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QUARTERLY OVERVIEW

Q3, 2017

UPCOMING GERMAN ELECTIONS
TECHNICAL INDICATORS
FUNDAMENTALS
CURRENCY OVERVIEW
TRADE PATTERNS

EXPERT COMMENTARY

"All eyes will certainly be on Germany within the following months, as the country has the potential to cause significant anxiety and have widespread implications throughout Europe."

Kristiana Bicule, Financial Analyst at Dukascopy Bank SA

BUNDESTAGSWAHL

2017

Germany's Big Electoral Decision

This year was marked by important electoral decisions in the European Union. The series was initiated by the Netherlands, following two more elections in France and the United Kingdom. Now, it is time for Germans to cast their votes in federal parliamentary election on September 24. All eyes will certainly be on Germany within the following months, as the country representing 15.97% of EU's population and 21.10% of the region's total GDP in 2016 has a potential to cause significant anxiety and have widespread implications throughout Europe. The fear of anti-EU agenda faded after Marine Le Pen's (France) and Geert Wilders' (the Netherlands) defeat in their national elections, thus diminishing the possibility of tremendous mind-set and action shifts in the European Union.

Structurally, Germany's federal election differs from other democratic countries where the winner takes it all. Its parliamentary body or Bundestag consists of 598 members who are elected for a four-year term. By and large, each citizen is entitled to two votes, each of which elects 299 members. The first vote appoints a representative from local districts in single-member constituencies; the other, however, backs a national party to achieve proportional legislative distribution in the parliament.

The most prominent parties of this election are the following six: the so-called Union parties consisting of the Merkel-led Christian Democratic Union (CDU) and its sister-party in Bavaria – the Christian Social Union (CSU), the Social Democratic Party (SPD), Alliance'90/The Greens, The Left (Die Linke), Alternative for Germany (AfD) and the Free Democratic Party (FDP). All these parties, except for the latter two that did not overcome the 5% hurdle, form the current Bundestag.

The CDU/CSU and the SPD are considered to be the two favourites for this election, as both parties received collectively 67.2% of all the votes (41.5% and 25.7%, respectively). Thus, the main electoral battle for Chancellor's position is set to occur between Angela Merkel (CDU) and the former President of the European Parliament Martin Schulz. In this regard, local elections may serve as an early indication of the possible outcome if considering the CDU's surprising win in North Rhine-Westphalia – a traditionally-SPD-led region forming one fifth of both Germany's population and its economic output.

The latest Pollytix poll (July 4) demonstrates the prevalent positions of these two parties with 38.1% and 24.5% of votes for the CDU/CSU and the SPD, respectively. The remaining four linger slightly below the 10% mark. Nevertheless, the Conservatives' unexpected majority loss in the British general election on June 8 does show that strong favourites may lose support, thus resulting in internal political uncertainties. As polling data is considered to be only a *snapshot* in time rather than a forecast, public support may shift.

One example is the so-called *Schulzeffect* when the SPD saw a boost in popularity in the wake of its leader Schulz announcing his candidacy. This enthusiasm, however, proved to be temporary, resulting in relatively weak support in recent weeks. Thus, some analysts believe that a tight race for all the involved parties could be expected, as a rise in populism and geopolitical concerns may increase support for more radical parties such as Alternative for Germany and The Left.

A distinctive characteristic of the German electoral system is the formation of coalitions, as parties rarely manage to win an election with absolute majority. Thus, they must choose wisely their coalition partners in order to exercise power effectively. Analysts offer various possible coalitions; however, the highest probability is put on three outcomes. Firstly, considering that both the CDU and SPD are expected to win the majority of votes, both parties may decide to form the *Grand coalition*. The given arrangement would require mutual concession in terms of who is to lead the chancellery and the Ministry of Finance. The position of Chancellor would be allocated to the party winning the most votes.

Secondly, a more favourable coalition for Merkel may be the so-called *Jamaica* formed by the CDU, the FDP and The Greens. The latter have already confirmed its willingness to form a coalition with the CDU. This formation, however, is heavily dependent on the FDP's ability to overcome the 5% hurdle.

Lastly, the SPD may decide to form a coalition without the CDU, thus electing Martin Schulz as Chancellor. Likely partners to this arrangement are The Greens, The Left and the FDP. Nevertheless, this scenario may only materialise under two conditions, namely, the CDU's inability to win most votes and the willingness of other parties to form a coalition without Merkel.

By and large, financial markets responded positively to Merkel running for a fourth term, as her continuous leadership is regarded as an equivalent to international continuity and stability. However, Germans themselves were less enthusiastic, thus responding to unfinished structural reforms, moderate infrastructure spending and Merkel's open migration policy in the wake of various terrorist attacks that have struck Europe within the last years. In general, all odds are currently in favour of Merkel winning the German federal elections for the fourth consecutive term. Nevertheless, previous electoral experience does show that voters are relatively sensitive to political developments and external shocks during electoral campaigns, thus Merkel's victory should not be taken for granted.

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FUNDAMENTALS

Highlights of Q2

Global economic growth continued to accelerate despite lingering political uncertainties amongst certain developed countries. The world economy is expected to improve further and continue recovering from post-crisis lows. The US economy and its strong performance remained a major contributor to growth throughout the second quarter of this year, allowing the Federal Reserve to make the third interest rate hike since December 2016. Meanwhile, the US unemployment rate kept edging lower, suggesting that the labour market was at or close to full employment, whereas inflation continued to accelerate in early April. Though, the US President Donald Trump's promised 3% economic growth target is unlikely to be achieved this year due to the high degree of uncertainty surrounding the NAFTA renegotiation, the Paris Agreement and the administration's inability to deliver tax and healthcare reforms on time.

Across the Atlantic, Britain has just begun the Brexit negotiation process, the outcome of which is set to shape the future relationship between the European Union and the UK. Even though the British Conservative Party lost the majority in the June 8 election, the party's leader Theresa May has managed to keep her grip on power, as she managed to reach an agreement with the Democratic Unionist Party and form a coalition. From the economic perspective, the British economy performed well in the June quarter, with the jobless rate dropping to a 16-year record low and manufacturing, services and construction activity remaining in the expansion territory. Nevertheless, surging inflation that offset real wage growth pointed to a slowdown in consumer spending, which accounts for nearly two-thirds of the UK's economic activity.

As to the Euro zone, the European Central Bank is set to face some challenges regarding the monetary policy stimulus withdrawal decision. The ECB President Mario Draghi signalled that the bank was preparing to make gradual policy changes if the Euro zone economy strengthens, political uncertainties ease up and inflation growth accelerates in the upcoming months. Just like the ECB, the Bank of Japan remained on hold, leaving its key interest rates at a record low of -0.1%. However, policymakers expressed optimism over the economic outlook for Japan but added that monetary policy would likely remain unchanged until inflation growth accelerates. The expected free trade agreement between the EU and Japan is expected to provide an additional boost to Japan's export-driven economy and benefit both regions.

Commodity-linked economies such as Canada, New Zealand and Australia did well in the three-month period to June. Still, the housing boom recorded in all three countries remained the key concern for local policymakers. Moreover, local central banks are set to remain on hold due to subdued inflation growth and uncertainties coming from other economies. Furthermore, the situation on the oil market will also likely impact the future directions of these states.

Euro zone

The Euro zone economy started the year on a strong foothold, expanding at a seasonally-adjusted 0.6% pace in the first quarter of this year, the strongest since the Q1 of 2015, after growing 0.5% in the final quarter of 2016. Robust fixed investment and consumer spending powered economic growth in the Q1 despite the high degree of uncertainty in the region. As to the second-quarter performance, the Statistical Office of the European Union has not yet released the GDP data for the June quarter but some economic indicators suggest that the economy managed to maintain a steady pace of growth with the unemployment rate dropping to the post-crisis low of 9.3% in April and industrial production advancing 0.5% on a seasonally-adjusted basis in the same month. In addition, according to the latest report released by the European Commission, economic sentiment in the single-currency bloc surged to 111.1 in June from the prior month's 109.2 points, marking the best result since August 2007, whereas analysts anticipated a slight increase to 109.5. The report showed that the sentiment improved across all sectors, driven by strong optimism about the outlook for the Euro zone labour market. In the meantime, IHS Markit reported its preliminary Composite Purchasing Managers' Index for the 19-country bloc came in at 55.7 in June, the lowest in five months, down from May's 56.8. Nevertheless, Markit said that the Composite PMI averaged 56.4 in the Q2, the highest since the Q1 of 2011. The slight decline in the index was triggered by sluggish services activity, which rose at the weakest pace in five months. However, strong new orders growth combined with solid job creation managed to offset the services sector weakness.

Despite rapid economic growth, the European Central Bank kept its monetary policy and key interest rates unchanged, pointing to subdued inflation growth. As reported by Eurostat, headline consumer prices in the Euro zone climbed 1.4% in May, following April's rise of 1.9% and moving away from the Bank's inflationary target of 2%. Meanwhile, core inflation rose 1.0% in May after increasing 0.9% in the preceding month. Although the ECB President Mario Draghi said that policymakers were expecting inflation growth to accelerate in the upcoming months, monetary policy would likely remain expansive. Furthermore, according to Draghi, any adjustments to the policy "have to be made gradually".

