Wednesday, June 13, 2018

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Global FX Insights

by LMAX Exchange Research & Analytics

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

Key Data Ahead of Anticipated Wednesday Event Risk

Wake-up call

It's Fed day and this event risk will command most of the market's attention, though there are other calendar events in the lead up that should not be overlooked. Ahead of the Fed verdict, we get UK inflation readings, Eurozone employment data, Italian auction results and US producer prices.

Technical highlights

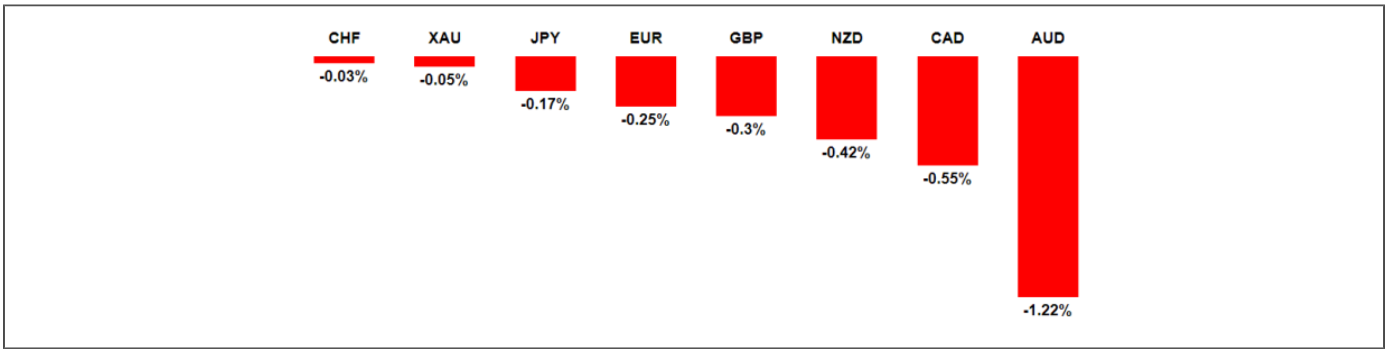
Daily Video

- **EURUSD** Room for recovery to extend
- **GBPUSD** Bullish back above 1.3620
- **USDJPY** Overall structure still bearish
- **EURCHF** Readying for return to 1.1500
- **AUDUSD** Upside move corrective
- **USDCAD** Plenty of choppy price action
- **NZDUSD** Recovery within downtrend
- **US SPX 500** Expected to stall out
- **GOLD** (spot) Well supported on dips
- **BTCUSD** Retest of 2018 low possible
- **ETHUSD** Loses bullish grip

Fundamental highlights

- **EURUSD** Eurozone jobs, Italian auction results
- **GBPUSD** UK CPI will be watched closely
- **USDJPY** Yen looking too weak ahead of Fed risk
- **EURCHF** SNB battle ahead on equities extended
- **AUDUSD** RBA Lowe retains a balanced outlook
- **USDCAD** Loonie nervous on NAFTA uncertainty
- **NZDUSD** Kiwi looking at investor appetite
- **US SPX 500** Fed model will be important to watch
- **GOLD** (spot) Metal demand reflects uncertainty
- **BTCUSD** Still feeling the effects of 2017 bubble
- **ETHUSD** Macro risk exposes correlated asset

Five day performance v. US dollar



Suggested reading

- **Scarce Liquidity is A Growing Risk**, S. Das, Bloomberg (June 13, 2018)
- **Trump-Kim Summit Key Moments**, J. Han, Financial Times (June 12, 2018)

EURUSD – technical overview

Despite the latest round of setbacks into the 1.1500 area, the Euro remains confined to a medium term uptrend, with any additional weakness expected to be limited. Daily studies are already turning back up after the market finally dropped back to retest a major previous resistance turned support zone in the form of the breakout area from 2017. A daily close back above 1.1841 will strengthen the constructive outlook.

