

Friday, May 25, 2018

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Why Friday Could Be a Letdown for Many Traders [Wake-up call](#)

We come into Friday with the US Dollar still very much in demand across the board and still doing a fabulous job against the Euro and Pound. At the same time, daily studies are showing the Dollar overbought and in position to reverse lower. So what should we expect on this Friday and what do we need to know?

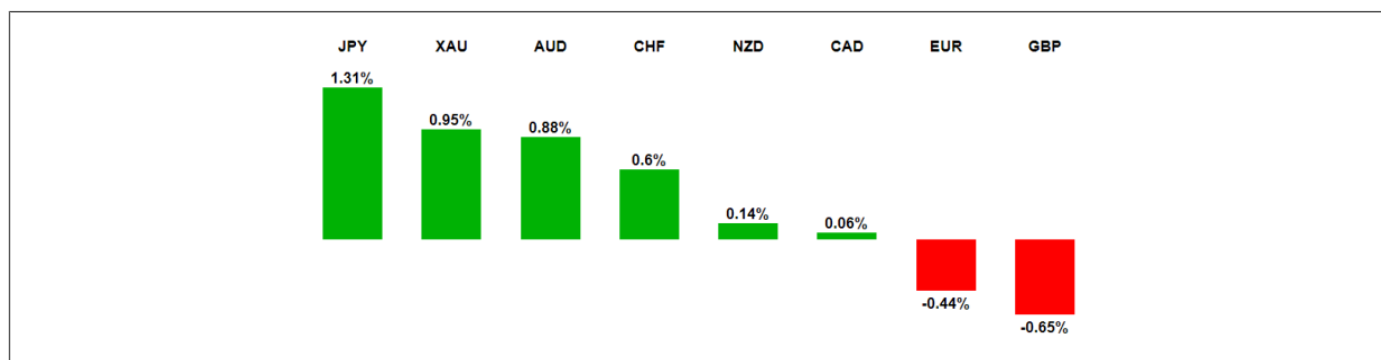
Technical highlights [Daily Video](#)

- **EURUSD** Getting closer to bottom
- **GBPUSD** Daily extended
- **USDJPY** Resuming downtrend
- **EURCHF** Into corrective mode
- **AUDUSD** Looking for lower top
- **USDCAD** Bullish consolidation
- **NZDUSD** Upside seen limited
- **US SPX 500** Slowly rolling over
- **GOLD** (spot) Supported on dips
- **BTCUSD** Trying to turn back up
- **ETHUSD** Holding above Ichimoku

Fundamental highlights

- **EURUSD** German IFO readings digested
- **GBPUSD** Looking at the UK GDP print
- **USDJPY** Yen shows sensitivity to risk off
- **EURCHF** SNB policy strategy to get tougher
- **AUDUSD** Global trade risk exposes Aussie
- **USDCAD** Plenty of NAFTA uncertainty
- **NZDUSD** Kiwi hit on RBNZ research paper
- **US SPX 500** Fed model will be important to watch
- **GOLD** (spot) Metal demand reflects uncertainty
- **BTCUSD** Crypto headwinds challenge Bitcoin
- **ETHUSD** Ethereum exposed to risk sentiment

Five day performance v. US dollar



Suggested reading

- [How to Digest A Roasted Turkey](#), R. Blitz, Financial Times (May 25, 2018)
- [A Cautionary Tale for Fishing Nations](#), M. Buchanan, Bloomberg (May 24, 2018)

EURUSD – technical overview

Despite the latest round of setbacks, the Euro remains confined to a medium term uptrend, with any additional weakness expected to be limited. Daily studies are looking to turn back up from oversold readings, while any recovery will also open the door for the possibility of that next meaningful higher low ahead of a bullish continuation. A daily close back above 1.2000 will however be required to encourage this prospect. Setbacks are expected to be well supported ahead of 1.1600.



