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# Global FX Insights

by LMAX Exchange Research & Analytics

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

## UK Inflation and the Big Picture [Wake-up Call](#)

As we roll into Tuesday, the market is starting to show signs of pushing in a particular direction, and that direction is one of risk off, Dollar off. For many years, risk liquidation flow has correlated with safe haven demand for the Buck, but now, this correlation will be tested in new ways.

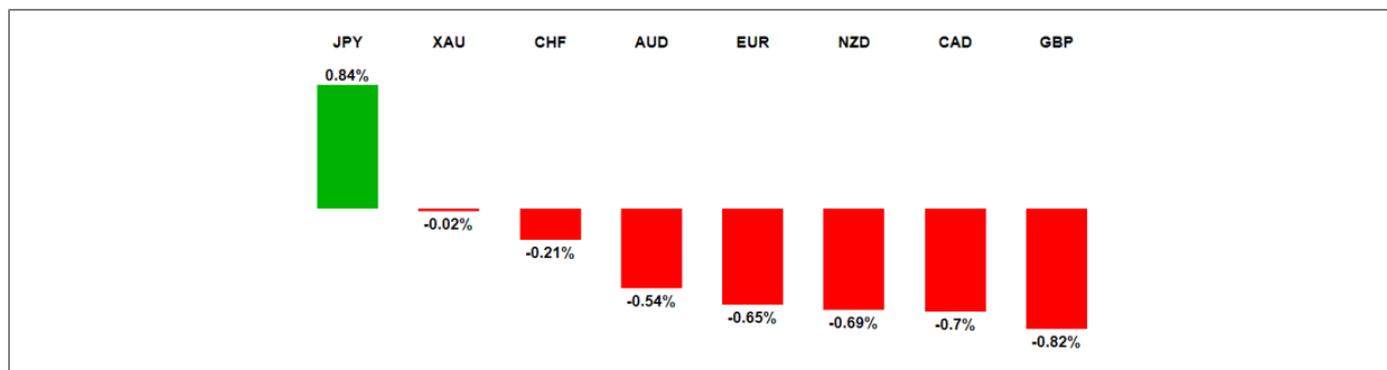
### Technical highlights [Daily Video](#)

- **EURUSD** Correction within uptrend
- **GBPUSD** More drop before next pop
- **USDJPY** Range break or resumption
- **EURCHF** Setbacks to be supported
- **AUDUSD** Rallies likely to be capped
- **USDCAD** Recovery builds momentum
- **NZDUSD** Upside limited from here
- **US SPX 500** Signs of major top
- **GOLD** (spot) Constructive despite dip
- **Feature** – BTCUSD Bearish below 10k

### Fundamental highlights

- **EURUSD** Demand from short-term accounts
- **GBPUSD** UK inflation data comes into focus
- **USDJPY** Risk sentiment a major driver of flow
- **EURCHF** SNB battling unwelcome demand
- **AUDUSD** Dovish RBA Ellis comments weigh
- **USDCAD** Still plenty of NAFTA uncertainty
- **NZDUSD** RBNZ dovishness could weigh more
- **US SPX 500** Plenty of red flags out there
- **GOLD** (spot) Metal demand reflects uncertainty
- **Feature** – BITCOIN Harder times for crypto assets

## Five day performance v. US dollar



## Suggested reading

- **When Wall Street Writes its Own Rules**, S. Kolhatkar, New York Times (February 11, 2018)
- **Bank of England Would do Better to Wait**, F. Giugliano, Bloomberg (February 12, 2018)

## EURUSD – technical overview

The Euro has entered a period of correction off the recent 2018 high, though overall, the uptrend remains firmly intact and there is still room to run. The break of the 2017 high set up a bullish continuation and the next major measured move upside extension into the 1.2650 area, which coincides with monumental resistance in the form of a falling trend-line off the record high from 2008. In the interim, any setbacks should be very well supported ahead of 1.1900, ideally into the 1.2100 area 2017 high.



- R2 1.2407 – 7Feb high – Strong
- R1 1.2315 – 6Feb low – Medium
- S1 1.2206 – 9Feb low – Medium
- S2 1.2166 – 18Jan low – Strong

## EURUSD – fundamental overview

The Euro is finding some demand from shorter term accounts but overall, the single currency has come under pressure in recent days, on the back of an overdue technical correction, more confident inflation outlook from the Fed and rise in US hourly earnings. Absence of first tier data on Tuesday, will leave the market focused on the broader theme of global risk sentiment.

