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QUARTERLY REPORT

Q4,2014

AGGREGATE TECHNICAL INDICATOR

FUNDAMENTAL ANALYSIS

TECHNICAL ANALYSIS

TRADE PATTERN IDEAS

COMMUNITY FORECASTS

EXPERT COMMENTARY

"AUD/USD has already reached its lowest trading level this year"

Roberts Lasovskis, economist at Dukascopy Bank SA

Q4, 2014 ©DUKASCOPY

Dear traders,

In the first half of this year the USA, along with the other developed regions of the world, suffered from painfully slow recovery, casting doubt over the ability of the world economy to stand on its own two feet this year without the crutches in the form of stimulus. But in the end the world's largest economy also turned out to be the most successful among its peers. It was one of the few countries that seem to have preserved the positive momentum. As a result, the main topic of the past quarter was the appreciation of the US Dollar against the world currencies.

Japan, being a frequent guest of the headlines after failures to meet the expectations in the past, now cannot surprise to the upside, with the positive outlook hanging by a thread. In the meantime, the Euro zone overtook any other region in the number of disappointing figures. Neither inflation, nor the unemployment rate, which are within every central bank's mandate to keep at healthy levels (apart from the main goal of price stability) are unwilling to move in the direction they are pushed. The half-year lag, which was observed between the business cycles in the USA and the Euro zone before, has widened and it continues to get only larger.

It has been argued that Draghi has delayed the European edition of the quantitative easing for far too long. But what if it does not work? Perhaps, he is already aware of that. What would you do in his place? I suppose we can agree that you would refuse to implement it. Simply not to disappoint, to keep the Europeans believing the ECB is in possession of a panacea that is ready to be used if the bloc is really in trouble.

And so, there are plenty of important questions left unanswered. Without them it is impossible to determine whether being optimistic right now is justified. But what other choice do we have? Let's hope the last quarter of 2014 is going to give us the answers we seek and they will not turn out to be bitter.

Kind regards,

Alexander Suhobokov, CFA, FRM

Head of Research

Dukascopy Bank SA

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Fundamental Analysis

Eurozone

Time is ticking, the Euro zone continues falling further into yawning abyss and now everyone is waiting for ECB's measures announced in summer to take effect and save the Euro bloc from the downward spiral and bring it back to life.

What is particularly warning is the fact that the core countries, which are the only hope for the recovery in the currency bloc, started to show disappointing performance. The German economy, the European growth engine which has been losing momentum recently, contracted 0.2% in the June quarter following the 0.7% growth in the first quarter. The economy is expected to accelerate by the end of 2014, though. However, the strength of the growth in the second half of 2014 is questioned amid sanctions on Russia introduced by the EU and US.

Meanwhile, France failed to post any growth for a second straight quarter in the three months through June. French Finance Minister Michel Sapin admitted that the government's outlook of 1% growth this year is impossible to reach. On top of that, the country would miss its goal for reducing its public deficit. The deficit will end up above 4% of GDP, missing the 3.0% target.

The Euro Zone's third largest economy contracted 0.2% in the second quarter, following the 0.1% slip registered in the previous three-month period. On an annual basis, Italy lost as much as 0.3% to GDP compared to a revised 0.4% decline. Last year the economy contracted 1.9%. The renewed recession in Italy is expected to weigh on the region's second-quarter gross domestic product figures.

Thus, the top-three Euro zone economies are mired into contraction spiral adding pressure on policy makers ranging from ECB officials to politicians to bolster growth in the region, as the Euro zone recorded zero growth in the second quarter, while inflation remained low at 0.3% and unemployment rate held at historically high level. Furthermore, the European Commission forecast jobless rate to be at 11.4% level in 2015, suggesting that underlying unemployment issues are no yet resolved.

The Ukrainian crisis and the trade war with Russia have played a significant role in the setback, which casts doubts on the plans to revive the economic growth in Europe in the second half of the current year.

"Some of our council members were in favour of doing more, and some were in favour of doing less"

- Mario Draghi, ECB President

In response to deteriorating fundamentals, the ECB has cut its benchmark rate to 0.05% following the June's rate cut from 0.25% to 0.15% and introduction of negative interest rates. The ECB also cut its deposit rate, what banks pay to keep their money at the central bank, to minus 0.2% from minus 0.1% in an effort to urge banks to lend money by imposing a financial penalty for keeping it in the safety of the ECB's accounts. Lower rates tend to stimulate more lending and growth. However, lower rates become less effective as a stimulus tool as they approach zero.

Therefore, the central bank announced a new stimulus programme, which will buy debt products from banks to make credit cheaper, boosting investment and growth at a time when the 18-nation economy has stalled. The scheme is somewhat different from the stimulus programme undertaken by the Fed, which includes large-scale purchases of government bonds. Nevertheless, ECB President Mario Draghi admitted that the option of launching QE was discussed during the board meeting, but the comfortable majority decided to opt out this time.

"In the long term, the ultra-loose monetary policy poses risks to financial stability"
- Jens Weidmann, Bundesbank President

The ECB's actions have become a subject to criticism. Former ECB chief economist Juergen Stark said that the central banks is turning into a European "bad bank" and its record-low interest rates will not promote lending in the Euro zone. Also Jens Weidmann, Bundesbank Chief and other critics believe that complex financial derivatives such as ABS were the main cause of the US sub-prime mortgage crisis in 2008. Thus, he criticised the ECB's plan to start purchasing asset-backed securities to kick-start the Euro zone's sluggish economy, as along with ultra-low interest rates the scheme might set a risky precedent. In contrast, ECB Executive Board member Sabine Lautenschlaeger said that the asset-backed securities market in the Euro bloc is big enough for the ECB's planned ABS buying programme to have an impact on bank lending.