- R2 1.1997 – 14May high – Strong
- R1 1.1830 – 22May high – Strong
- S1 1.1677 – 23May/2018 low – Medium
- S2 1.1555 – 7Nov low – Strong

EURUSD – fundamental overview

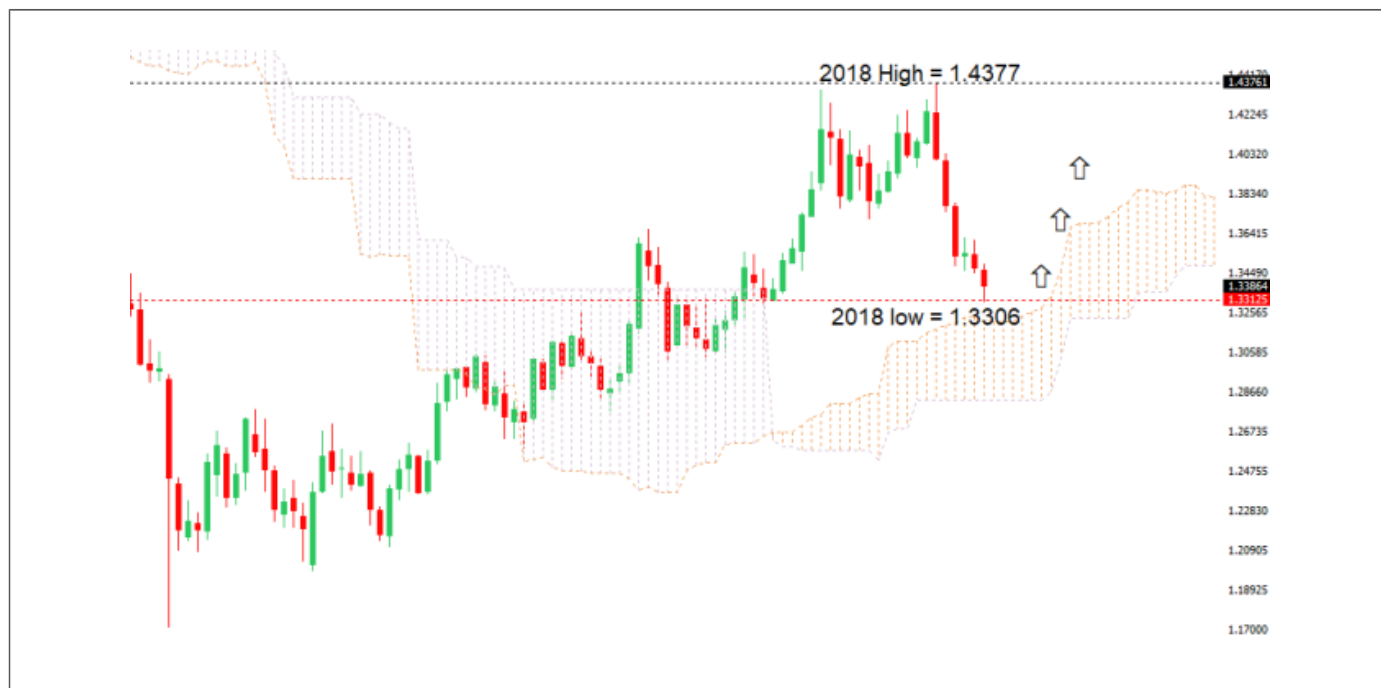
The Euro has extended its run of setbacks in 2018 with the combination of a downturn in Eurozone economic data and renewed focus on Fed policy normalisation driving the pullback. Still, overall, medium-term players have been looking to build short US Dollar exposure given the expectation that US protectionism has not really gone away and that the recent economic downturn in the Eurozone has been more weather related than anything else. Wednesday's Fed Minutes were also more dovish than expected, which could be a catalyst that gets things moving back in the Euro's favour into next week. Looking ahead, key standouts come in the form of German IFO readings, US durable goods and central bank speak.

EURUSD – Technical charts in detail

Watch now

GBPUSD – technical overview

Extended studies have opened the door for a healthy decline to a fresh 2018 low. Still, overall, the structure remains constructive on a medium to longer term basis and a higher low is sought out ahead of 1.3200 in favour of a bullish continuation. Ultimately back below 1.3000 would compromise the medium to longer term constructive outlook.