On the political front, Emmanuel Macron, the leader of the French centrist party En Marche, beat Marine Le Pen, the far-right candidate from the National Front party, in the French Presidential Election on May 7, saving the healthy relationship between the European Union and its second largest economy after Germany. Moreover, on June 18, Emmanuel Macron's party won the absolute majority of seats in the National Assembly, whereas Le Pen's National Front failed to reach the 15 seats necessary to receive extra speaking time and funding. A combination of Macron's confident victory in the French presidential race, the German Chancellor Angela Merkel's win in the key state election and the Dutch Prime Minister Mark Rutte's success in the Dutch General Election significantly lowered uncertainty and boosted optimism across the Euro zone and the whole EU.

At the beginning of June, Britain and the European Union started talks over the country's withdrawal from the bloc, the key issues of which are the future of: 1) the trade relationship between the UK and the EU; 2) the Euro clearing centre; 3) EU and UK citizens. Taking into account fierce debates between the UK's newly-elected lawmakers, the negotiation process will likely continue affecting business sentiment and consumer confidence in the upcoming quarters. Furthermore, even though Angela Merkel's ruling party is on course to defeat the former EU Chief Martin Schulz in the German Federal Election this autumn, the race is likely to pose some risks to the EU future.

Overall, the Euro zone economy is expected to grow at a 0.4% annualised pace in the third quarter of 2017. Moreover, private consumption, lifted by improved employment and inflation growth, is set to contribute the most to the Q3 expansion. In addition, a more favourable outlook for the Euro zone economy is forecast to encourage investment, whereas renewed optimism about the health of the global economy is expected to boost overseas demand and exports.

United States

The United States expanded at a 1.4% growth rate quarter-over-quarter in the three-month period to March, the weakest since the Q2 of 2016, following a 2.11% expansion registered in the preceding quarter. Consumer spending contributed the most to the March economic expansion, climbing at a 1.1% pace, the lowest since the Q2 of 2013. Despite weak performance in the March quarter, the US economy is set to regain positive momentum over the next quarters. However, the US President Donald Trump's promise to lift economic growth to 3% is unlikely to come true this year.

At the beginning of the March quarter, the US economy remained on track thanks in large part to the strong labour market performance, with the unemployment rate holding at a record low of 4.4%, 184K new jobs created on an average basis per month and initial jobless claims below the 300K level. Nevertheless, labour market indicators for May raised concerns over the health of the US jobs market, as the private sector created just 174K new positions and average hourly earnings remained unchanged at 2.5%. Moreover, a surprise fall in the jobless rate to a 16-year record low of 4.3% was mainly driven by a drop in the participation rate to a six-month low of 62.7%. Furthermore, the Labour Department's latest consumer inflation numbers added to concerns about the state of the domestic economy, as consumer prices rose just 1.9% on an annual basis in May, down from the preceding month's increase of 2.2% and below expectations for a 2.0% gain. In addition, producer prices were unchanged in the same month, as energy costs posted the largest drop in more than a year, pointing to a slowdown in inflation. A combination of subdued consumer price growth and weak retail sales, which posted a surprise decline of 0.3% in May, suggested that the US economy failed to regain positive momentum in the second quarter of this year.

Despite weak inflation, uncertainty in the labour market and the May fall in retail sales, the Federal Reserve raised its key interest rates for the second time this year at the end of its monetary policy meeting on June 14. Furthermore, policymakers promised one more rate hike in 2017, expressing optimism over the outlook for the US economy and stating that the economy is performing in line with their forecasts. However, analysts suggested that the projected third rate increase would likely fall under question amid weak economic performance.

On the other hand, some analysts predicted that the US economy would pick up steam going forward, pointing to improved consumer sentiment and manufacturing activity. Back in June, the Conference Board's Consumer Confidence Index climbed to 118.9 points from the prior month's downwardly revised 117.6. Nevertheless, June's data also showed that consumers became less optimistic about future labour and economic conditions. Thus, future economic prospects are set to depend in large part on Donald Trump's ability to deliver promised reforms and boost economic growth. In the meantime, the Institute for Supply Management reported that its PMI for the US manufacturing sector jumped to 57.8 in June, up from the prior month's 54.9, whereas analysts anticipated a slight increase to 55.0 points.

The US economy is expected to expand at a 2.0% annualised pace in the Q3 of 2017, while inflation is set to return back to the Fed's 2% target and the inflation rate is likely to rise to 4.4% during the same quarter. In spite of generally positive dynamics, the central bank is widely expected to remain on hold until the end of the year, while the future performance of the US economy is likely depend on the US President Donald Trump's actions. Therefore, both promised tax and healthcare reforms as well as the outcome of the NAFTA renegotiation and the Paris Agreement will determine the further path of the US economy.

United Kingdom

The UK economy has slowed during the H1 of 2017 given the uncertainty on the political side of the equation. The GDP growth rate came out at 0.2% in the Q1 of 2017, falling from 0.7% in the preceding quarter. These figures were much lower than projected by the IMF, which expected the UK economy to expand 1% during the reported period.

Economic indicators continued to draw an ambiguous picture, as the Manufacturing PMI for June fell from the downwardly revised 56.3 points registered in May to a three-month low of 54.3, far below analysts' expectations, pointing to a slowdown in both domestic and overseas demand. Similarly, the Services PMI dropped to 53.4 points during the same month, following a fall from April's record high of 55.8 to 53.8 in May. Furthermore, construction activity declined to 54.8 in June from the prior month's 56.0, falling behind analysts' expectations for a decrease to 55.0.

In the meantime, May retail sales tumbled more than economists estimated. The decline was mainly driven by lower sales of textiles, clothing and footwear, food and household goods, while unemployment remained at historically low rates with workforce capacity almost at maximum levels. As reported by the Office for National Statistics, average weekly earnings including bonuses rose 2.1% in the three-month period to April 2017, below expectations for a 2.4% gain. Inflation kept growing and came in at 2.9% y/y in May, as the Bank of England had been reluctant to intervene. Surging inflation was largely driven by the weakened Sterling in the wake of the outbreak of Brexit negotiations and the outcome of the June 8 General Election.

At the current moment, the majority of investors are confident that an interest rate hike will happen by the end of 2017 amid hawkish comments made by the Governor of the Bank of England Mark Carney, who noted that some removal of monetary policy stimulus might become necessary in the foreseeable future.

On the political arena, the degree of uncertainty remained high due to the start of the Brexit talks. Followed by the surprising election results, in which the Conservatives lost the majority of mandates, the Labour Party leader Jeremy Corbyn promised to deliver a “softer” exit from the EU. Analysts argue the Tories failed to gain the majority of votes due to rising public dissatisfaction with their austerity programme. Furthermore, the European Commission proposed to relocate Euro clearing transactions, as according to EU officials all Euro transactions must take place in the EU. The plan raised concerns among economists about the skyrocketing costs for EU firms.

Looking ahead, the gap between inflation and pay growth is set to remain a major concern for the Bank of England, with Mark Carney saying that future monetary policy prospects will depend mainly on consumer spending and business investment that kept sending mixed signals over the course of the second quarter.

Canada

The Canadian economy started the year with solid growth, expanding 0.9% q/q in the March quarter after growing 0.7% in the final quarter of 2016. Strong consumer spending and business investment contributed the most to domestic economic growth in the Q1 and managed to offset weak exports, which dropped 0.3% in the first quarter, following the rise of 0.8% in the Q4 of 2017. On the other hand, imports surged 13.7% in the first quarter, rebounding from the 11.3% fall reported in the Q4 of 2017. Apart from consumer spending, the labour market surprised to the upside, with the jobless rate staying at a record low of 6.6% and the economy creating new jobs for 10 straight months in May. Latest economic indicators showed that the economy managed to recover fully from the recent oil price shock and the Alberta wildfires. Moreover, the economic rebound was acknowledged by the Bank of Canada Governor Stephen Poloz, who said that two rate cuts made by policymakers did their job and supported economic growth.

Despite strong economic performance in the Q1 and the Q2 of this year, analysts suggested that the economy would likely cool down a little bit in the upcoming quarters but would still continue expanding at a moderate pace. According to the BoC Governor, Canada remained well behind its southern neighbour, the United States, and slightly behind the EU. Nevertheless , Poloz stated that the economy surprised to the upside and, therefore, a potential rate cut by the bank was removed from the table. On the other hand, inflation growth remained subdued, climbing just 1.3% in May, while housing prices kept lifting the debt-to-income ratio despite the recently-imposed housing tax for non-residents.

On the political front, uncertainties surrounding the US President Donald Trump's policies remained a major source of risk for the Canadian economy, as the United States is the main destination for Canadian exports.

Looking ahead, Canada's economy is expected to grow at a slower pace, expanding 2.6% in 2017 and 1.9% next year, according to the BoC's most recent projections. Moreover, the central bank is widely expected to remain on hold until the beginning of 2018 if inflation remains below the 2% target. Furthermore, in order to begin raising interest rates, the Bank will likely seek both solid employment and inflation growth proof before tightening. Apart from that, the domestic economy will continue to be dependent on the situation on the oil market. Thus, actions taken by the OPEC and other major oil exporters will have a massive impact on Canada and its economy.

Japan

Japan has experienced a smooth sailing in the second quarter of the year, having recorded a weaker economic growth in the Q1 of 2017 than previously estimated. In the Q2, the country enjoyed a fast exports expansion, with May goods shipments rising at the fastest pace since 2015, while industrial production managed to reach the level not seen over the last six years. In spite of all the positive reverberations across the economy, the trade balance plunged into the red zone, as imports surged dramatically in May, undermining the strength of growth momentum in the country.