The feeble recovery leaves the 18-nation bloc lagging behind other advanced economies such as the US and the UK. The IMF slashed its 2014 growth forecast for the Euro zone, warning that the recovery in the region was "neither robust nor sufficiently strong." In an annual report on the Euro zone, the IMF said growth this year would reach 1.0% instead of the 1.1% earlier forecast. The estimate for 2015 remained at 1.5%.

"We acknowledge there is recovery but a lot more needs to be done"
- Mahmood Pradhan, Deputy Director of the IMF's European Department

The OECD now forecasts Euro zone GDP growing just 0.8% this year, down from the previous forecast for 1.2% growth made in May's outlook. The ECB predicts growth of 1% this year. In 2015, the OECD expects the Euro zone to grow 1.1%, down from 1.7% forecast in May. The OECD has also called on the ECB to use quantitative easing to shore up the Euro zone.

USA

The US economy continues gathering steam, with fundamentals pointing the economy is moving steadily closer to full health. The labour market continues to improve, as the unemployment rate has been falling steadily in the past few years, dropping to 5.9% in September. Economists believe that healthy US job growth should help boost more purchases of goods from Europe and Asia, thus strengthening their economies as well. However, some of the recent declines in the jobless rate are due to frustrated job-seekers leaving the labour market.

"We're seeing numbers that we haven't seen since well before the financial crisis and recession, and they seem to be more sustained"
- Terry Sheehan, an economist at Stone & McCarthy Research Associates

Fed presidents differ on whether a drop in the US jobless rate to the six-year low warrants advancing the timing for an increase in interest rates. Philadelphia Fed President Charles Plosser believes that the Fed might lose credibility and control of inflation by waiting too long to hike rates, and positive economic data already suggest a need to tighten monetary policy. Chicago's Charles Evans and Atlanta's Dennis Lockhart say that low inflation and slack in the country's labour market provide the bank with time until the second half of 2015 or 2016. Lockhart warned against pulling the trigger too soon, arguing there is still not enough evidence the Fed is close to achieving its twin goals of maximum employment and price stability. Meanwhile, St. Louis Fed President James Bullard warned that inflation will rise above the Fed's target late next year. Most FOMC participants reiterated their view that the Fed will refrain from raising its benchmark rate until 2015. However, Fed Chairwoman Janet Yellen reminded investors in her July testimony to Congress that if labour market improves more swiftly than the rate-setting committee expects, hikes in the federal funds rate would probably occur "sooner and be more rapid than currently envisioned."

"If the labour market continues to improve more quickly than anticipated . . . then increases in the federal funds rate target likely would occur sooner and be more rapid than currently envisioned"
- Janet Yellen, Fed chairwoman

Meanwhile, the Fed is preparing for the end of quantitative easing after the October meeting. The Fed's exit strategy is complicated as its stimulus programs flooded the financial system with USD 2.6 trillion that has ended up back at the Fed as excess bank reserves. With such an amount of money on hand, US banks have little need to borrow from each other in the federal funds market, stifling a necessary interest rate tool.

Growth in the world's number one economy is set to accelerate in the near term, the IMF predicted, adding that threats to the US growth include the central bank's ability to scale back its asset purchases in an orderly manner. The CBO expects the US economy to grow by just 1.5% in the whole 2014, impaired by a weak performance during the first three months of 2014. The new economic forecast was considerably more gloomy than the Obama administration's, which predicted that the economy would grow by 2.6% this year. Looking ahead, the CBO said it saw the economy growing by 3.4% over 2015 and 2016, and predicted that the jobless rate would remain below 6% in the future.

Great Britain

Britain's economy expanded on a more rapid pace than previously estimated in the second quarter, outperforming the US, Japan, and European countries. The UK economy grew 3.2% in the three months through June compared with the same period last year, while the quarterly pace of GDP growth remained flat, despite slightly stronger output in the services sector. The data confirmed that the UK had finally climbed out of its longest downturn since the WWII with the economy being 0.2% above the pre-crisis peak. However, the economic recovery remains imbalanced with only the services sector back above its pre-recession peak. In contrast, Britain's manufacturing output is still 7.5% below its pre-recession peak. Thus, the UK's recovery, while still being strong, is still too dependent on UK's big-spending consumers rather than business investment or exports.

Britain's strengthening economy means the BoE is on course to follow the RBNZ by lifting interest rates from historic lows. Investors expect officials to begin raising the benchmark rate from a 320-year low of 0.5% either at the end of 2014 or early next year. Sustained growth caused unemployment rate falling; nevertheless, policy makers have stressed they are intended to keep rates on hold until there is evidence Britain's economy is reaching full strength and inflationary pressures are increasing.

The unemployment rate dipped to 6.2% in the second quarter, the lowest level since 2008. However, CPI fell to 1.5% in August, meaning the BoE currently remains under little pressure to lift interest rates in order to keep inflation at or below its target rate of 2%. Inflation has been below the central bank's 2% goal for seven consecutive months, marking the first time since 2005. The BoE's David Miles said that as long as inflation remains subdued and wage growth is weak, the BoE is in no hurry to lift its benchmark interest rate. Inflation is expected to hover around the 2% level over the coming two to three years as long as interest rates increase in line with the expectations in financial markets.

The BoE cut its outlook for average wage growth, as it now expects average salaries to inch up by 1.25% this year, underscoring wage growth has become its key indicator for determining when interest rates are likely to increase. Nevertheless, the central bank hinted that it stays on course to hike interest rates early next year, given wage growth in the country increases. The estimate for the amount of slack in the economy has been cut from 1-1.5% to 1%.

"Among advanced economies, the United States and the United Kingdom in particular are leaving the crisis behind and achieving decent growth"

- International Monetary Fund

Meanwhile, international bodies continue to paint an optimistic growth picture for Britain's economy. The OECD said that its index of leading indicators continues to point that growth momentum remains above-trend rates. The IMF foresees the UK to be the fastest-growing developed economy this year. However, economic think tanks have all expressed concerns over the possibility of a house price bubble due to comfortable interest rates' climate. Therefore, the BoE took necessary actions to avoid bubble on the market. Nevertheless, British Prime Minister David Cameron has dismissed suggestions of a house price bubble, saying there was "no evidence" that the market was unsustainable.