- **R2 1.1855** – 16May high – Strong
- **R1 1.1841** – 7Jun high – Medium
- **S1 1.1728** – 8Jun low – Medium
- **S2 1.1618** – 1Jun low – Strong

EURUSD – fundamental overview

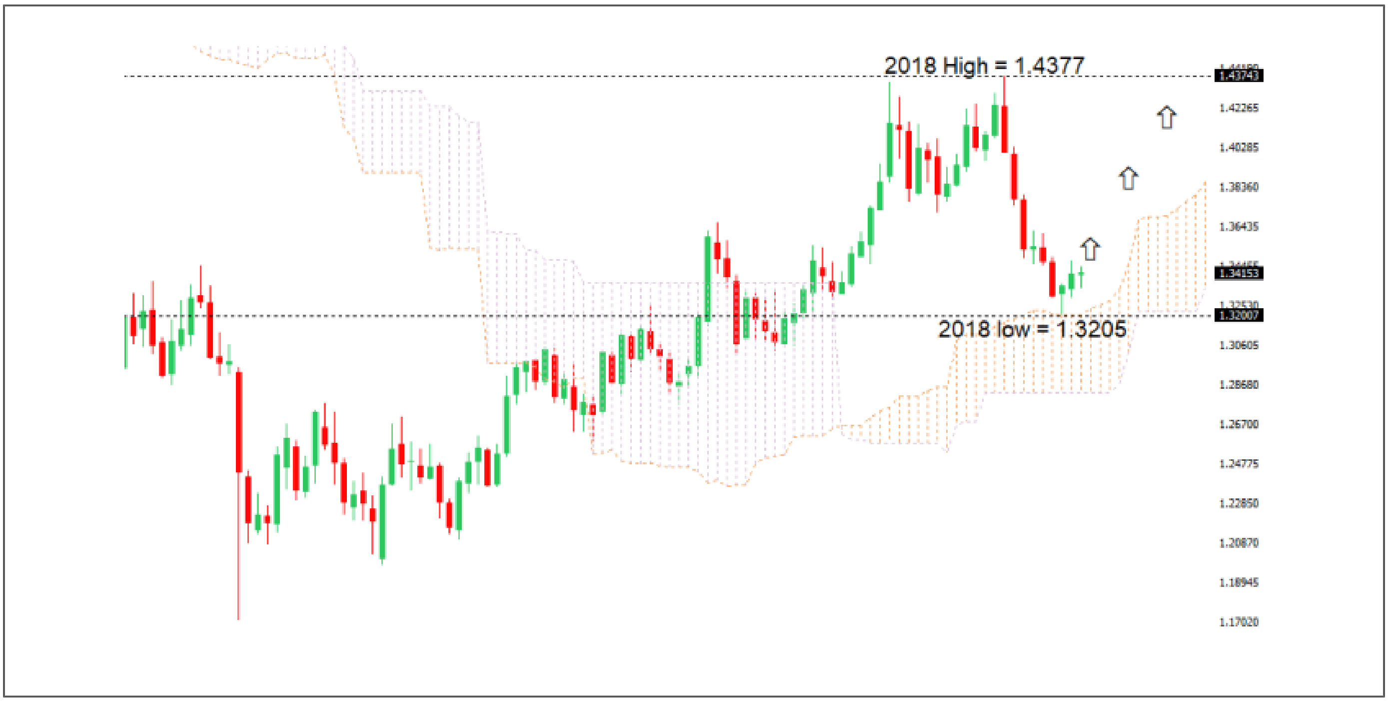
We've seen some mild profit taking on Euro longs ahead of FOMC and ECB event risk, with Tuesday's softer German ZEW perhaps weighing a little as well. But overall, there's been renewed demand for the Euro after the currency had been hit hard since mid-April. More bids have come into the market since this week, on the back of hawkish ECB speak and expectations for an ECB QE exit announcement at this week's ECB meeting. A recent run of data out of the Eurozone has also been more encouraging, while defused risk associated with Eurozone politics have done nothing to hurt the Euro's cause either. On Monday, Italian FinMin comments that the idea of leaving the Euro was out of the question offered more reassurance on this front. Meanwhile, on the other side of the equation, the US Dollar has come under pressure of its own as the US administration moves ahead with its protectionist, soft Dollar policy campaign. Looking ahead, we get Eurozone employment data and US producer prices, before the market turns its attention to the Fed decision late in the day.

EURUSD – Technical charts in detail

Watch now

GBPUSD – technical overview

Overall, the structure remains constructive on a medium to longer term basis, despite a recent round of intense setbacks. The market will look to hold up above the weekly Ichimoku cloud and a higher low is sought out for a bullish continuation. Ultimately, only a sustained break back below 1.3000 would force a rethink, while a continued recovery and push back above 1.3620 will strengthen the constructive outlook.



