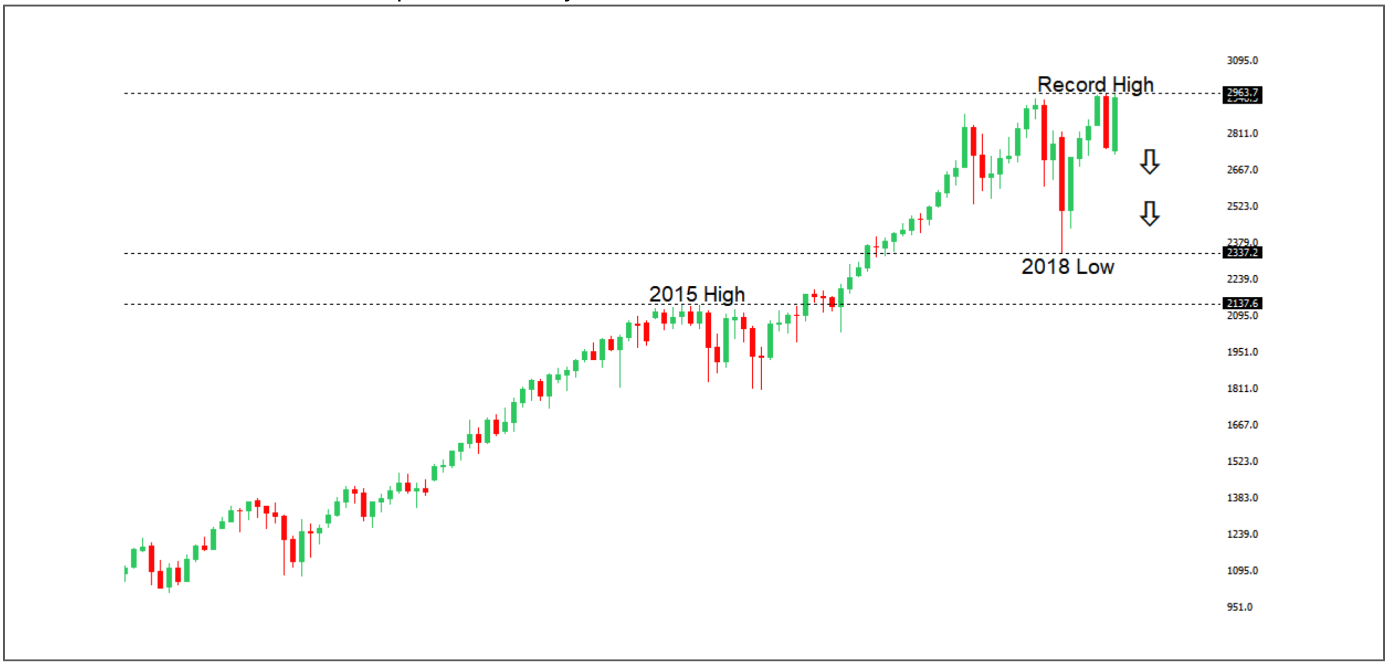
- **R2 0.6730** – 18 April high – Strong
- **R1 0.6694** – 26 June high – Medium
- **S1 0.6595** – 26 June low – Medium
- **S2 0.6535** – 20 June low – Strong

NZDUSD – fundamental overview

There were no surprises from the RBNZ on Wednesday, with the central bank leaving rates on hold, while communicating a lower cash rate might be needed over time. Meanwhile, the IMF said the New Zealand Dollar was still above its longer-term average. Overall, medium and longer-term players have been more inclined to be buying the commodity currency against the Buck, in light of a more dovish Fed policy outlook and soft Dollar policy out from the US administration. We've also seen Kiwi demand from rallying commodities prices and discouraging Wednesday US data, which has helped to offset some selling pressure associated with risk liquidation. Looking ahead, we get a batch of US data in the form of GDP and core PCE, initial jobless claims and pending home sales.

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 at 2729, with a break below to strengthen the outlook. A sustained move above 3000 would be required to delay.