In the meantime, the Bank of Japan was still betting on modestly growing economy and tightening labour market to fuel inflation and wage growth. The country's core consumer prices have been gradually increasing for five straight months, though inflation rate still remained below the central bank's 2% target. The BoJ Governor Haruhiko Kuroda pointed out that the main challenge for Japan's economy was the size of its elderly population. Pensioners, who constitute about one-third of all inhabitants, were more reluctant to see an increase in prices, which is corroding their pensions' value. Moderate pay growth affected household spending, which continued to fall for 15 consecutive months. Moreover, further increase in the amount of available jobs failed to lower unemployment. Some experts expressed doubts that companies were ready to raise pay amid the clouded economic outlook and subdued growth potential.

Still, overseas demand for Japanese-made products is expected to keep supporting growth in Japan. The free trade agreement with the EU, aiming to curb effects of the US President Donald Trump's protectionist policies, is expected to benefit both the European Union and Japan, which together account for at least a third part of the global GDP. EU officials anticipate this partnership to contribute at least 0.3% to the Japanese economic growth.

Australia

The Australian economy expanded roughly in line with analysts' forecasts in the March quarter. The Australian Bureau of Statistics reported that the economy grew 0.3% in the Q2, following the preceding quarter's expansion of 1.1% and slightly topping expectations for a 0.2% growth rate. On an annual basis, Australia's GDP rose 1.1% in the second quarter of this year but remained below the required rate. Household consumption, public consumption and inventories contributed 0.3%, 0.2% and 0.4%, respectively, to GDP growth in the Q2. However, the gains were offset by net exports and dwelling investment. Exports dropped 1.6%, while imports rose 1.7%. Thus, the contribution of exports was negative. The public sector, including both consumption and investment, added 0.1% to economic growth, with public infrastructure posting a 0.1% decline.

The Reserve Bank of Australia remained concerned over pay growth and the housing market. The central bank said that real estate prices were surging in Sydney and Melbourne but noted that price pressures started to ease to some extent, minutes of the Bank's last meeting when policymakers kept interest rates unchanged at 1.50% revealed. Apart from that, the RBA said that employment growth improved significantly over the past several months, while the number of hours worked dropped. Policymakers expressed concerns over the housing debt, as it offset household earnings. The RBA stated that weak pay growth would unlikely rebound in the near future and, therefore, consumer spending is expected to remain weak. In addition, the Westpac-Melbourne Institute Index of Consumer Sentiment came in at 96.2 in June, down 1.8% from May's 98.0, suggesting that household consumption failed to rebound in the June quarter. Nevertheless, the Australian labour market performed better than expected, as the economy continued to create new jobs and the unemployment rate plunged to a record low of 5.5%. Overall, Australia's economy is set to grow 2.4% and 2.8% in 2017 and 2018, accordingly.

New Zealand

The New Zealand economy expanded at a weaker-than-initially-anticipated pace in the March quarter amid weak dairy exports and construction activity. Statistics New Zealand reported that the country's GDP grew 0.5% in the three-month period to March, following the preceding quarter's increase of 0.4% and falling behind analysts' expectations for a 0.7% expansion. The agriculture sector grew 4.3% over the quarter, the strongest since the Q3 of 2014, supported by rising milk production. The manufacturing sector grew 1%, whereas retail trade and accommodation climbed 1.8% on a quarterly basis in the Q2. Nevertheless, construction activity fell 1%, marking the first contraction since June 2015. Apart from that, transport, postal and warehousing dropped 2%. Exports of goods and services declined 0.4%, with dairy exports plunging 11%. Meanwhile, imports advanced 1.3%, boosted by higher imports of consumption goods and passenger motor vehicles. Consumer spending climbed 1.3%, whereas investment in fixed assets jumped 1.2%.

Due to subdued economic growth, the Reserve Bank of New Zealand held its policy and interest rates unchanged at its latest meeting, stating it would unlikely change its stance in the near future. Policymakers voted to leave the benchmark rate at a record low of 1.75% and keep the Bank's monetary policy accommodative for "a considerable period" amid high uncertainties. According to the RBNZ, interest rates are set to remain unchanged until late 2019 despite the fact that inflation returned to its 1-3% target range.

Even though inflation hit 2.2% in the three-month period to March, policymakers said that the following inflation pickup was triggered by temporary factors. However, the Bank suggested that pay and non-tradable inflation would likely improve in the upcoming months. The RBNZ Governor Graeme Wheeler said that the Kiwi's recent gains were driven mainly by higher export prices. Nevertheless, the Governor noted that the weaker New Zealand Dollar would help to rebalance the growth outlook towards the tradable sector. Both consumer and business sentiment rebounded markedly in the June quarter, whereas dairy product prices kept rising at Fronterra auctions. A combination of these indicators suggest that the economy managed to recover in the Q2 as expected by policymakers and will likely grow 3.0% this year in line with the Bank's forecasts.

QUARTERLY OVERVIEW

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TECHNICAL ANALYSIS

EUR/USD

Daily Chart

100-day SMA 200-day SMA

2017 Q2 Summary

There was a large flaw in the forecast for the previous quarter. It was made too modest by our analysts. The direction and movements of the next two months were precise. However, our team did not look deep enough into the possible movements in the second part of May and June. The goals were surpassed by more than 300 base points, as the common European currency managed to surge above the drawn trend lines in the borders of a then not described massive scale descending channel pattern. The pair surged up to the 23.60% Fibonacci retracement level, which is located at the 1.13 mark . The EUR/USD pair touched the retracement and began a rebound. However, then Mario Draghi opened his mouth on June 28. Due to his comments the common European currency skyrocketed more than 200 base points against the US Dollar.

2017 Q3 Outlook

It was initially forecasted and fully technically confirmed that the common European currency will lose value against the US Dollar in a medium and long term descending pattern. However, the basis of the whole monetary system changed, when Mario Draghi gave a few speeches and comments during the European Central Bank Forum in Portugal. Basically, what Mario Draghi said was that the QE programme will end, as the inflation targets have been reached. In other words, the European Central Bank will stop “printing money” via buying assets that have nothing to do with the initial mandate of the central bank and thus “stimulating the economy” by creating the targeted 2% inflation. Due to that reason it can be expected that the currency exchange rates, which involve the Euro are set to surge. That will occur due to a lesser influx of the currency into the markets, making the existing money worth more.

GBP/USD

Daily Chart

100-day SMA 200-day SMA

2017 Q2 Summary

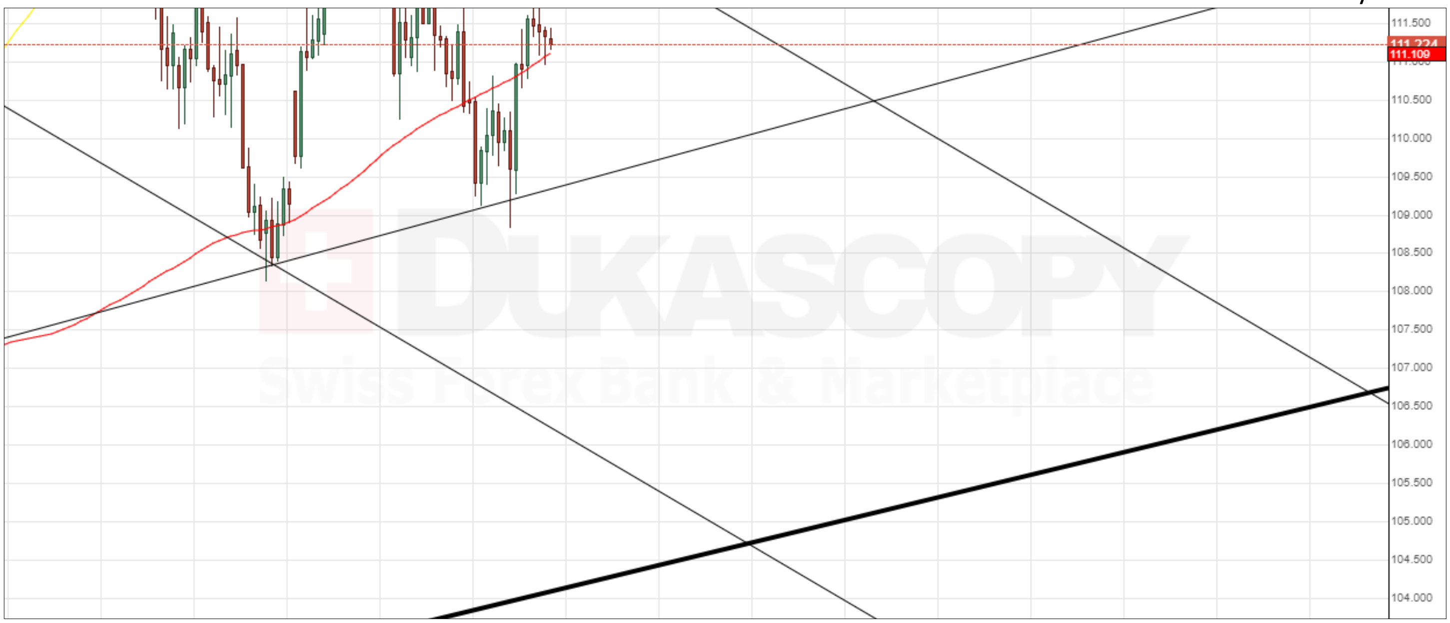
The forecast for the second quarter was wrong. However, the strength of the drawn down-trend line was not understated. When the currency exchange rate finally managed to pass the resistance of the down-trend and the 200-day simple moving average at exactly 1.2600, there was a jump. It could not even be called a jump. The move better can be described as skyrocketing. The move was caused by the changes in the fundamental outlook on the UK economy. To be precise, it was the announcement of the UK general election by Theresa May, which caused the jump in the currency pair. The Pound continued to gain ground against the Greenback afterwards, until the election came and Theresa May suffered a defeat. As a result the markets experienced another decline of the pair. Due to these reasons the GBP/USD pair is not simply hard to be analysed purely technically, it is actually useless, as Brexit talks and inner politics shape the future of the country,

2017 Q3 Outlook

There are two ways how to look at the future outlook of the Pound against the US Dollar. The first option is to look at it from a fundamental perspective, which means that the technical analysis of the chart is useless. Second is the option of technical analysis in the expectation that fundamental changes in the markets can be foreseen. Dukascopy analysts decide to combine the two options and develop two “if then” scenarios. The basis of the choice of the scenario is the outcome of the political situation in the UK. If Theresa May manages to gain control of legislation in the UK and thus control in the Brexit talks, the Sterling will surge. In this scenario the pair would attempt to surge up to the trend line of the long term large scale downwards aimed trend line. On the other hand, there might be chaos in UK politics and the country loses in the EU talks economically. In that case the range downwards has only the support of the 100 and 200-period SMAs above the 1.25 mark to be taken into account.