## GBPUSD – technical overview

Daily studies are in the process of unwinding from overbought levels. There is scope for an initial drop back towards the 2017 high in the 1.3660 area, after the market triggered a double top formation. But any setbacks are viewed as corrective, with the overall structure showing signs of a longer term bottom.



- R2 1.4068 – 8Feb high – Strong
- R1 1.3988 – 9Feb high – Medium
- S1 1.3765 – 9Feb low – Strong
- S2 1.3660 – 2017 High – Medium

## GBPUSD – fundamental overview

The big focus for Tuesday will be the UK inflation data in the form of CPI and PPI. Anything on the hotter side of expectation will inspire renewed demand for the Pound, while anything softer could open additional downside pressure. Rising inflation is something global investors are very much focused on these days and it will be interesting to see if a hot print fuels more liquidation in risk assets, as the market recognizes the implication higher rates globally and the strain on equity market valuations.

## USDJPY – technical overview

The major pair has been confined to a range trade for much of 2017, with rallies well capped ahead of 115.00 and dips well supported below 108.00. The market has come back down towards the range base and could be looking to turn back up, though at this point, it would be premature to rule out deeper setbacks. While the market holds below 110.50, there is still scope for a fresh downside extension to challenge the extreme range base in the form of the 2017 low around 107.30.



- R2 110.49 – 2Feb high – Strong
- R1 109.79 – 8Feb high – Medium
- S1 108.05 – 9Feb low – Medium
- S2 107.30– 2017 Low – Strong

## USDJPY – fundamental overview

Overall, the Yen has been well bid in early 2018, mostly on the back of a soft US Dollar campaign and some hawkish leaning tweaks to BOJ policy. This latest downturn in global risk sentiment could invite additional Yen demand on the traditional correlation, with the Yen in position to outperform the Dollar, at least for a while. Looking ahead, absence of data will leave the focus on global sentiment and the broad Dollar outlook.

## EURCHF – technical overview

Despite this latest round of setbacks, overall, the market continues to trend higher, recently extending gains to a fresh multi-month high. The bullish price action has the market thinking about a retest of that major barrier at 1.2000 further up. In the interim, look for the current round setbacks to be very well supported, while only back below 1.1260 would delay the overall constructive tone.



- R2 1.1834 – 15Jan/2018 high – Strong
- R1 1.1640 – 5Feb high – Medium
- S1 1.1450 – 8Feb low – Medium
- S2 1.1390 – 2Oct 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 in 2018. 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 capitulation on that front into this new year, 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. And so, we speculate the SNB continues to be active buying EURCHF in an attempt to build some cushion ahead of what could be a period of intense Franc demand ahead. Recent outperformance in the Swiss Franc despite flows which should have otherwise been supportive of a higher EURCHF, could already be offering up a red flag.

# AUDUSD – technical overview

The market has been in the process of rolling over after failing to sustain a break above the 2017 high. The recent daily close back below 0.7957 strengthens this outlook and opens the door for a renewed wave of declines back towards 0.7500. At this point, only a daily close back above 0.8000 would delay.



- R2 0.7955 – 5Feb High – Strong
- R1 0.7911 – 6Feb high – Medium
- S1 0.7810 – 12Feb low – Medium
- S2 0.7760 – 9Feb low – Strong

# AUDUSD – fundamental overview

Not much of a reaction from a solid Aussie NAB business survey, perhaps offset by comments from RBA Ellis, who warns wage growth could take longer to pick up, even if Australia hits full employment. This backs up recent comments from RBA Governor Lowe who has stressed there is no strong case to be made for a rate hike anytime soon. Looking ahead, absence of first tier data, will leave the focus on global risk sentiment.

## USDCAD – technical overview

Despite a recent round of setbacks, there are signs of basing in this pair. This sets the stage for additional upside, with the next focus on a retest of the psychological barrier at 1.3000. In the interim, any setbacks should now be well supported above 1.2250.