Concerning the outlook for the third quarter, the BoE's August estimates suggest a slightly slower growth of 0.7%, while the 2014 annual growth rate was revised up to 3.5%, from 3.4% projected in May. Meanwhile, Business Secretary Vince Cable said the UK's economic growth is being undermined by faltering exports, partly as a result of the high value of the Pound. He believes that the nation's currency is overvalued by 10%-15% on a trade-weighted basis. Cable's comments echo those of the IMF and BoE Deputy Governor Ben Broadbent, who said that the currency's strength may have a long-lasting effect on inflation.

According to the IMF, the currency is overvalued by 5-10%. However, according to Economist's Big Mac Index the index, a Big Mac in Britain costs 2.89 pounds, compared to 2.81 and 2.91 in the US and the Euro zone, respectively. The figures mean that the Sterling is 2.6% overvalued versus the Buck and by only 0.6% against the single currency. According to that, the appropriate levels of GBP/USD and EUR/GBP are 1.66 and 1.27, respectively.

Asia & Pacific

Australia

Australia's economy lost momentum in the second quarter, as GDP rose a mere 0.5% in the June quarter and following the 1.1% gain in the beginning of the year. On an annual basis, GDP increased 3.1% after advancing 2.9% in the previous three-month period.

The Reserve Bank of Australia will remain on a course of ultra-accommodative policy stance for some time to ensure a sustainable growth in the post-mining boom economy. Nevertheless, Lord Mervyn King, former Bank of England governor, believes that the outlook for Australia's resources industry continues to remain optimistic despite the negative short-term outlook shared by others. King said low interest rates bolster equity and commodity markets, but uncertain geopolitical environment will boost commodity prices.

It is widely expected that a hike will not come until the second half of 2015. Nevertheless, the minutes of the RBA September board meeting show policy makers are getting more optimistic about the economic outlook. The RBA said low interest rates continue to support some sectors of the economy and encouraged more risk-taking investment. Inflation is expected to be in line with the 2-3% target over the next two years. Glenn Stevens, the RBA Governor, also added that the monetary policy is appropriately configured to support sustainable economic growth and inflation consistent with its target band. The jobless rate fell to 6.1% in August from the highest level in 12 years at 6.4%. Although the latest employment data marks a tentative improvement in job growth, it is likely to be some time before the unemployment rate falls consistently. The IMF expects Australia to have the worst jobless rate in the Asia-Pacific region bar the Philippines over the next two years. The think-tank predicts a rate of 6.2% in 2014 and 6.1% for 2015.

The RBA's modelling points to the fact that the Australian Dollar remains high by historical standard, especially given drops in key commodity prices. Thus, the central bank is impatient to see further weakening in the Australian Dollar to help give the economy a boost. Stevens believes that once the Fed started raising interest rates the Aussie Dollar would be hit.

"The exchange rate has declined recently, in large part reflecting the strengthening US dollar, but remains high by historical standards, particularly given the further declines in key commodity prices in recent months"

-Glenn Stevens, RBA Governor

The RBA expects growth will be a little below its long-term trend of around 2% to 3% in the year through June 2015, while the jobless rate is expected to average 6.25%. NAB downgraded its 2014-2015 growth forecast to 3.1%, from an earlier prediction of 3.3%. The IMF expects Australia to grow 2.8% in 2014 and 2.9% in 2015, but still below its long-term average of about 3.25% and a level needed to help increase employment. It sees a pick-up in exports offsetting waning mining investment.

New Zealand

"This monetary policy statement was much more 'dovish' than we anticipated"
- Dominick Stephens, chief economist at Westpac Banking Corp.

In response to the booming economy, RBNZ has already increased its cash rate by 100 basis points this year, the first central bank in the developed world to do so. A number of economists point to negative impact from rising interest rates. The Reserve Bank of New Zealand has decided to keep rates unchanged and soften its stance on future rate hikes as it revised inflation outlook and reiterated that the nation's currency is too strong. The central bank said the New Zealand Dollar is likely to depreciate significantly at some point, especially as the US starts to normalize its own interest rates. This would help offset losses to exporters from the drop in export prices; however, the timing of such actions remains uncertain. Nevertheless, despite the undermining impact of the high exchange rate on growth, New Zealand's economy is still expected to expand at a healthy 3.7% pace this year from a 2.9% pace in 2013, the RBNZ projects, before moderating in subsequent years in response to higher interest rates and the drop in dairy prices. New Zealand interest rates are seen to resume their upward path next year following a period of stability after the central bank last lifted the cash rate to 3.5% month. The RBNZ said that future rate rises would depend on how the exchange rate reacts to the fall in export prices, as well as other inflationary developments.

Obviously, heating debate in the US and UK over a potential benchmark interest rate hike sooner than expected is going to be a major driver on the Kiwi over the coming months, with investor interest turning to the Greenback and Pound. On top of that, recently Prime Minister John Key said he believes the Kiwi is currently overvalued, echoing the statement issued by the central bank at the end of July, which says that the present level of the currency is unjustified and unsustainable, given the exchange rate has yet to adjust to falling commodity prices, and there is potential for a significant decline.

Japan

"Japan's economy continues to recover moderately as a trend, but there is some weakness in production ... after the sales tax hike"
- Bank of Japan

The Bank of Japan has finally admitted the fact the sales tax hike has had a notable negative impact on the world's third biggest economy, as industrial production, a key driver of economic growth, showed signs of weakness. Moreover, core consumer price index in the world's third largest economy declined further in August, as year-on-year prices' increase reached 1.1%, hitting a 10-month low and raising serious concerns about the future of monetary policy. The central bank decided to remain pat on the monetary policy, but eliminated the need to expand it soon. The BoJ policy makers maintained their assessment that the country's economy "continues to recover moderately as a trend", but marked down their assessment of industrial production.