USD/JPY

Daily Chart



100-day SMA 200-day SMA

2017 Q2 Summary

As it was forecasted, the US Dollar gained ground against the Japanese Yen in the last quarter. However, it occurred in a large range with huge volatility. The pair bounced between levels close to the 107 mark at the start of the quarter and reached up to the 114 mark. However, the movements were still in the dominant long term descending channel pattern. There is one rather interesting aspect, which must be noted. In the last month of the quarter the currency exchange rate surged after suffering a decline in May. The reason for the rebound must have been a medium scale ascending pattern. That means that one can draw a support line between the low levels of April and June. This support line is highly likely to hold ground during the eventual fall of the US Dollar against the Yen.

2017 Q3 Outlook

As it was mentioned above in the last quarters summary, a medium term trend line will play the role of support. Although that fact needs to be taken into account, the possibility that it will change the direction of the pair is unlikely. The pair still remains in the massive ascending pattern, the trend line of which can be seen in bold on the lower side of the chart. The long term descending channel is still heading for that trend line, and this process might take up to a year. Meanwhile, in regards to the next quarter, the smaller scale situation needs to be looked at. First of all the upper trend line of the long term channel will be providing resistance and push the pair lower. Secondly, the 200-day SMA will be a constant hinderer of momentum in both directions, as the pair dances around the moving level of significance. Third is the factor of the mentioned medium term trend line, which will provide support. All in all, it seems that a triangle pattern might form, which will at one point will be broken during a break out to the downside.

XAU/USD

Daily Chart

100-day SMA 200-day SMA

2017 Q2 Summary

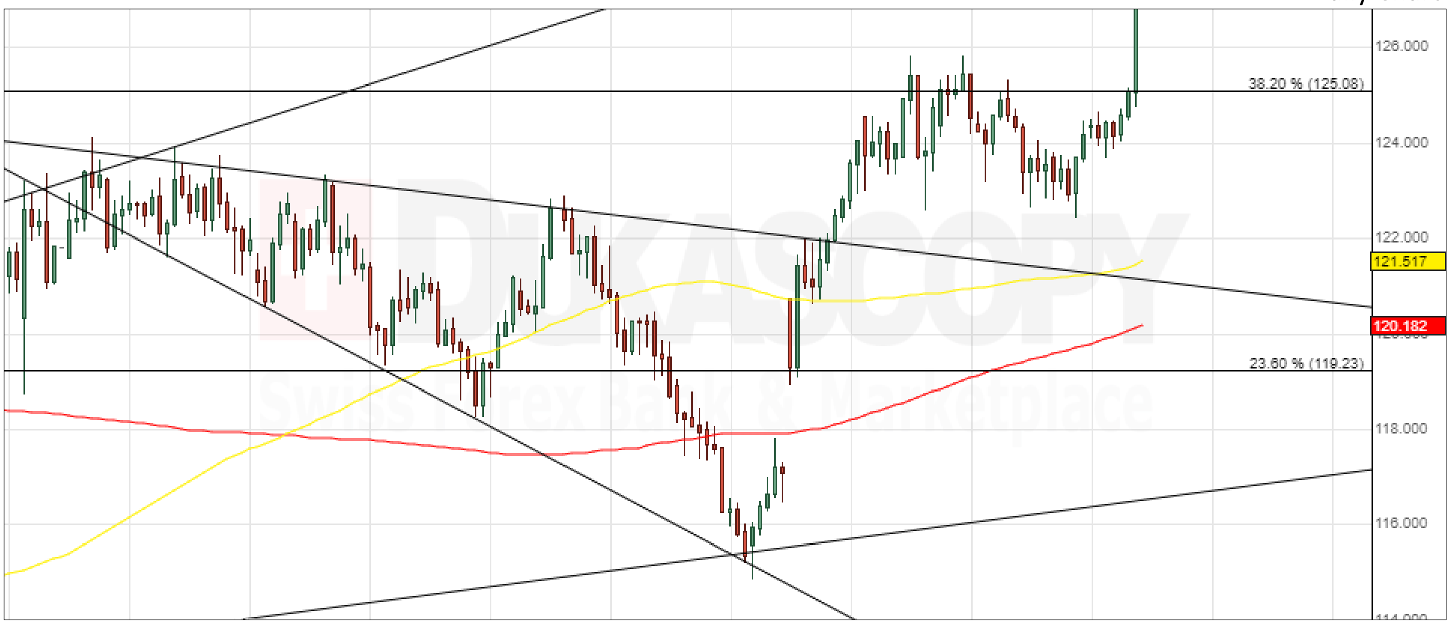
The previous forecast was wrong on one account. The surge of the yellow metal's price was even larger and had more momentum than it was expected. Due to that reason the large scale descending channel was broken, as the medium term junior channel had enough strength to even reach out to the 1,300 mark. However, the just mentioned level proved to have enough support to stop the surge of the bullion's price. As that level has proven to have significance on its own, it should be monitored closely. It is most likely that during the next quarter market participants and analysts will have the opportunity to spot the new long term patter. In accordance with the massive, most dominant ascending channel pattern the new long term pattern will guide the bullion's price to new heights.

2017 Q3 Outlook

It is most likely that during the next quarter market participants and analysts will have the opportunity to spot a new long term pattern. In accordance with the massive, most dominant ascending channel pattern, the new long term pattern will guide the bullion's price to new heights. The exact reason for such forecast is the fact that the commodity price found support just before new year's eve in the lower trend line of the just mentioned dominating pattern. Meanwhile, during the next quarter the 100 and 200-day SMAs are most likely going to provide support to the metal's price and provide the needed pushes for a higher price. In addition, the 23.60% Fibonacci retracement level near the 1,250 mark is also likely set to provide support to the bullion's surge. However, it is yet to be seen, whether the just mentioned levels of significance are clearly passed and begin to provide the required support. If that scenario comes true, the markets might see the price of gold rise up to the 1,380 level, where the 38.20% Fibonacci retracement level is located at.

EUR/JPY

Daily Chart



100-day SMA 200-day SMA

2017 Q2 Summary

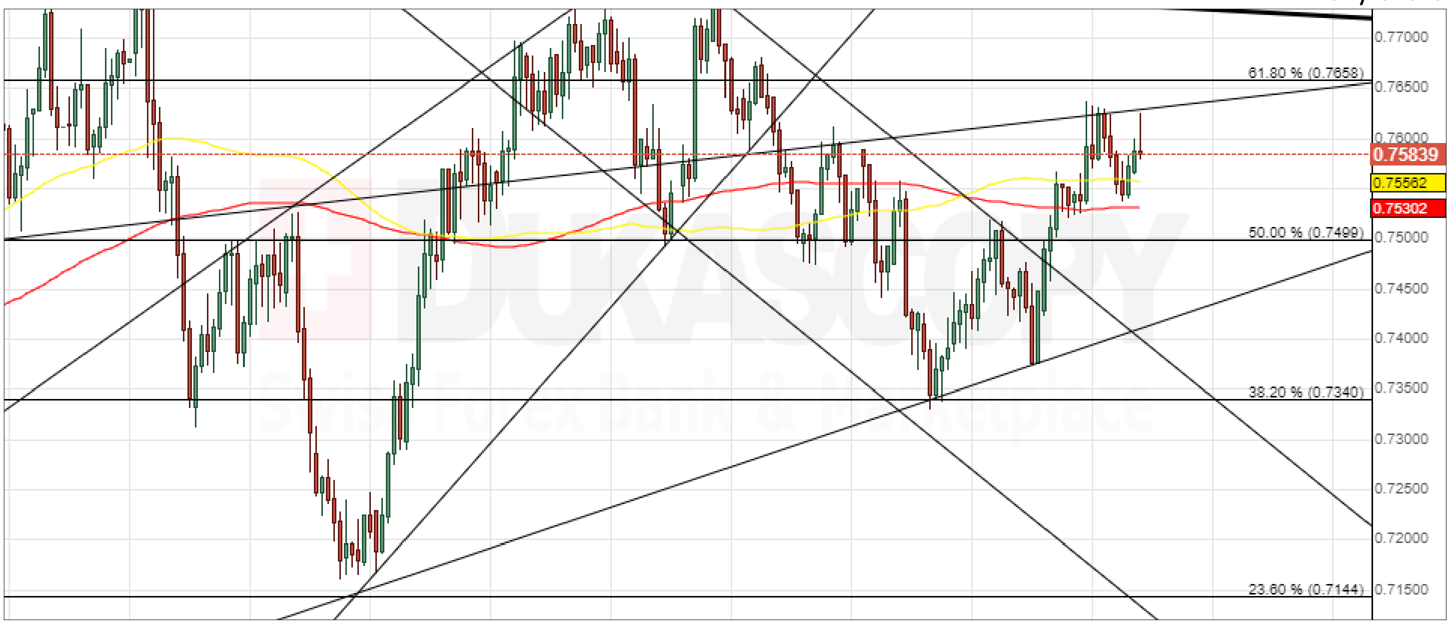
In line with expectations, the second quarter of 2017 commenced with the European common currency bouncing off the lower boundary of the falling wedge pattern. Nevertheless, the first round of French presidential election did cause a break of the upward wave, as financial markets demonstrated increased enthusiasm about the positive electoral outcome. The upside momentum was strong enough to break the given pattern and push the rate up to the 125.40 mark. Subsequently, the Euro entered in a consolidation phase, not being able to overcome this level and, therefore, remaining in relatively same range for two consecutive months. The last trading days in June saw a boost in confidence that guided the Euro up to the 128.00 area.

