

Friday, January 11, 2019

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Global FX Insights

by LMAX Exchange Research & Analytics

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

What Investors Don't Want to See on Friday 🔊 [Wake-up call](#)

Into Friday, we're looking at a market that wanted to be selling US Dollars this week, with currencies up across the board against the Buck. The primary driver of the price action was more confirmation from the Fed that it was falling into line with the will of the market, adopting a more accommodative outlook for 2019.

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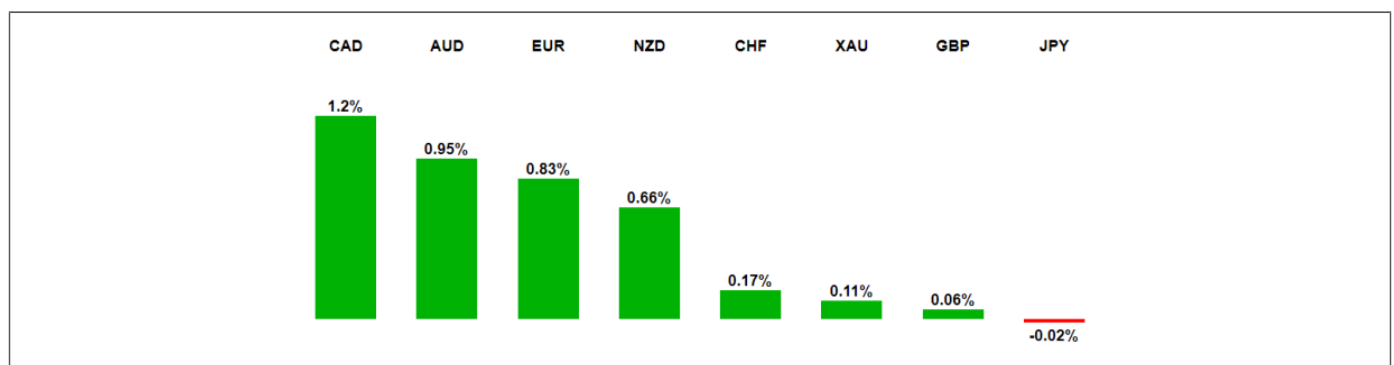
Technical highlights ▶ [Daily Video](#)

- [EURUSD](#) Takes out important level
- [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](#) Yield differentials drive Euro
- [GBPUSD](#) Deal prospects still look slim
- [USDJPY](#) Risk sentiment remains shaky
- [EURCHF](#) SNB policy strategy stress
- [AUDUSD](#) Aussie retail sales beat forecast
- [USDCAD](#) Loonie gets help from OIL jump
- [NZDUSD](#) Kiwi helped by USD liquidation
- [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