- R2 1.3492 – 22May high – Strong
- R1 1.3443 – 23May high – Medium
- S1 1.3306 – 23May/2018 low – Strong
- S2 1.3303 – 15Dec low – Strong

GBPUSD – fundamental overview

The Pound has extended its run of 2018 declines this week, with the setbacks mostly coming from broad based US Dollar demand on scaled back US protectionism and soft Dollar policy. Of course, Brexit uncertainty has not helped the Pound's cause. Still, overall, there are many medium term players looking to take advantage of this slide, to build into long GBP exposure, with a recent economic downturn in the UK dismissed as being weather related and the Brexit path expected to be less bumpy. Moreover, the Bank of England has been far less dovish than the market, with officials at the central bank unwilling to rule out rate hikes in 2018 despite the more cautious outlook. Wednesday's news of the UK PM looking for a transition extension, a more dovish read of the Fed Minutes and solid UK retail sales are some of the potential catalysts that could inspire a move back in the Pound's favour. Looking ahead, the market will be focused on this latest UK GDP print, US durable goods and a panel that will have Governor Carney and Fed Powell making headlines.

GBPUSD – Technical charts in detail

Watch now

Page 3 of 13

USDJPY – technical overview

The major pair has been attempting to bottom out after trading down to a 2018 low in the 104s. Still, the medium term trend continues to point lower, and there is risk the rally could soon stall out into important resistance towards 112.00 in the form of a falling trend-line and the Ichimoku cloud bottom. Wednesday price action is strengthening the bearish outlook.



- R2 112.00 – Figure – Strong
- R1 111.40 – 21May high – Medium
- S1 109.22 – 13May low – Medium
- S2 108.65 – 4May low – Strong

USDJPY – fundamental overview

The major pair is still very much correlated to risk sentiment and renewed signs of a deterioration in investor optimism have been inviting demand into the mid-week (USDJPY lower). The US Dollar is also looking extended against the major currencies, with any broad based Dollar decline to invite downside pressure in the major pair. Certainly the combination of a more dovish leaning Fed Minutes this week and escalating geopolitical tension surrounding US dealings with North Korea, China and Iran, could very well inspire more setbacks in the major pair. Looking ahead, US durable goods and some central bank speak that includes possible comments from Fed Powell, who's on a panel discussion, will be some of the key standouts as we close out the week.

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EURCHF – technical overview

The market has entered an overdue corrective phase after trading back above 1.2000 for the first time since January 2015. Technical studies were highly extended when the market crossed through the barrier and this has led to a necessary corrective decline to allow for the extended readings to unwind. Ultimately, the next meaningful higher low is now sought out into this dip, ideally above 1.1500.



- R2 1.1942 – 15May high – Strong
- R1 1.1819 – 18May high – Medium
- S1 1.1600 – Figure – Medium
- S2 1.1500 – Psychological – 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. 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 in 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.

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 setbacks extending below the 0.7500 barrier and exposing a possible retest of the 2017 low at 0.7330 further down. Any rallies are classified as corrective in search of a lower top for bearish continuation, with only a break back above 0.7700 to take the immediate pressure off the downside.



- R2 0.7622 – 24Apr high – Medium
- R1 0.7606 – 22May high – Strong
- S1 0.7529 – 18May low – Medium
- S2 0.7413 – 9May/2018 low – Strong

AUDUSD – fundamental overview

Absence of economic data out of Australia has put the focus on the bigger picture themes and this leaves the Australian Dollar in a position where it will need to decide if it wants to be rallying on the back of this week's more dovish Fed Minutes, or selling off on a deterioration in global sentiment from rising geopolitical tension, worry of global trade wars and fallout from monetary policy normalisations. Aussie will also be watching closely to see how iron ore prices respond. Looking ahead, Friday's calendar features US durable goods and some central bank speak.

USDCAD – technical overview

Overall, there are signs of basing after months of downside pressure. Look for any setbacks to now be well supported ahead of 1.2500, in favour of the next major upside extension through 1.3125 and towards 1.3500 further up. Ultimately, a break back below 1.2500 would be required to negate the medium term constructive outlook.