- **R2 1.3492 –** 22May high – Strong
- **R1 1.3473 –** 7Jun high – Medium
- **S1 1.3343** – 12Jun low – Medium
- **S2 1.3296** – 4Jun low – Strong

GBPUSD – fundamental overview

The Pound has been hit this week on softer data, but did get a little relief on Tuesday with PM May avoiding revolt in the House of Commons after promising concessions if a deal could not be reached with the EU. On Tuesday, UK employment data was mixed, though the more important earnings component was a disappointment. Though most of the attention today will be on the Fed decision, first tier data out of the UK should not be overlooked, with UK CPI readings due and very capable of shaking things up, especially after this week's ugly round of data. The market will also continue to monitor Brexit developments while taking in US producer prices as well.

GBPUSD – Technical charts in detail

Watch now

USDJPY – technical overview

Rallies continue to be very well capped in the major pair, with the medium-term outlook still favouring lower tops and lower lows. A recent topside failure resulting in a bearish outside week has strengthened the outlook, which may have set the stage for a drop back down to retest the 2018 low in the 104s. A break back above 111.40 would now be required to take the pressure off the downside.

- **R2 111.40** – 21May high – Strong
- **R1 110.69** – 13Jun high – Medium
- **S1 109.20** – 8Jun low – Medium
- **S2 108.73** – 1Jun low – Strong

USDJPY – fundamental overview

Overall, the major pair is still very much correlated to risk sentiment and less focused on Japanese data. Investor appetite has been running strong despite ongoing worry of global trade wars, which has helped to inspire recent Yen declines. Yield differentials also play a part here, with the latest US jobs report making a compelling argument for a 4th rate hike from the Fed in 2018. We've also seen some demand on defused geopolitical risk after a well recieved North Korea summit. Nevertheless, we caution against sustained rallies in the major pair, with the risk rally in question amidst the prospect for ramped up Fed policy normalisation and ongoing US protectionism. Looking ahead, the Fed decision will be the event to watch, though we also get US producer prices ahead of the central bank risk.

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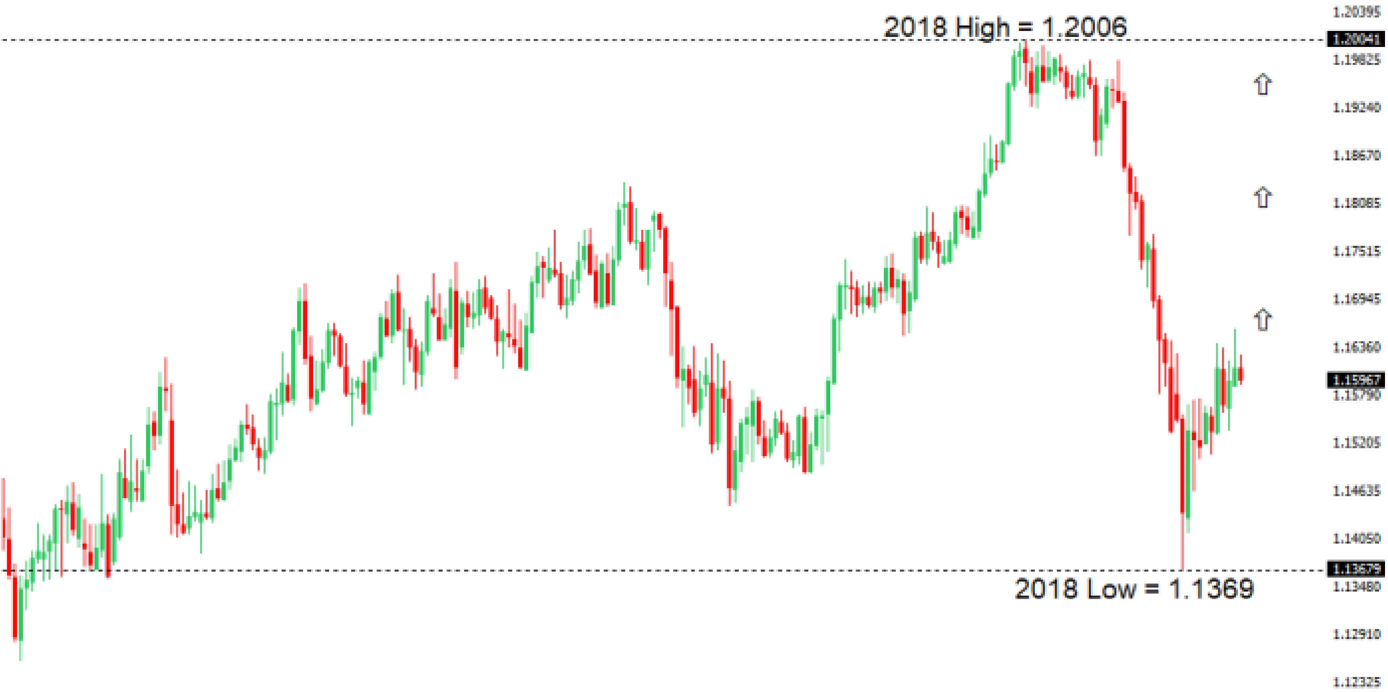
EURCHF – technical overview