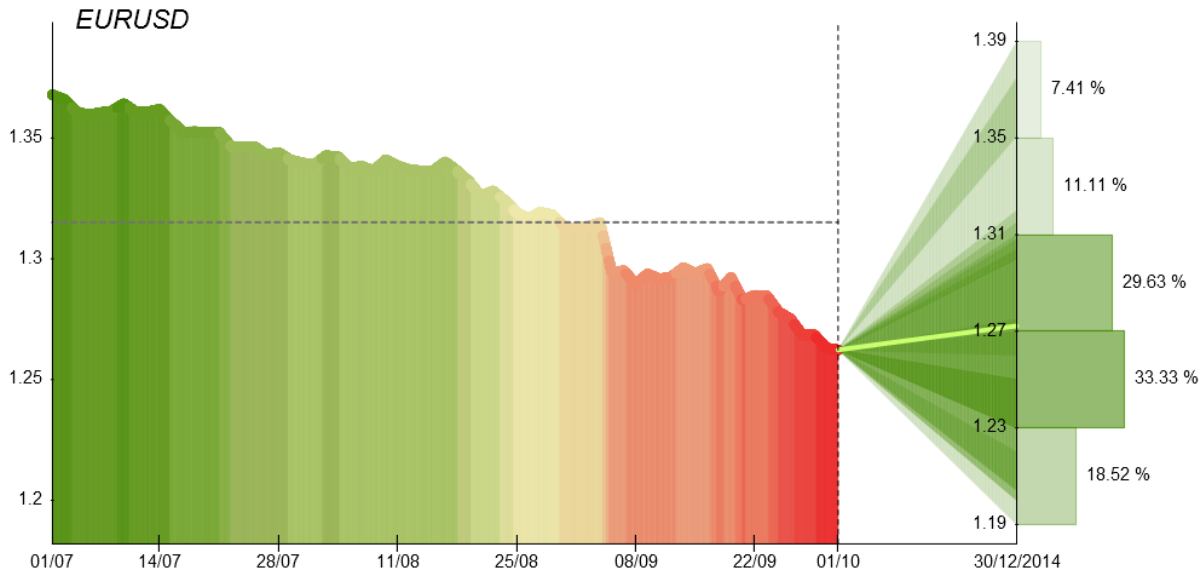
Haruhiko Kuroda, Bank of Japan Governor, also stressed that officials will consider embarking on additional easing measures should the BoJ's goal of reaching 2.0% inflation goal in the next fiscal year becomes difficult.

Kuroda adhered to a thought that a weak Yen is beneficial for the Japanese economy, but he admitted that further Yen drops will hit small firms and households by boosting import prices. The Yen's effective exchange rate against a basket of currencies stood at 77.2 in August, lower than its 10-year average of 92.93 and near a more than two-decade low of 74.91 reached in January. Its nominal rate rose above 110 per Dollar last week for the first time since 2008.

The IMF said it now expects the Japanese economy to expand by 0.9% this year, against 1.6% growth predicted in July, underscoring the damage that an April consumption tax hike inflicted on the world's third-largest economy.

Community Forecasts

EUR/USD



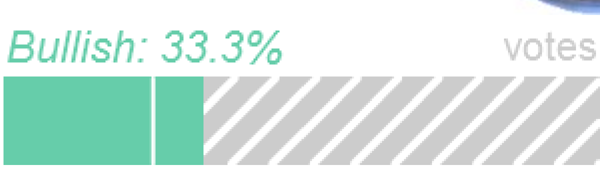
The third quarter was marked by considerable decline in the value of the most traded currency pair, taking into account a number of important factors, which drove the pair since July. The ECB has introduced a new stimulus program, which includes buying covered bonds and asset-backed securities. Moreover, just recently the Eurozone's monetary regulator decided to introduce the negative interest rate on deposits. And while the US economy seen rising, European countries are facing zero growth and serious risks of long-term deflation. Therefore, at the end of October the pair dropped below 1.27 level, down from 1.37 in July. Dukascopy Community members do not believe the pair will rebound significantly in the fourth quarter, as the consensus forecast for December 31 is located just above **1.27** mark, meaning the pair will now gain any meaningful value. Alongside, with the vast majority of the votes being bearish, more than 60% of forecasts stand in the range between 1.23 and 1.31, meaning the cross can have rather wide trading range in Q4. While trader ovidiu_gnt sees a paradoxical movement up to 1.40 later in 2015, despite clear bearish signals, iiivb suggests the fundamental bearish trend for this currency pair in the long-term.

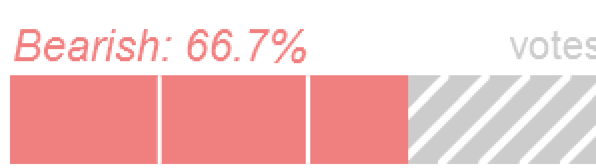
Rokasltu

"I think that year lows are nearly booked presently at below 1.28. Few years ago EUR/USD also fell but rebounded somewhere near 1.2780. Thus I don't think that rate will fall far below 1.28 during this year."

AdrianWS

"QE from the ECB looks more and more likely, and should we see risk on from the markets - the EUR as a funding currency, will be very weak. For this reason, I see 1.26 for year end."