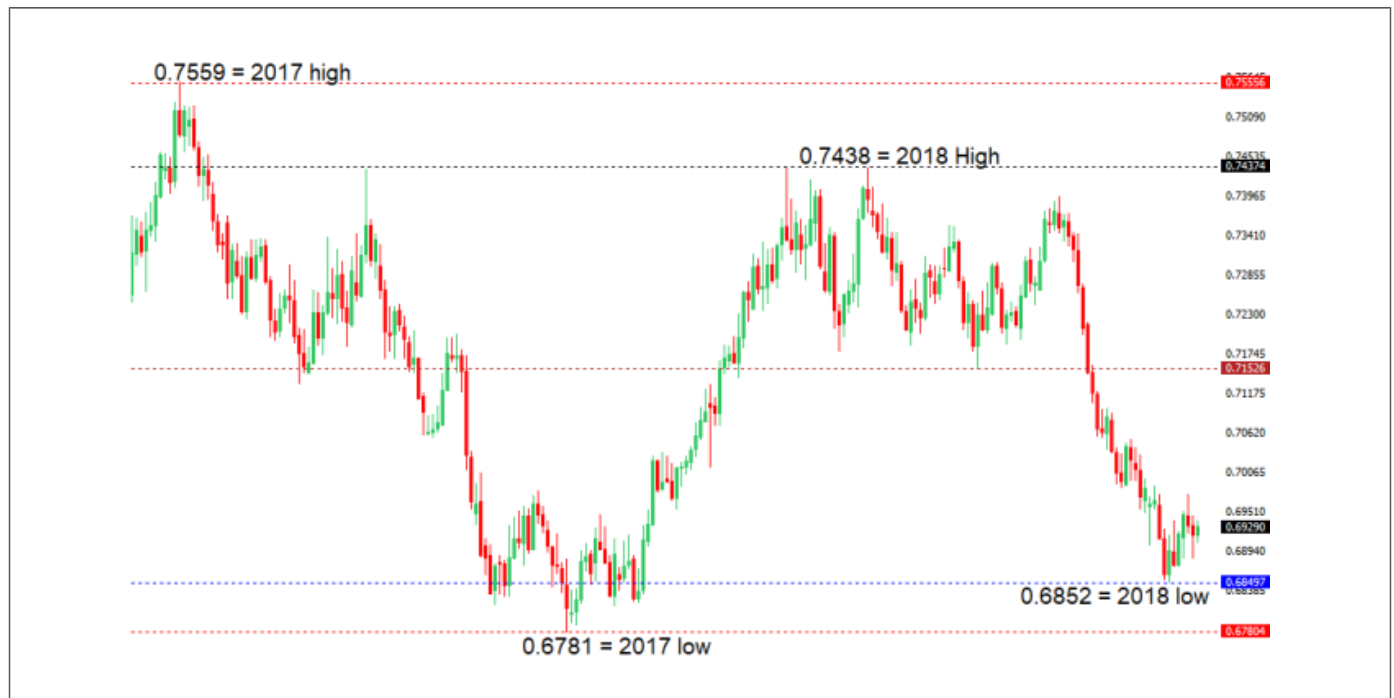
- R2 1.2998 – 8May high – Strong
- R1 1.2925 – 15May high – Medium
- S1 1.2730 – 11May low – Medium
- S2 1.2660 – 18Apr high – Strong

USDCAD – fundamental overview

There hasn't been much demand for the Canadian Dollar in the aftermath of a more dovish read in the Fed Minutes, with the Loonie needing to worry about bigger stresses at the moment. Uncertainty surrounding the fate of NAFTA continues to weigh on the Canadian Dollar, while a pullback in the price of OIL and some geopolitical tension are also offsetting any US Dollar selling from the Fed Minutes. Looking ahead, absence of first tier data on the Canada calendar leaves the focus on NAFTA headlines, US durable goods and some central bank speak.