The market is working off an intense round of setbacks resulting in extended studies and a fresh 2018 low. Overall however, the rate has been trending higher and only a sustained break back below this recently established yearly low in the 1.1300s would suggest otherwise. Looking for a daily close back above 1.1641 to strengthen the outlook.



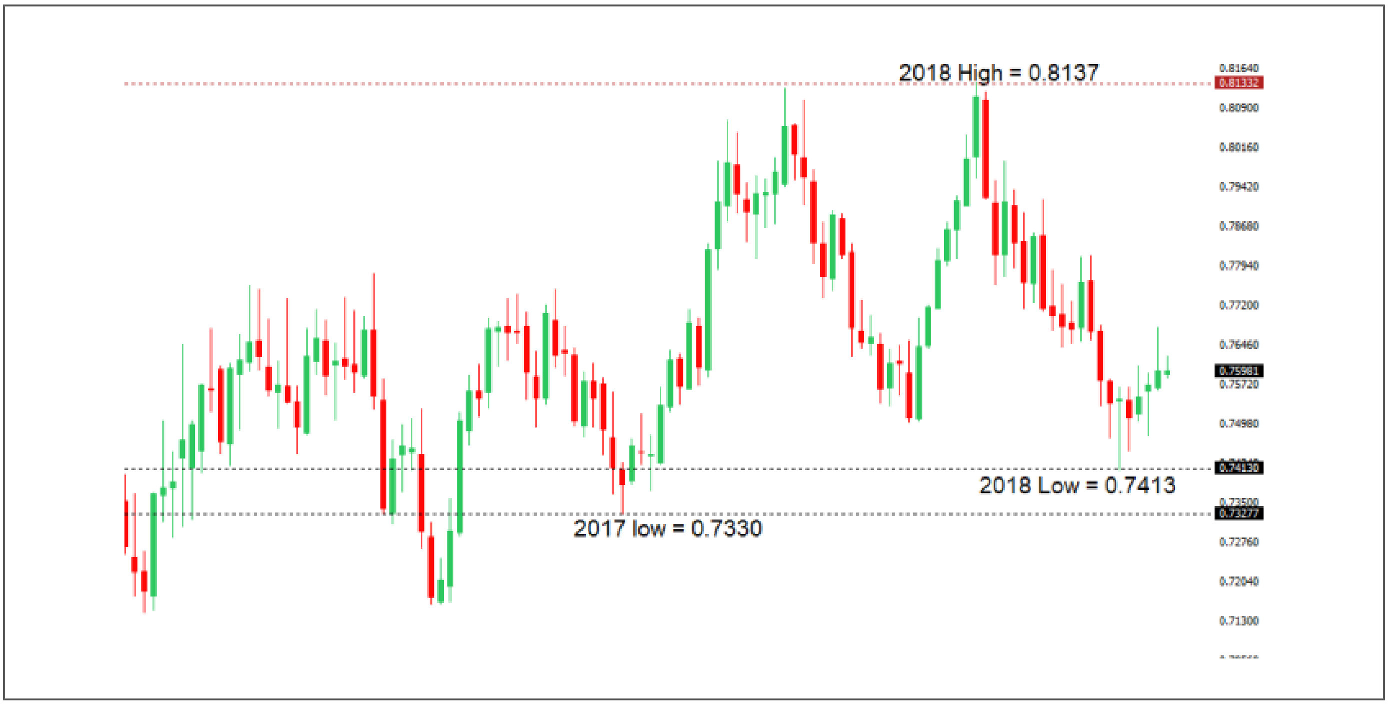
- **R2 1.1700** – Figure – Strong
- **R1 1.1641** – 6Jun high – Medium
- **S1 1.1508** – 5Jun low – Medium
- **S2 1.1369** – 29May/**2018 low** – Strong

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 2018, will likely invite a very large wave of demand for the Franc, which will put the SNB in a more challenging position to prevent appreciation in the Franc.

