

Wednesday, January 9, 2019

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Wednesday All About Central Bank Risk [Wake-up call](#)

We haven't seen much activity in markets this week, though things could pick up today with central bank risk all over the calendar. We get a policy decision from the Bank of Canada, the Fed Minutes, an online Q&A with BOE Governor Carney and appearances from various other central bankers.

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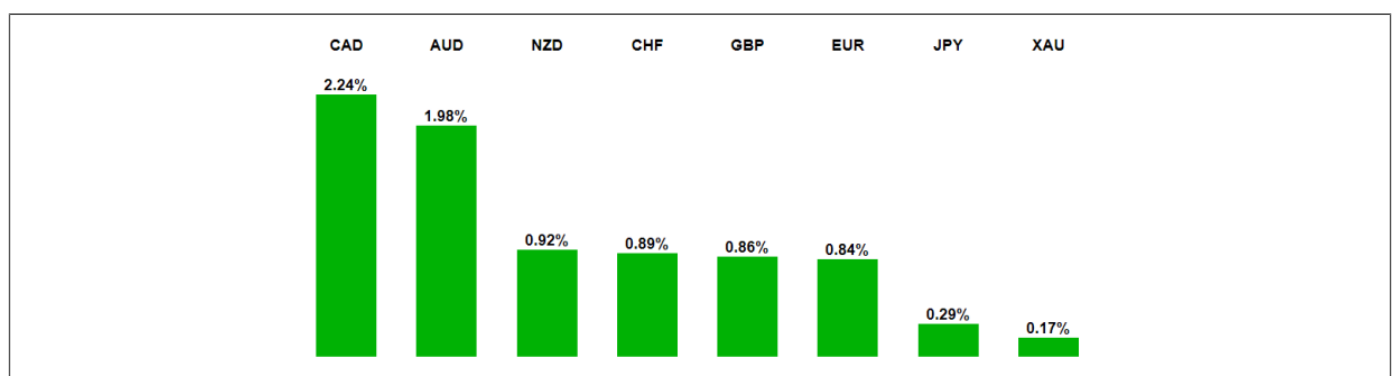
Technical highlights [Daily Video](#)

- [EURUSD](#) Still signs of major bottom
- [GBPUSD](#) Case for major higher low
- [USDJPY](#) Considering deeper drop
- [EURCHF](#) No directional insight at moment
- [AUDUSD](#) Well supported after collapse
- [USDCAD](#) Extended studies unwinding
- [NZDUSD](#) Looking for next higher low
- [US SPX 500](#) Rally expected to stall out
- [GOLD](#) (spot) Slowly working to bullish break
- [BTCUSD](#) Recovery classified as corrective
- [ETHUSD](#) Upside could still be limited

Fundamental highlights

- [EURUSD](#) Eurozone **unemployment data**
- [GBPUSD](#) UK Parliament back to debates
- [USDJPY](#) Risk appetite healthier for now
- [EURCHF](#) Swiss inflation data into spotlight
- [AUDUSD](#) Aussie boosted on China headlines
- [USDCAD](#) Loonie preps for BoC decision
- [NZDUSD](#) Kiwi helped by positive drivers
- [US SPX 500](#) Fed model front and centre
- [GOLD](#) (spot) Hard asset demand ramps up
- [BTCUSD](#) Bitcoin outlook bright further out
- [ETHUSD](#) Demand emerges despite headwinds