2017 Q3 Outlook

The Euro reaching a one-year high at 125.40 mid-April suggested that the pair had finally exhausted its upward potential. The massive surge late June proved otherwise, turning technical indicators bullish once again. Nevertheless, this move might not be sustainable in the intermediate term, favoring Euro's depreciation against the Yen in the upcoming weeks. It is likely that the Euro re-tests 128.00 in early July prior to depreciating against the Yen in the intermediate term. Subsequently, the pair should rebound from the upper wedge boundary, as the 100- and 200-hour SMAs are expected to be near this level. By and large, the given breakout to the upside may restart a bullish trend in August or September. Nevertheless, the German federal election in late September is expected to have similar implications as its French and British counterparts, that is, markets may respond sensitively to any political electoral developments. In addition, results expected by financial markets may set the pair for a surge to the upside.

AUD/USD

Daily Chart



100-day SMA 200-day SMA

2017 Q2 Summary

Following a breakout of the bottom wedge boundary at the beginning of the second quarter, the Australian Dollar was trading sideways in the 0.7450/0.7600 area. This lack of momentum was shifted in May when the Antipodean currency resumed a clear downtrend. This motion revealed the formation of an intermediate channel down in force since early February. Subsequently, June began with the Aussie recovering some ground against its American counterpart up to 0.7621 and retracing slightly. The 20-, 100– and 200-day SMAs provided strong support mid-June, suggesting that the same situation may likewise occur next time the price reaches the given level.

2017 Q3 Outlook

The Aussie's movement in the second quarter demonstrates a formation of another rising wedge. The given pattern has provided two confirmations in each side; however, more tests of both boundaries should still be needed in order to determine the validity of this pattern. Technical indicators remain bullish, thus suggesting that there is still some upside potential for the Aussie to realise in the upcoming weeks. The upper limit may be set circa 0.7710/20 where the upper boundary of the senior wedge is located. In the longer term, however, downside momentum is likely to prevail for the following month at least, thus leading the rate towards the bottom boundary of the new wedge pattern in the 0.7450/0.7500 area. By and large, the Aussie remains relatively vulnerable to changes in commodity prices. In times of high volatility, it should respond accordingly. In addition, the given exchange rate may likewise be influenced by sluggish data on the Australian economy, thus risking to put downward pressure on the currency. On the other hand, political uncertainties in the US may drive the Greenback lower, thus sending this pair for a surge.

USD/CAD

Daily Chart

100-day SMA 200-day SMA

2017 Q2 Summary

As it was forecasted, the US Dollar managed to surge against the Canadian Dollar in a medium scale ascending channel pattern. The currency exchange rate reached the upper trend line of a large scale dominant channel up pattern was reached at the 1.3797 level. Afterwards the pair bounced off the resistance and began a decline. However, the bounce off did not occur due to only the upper trend line of the dominant pattern. The 61.80% Fibonacci retracement level is located exactly at that level, and at the exact moment the retracement was reached the pair began its medium scale descent. The depreciation of the Greenback against the Loonie took place approximately a month. It recently ended, as the pair encountered the lower trend line of the dominant channel.

2017 Q3 Outlook

There are two main aspects, which need to be understood to understand the future movements of the USD/CAD currency pair. First of all the currency pair has bounced off the lower trend line of the long term ascending channel pattern. As a result of this event the currency exchange rate is set to form a medium scale ascending channel pattern. The pattern is most likely going to guide the pair at least up to the levels above the 1.35 mark. Although, from a purely pattern analysis perspective the range up to the 1.40 mark is free from resistance. Meanwhile, the Fibonacci retracement levels if the 2016 low and high levels are already proven themselves as strong resistance levels. The 38.20% at 1.3292, the 50.00% at 1.3544 and the 61.80% at 1.3797 retracement levels will provide strong resistance to the pair. However, market participants will likely be able to pinpoint short term changes in the direction of the pair by using the mentioned retracement levels. In addition, the 100 and 200-day SMAs are located above the rate, and they have proven themselves to be able to influence the currency exchange rate in the short term.

NZD/USD

Daily Chart

100-day SMA 200-day SMA

2017 Q2 Summary

The Kiwi continued to trade against the US Dollar in the second quarter of the year in the long term descending channel pattern, which was identified in the last quarterly report. However, the pair did not decline. The NZD/USD currency exchange rate jumped after it encountered the support of the mentioned descending channel. The surge of the New Zealand Dollar was closely followed in the daily reviews of the currency exchange rate, and traders took profits, while the Kiwi was being reviewed not only in regard to the short term outlook, but also in the long term. In the second half of June the currency pair reached the resistance of the long term descending pattern above the 0.73 mark, against which it rebounded. Meanwhile, central bankers from the Reserve Bank of New Zealand must have been in horror, as their set target of 0.69 disappeared in the distance.

2017 Q3 Outlook

The third quarter of the year is set to be grim for the New Zealand Dollar. All signs indicate that the Kiwi will lose ground against the US Dollar. The pair is most likely going to decline, as a new medium term descending pattern should reveal itself in the near future. Meanwhile, the fundamental pressure from the central bank will continue. It is highly possible that the currency exchange rate will reveal the new medium term pattern, as it reaches the 38.20% Fibonacci retracement level at the 0.7157 mark. Although the retracement levels for this pair are notable, the 38.20% level historically has not managed to hold off the pair in either direction for more than half a month. In most cases the level of significance has held a few trading sessions. However, it is possible that the 100 and 200-day SMAs, which at the end of June were located below the 0.71 mark, might join the previously mentioned support level.

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EXPERT COMMENTARY

Pound Sterling

Richard Falkenhall
Senior FX Strategist
SEB
Sweden

Where do you see the Sterling during the third quarter of 2017?

I think that the Sterling will remain under pressure. More specifically, the outlook will largely depend on what will happen in the divorce negotiations between the European Union and the United Kingdom. At the current moment, we are a little bit sceptical that the negotiations will be tough, though I still see this keeping the Pound under pressure throughout the third quarter of 2017.

What will be the major drivers for GBP throughout the same period?

In addition to the Brexit negotiations, which I think will be the most important driver for the Sterling, the overall trend in the country's economy would be a crucial headwind as well, as the question whether or not signs of slower growth that we have witnessed during the second quarter will continue remains on the table.

In addition to the Brexit negotiations, which I think will be the most important driver for the Sterling, the overall trend in the country's economy would be a crucial headwind as well...

- Richard Falkenhall

What are your forecasts for EUR/GBP and GBP/USD for the Q3 of 2017?

Our quarter-end forecast for the EUR/GBP currency pair stands at 0.90. The Cable we see at 1.26 by the end of the Q3.

At the current moment, we are a little bit sceptical that the [Brexit] negotiations will be tough...

- Richard Falkenhall

US Dollar

How do you evaluate the performance of the US Dollar during the Q3 of 2017?

Juan Prada
FX Strategist
Barclays Capital
USA

The performance of the US Dollar will heavily depend on the policy stimulus that the current administration is planning to implement. In our view, the Greenback is very close to topping out. It has been rallying for five years, which was supported by the correlative outperformance of the US economy. However, that support is no longer there because other economies are doing better. Thus, for the American Dollar to continue at these overvalued levels, policy stimulus on the fiscal side in the US is something that is required. Given the current stage of the legislative agenda, it seems unlikely that they will be able to push forward significant tax reforms before the fourth quarter; therefore, I would expect the US Dollar to be range-bound in a multilateral sense for the third quarter of 2017.

The Given the current stage of the legislative agenda, it seems unlikely that they will be able to push forward significant tax reforms before the Q4...

- Juan Prada

What will be the other major drivers for USD throughout the same period?

I think that the major headwind would definitely be the economic policy in the United States, though I do not think it would be that much of a support for the currency, given that the market expectations about the Fed are pretty much priced in already. I would not expect that much stimulus from the monetary policy side.

What are your forecasts for EUR/USD and USD/JPY for Q3 of 2017?

By the end of the third quarter, we expect the EUR/USD currency pair to trade at 1.06, while USD/JPY we see finishing the Q3 at 108.0.

Euro

Vasileios Gkionakis
Global Head of FX Strategy
UniCredit
UK

How do you evaluate the performance of the Euro during the Q3 of 2017?

I suppose that we are going to see some uptight pressure on the Euro through the third quarter of 2017 largely because the ongoing appreciation of the 19-country currency is deeply fundamentally rooted, which means it runs with fundamental and economic dynamics, which is definitely surprise on the upside. Apart from that, we are also having the reduction of the political risks across the Euro zone, thus, what is likely to happen is that inflows across all asset classes in the Euro zone are likely to accelerate, which is going to be supportive for the Euro.