AUDUSD – technical overview

Overall, it's been 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 0.7815 to take the immediate pressure off the downside.



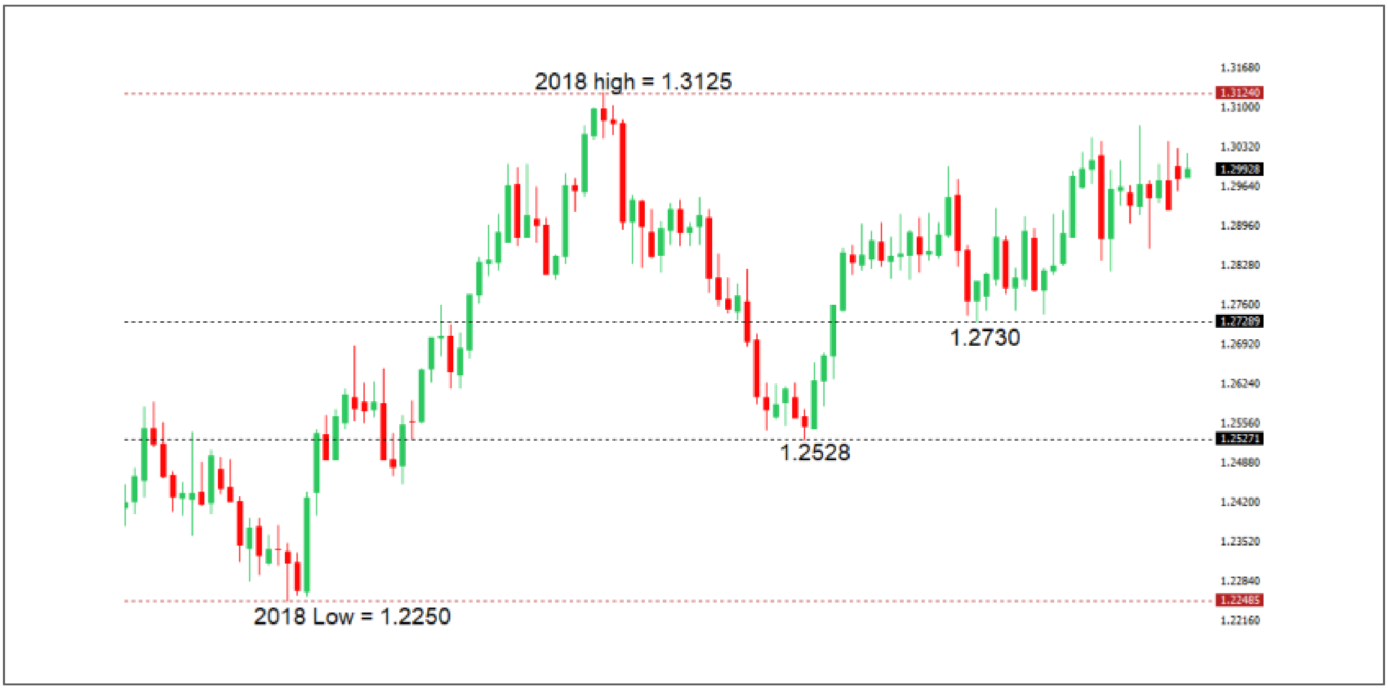
- **R2 0.7700** – Figure – Strong
- **R1 0.7677 –** 6Jun high – Medium
- **S1 0.7561** – 8Jun low – Medium
- **S2 0.7477**– 30May low – Strong

AUDUSD – fundamental overview

Aussie confidence readings came in solid and RBA Lowe was on the wires early Wednesday, though the market wasn't looking to move on these developments. The confidence data was a positive but not first tier in nature, while the RBA governor offered no surprises, retaining his balanced outlook, consistent with last week's RBA decision. Overall, the Australian Dollar will monitor the bigger picture drivers, leaving the currency in a position where it will need to decide if it wants to be rallying on the back of renewed broad based weakness in the US Dollar on account of US protectionism and soft Dollar policy, or selling off on what could be resulting deterioration in global sentiment. Looking ahead, we get US producer prices followed by the highly anticipated Fed decision.

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 1.2700, in favour of the next major upside extension through 1.3125 and towards 1.3500 further up. Ultimately, a break back below 1.2730 would be required to negate the medium term constructive outlook.