NZDUSD – technical overview

Setbacks have intensified in recent days, leaving daily studies oversold and at risk for a more significant corrective bounce. But any rallies are now expected to be very well capped ahead of 0.7200, with only a break back above the psychological barrier to negate the bearish outlook. The next key level of support coming in down at the 0.6781 2017 low.



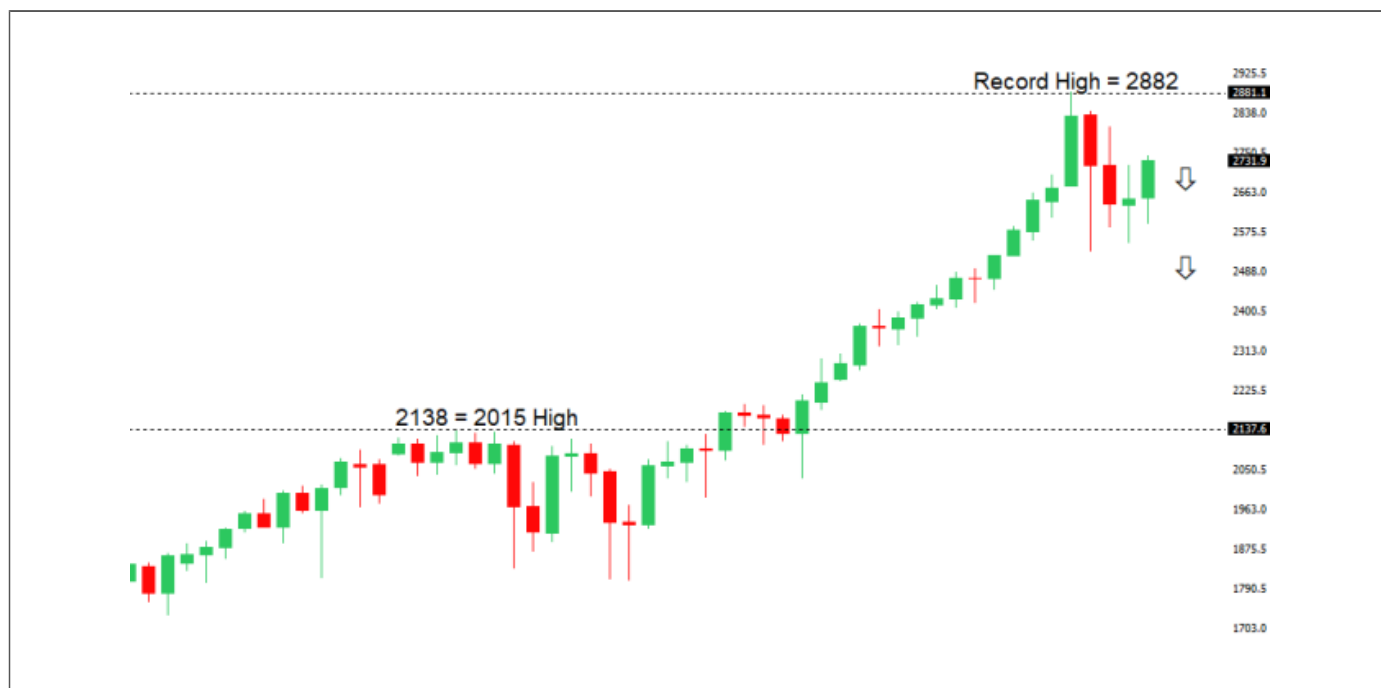
- R2 0.6988 – 11May high – Strong
- R1 0.6938 – 17May high – Medium
- S1 0.6852 – 16May/2018 low – Strong
- S2 0.6781 – 17Nov/2017 low – Medium

NZDUSD – fundamental overview

The outlook for the Kiwi rate has already been less rosy on account of diverging monetary policy and yield differentials despite the more dovish read of this latest Fed Minutes release. While the RBNZ has been forced to push back its timeline for a rate hike and Governor Orr has welcomed New Zealand Dollar weakness, the Fed is moving in the other direction, acknowledging inflation no longer running below target. The release of an RBNZ research paper on Wednesday highlights the RBNZ's willingness to consider a dovish course and serves as additional confirmation for the less encouraging outlook for the currency, even in the face of a more dovish read of this week's Fed Minutes. Looking ahead, Friday's calendar features US durable goods and some central bank speak.