5-Day Performance v. US dollar

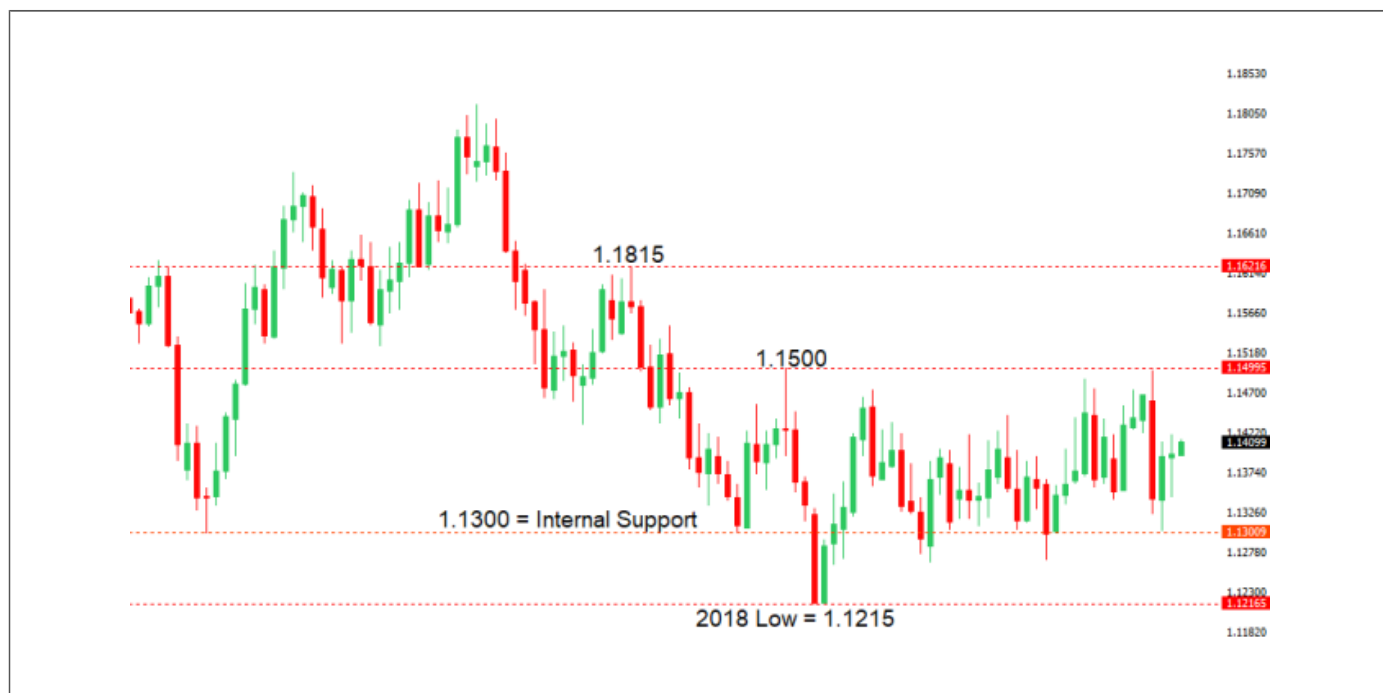


Suggested reading

- [5 Big Messes India Can't Blame on RBI](#) A. Mukherjee, **Bloomberg** (January 9, 2019)
- [Tech Innovations Fuel an OIL and Gas Fightback](#), E. Crooks, **FT** (January 8, 2019)

EURUSD - technical overview

The Euro sits at a critical inflection point right now, trying to figure out whether it wants to hold up into dips for the start to a resumption of that bullish breakout from back in 2017 that led to a +3 year high earlier this year, or if it wants to keep extending this run of declines. A lot of this will hinge on how the market trades in the sessions ahead. If the major pair can establish back above 1.1500, it sets the stage for a bigger bullish move ahead. If however the market is unable to establish above 1.1500, it will keep the overall pressure on the downside, with risk for a drop back below the 2018 low around 1.1215, for the next major downside extension.



- **R2 1.1500** - 7Nov high - Strong
- **R1 1.1485** - 8Jan high - Medium
- **S1 1.1396** - 7Jan low - Medium
- **S2 1.1309** - 3Jan low - Strong

EURUSD - fundamental overview

The Euro has been well supported in recent sessions despite a softer round of data out of Europe this week. The combination of a Fed that’s taking a full pause in 2019 more seriously, ongoing White House drama, and the US administration’s soft Dollar protectionist agenda are all suggesting the Euro could continue to rally. Looking at the calendar, we get German trade, Eurozone unemployment and the Fed Minutes later in the day.