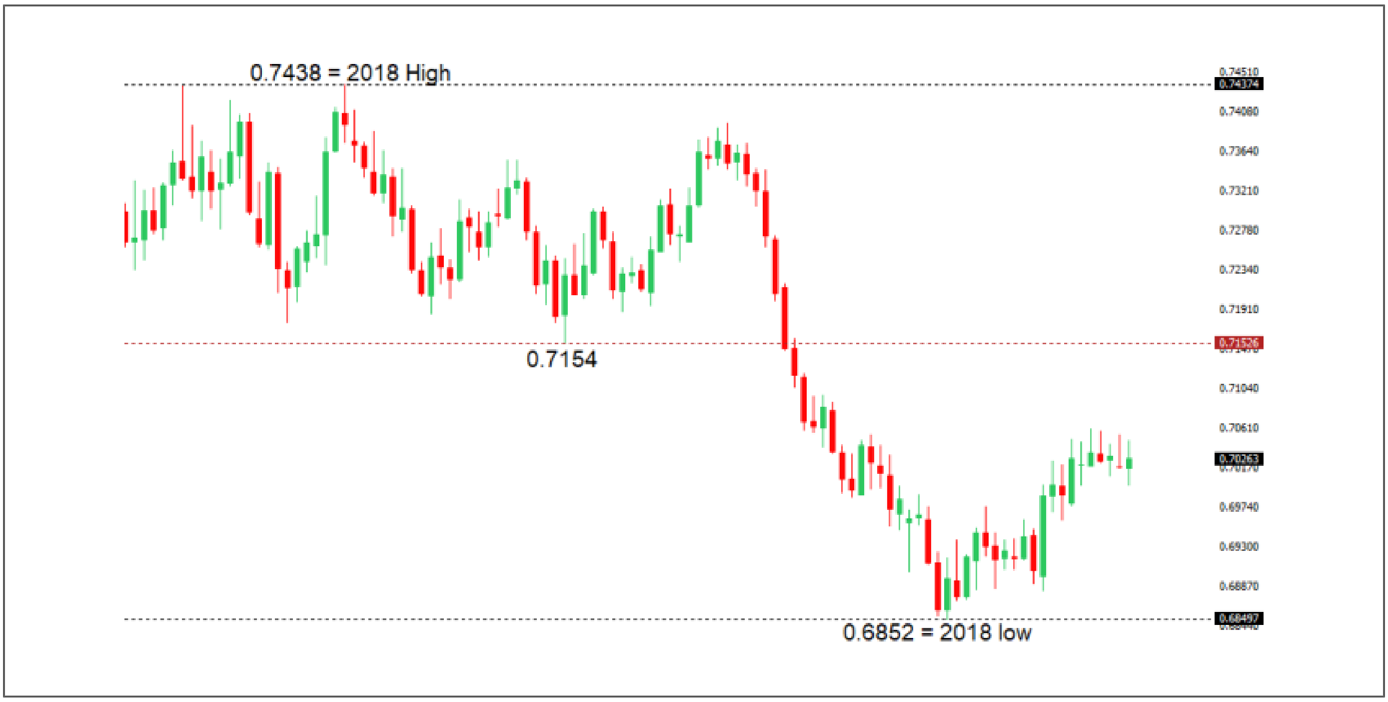
- **R2 1.3125**– 19Mar/**2018 high** – Strong
- **R1 1.3068** – 5Jun high – Medium
- **S1 1.2858** – 6Jun low – Medium
- **S2 1.2819** – 31May low – Strong

USDCAD – fundamental overview

The Canadian Dollar is trying to figure out if it should be rallying in reaction to a US protectionism initiative that ultimately should lead to a softer US Dollar by the design of the US administration, or if it should be selling off given the direct impact on the Canadian economy. Canada has not been happy with US tariffs and reports of additional penalties, all of which opens the door to more uncertainty over the fate of NAFTA. And these worries have only intensified post G7 on tension between Trump and Trudeau. Ultimately, all of this should keep the Canadian Dollar well capped into rallies, despite the soft US Dollar policy. Looking ahead, absence of first tier data out of Canada will leave the focus on US producer prices and the main event of the day in the form of the latest FOMC policy decision.

NZDUSD – technical overview

The market is in the process of turning up after trading down to a fresh 2018 low. But any rallies are now expected to be very well capped ahead of 0.7200, with only a break back above the barrier to negate the bearish outlook.