> *I do believe that at some point the issue of the ECB tapering is going to start governing more attention by markets.*
>
> *- Vasileios Gkionakis*

What could be the other major drivers for EUR throughout the same period?

I think on an evenly-spread basis throughout the quarter the main factor is going to be the inflows story. I do believe that at some point the issue of the ECB tapering is going to start governing more attention by markets. We expect that the ECB tapering is going to be relatively slow, but, having said all that, as we are coming from so many years of excessive monetary policy stimulus, I expect that the announcement of tapering is going to be positive for the Euro.

What are your forecasts for EUR/USD, EUR/JPY and EUR/GBP for the Q3 of 2017?

Our current forecast for EUR/USD stands at 1.13 by the end of the third quarter. The EUR/JPY currency pair we expect to see at 122.0 during the same period, while EUR/GBP we see finishing at 0.89.

Canadian Dollar

Colin Cieszynski
Senior Market Analyst
CMC Markets
Canada

How do you evaluate the performance of the Loonie during the Q3 of 2017?

There is a couple of things that I am watching for as we go forward into the third quarter, the first of which is the correlation between the Loonie and oil prices. Historically, the Loonie tends to rise in favour of the oil price; to a certain extent I expect that to continue. The second fact that we look at is the Bank of Canada's monetary policy. Many economists are saying the BoC might hike rates, though I suspect it would just stay neutral for the time being, and that leads to the third issue, which is the renegotiation of NAFTA.

Meanwhile, what we saw in the second quarter is that when the US trade-related issues were not in the spotlight, the Loonie was going up and, on the contrary, when Donald Trump took a stricter stance on Canada over its dairy, softwood lumber and other exports, which posed a threat to the bilateral trade, the Canadian Dollar was under significant downward pressure. What is important about this is that the renegotiation of NAFTA is expected to start in August. Therefore, in the wake of all the abovementioned, I think we could see some volatility in the Canadian Dollar related to trade in the coming months.

What are your forecasts for USD/CAD, EUR/CAD and AUD/CAD for the Q3 of 2017?

For now, the USD/CAD currency pair is trending lower and is ranging between 1.30 and 1.34. My thinking is that we will remain in that range and might see 1.33 in the near term. By the end of the quarter, we are probably going to see the pair trading at about where it is right now, which is related to the concern about the NAFTA negotiation.

In the meantime, the Euro has gone down dramatically against the Canadian Dollar and the number of other currencies in February and it had a second run in April. Right now, it is trading at about 1.50 against the Loonie, though I think it can come down to 1.48, which is where the 50-day moving average is currently located and is also in line with the correction we saw in early May.

Talking about AUD/CAD, I see it bouncing back and forth in the range between 0.99 and 1.03. At this point, it looks like the pair will continue trending sideways. My view is that it can finish the quarter at around par.

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TRADE PATTERNS

USD/ZAR

Daily Chart

USD/ZAR

Channel Down

The American Dollar is losing value against the South African Rand for the second consecutive year.

The turning point of a seven-year surge happened in January 2016, after which the currency pair started to form a long-term descending channel. After touching the upper-trend line for the third time in November 2016, the ADX indicator fell below 25 and the rate did not have enough power to reach the bottom edge of the formation again. Thus, the pair had entered into the new flat channel down, but in the end of March 2017 it had also broken amid the sharp appreciation of the US Dollar. Nevertheless, the surge did not continue and the pair had quickly formed a third descending channel.

These attempts indicate on existence of the long-term downtrend, which is expected to guide the rate in the three upcoming months as well. This downtrend is represented in the form of another large channel down, which contains both preceding medium-term figures. Accordingly, the pair might equally try to reach both boundaries of the senior channel once it will make a breakout from the current formation.

In this regard, dissolution of the junior pattern is likely to happen in the first part of July since the rate has already touched the upper trend-line three times. In addition, it experiences pressure from the monthly PP, 55- and 100-day SMAs. On the other hand, the downfall might be stopped by the monthly S1 at 12.655 and reset the currency pair upwards again.

XAU/USD

Daily Chart

XAU/USD

Triangle

The yellow metal is trading against the US Dollar simultaneously in the long-term descending and ascending channels.

The channel up represents a rebound of the pair from the bottom trend-line of the senior pattern. Development of the junior channel was stopped the 23.6% Fibonacci retracement level of the 2015 low and the 2016 high levels did lead the pair further at 1,293.81. The second attempt of the pair to break through this barrier in the beginning of June had also failed. However, this time the retracement level coincided with the upper boundary of the descending channel. As a result, the pair started to fall until it reached the combined support set up by the 38.2% retracement level and bottom edge of the junior channel.

Such outcome pushed the pair into a symmetrical triangle. Accordingly, two scenarios are possible.

In first, the pair is expected to make a correction and back into the ascending channel. Afterwards, it would try to continue to move within this pattern. However, pressure from the upper line of the dominant channel will force the pair to make a rebound and begin to fall. In this case, by the end of summer the pair might slide to the to 38.2% and 50% retracement levels.

In an alternative scenario, the gold would bypass both the upper edge of the senior formation and the 23.6% retracement level. Then, the pair would try to reach the 2016 high level, which located near the 0% retracement level at 1,368.42. However, this surge is unlikely.

CAD/HKD

Daily Chart

CAD/HKD

Channel Up

The Canadian Dollar is trading against the Hong Kong Dollar in a narrow, vertical medium-term ascending channel.

The Loonie has been losing value since April 2016. A strong downtrend prevailed until November when the currency pair bounced off from the bottom edge of the channel and started to surge. The pair tried to recover lost ground but two sharp drops in February and April had neutralized this attempt.

Nevertheless, the fall did not hold for long and already in the beginning of May the currency rate has bounced off from a combined support level set up by the bottom edge of a descending channel and the 61.8% Fibonacci retracement level at 5.6588. The relevant retracement levels are measured by connecting the 2017 January low level and the 2017 high level.

In the short run, the current channel is expected to be broken. First of all, such narrow, vertical patterns are unstable as such and can be easily distorted by fundamental events. Second, narrowing fluctuations of the pair indicate on transformation of the channel into a rising wedge. In addition, the pair is approaching the 23.6% retracement level at 5.9944. Altogether, this suggests that the currency rate is going to fall during July.

If the pair manages to find a support at the 38.2% retracement level, the surge might resume again. Otherwise, the downfall most likely is going to last until the 61.8% retracement level. If the second scenario will realize and a rebound will occur, an existence of a double top pattern could be confirmed.

USD/SGD

Daily Chart

USD/SGD

Channel Down

The American Dollar is losing value against the Singapore Dollar in the long-term descending channel.

The current formation represents a rebound of the currency exchange rate from the upper trend-line of the preceding ascending channel with the subsequent breakout downwards right in the end of 2016.

The gradual fall of the rate was not smooth. In the end of January the currency pair has formed a short-term descending channel, which was replaced by a similar ascending channel in the end of March, after the exchange rate made a rebound from the bottom boundary of the slipping pattern. The last formation appeared in the first half of May, when the pair bounced off from the resistance line of the preceding channel up. It is important to note that all three junior patterns represented various parts of the dominant descending channel.

However, movement of pair in the last two months has shifted to the top, which allows to draw lower support line for a falling wedge. From a technical perspective, a breakout from this reversal pattern should occur upwards in the beginning of autumn. Accordingly, the end of the next quarter the pair might finish somewhere between the 50% and 61.8% Fibonacci retracement levels of the 2016 low and 2016 high levels.

In a less likely scenario the strength of the junior descending channel will push the currency rate though the bottom boundary of the wedge. In this case, the pair is expected to form a third reaction low with the subsequent steady climb within to the top of the channel. Consequently, the end of the upcoming quarter the currency pair might still meet within the current pattern.