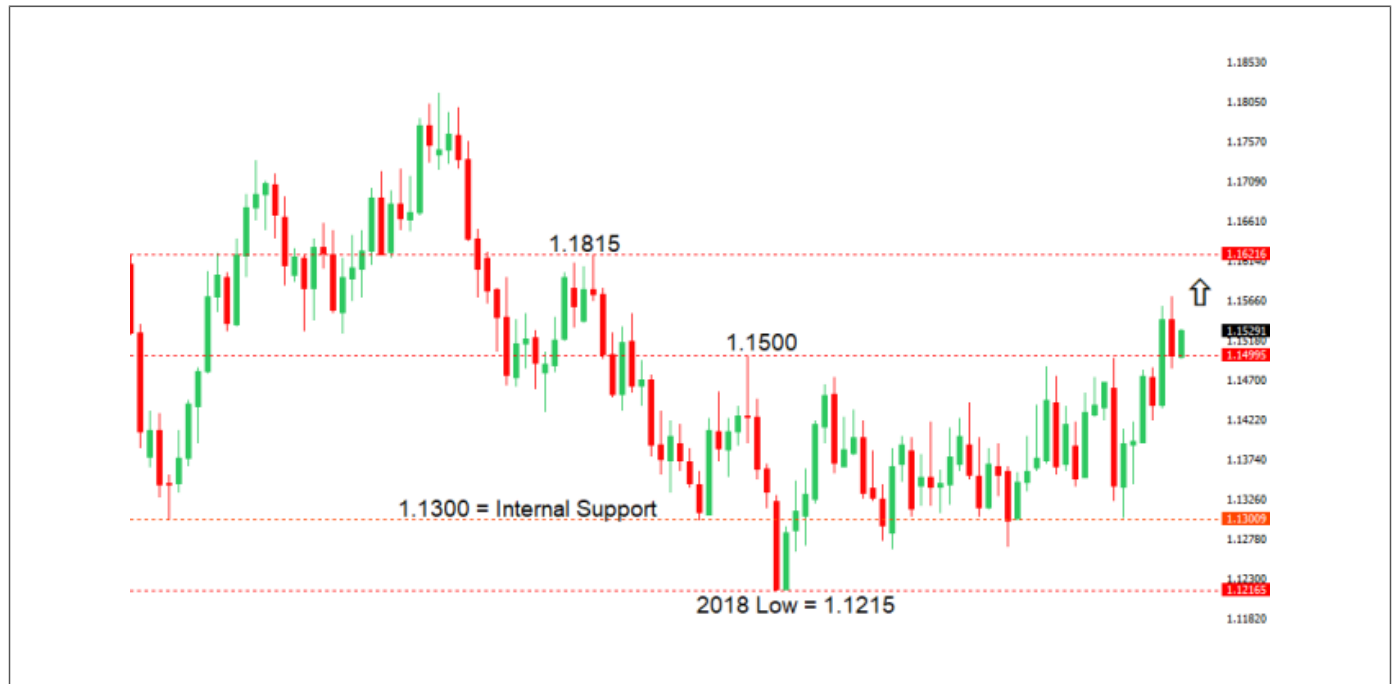


Suggested reading

- [Hedging's the Smart Way to Play the Yuan Rally](#) S. Ren, **Bloomberg** (January 11, 2019)
- [Brexit: What You Need to Know Heading into Vote](#), J. Sinclair, **FT** (January 10, 2019)

EURUSD - technical overview

The Euro has broken out from a period of extended consolidation off the 2018 low, setting the stage for a bullish structural shift. Look for the market to hold above 1.1500 over the coming sessions for confirmation, and if given, there is room for an acceleration towards next critical resistance in the 1.1815 area, which guards against a retest of the +3 year high from 2018 around 1.2550. Setbacks should now be well supported, with only a close back below 1.1300 to delay the constructive outlook.



- **R2 1.1622** - 16Oct high - Strong
- **R1 1.1570** - 10Jan high - Medium
- **S1 1.1485** - 8Jan high - Medium
- **S2 1.1423** - 8Jan low - Strong

EURUSD - fundamental overview

The Euro has been well supported in recent sessions despite some softer 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, the key standout comes in the form of an important US CPI read.

EURUSD - Technical charts in detail

[Watch now](#)

GBPUSD – technical overview

We 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 1.2804** – 9Jan high – Medium
- **S1 1.2707** – 8Jan low – Medium
- **S2 1.2648** – 3Jan high – Strong

GBPUSD – fundamental overview

The latest Brexit headlines have Theresa May in preparation for a Plan B, with prospects for a vote on her deal next week still looking slim. There has been a lot of talk of an extension of the Article 50 date if next week's vote fails to produce a deal. Overall, the Pound has done a good job recovering out from that USDJPY flash crash low from the other week, with broad based US Dollar selling from a more cautious Fed tone driving demand. Looking at today's calendar, we get UK industrial production, manufacturing production and trade, followed by an important US CPI read.

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 109.09** - 8Jan high - Medium
- **S1 107.52** - 4Jan low - Strong
- **S2 107.00** - Figure - Medium

USDJPY - fundamental overview

Optimism around the latest trade talks between the US and China has faded after nothing came of the meet, while investors are not getting the follow through in stocks they might have wanted to see after Wednesday's Fed Minutes and subsequent Fed speak confirmed the Fed's reconsideration of policy. Meanwhile, evidence of a slowdown in China continues to present, with this latest round of inflation data shaking sentiment. All of this warns of additional Yen demand on traditional correlations, something that was echoed by former senior BOJ official Kazuo Momma, who said 'there's a good chance the Yen will strengthen to 100 against the Dollar in the coming months. Looking at today's calendar, US CPI is the standout release.