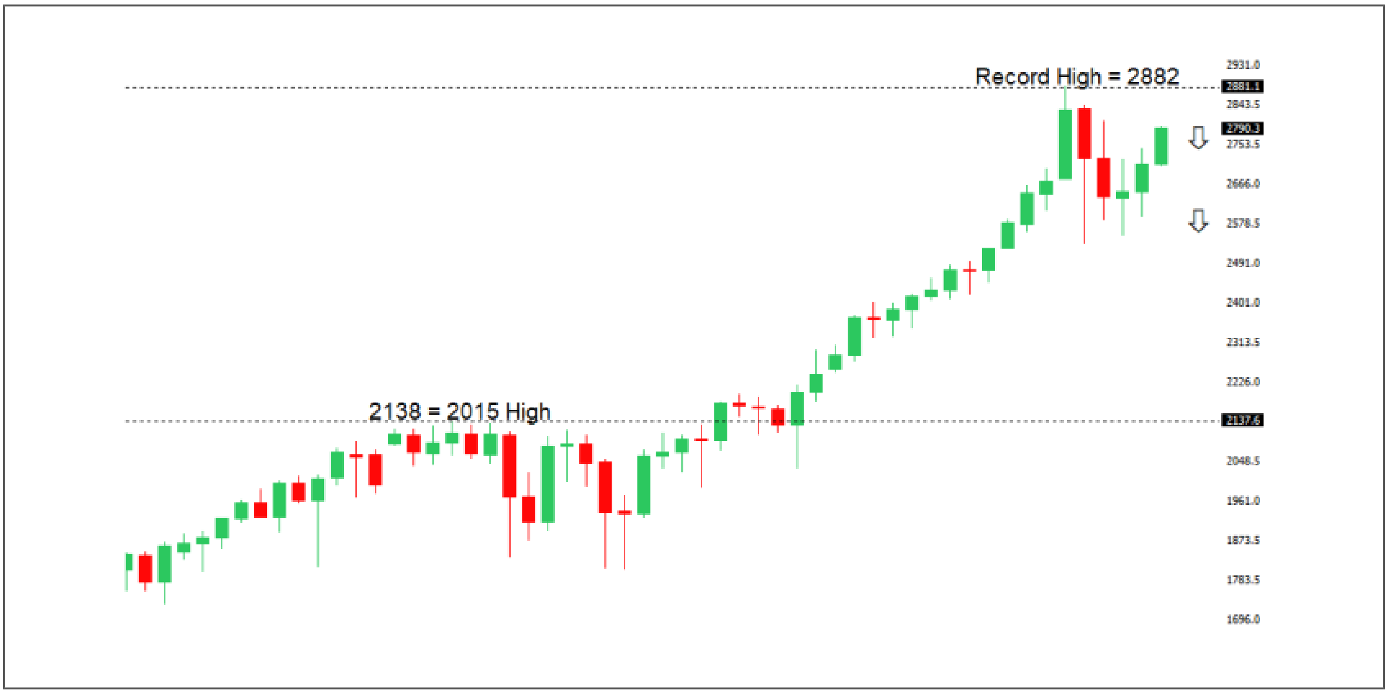
- **R2 0.7097** – 27Apr high – Strong
- **R1 0.7061** – 6Jun high – Medium
- **S1 0.6961** – 1Jun low – Strong
- **S2 0.6900** – Figure – Medium

NZDUSD – fundamental overview

The New Zealand Dollar has held up surprisingly well of late, given an outlook for the Kiwi rate that is decidedly less rosy on account of diverging monetary policy and yield differentials. The RBNZ has pushed back its timeline for rate hikes, while Governor Orr has also welcomed New Zealand Dollar weakness. The RBNZ also released a paper in May outlining its willingness to consider a more dovish course. Kiwi demand has come from external factors with soft Dollar policy and rallying US equities attributed to rallies, though there continues to be solid offers into rallies. Looking ahead, we get US producer prices followed by the highly anticipated Fed decision.

US SPX 500 – technical overview

A market is that has been extended on the monthly chart is finally showing signs of stalling out 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 2140.



- **R2 2807** – 13Mar high – Strong
- **R1 2800** – Psychological – Medium
- **S1 2704** – 15May low – Medium
- **S2 2656** – 8May 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 think about bottoming out off 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 pressures. Overall, we expect the bigger picture theme of policy normalisation to continue to weigh on investor sentiment into rallies. The Fed has also finally acknowledged inflation no longer running below target, something that makes equity market valuations far less attractive at current levels, given the implication this could have on rates. Any additional hawkishness out from the Fed is expected to force investors to seriously reconsider long exposure 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.