EURUSD - Technical charts in detail

GBPUSD - technical overview

At this stage, we still view the pullback in 2018 as a correction within a developing uptrend off the 2016 low and will be looking for a higher low to carve out well ahead of 1.1840, in favour of a push back to the topside. For this to play out, the market will ideally need to hold above some meaningful support in the 1.2300s and recover back through the September 2018 peak at 1.3300. Critical short-term resistance comes in at 1.2815, with a break back above the level to strengthen the bullish prospect.



- **R2 1.2815** - 31Dec high - Strong
- **R1 1.2790** - 8Jan high - Medium
- **S1 1.2712** - 7Jan low - Medium
- **S2 1.2648** - 3Jan high - Strong

GBPUSD - fundamental overview

Brexit headlines out of the UK will work back into the mix today, with UK parliament expected to get back to debating Theresa May's deal. The latest reports have May offering a deal that would give MPs the power to decide on the Irish backstop at a later date. The Pound has done a good job recovering out from that flash crash low from the other week, with broad based US Dollar selling from more cautious Fed speak driving the demand. Looking at today's calendar, key standouts come in the form of an online Q&A with BOE Carney and the release of the Fed Minutes.

GBPUSD - Technical charts in detail

[Watch now](#)

USDJPY - technical overview

Setbacks have intensified as the market continues to confirm the bearish outlook since stalling out above 114.00 in early October. Look for any recovery rallies to be well capped ahead of 111.00 in favour of the next major downside extension below the 104.63 2018 low. This would expose a very important psychological barrier at 100.00 further down.



- **R2 109.73** - 2Jan high - Strong
- **R1 109.00** - 8Jan high - Medium
- **S1 108.02** - 7Jan low - Medium
- **S2 107.52** - 4Jan low - Strong

USDJPY - fundamental overview

The major pair has managed to stabilise after last week’s flash crash, with the latest wave of demand coming from a number of risk positive stories that include the Fed Chair’s willingness to consider a full pause in 2019, optimism around US-China trade talks that have run into an unscheduled third day, and news China’s finance ministry is proposing a wider budget deficit in 2019 as a measure of support for the slowing economy. Looking ahead, the big event risk for the day comes in the form of the Fed Minutes.

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EURCHF - technical overview

The market has been in the process of consolidating off the 2018 low, which coincided with critical support in the 1.1200 area. However, at this stage, there is no clear directional bias, with the price action deferring to a neutral state. Back above 1.1500 would get some bullish momentum going for a push to 1.2000, while back below 1.1185 would be quite bearish.



- **R2 1.1435**- 16Nov high - Strong
- **R1 1.1359** - 22Nov high - Medium
- **S1 1.1200** - Psychological - Medium
- **S2 1.1185**- 7Sep/2018 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

Daily studies are trying to unwind from stretched readings and there could be an extended period of consolidation and correction that plays out from here. Despite the breakdown below the 2016 low, inability to establish below that low around 0.6825 will keep the market from wanting to get overly bearish and could even warn of some form of a longer-term base. However, a drop back below the 2016 low again, would expose deeper setbacks towards the 2008 low around 0.6000. The market would need to break back above 0.7400 to force a bullish shift in the structure.