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EURCHF – technical overview

The market has been in the process of consolidating off the 2018 high, 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

Despite the recent 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. As far as the topside goes, the market would need to break back above 0.7400 to force a bullish shift in the structure.



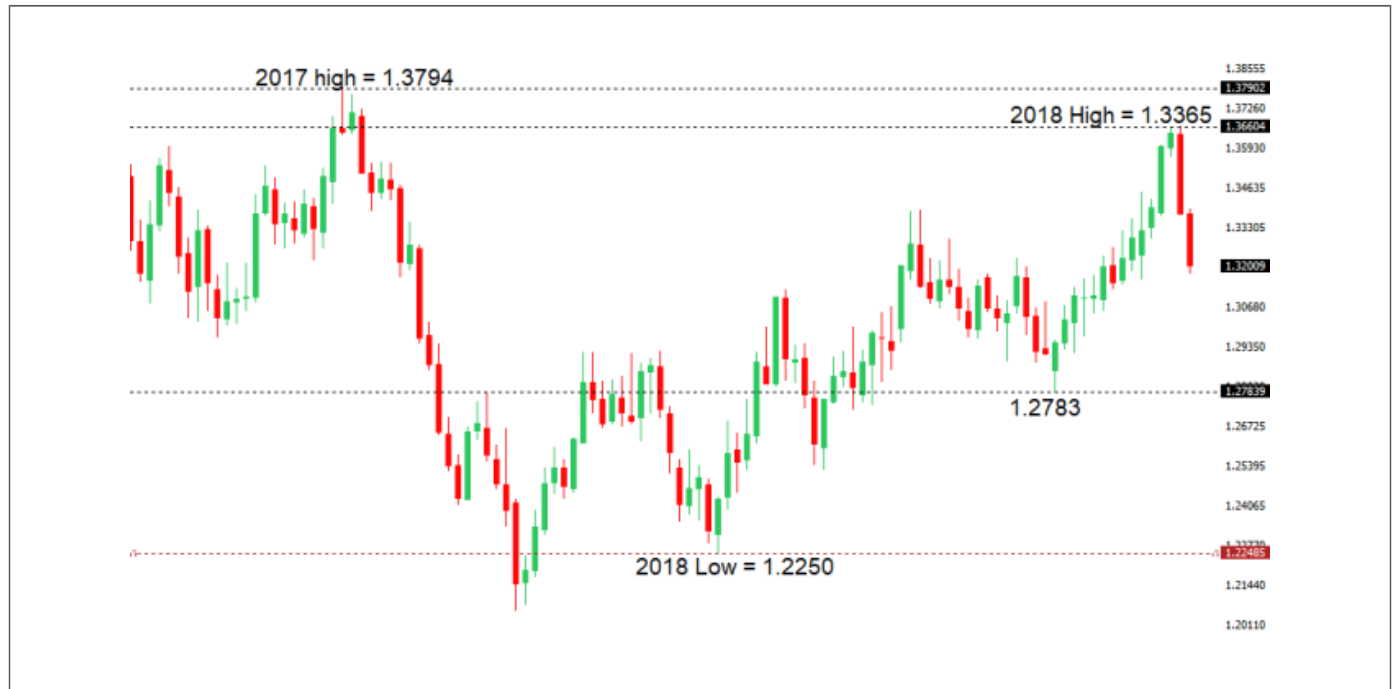
- **R2 0.7300** – Figure – Medium
- **R1 0.7247** – 13Dec high – Strong
- **S1 0.7147** – 10Jan low – Medium
- **S2 0.7110** – 7Jan low – Strong

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, while Friday's better than expected Aussie retail sales is also helping to prop the commodity currency. Looking at today's calendar, US CPI is the main event.

USDCAD – technical overview

A period of intense correction has kicked in after a run to its highest levels since May 2017. Overall, the structure remains constructive, with dips expected to be well supported ahead of 1.3000 for renewed upside. Only back below the psychological barrier would compromise this view.