Technical Analysis

EUR/USD

Daily Chart

100-day SMA 200-day SMA

2014 Q3 Summary

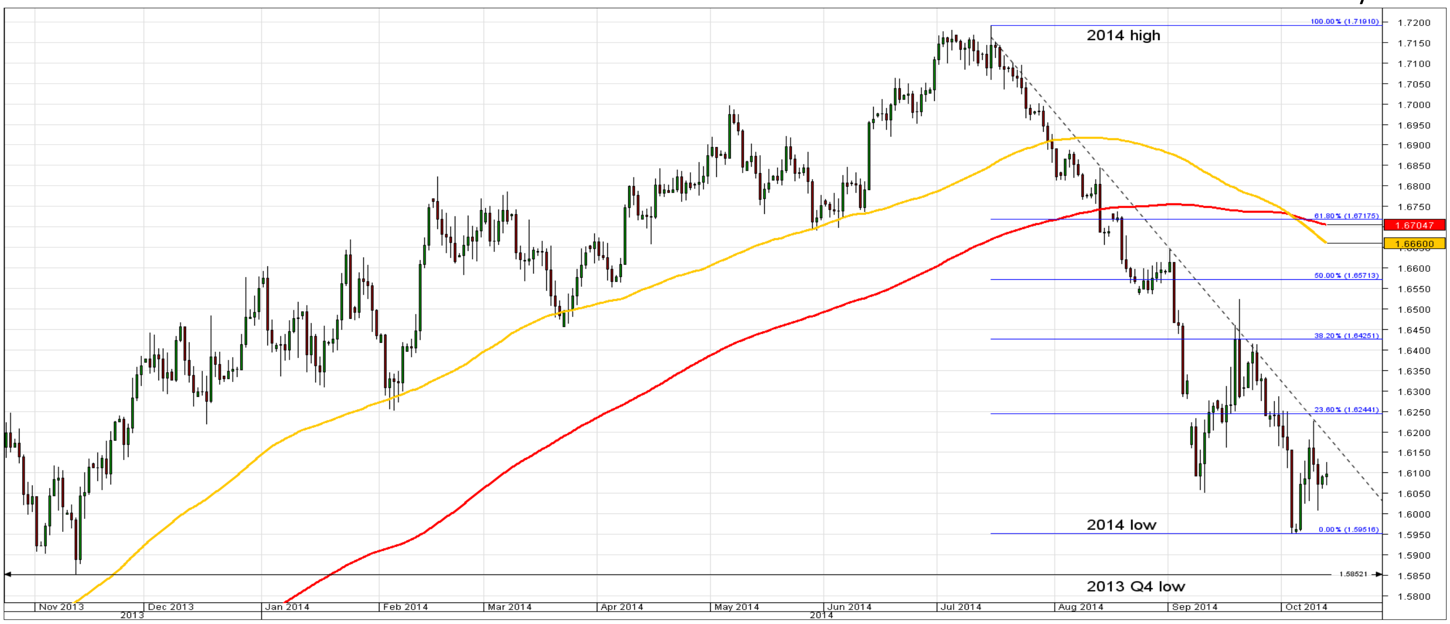
Last quarter's forecasts turned out to be correct in terms of the direction of the Euro. The currency violated the up-trend at 1.36 (the lower edge of a rising wedge that has been developing since the beginning of 2012) and continued its journey from the May high further South. However, we underestimated the bearish potential of EUR/USD. The pair did not stop at 1.28 as expected, but fell through this level and the 2013 trough, reaching its lowest point within the last 22 months. There were attempts of the price to stabilise during the previous quarter at 1.34 and 1.29, but none of them were successful. However, these levels may still play an important role if the market decides that the European currency is overbought and a correction emerges.

2014 Q4 Outlook

Considering the amplitude of the sell-off from 1.40, it is reasonable to expect a bullish correction that would remove the strain from the market. On the other hand, there seem to be no significant demand clusters in the vicinity – the next major support is already as many as seven figures away from the spot price. This is the 2012 low at 1.2040 and it is considered to be the long-term target for EUR/USD. Upon the conditions that the common currency preserves the current pace of depreciation, it is not impossible for the exchange rate to reach this milestone before the end of the year. But the Euro has recently trespassed the border of the bearish channel at 1.27. This creates a good opportunity for EUR/USD to pull back to 1.31 without any danger to the overall bearish outlook. There the common currency is going to meet the 38.2% Fibonacci retracement of the May-Oct down-move reinforced by the falling trend-line drawn through May 8 and Jul 1 peaks.