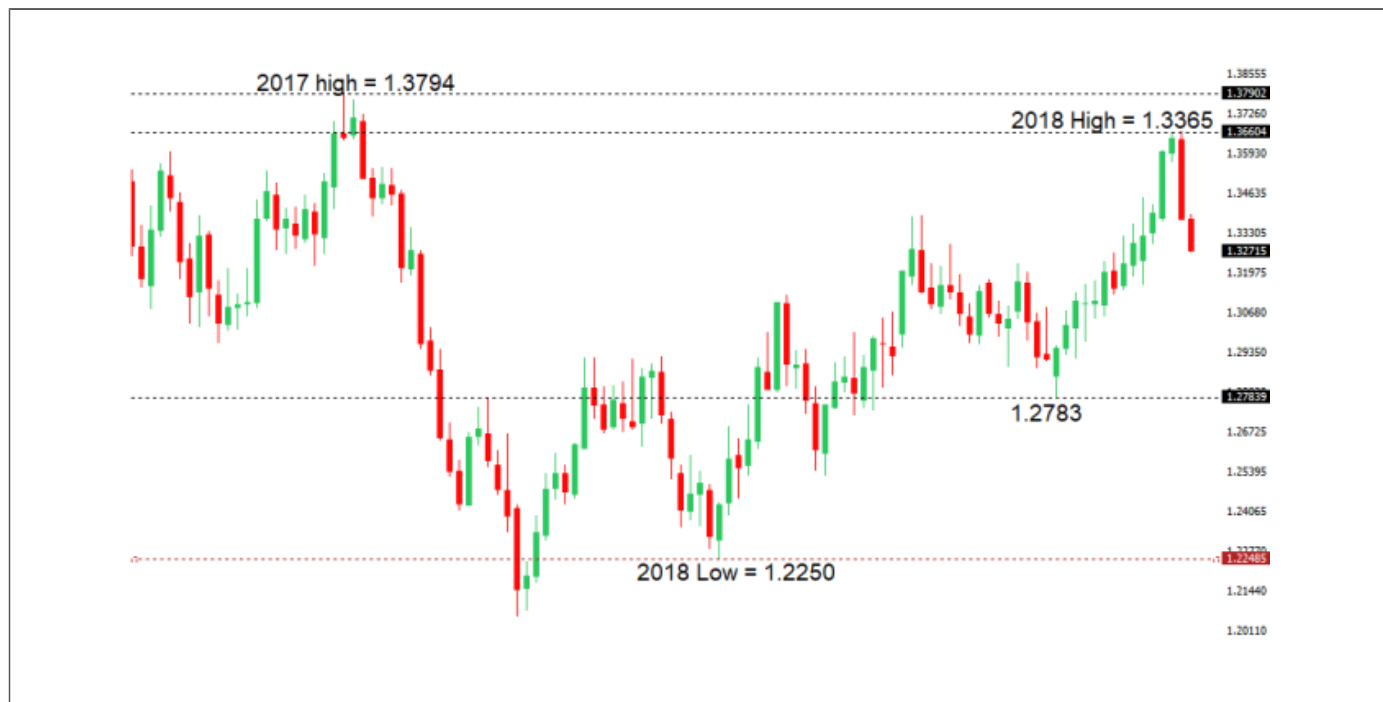
- **R2 0.7204** - 18Dec high - Strong
- **R1 0.7172** - 9Jan high - Medium
- **S1 0.7000** - Psychological - Medium
- **S2 0.6994** - 4Jan low - Strong

AUDUSD - fundamental overview

While the Australian Dollar suffered a major blow from last week's flash crash, sinking to its lowest levels in a near decade, the currency has managed to find quick demand into dips. A possible Fed pause, ongoing drama at the White House and worry about US administration protectionism are all USD bearish drivers. Meanwhile, an uptick in risk sentiment into the new week is also helping, driven off the more accommodative Fed Powell speak, optimism around renewed US-China trade talks, and supportive gestures from China's finance ministry. Looking ahead, the big event risk for the day comes in the form of the Fed Minutes. Earlier today, Aussie building approvals came in on the softer side but didn't really factor into price action.

USDCAD - technical overview

The market recently extended its run through a major psychological barrier at 1.3500, breaking to fresh multi-month high. However, stretched technical studies suggest additional upside may be limited to this area, with risk for another sizable pullback. A bearish reversal week is confirming the shorter-term bearish outlook, which has room to extend back down towards 1.3000 over the coming sessions.