US SPX 500 – technical overview

A market that has been extended on the monthly chart 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 back below the yearly low and eventually towards a retest of strong longer-term resistance turned support in the form of the 2015 high at 2138.



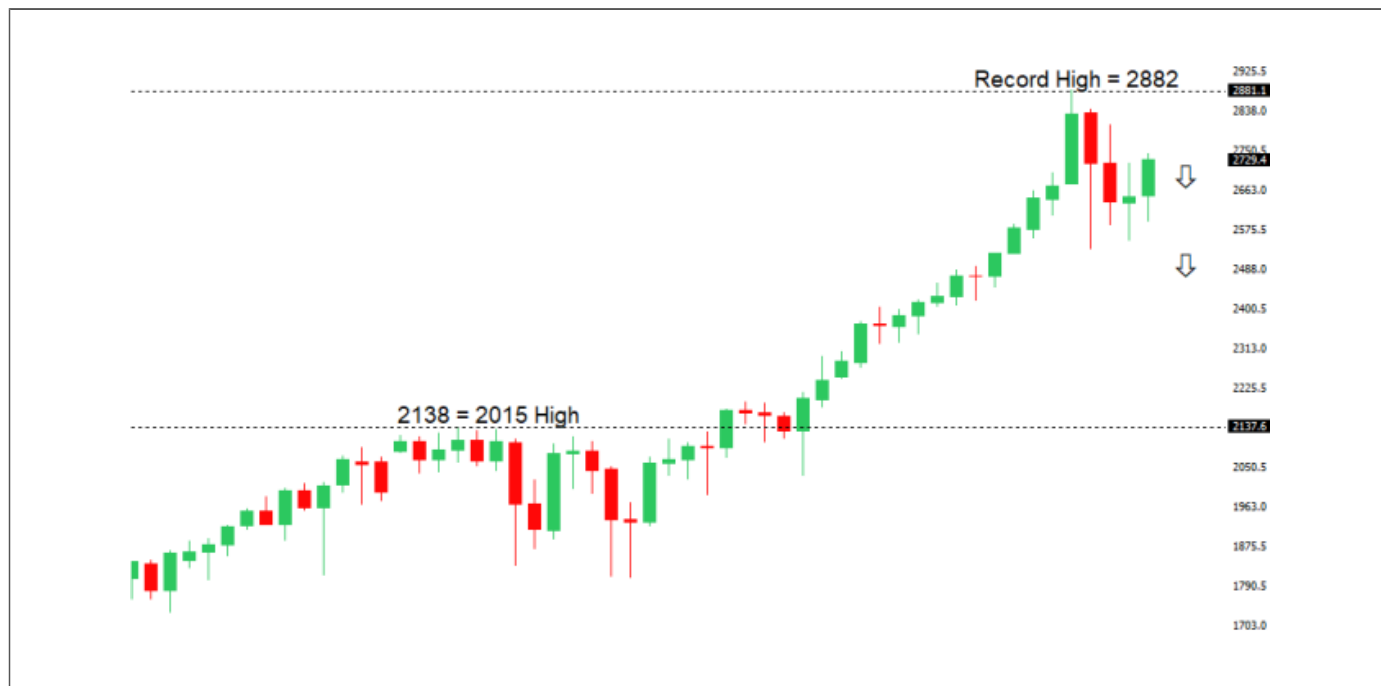
- R2 2807 – 13Mar high – Strong
- R1 2744 – 14May high – Medium
- S1 2656 – 8May low – Medium
- S2 2595 – 3May low – Strong

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, US protectionism, and geopolitical tension have been capping the market into rallies in 2018, with any renewed 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. The latest Fed decision emboldens our view, with the central bank acknowledging inflation no longer running below target, something that makes equity market valuations far less attractive at current levels. We also recommend keeping a much closer eye on the equities to ten year yield comparative going forward as this could be something that inspires a more aggressive decline.