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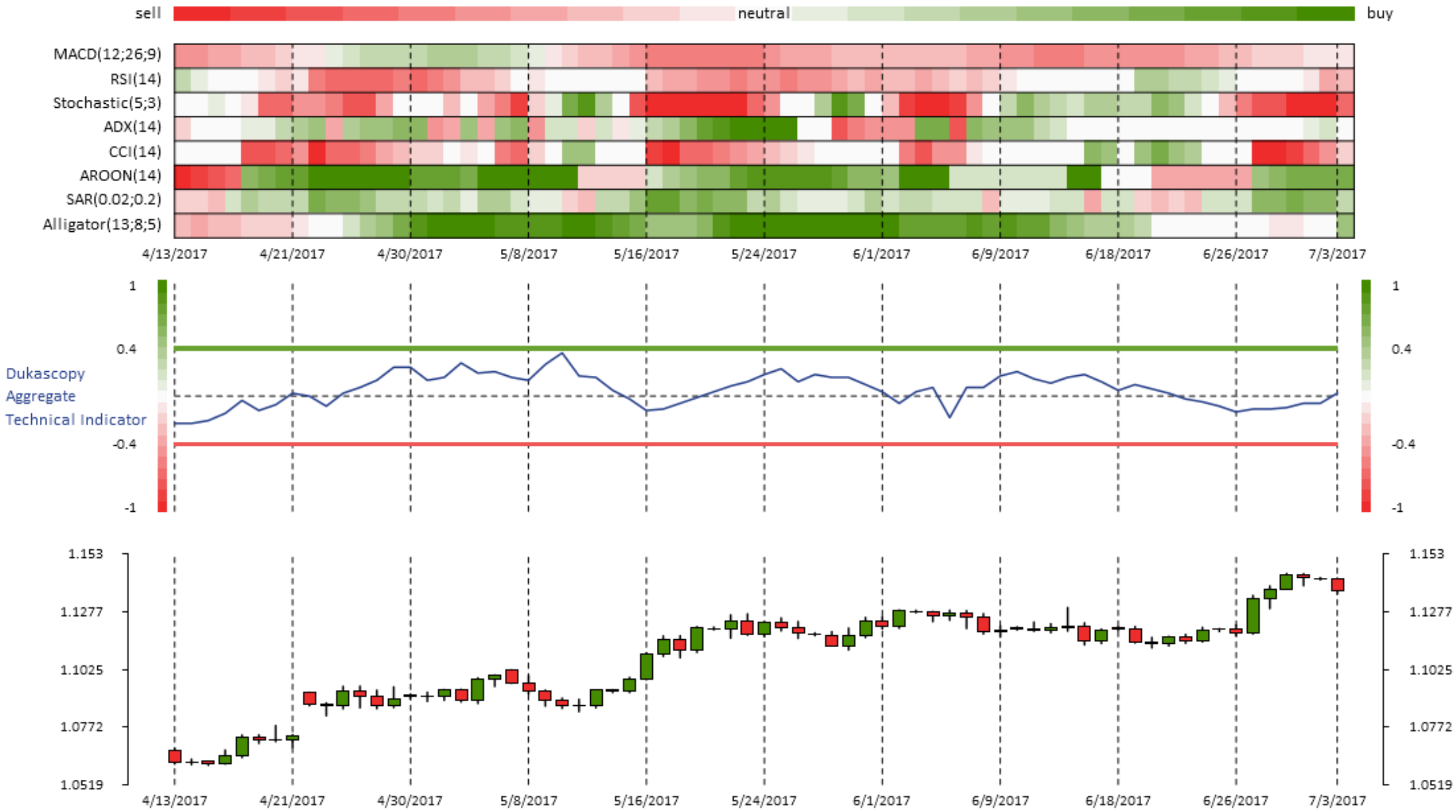
TECHNICAL INDICATORS