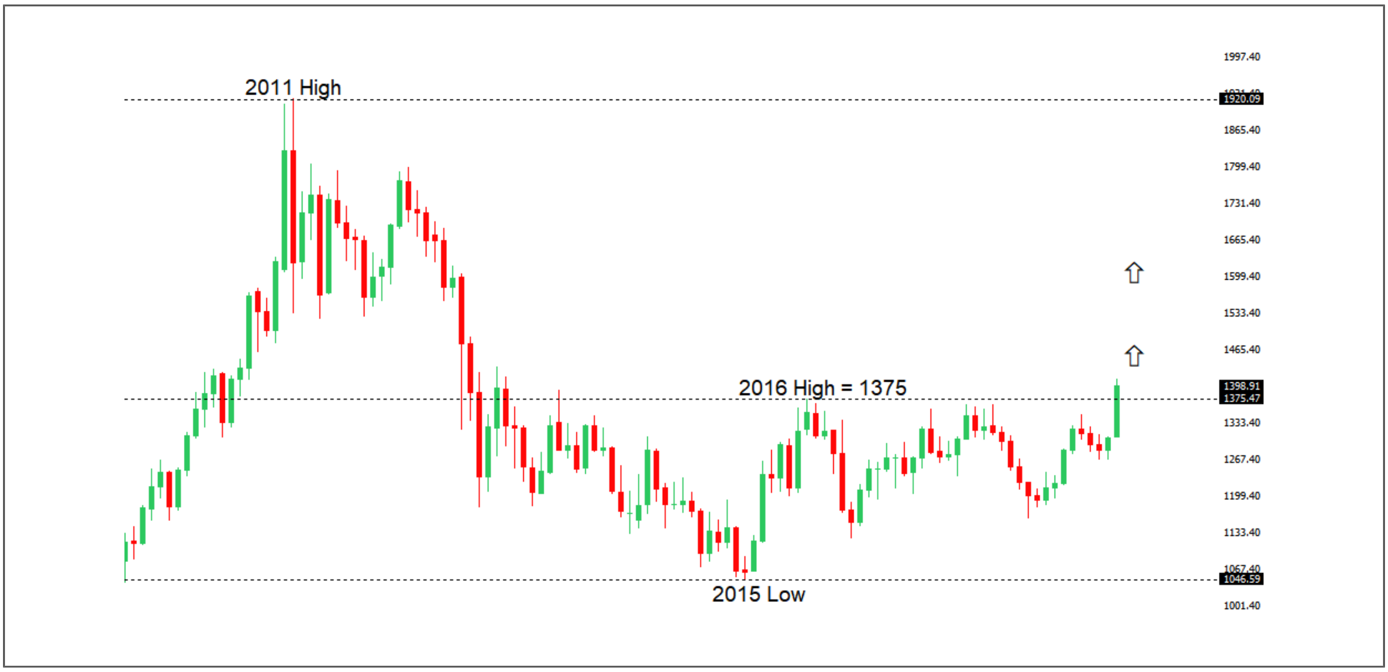
- **R2 3000** – Psychological – Strong
- **R1 2965** – 21 June/**Record high** – Medium
- **S1 2867** – 13 June low – Medium
- **S2 2729** – 3 June low – Strong

US SPX 500 – fundamental overview

Although we've seen the market extend to another record high 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, expected renewed 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

The latest push back above the 2016 high at 1375 is a significant development, as it suggests the market is in the process of a bullish breakout after a multi-month consolidation. The next major level of resistance comes in around 1500, while in the interim, look for any setbacks to be well supported above 1300.



- **R2 1488** – May 2013 high – Strong
- **R1 1440** – 25 June/**2019 high** – Strong
- **S1 1400** – Psychological – Medium
- **S2 1358** – 20 June 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, though the rally has resulted in extended technical readings after racing through 10k psychological barrier. Overall, look for additional upside to be limited for now, to allow for these technical readings to unwind from stretched readings, before the market considers that next meaningful push. Setbacks should ideally be supported ahead of 7,000.