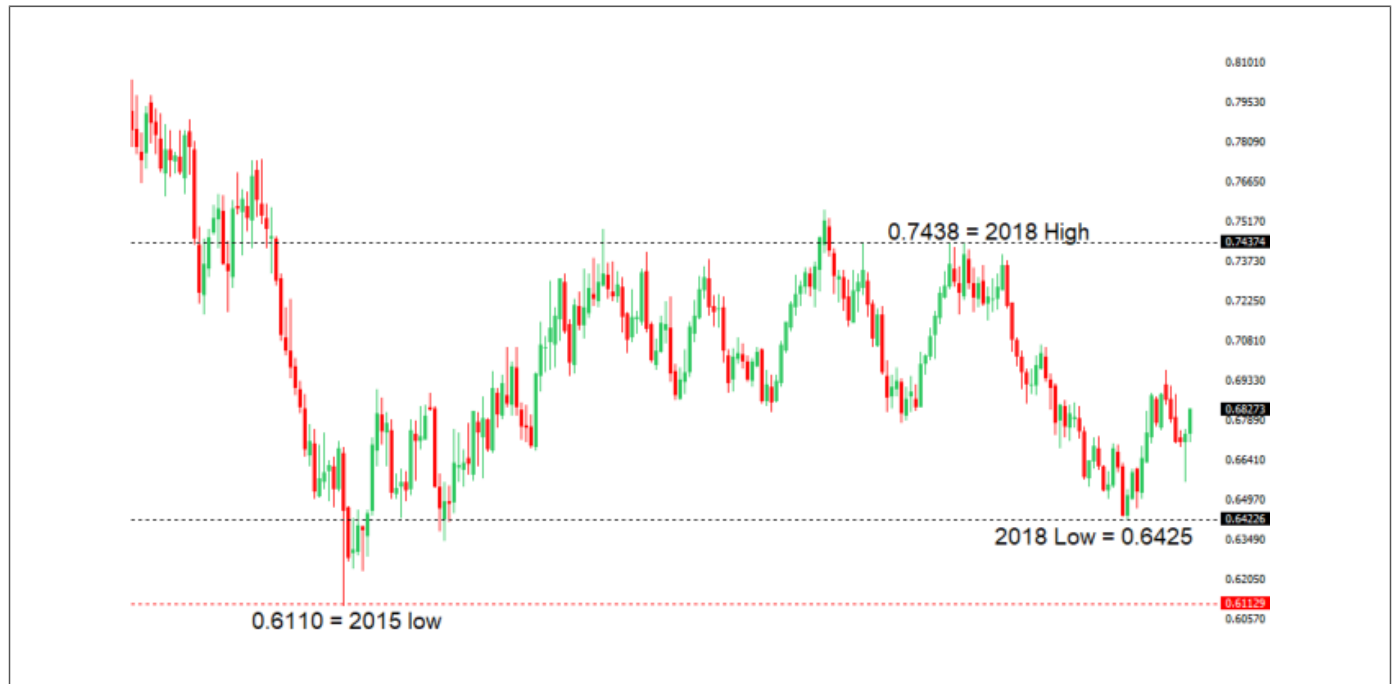
- **R2 1.3390**– 7Jan high – Strong
- **R1 1.3323** – 8Jan high – Medium
- **S1 1.3180** – 9Jan low – Medium
- **S2 1.3161** – 3Dec low – Strong

USDCAD – fundamental overview

The Bank of Canada was out on Wednesday leaving rates on hold, while citing the impact of lower oil. Still, the central bank balanced things out, with its expressed view that a slowdown in economic activity was expected to be temporary. Oil's recovery from the dump we had seen in recent weeks has helped to reinforce the BoC's view. Meanwhile, broad based selling of the US Dollar has been another major contributing factor to the recent run of Loonie gains. The US Dollar has been sold on a combination of factors that include a less hawkish Fed, the US government impasse and soft Dollar US protectionism. Looking at today's calendar, absence of data out of Canada will leave the focus on US CPI.

NZDUSD – technical overview

While the bigger picture outlook still shows the market in a downtrend, as per the weekly chart, there's 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. A break back above 0.6970 will strengthen the constructive outlook.