EUR/USD

Daily chart

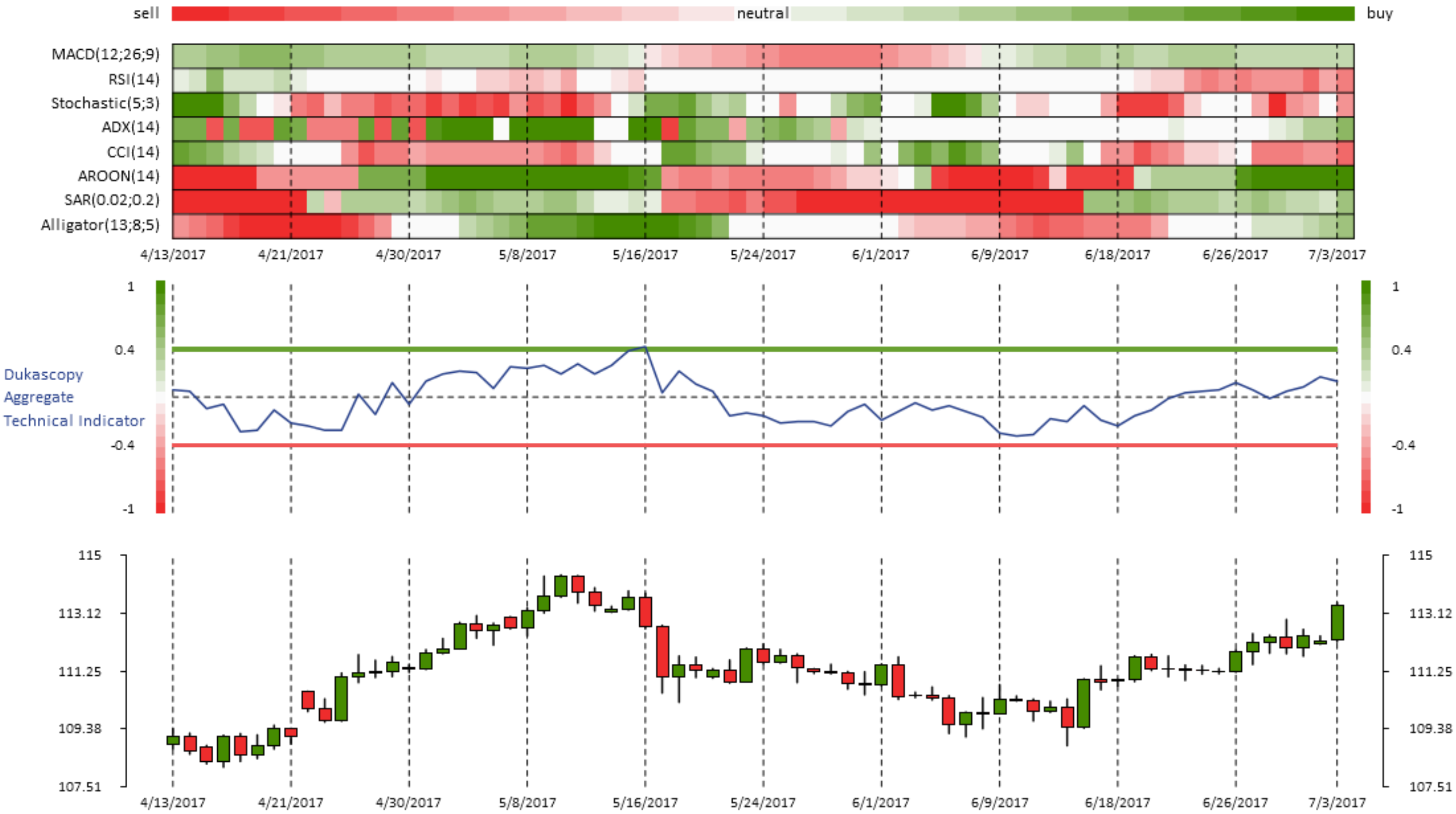


GBP/USD

Daily chart

USD/JPY

Daily chart

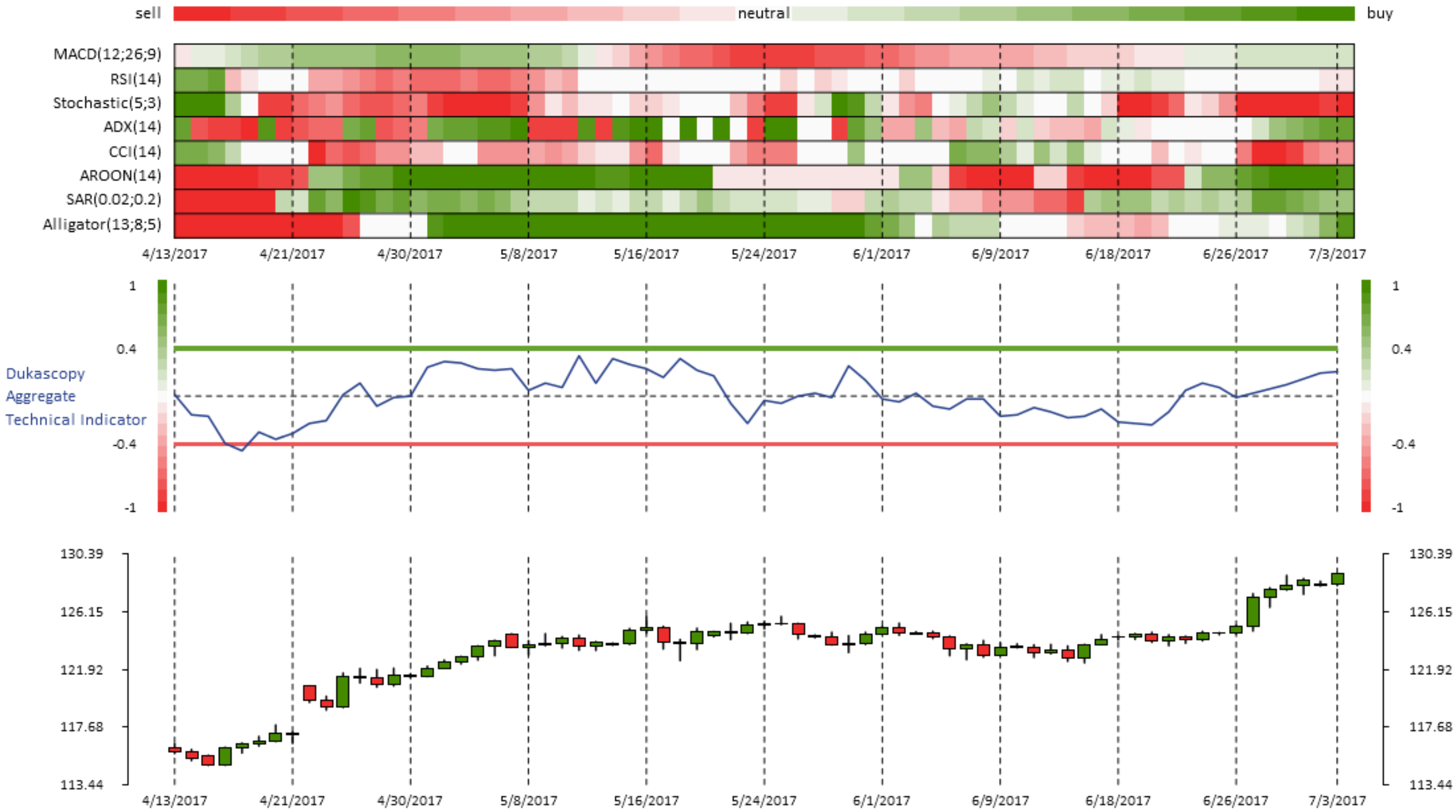


USD/CHF

Daily chart

EUR/JPY

Daily chart

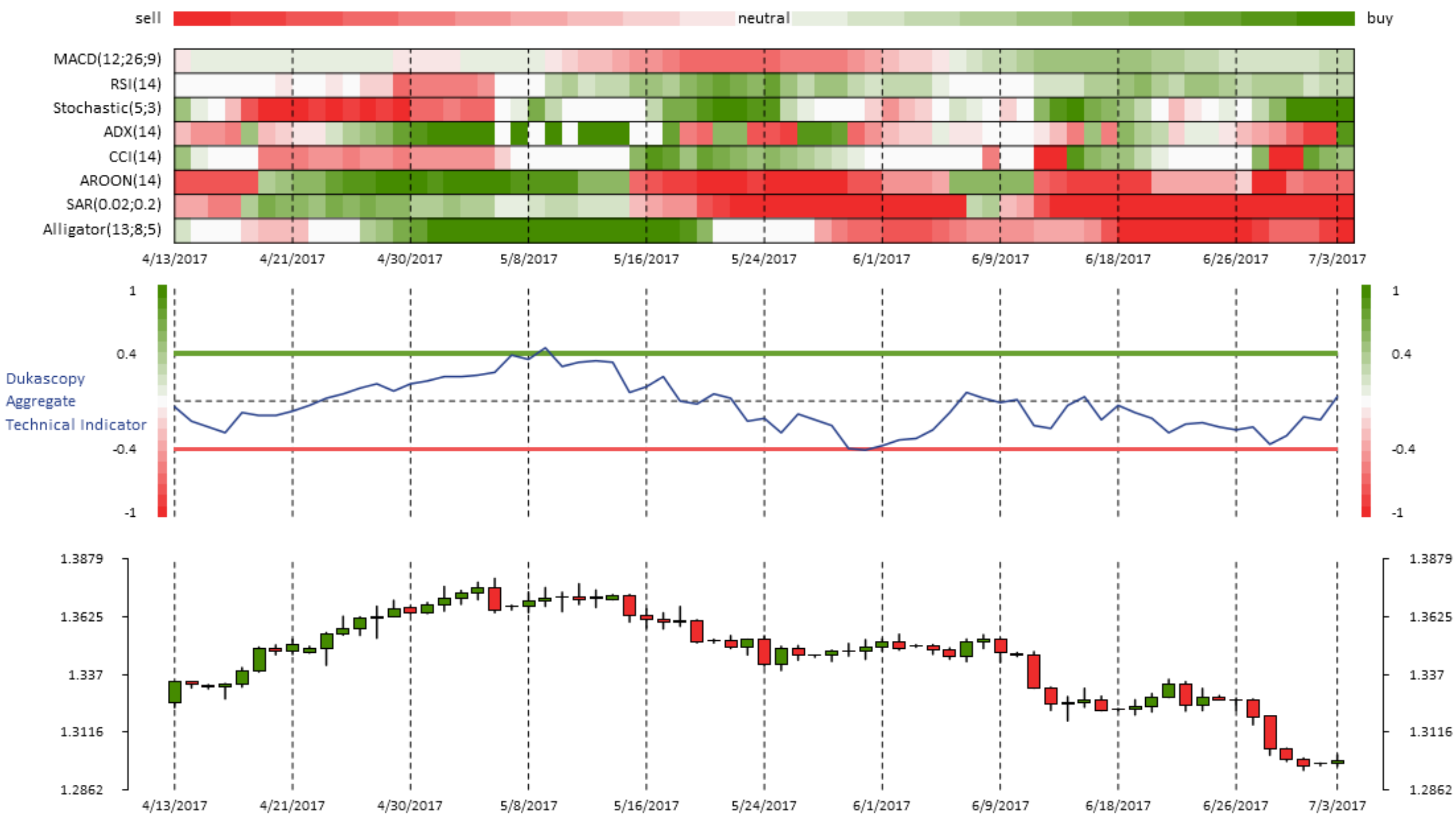


AUD/USD

Daily chart

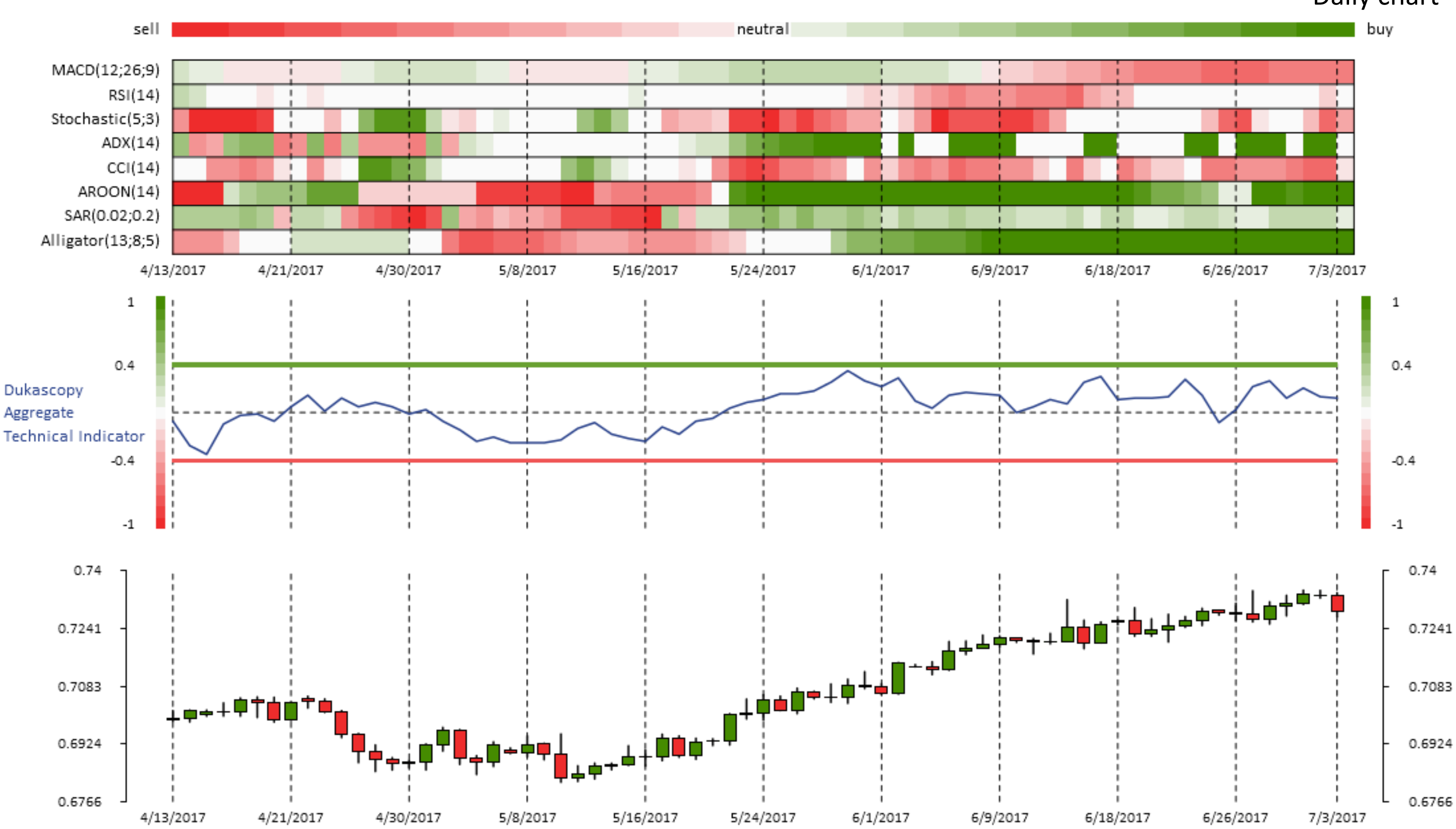
USD/CAD

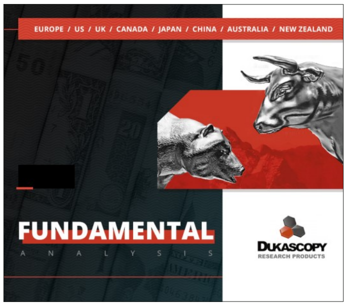
Daily chart

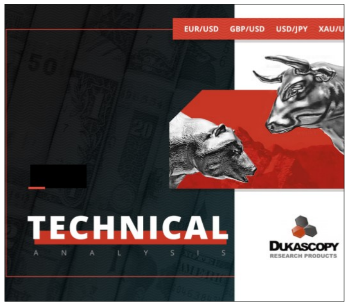


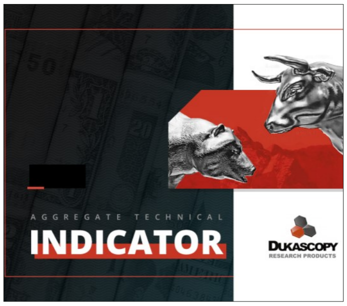
NZD/USD

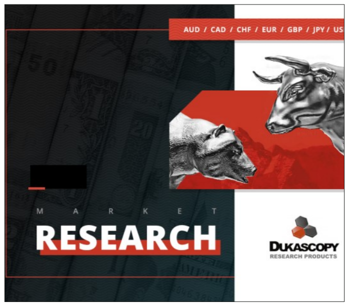
Daily chart











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