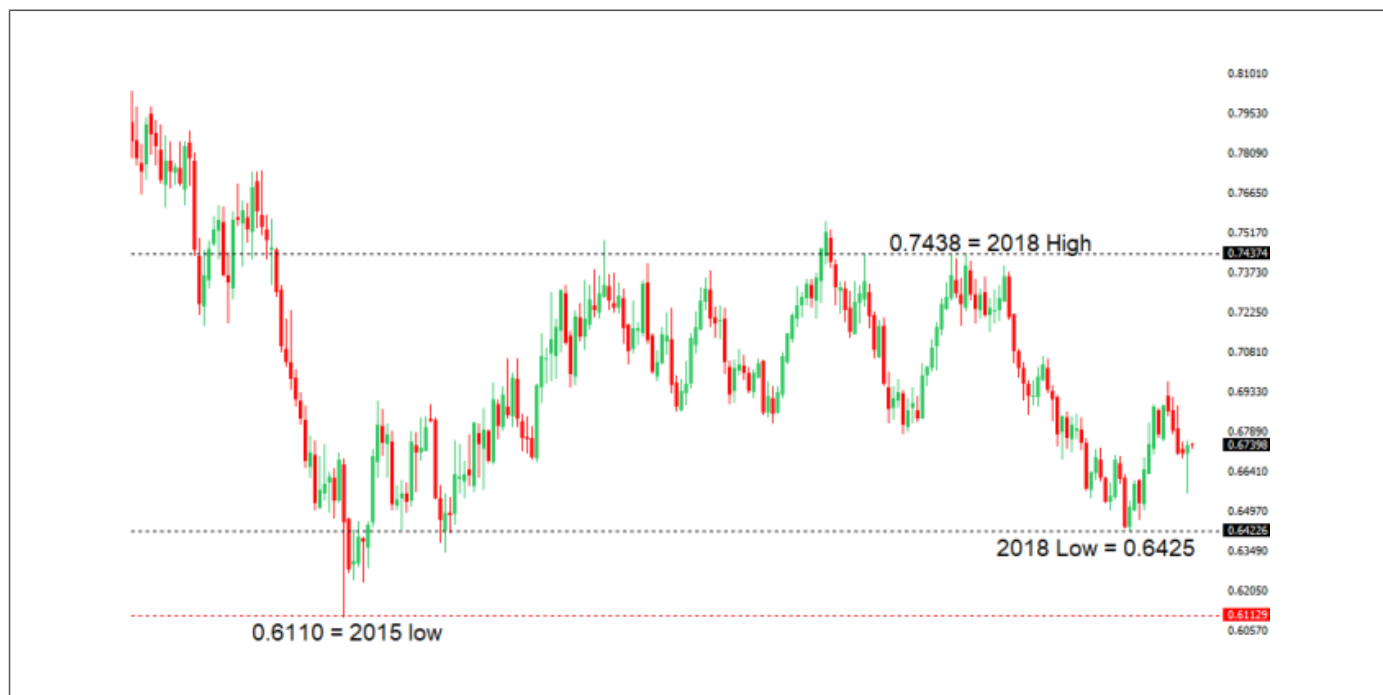
- **R2 1.3496**- 4Jan high - Strong
- **R1 1.3390** - 7Jan high - Medium
- **S1 1.3254** - 7Dec low - Medium
- **S2 1.3161** - 3Dec low - Strong

USDCAD - fundamental overview

The Canadian Dollar is finally fighting its way back from multi-month lows, with the Loonie getting a lot of help from the recovery in the price of OIL and US Dollar bearish sentiment from the latest round of cautious speak from Fed Chair Powell, a departure from the more hawkish message given at the recent Fed Meeting. Activity is sure to pick up for the Loonie on Wednesday, with the market taking in the latest Bank of Canada decision and Fed Minutes.

NZDUSD - technical overview

The market has been in the process of cooling off after enjoying a healthy recovery rally out from +2.5 year lows. While the bigger picture outlook still shows the market in a downtrend, as per the weekly chart, there is a case to be made for a meaningful low in place at 0.6425. As such, look for the latest setbacks to be well supported ahead of 0.6500 in anticipation of additional upside, with only a break back below 0.6500 to put the focus back on the multi-month low from October at 0.6425.