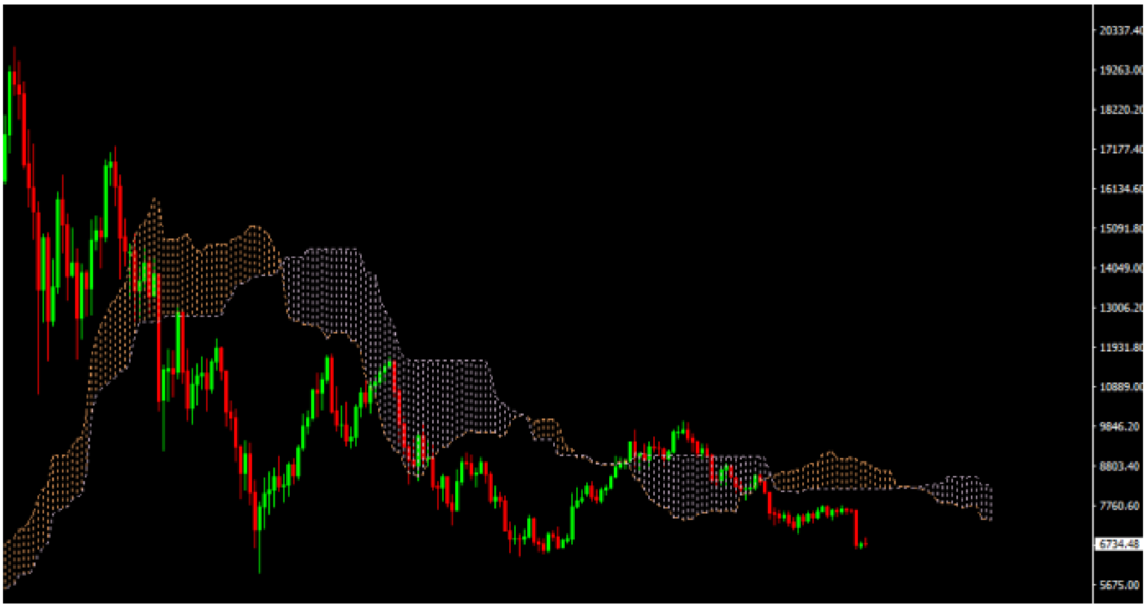
- **R2 1375 – 2016 high** – Very Strong
- **R1 1326** – 11May high – Medium
- **S1 1289** – 1Jun low – Medium
- **S2 1282** – 21May/**2018 low** – Strong

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 10,000 will be required at a minimum to alleviate this pressure. Still, the market is working hard to hold up above the yearly low from February into this latest drop to keep the possibility open for higher base off the yearly low and renewed upside momentum.



- **R2 7,770** – 3Jun high – Strong
- **R1 7,040** – 29May low – Medium
- **S1 6,420** – 1Apr low – Strong
- **S2 6,000** – 6Feb/**2018 low** – Very Strong

BTCUSD – fundamental overview

Bitcoin has been under pressure in 2018, with ramped up regulatory oversight and 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 still a major drawback, even with the Lightning network making some progress on this front. Still overall, while Bitcoin may be exposed against the US Dollar and other fiat, its store of value lure should continue to make it highly attractive within the crypto space.

BTCUSD – Technical charts in detail

Watch now

ETHUSD – technical overview

The market remains under pressure after being unable to hold back above the daily Ichimoku cloud, leaving the downtrend firmly intact. While the price holds below the cloud, there is scope for deeper setbacks back towards a retest and possible break of the 2018 low. Back above 630 will be required at a minimum, to take the immediate pressure off the downside.

- **R2 838** – 6May high – Strong
- **R1 630** – 3Jun high – Medium
- **S1 480** – 12Jun low– Strong
- **S2 400** – Psychological – Strong

ETHUSD – fundamental overview

Ether remains under pressure in 2018 and we see more downside risk here given Ethereum's bigger exposure to regulatory oversight and extended global equities. Monetary policy normalization and an anticipated reduction in global risk appetite should put a tremendous strain on ERC20 projects that have been all about a move into risky assets over a period of time in which such investment has been widely encouraged on account of super accommodative central bank and government policies.