- **R2 14,335**– 15 January high (2018) – Strong
- **R1 13,748** – 26 June/**2019 high** – Medium
- **S1 10,000** – Psychological – Medium
- **S2 8,935** – 19 June low – Strong

BTCUSD – fundamental overview

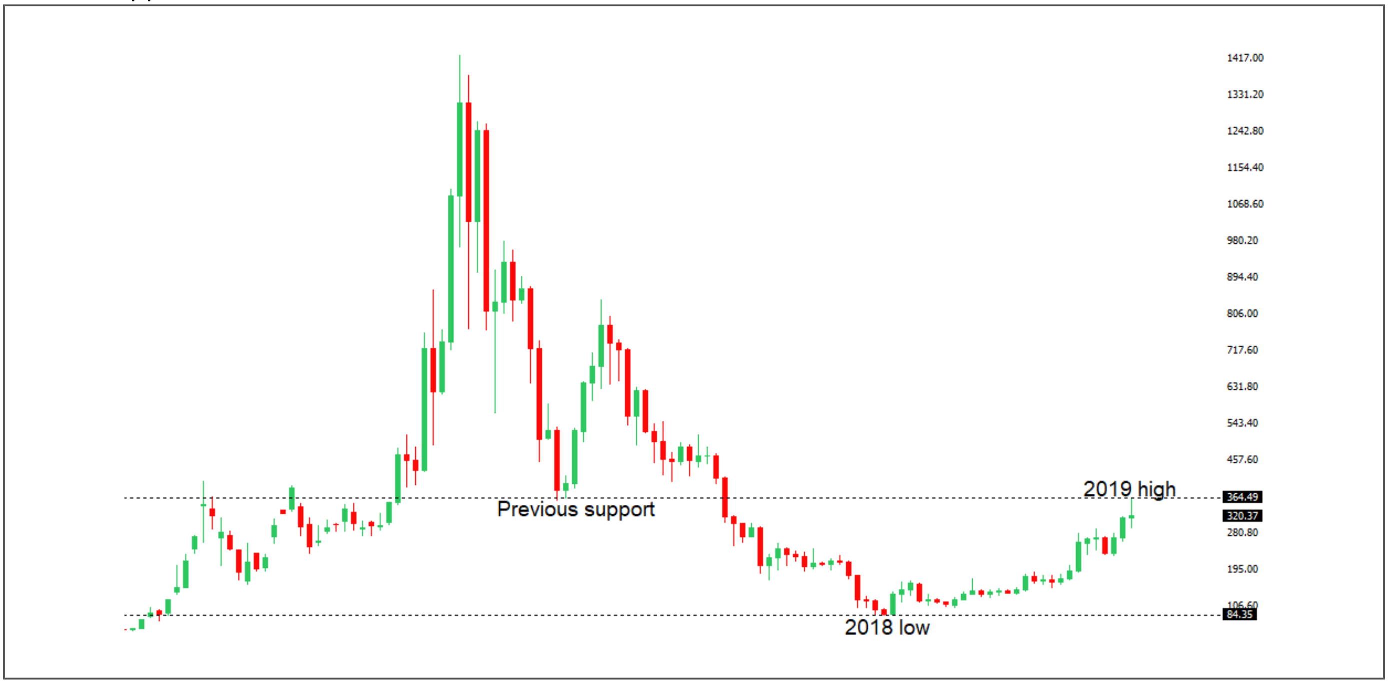
Bitcoin is enjoying spectacular run in the second quarter of 2019, racing to fresh yearly highs, surging through 10k, on the back of increased adoption and a clear readiness for the investment community to welcome the new digital asset into the mainstream. The news of tech giants now turning towards a world of crypto transactions has given Bitcoin a major boost, with the latest moves over at Facebook, only serving to give crypto assets additional credibility.

BTCUSD - Technical charts in detail

Watch now

ETHUSD – technical overview

The recovery has recently accelerated to a fresh 2019 high, surging through medium-term resistance at 300 and back into critical previous support from back in 2018 around 355. The upside break suggests the market is now looking to establish a meaningful base, in favour of bullish structural shift. Still, shorter-term, the run is looking stretched and before we see that next major upside extension, we could see rallies well capped, to allow for extended readings to unwind before the market gets going again. Setbacks should now be well supported ahead of 200.



- **R2 400** – Psychological – Strong
- **R1 363** – 26 June/**2019 high** – Medium
- **S1 290** – 22 June low – Medium
- **S2 260** – 19 June 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 Ethereum is the blockchain with the biggest front end application potential. 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 also risk we soon see a healthy adjustment back to the downside.