- R2 1.2700 – Figure – Strong
- R1 1.2690 – 9Feb high – Medium
- S1 1.2492 – 7Feb low – Medium
- S2 1.2398 – 5Feb low – Strong

## USDCAD – fundamental overview

Last Friday’s Canada employment report wasn’t all that bad, though it did require looking beyond the headline print. Full time employment grew at an impressive clip and wage growth picked up. Overall however, Canada’s recovery is already somewhat fragile, and this coupled with an unstable macro picture, a retreat in OIL prices and plenty of uncertainty around the fate of NAFTA, should be keeping the Canadian Dollar pressured, especially after the Bank of Canada opted to go ahead with another rate hike last month, which will only add to the strain if the global sentiment picture deteriorates even further. Looking ahead, absence of data will keep the focus on the big picture.

## NZDUSD – technical overview

An impressive run has finally stalled out into formidable internal resistance. Overall, the risk is tilted to the downside and it will take a clear establishment back above 0.7400 to delay the bearish outlook and risk for another reversal. A daily close below 0.7200 will strengthen the bearish outlook and open deeper setbacks towards 0.7000.



- R2 0.7352 – 6Feb high – Strong
- R1 0.7331 – 5Feb high – Medium
- S1 0.7178 – 8Feb low – Medium
- S2 0.7141 – 10Jan low – Strong

## NZDUSD – fundamental overview

Although the RBNZ left policy on hold as was widely expected last week, the central bank caught the market off guard, with a more dovish leaning outlook. The central bank pushed back inflation target projections by two years, to Q3 2020. This comes at a time when global sentiment is at risk of deteriorating, the US Dollar is recovering in the aftermath of a more hawkish Fed read and US hourly earnings have jumped up, all warning of additional downside pressure on the Kiwi rate. Last week’s impressive GDT auction result and stronger New Zealand jobs report have however helped to slow the pace of declines. Looking ahead, absence of first tier data, will leave the focus on global risk sentiment.

## US SPX 500 – technical overview

A severely overbought market has finally at long last relented, allowing for stretched readings to unwind. There’s plenty of room for these setbacks to extend following the break back below the 2675 area January low, with the market at risk for a further intensification of declines. Any rallies should now be very well capped ahead of 2800.



- R2 2882 – 29Jan/Record high – Strong
- R1 2765 – 5Feb high – Strong
- S1 2534 – 6Feb low – Medium
- S2 2500 – Psychological – 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 fact that Fed policy is normalising, however slow, could start to resonate a little more, with stimulus efforts exhausted, balance sheet reduction coming into play and the Fed finally following through with forward guidance. Certainly, the more hawkish tone from this latest otherwise uneventful Fed meeting and subsequent jump in hourly earnings, are the types of things that could weigh more heavily on sentiment in the sessions ahead.

## 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 the current run to break through and establish above massive resistance in the form of the 2016 high at 1375, with the push to suggest a major bottom has formed, opening the door for a much larger recovery in the months ahead. Any setbacks should now be well supported ahead of 1300.



- R2 1375 – 2016 high – Very Strong
- R1 1367 – 25Jan high – Medium
- S1 1306 – 4Jan low – Strong
- S2 1294 – 29Dec low – Medium

## 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.

## Feature – technical overview

Bitcoin has come under intense pressure since topping out at a record high just shy of 20,000 in December. The market has now exceeded a measured move downside objective that had targeted a drop to \$7,000, with deeper setbacks now on the cards for a move to retest the September 2017 peak around \$5,000. At this point, it will take a daily close back above \$10,000 at a minimum, to take the pressure off the downside.



- R2 10,000 – Psychological – Strong
- R1 9,000 – 10Feb high – Medium
- S1 6,000 – Round Number – Medium
- S2 4,970 – September 2017 high – Strong

## Feature – fundamental overview

The crypto asset has come under intense pressure in early 2018, with ramped up regulatory oversight and potential government crackdowns forcing many holders to exit positions. The market has also been on a euphoric ride, with the run gaining too much momentum as latecomers look to get in on the action, often a sign of a bubbling asset. 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 is expected to ramp up transaction speed as it is integrated, which could be a big help to Bitcoin, though it seems the combination of a massive bubble, more regulatory oversight and a market that is still trying to convince of its proof of concept, could be at risk for even deeper setbacks. Throw in a capitulation in global equities and downturn in sentiment, and the picture looks even gloomier.



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