GBP/USD

Daily Chart



100-day SMA 200-day SMA

2014 Q3 Summary

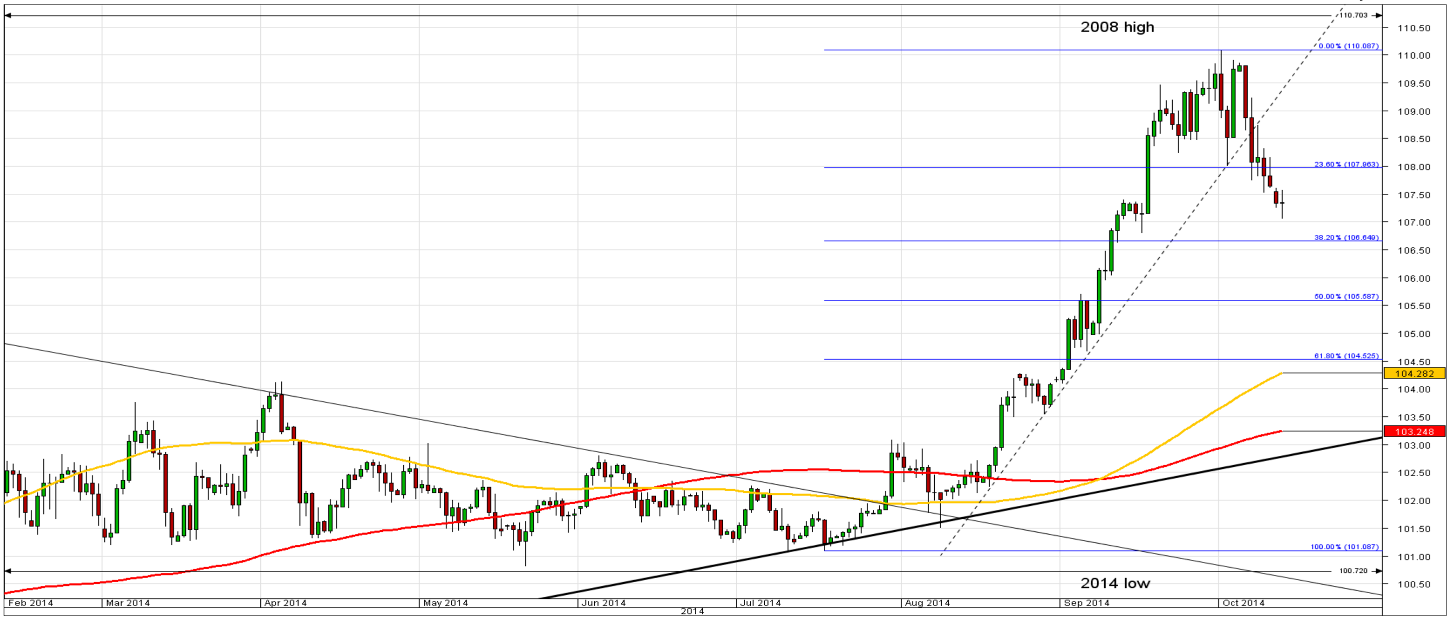
Although the British Pound appeared to be in a good position to keep appreciating beyond 1.72, the third quarter turned out to be disastrous for the currency – it lost more than six and a half per cent between July and September. The rising trend-line and 100-day SMA at 1.69 failed to provide buoyancy for GBP/USD, which in turn pierced through the 2012 high at 1.63 to find support only at 1.6050. The remainder of the quarter the Sterling was undergoing an upward correction. At some point the recovery amounted to as many as five figures and at that point the currency negated the losses made since Sep 3. But in the end the recovery was halted by the down-trend drawn through the peaks posted on Jul 15 and Sep 1.

2014 Q4 Outlook

Given that the market proved to be respectful of the three-month down-trend and then updated the lows, the outlook appears to be strongly bearish with respect to the Great Britain Pound. The new year-to-date low is now at 1.5950, which can potentially act as a floor for GBP/USD during the first month of the current quarter. However, the rebound from here is expected to be limited by the same down-trend that has been keeping the bears in full control of the market throughout Q3. Unless this downward-sloping line is breached, the bias in the medium term will be negative, with one of the important objectives being 1.5850 – the lower trading range of the pair back in the last months of 2013. Concerning the longer-term perspectives, GBP/USD's main target remains 1.48 – the lowest level seen in 2013. Meanwhile, even a pullback up to 1.6450/00 (38.2% Fibonacci of Jul-Oct down-wave) is highly unlikely to alter the context. However, the price rising above this resistance may expose the key area at 1.67, created by the 61.8% retracement apart from the 100 and 200-day SMAs.

USD/JPY

Daily Chart



100-day SMA 200-day SMA

2014 Q3 Summary

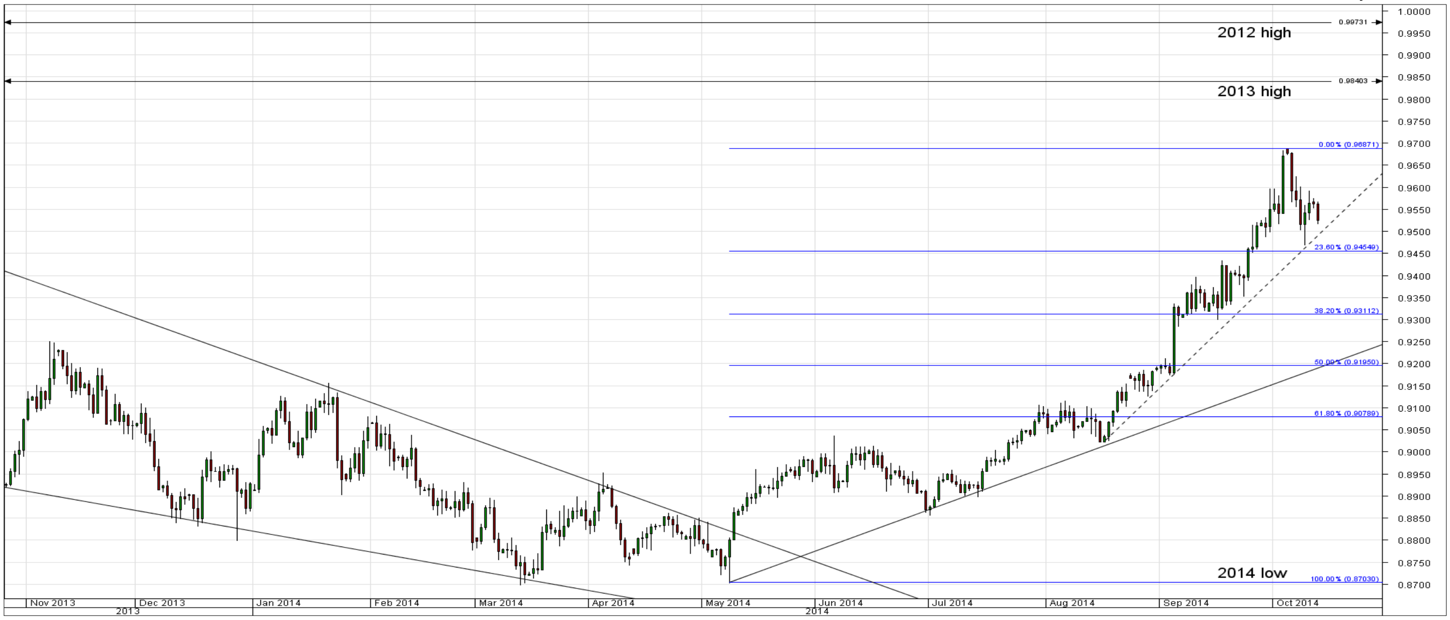
USD/JPY’s inability to regain the bullish momentum during the first half of 2014 called into question resumption of the advancement observed in Q4 of 2013. The pair was constantly failing to cross the trend-line going through the peaks charted on Jan 2 and Jun 4. This resulted in USD/JPY forming a descending triangle, a break-out from which is usually expected to be to the downside. However, instead of dropping below the 2014 low at 100.70, which would mostly likely entail further depreciation of the Dollar against the Yen, the currency jumped over the resistance at 102. This allowed the Greenback to pursue a level of 110 without any significant resistance from the bears. And the key 2008 level has nearly been reached during the last days of September, as the currency pair was respecting two parallel trend-lines, but in the end it has broken out of the channel to the downside.