- **R2 0.6880** – 18Dec high – Strong
- **R1 0.6850** – Mid-Figure – Medium
- **S1 0.6708** – 8Jan low – Medium
- **S2 0.6672** – 4Jan 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 a less hawkish Fed outlook, ongoing White House drama, and soft Dollar protectionist US administration policy. 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. Still, risk liquidation themes are a concern to a risk correlated commodity currency and after nothing has come of the latest US-China trade talks and China inflation came in soft, offsetting bearish flow is to be expected. Looking at today's calendar, US CPI is the major release.

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.



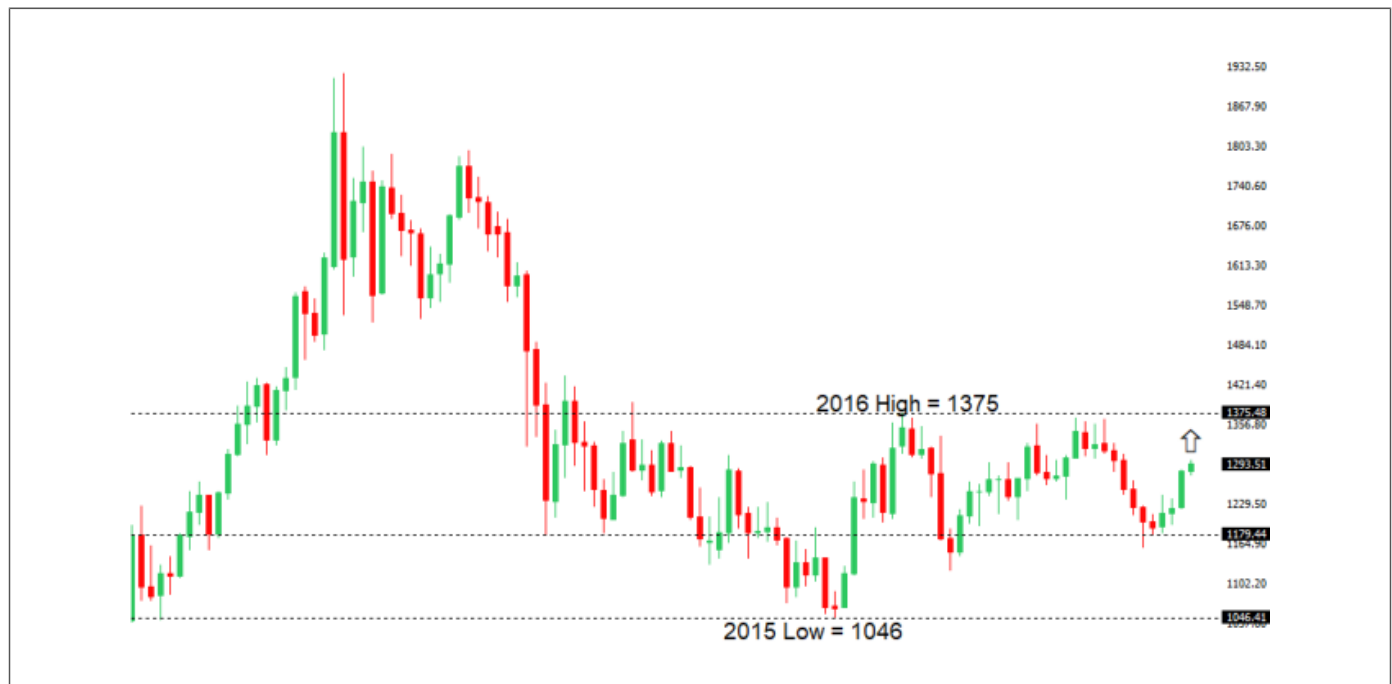
- **R2 2688** – 12Oct high – Strong
- **R1 2600** – 10Jan high – Medium
- **S1 2437** – 4Jan low – Medium
- **S2 2339** – 24Dec/2018 low – Strong

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 1310** - 14Jun high - Strong
- **R1 1300**- Psychological - Medium
- **S1 1276** - 4Jan 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

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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 116** - 28Dec 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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