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 ahead of 1250.



- R2 1375 – 2016 high – Very Strong
- R1 1326 – 11May high – Medium
- S1 1282 – 21May low – Medium
- S2 1250 – Psychological – 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

The overall pressure remains on the downside and a break back above 9,980 will be required at a minimum to alleviate this pressure. Inability to hold above the daily Ichimoku cloud after recently pushing above has not encouraged recovery prospects and warns of the possibility for weakness back towards the 2018 low.



- R2 9,980 – 5May high – Strong
- R1 8,875 – 14May high – Medium
- S1 7,250 – 24May low – Medium
- S2 7,000 – Psychological – Strong

BTCUSD – fundamental overview

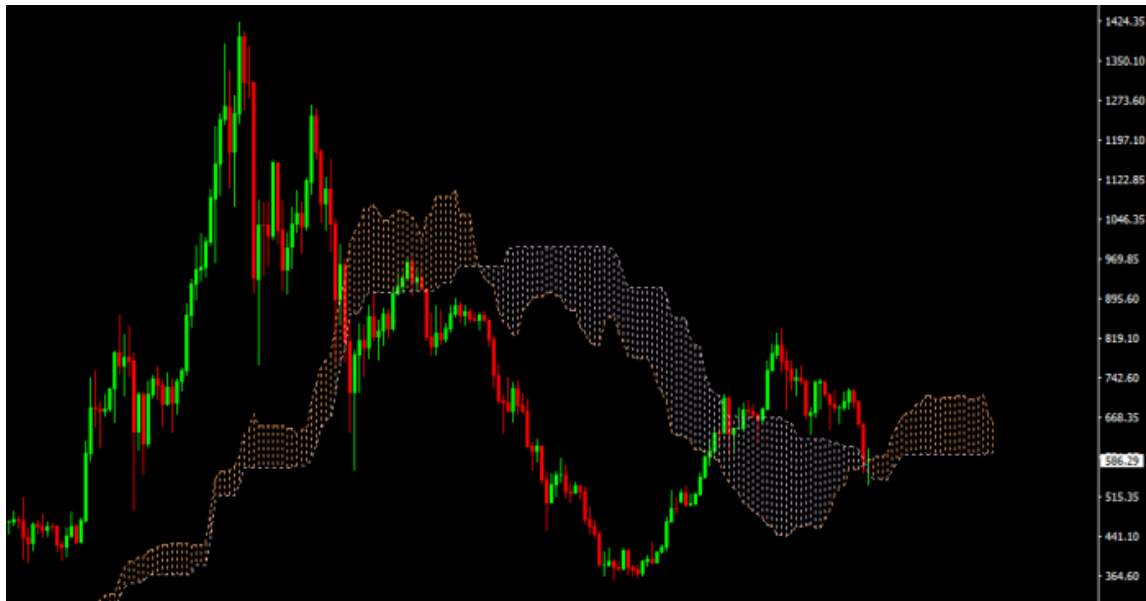
The crypto asset has come under pressure in 2018, with ramped up regulatory oversight and potential government crackdowns forcing many holders to exit positions. The market is also coming back to earth after a euphoric 2017 run that had bubble written all over. Bitcoin has struggled on the transaction 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 once the current correction fades away.

BTCUSD – Technical charts in detail

Watch now

ETHUSD – technical overview

Signs of recovery, with the market rallying out from the 2018 low and trying to hold back above the daily Ichimoku cloud for the first time since February. This opens the door for additional upside in the days ahead, with the next major obstacle coming in around 980. Setbacks should be well supported ahead of 500, with only a break back below to negate the constructive outlook.



- R2 895 – 27Feb high – Medium
- R1 722 – 20May high – Strong
- S1 538 – 24May low – Medium
- S2 500 – Psychological – Strong

ETHUSD – fundamental overview

The market has been watching the price of Ether with added interest as reports swirl of US deliberations regarding its status and designation. Overall, despite a recent recovery, the cryptocurrency remains under pressure in 2018 and setbacks have been more intense than those of Bitcoin. 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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