2014 Q4 Outlook

In the previous quarter we were sceptical of USD/JPY’s chances at surpassing the recent peaks – we did not expect the price to exceed 105.44; however, it is now a fact – the rate has risen up to 110. But there might not be immediate continuation of the advancement. First of all, USD/JPY has recently violated the two-month up-trend support line. The pair seems to be trapped between 110 (current 2014 high) and 108 (23.6% Fibonacci retracement of Jul-Sep up-move). Accordingly, a breach of either level will imply preservation of the tendency. In case the upper edge of the recently established range gets breached, the ceiling will move up 70 pips, namely to 110.70 (2008 high). If the latter resistance also fails to contain the appetite of the bulls, USD/JPY will have an opportunity to reach the 2007 Dec high at 114.70. On the other hand, if this scenario does not transpire because 108 gives in, we can expect a gradual sell-off to 103, from where the pair will try to negate the losses with the help of the 200-day SMA and 21-month up-trend.

USD/CHF

Daily Chart



100-day SMA 200-day SMA

2014 Q3 Summary

Following a break-out from the falling wedge pattern to the upside and a brief bearish correction to 0.89 the bulls were the only ones to run the show, as a result of which neither the Q1 high at 0.91 nor the resistance at 0.94 were able to halt USD/CHF from stepping into new territories. They did, however, leave a trace in the market. The resistance at 0.91 was particularly important, being that the sell-off from it revealed that the market is still respecting the up-trend that is stretching since the May low up to the Aug low. But there were no more confirmations of this line since (already almost two months).

2014 Q4 Outlook

Presently USD/CHF is trading above the accelerated up-trend, which has been staying intact since the mid-August. Consequently, we should expect a termination of the recent decline from 0.97 somewhere around 0.9450, where the trend-line merges with the 23.6% retracement of the May-Oct rally. And even if this level does not spur buying, there are plenty of supports guarding the bullish outlook. In case the pair falls beneath 0.9450, the rate will most likely keep sliding until it hits 0.92, where already another up-trend (connects Jul and Aug lows) is strengthened by the 100-day SMA and is seen as capable of preventing further debasement of the Buck against the Franc. Returning to the upside potential, the main target in the coming months is the 2013 high at 0.9840. Once it is reached, the focus should shift to the next major level at 0.9970, which is represented by the 2012 high followed by the 2010 Q4 high at 1.0070.

EUR/JPY

Daily Chart

100-day SMA 200-day SMA

2014 Q3 Summary

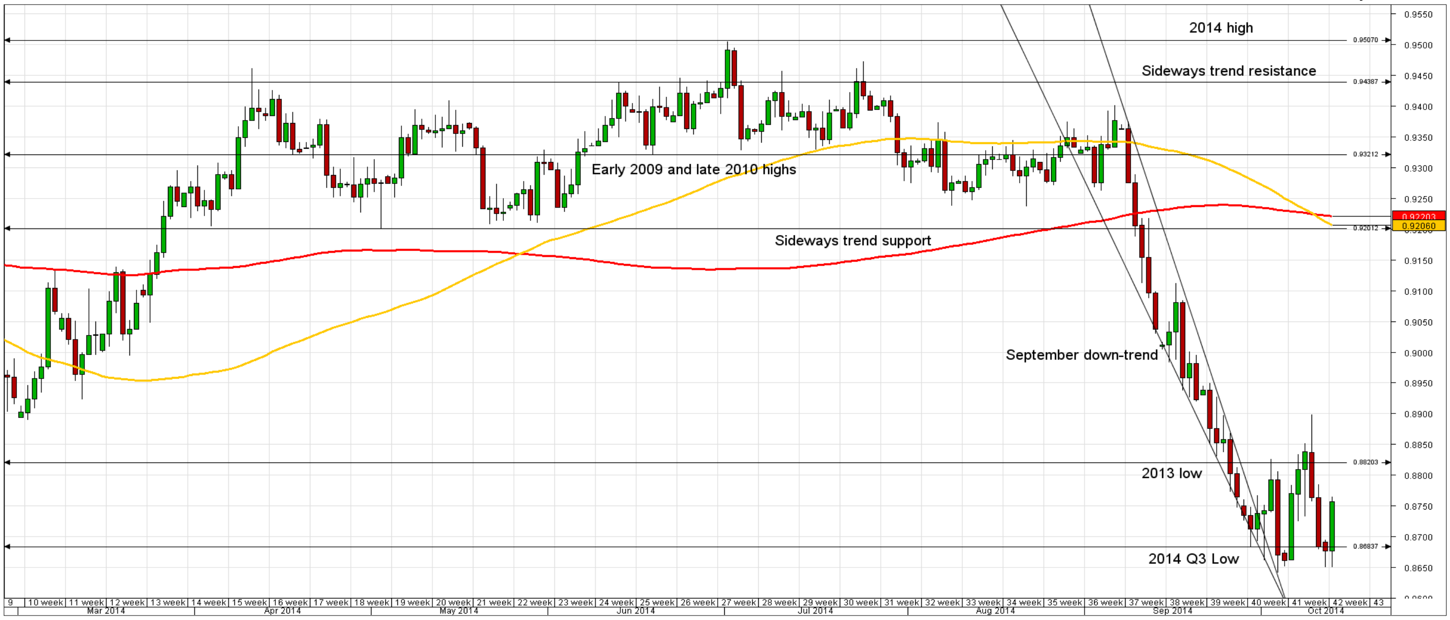
In the first part of the Q3 the EUR/JPY cross continued to trade in the bearish channel that started to form already at the beginning of March. However, at the beginning of September the pattern's upper trend-line was breached with a second attack, and from there the pair managed to approach the 141 level. Additionally, the currency pair breached the 100 and 200-day SMAs at 137.94/ 139.33, respectively. At the end of Q3 the Euro has dropped from its Q3 high (141.22) to hover around the major level at 139, which also is represented by 2009 highs.