- **R2 0.6791** - 20Dec high - Strong
- **R1 0.6768**- 7Jan high - Medium
- **S1 0.6672** - 4Jan low - Medium
- **S2 0.6565** - 31Jan low - Strong

NZDUSD - fundamental overview

The New Zealand Dollar held up relatively well in the face of last week’s flash crash. The commodity currency is benefitting from the more dovish speak out from Fed Powell, ongoing White House drama, and optimism around renewed US-China trade talks. It’s also worth noting last week’s positive GDT auction result, something that gives the New Zealand Dollar another reason to be feeling good. Looking ahead, the big event risk for the day comes in the form of the Fed Minutes.

US SPX 500 - technical overview

There have been legitimate signs of a major longer term top, with deeper setbacks projected in the months ahead. Any rallies should now continue to be very well capped ahead of 2800, in favour of renewed weakness that targets an eventual retest of strong longer-term resistance turned support in the form of the 2015 high at 2140. The projection is based off a measured move extension derived from the previous 2018 low from February to the record high move.



- **R2 2688** - 12Oct high - Strong
- **R1 2521** - 28Dec high - Medium
- **S1 2339** - 26Dec/2018 low - Medium
- **S2 2300** - Psychological - Strong

US SPX 500 - fundamental overview

Investor immunity to downside risk is not as strong into 2019. The lag effect of Fed policy normalisation, US protectionism, ongoing White House drama and geopolitical tension are all warning of deeper setbacks ahead. The Fed has also finally acknowledged inflation no longer running below target, something that could very well result in even less attractive equity market valuations this year, given the implication on rates. We recommend keeping a much closer eye on the equities to ten year yield comparative going forward, as the movement here is something that will continue to stress the market in 2019.

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 this latest recovery can extend back through big resistance in the form of the 2016 high at 1375. Look for setbacks to be well supported ahead of 1200, with only a close back below 1200 to compromise the constructive outlook. Next key resistance comes in at the 1300 psychological barrier.



- **R2 1300** - Psychological - Strong
- **R1 1292**- 3Jan high - Medium
- **S1 1264** - 26Dec low - Medium
- **S2 1233** - 14Dec 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

At this stage, any upside moves are classified as corrective ahead of what could be the next downside extension and bearish continuation. It would take a break back above previous support in the 6,000 area to take the pressure off the downside. Next critical support comes in the form of the July and September 2017 lows, around 2,000 and 2,975 respectively.



- **R2 5,050** - 20Nov high - Strong
- **R1 4,480** - 29Nov high - Strong
- **S1 3,212**- 15Dec/2018 low -Medium
- **S2 2,975** - Sep 2017 low - Very Strong

BTCUSD - fundamental overview

Bitcoin has just gone through a tough 2018, with the cryptocurrency suffering on a number of fronts. Still, overall, the cryptocurrency and the technology it rests on continue to show a lot of potential looking out and we expect the market will regain composure over the medium to longer term.

BTCUSD - Technical charts in detail

[Watch now](#)

ETHUSD - technical overview

Stretched medium-term studies have been turning back up, leading to this latest recovery. Still, it would take a sustained break back above 255 to take the pressure off the downside. Until then, risk remains for a lower top and bearish continuation to next major support in the 50-75 area.



- **R2 200** - Psychological - Medium
- **R1 167** - Previous Support - Strong
- **S1 109** - 22Dec low - Medium
- **S2 83** - 7Dec/2018 low - Strong

ETHUSD - fundamental overview

We're coming off a year of dramatic weakness in the price of Ether in 2018 and the cryptocurrency continues to face headwinds into 2019. Ongoing regulatory challenges and a global economic downturn are some of those headwinds that need to be considered. At the same time, longer term prospects are looking quite bright and valuations are increasingly attractive. There is a lot of demand for Ether that has been reported below 100 and ahead of 50.



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