2014 Q4 Outlook

After a failure to consolidate above the 141 level the pair has been on a down-trend, as of today (30th of September) the Euro is trading around the 138 mark against the Japanese Yen. Around this previously mentioned level there are also the 100-day SMA and monthly R1 at 137.94/93 that should help to halt the current pair's decline. Nonetheless, if in the short-term we do not expect the pair to fall significantly below the 137 level, then in a medium-term the 18-nation currency is likely to slide lower. To our mind, in the most bearish scenario the pair will decline below the major level 135; however, there definitely should be a period of consolidation around the 136 mark, as it has been a reliable support this year. Nonetheless, a more likely outcome is one where the major level at 135 remains intact, if the supports hold the pair above the level. As already stated previously we are sceptical on the pair's appreciation, as the Europe's shared currency has demonstrated very inconsistent and rather weak performance lately. In case the 136 level holds then the 138 mark becomes the target level for the year end.

AUD/USD

Daily Chart



100-day SMA 200-day SMA

2014 Q3 Summary

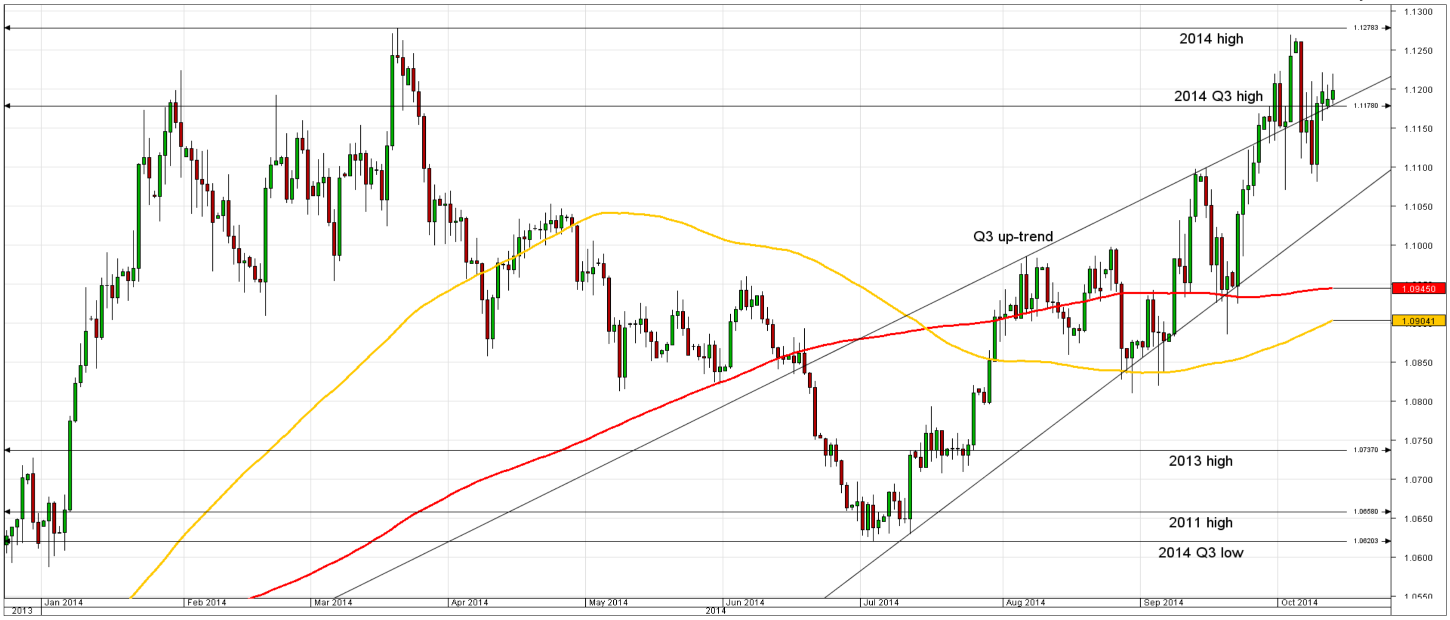
Similarly to EUR/JPY, the Australian Dollar continued to fluctuate in the trend that started at the beginning of Q2 against the U.S. counterpart. The pair has been declining sharply since the beginning of September, after the Aussie failed to consolidate above the 0.9350 level and the 100-day SMA around the same level. The strong bearish momentum has dragged the currency pair more than 600 pips lower, as it is trading slightly above the 0.87 mark for the time being. Moreover, AUD/USD is hovering significantly below the 100 and 200-day SMAs that are located above the 0.92 level.

2014 Q4 Outlook

In the fourth quarter of the year we expect the pair to reverse some of its recent losses. To our mind, AUD/USD has already reached its lowest trading level this year, which happened on January when the pair approached the 0.8660 mark. Even though currently, the pair is trading near the previously mentioned levels, the support level at 0.87 seems reliable and most likely will hold the pair's bears. Moreover, the pair's rebound above the 0.92 or even above the 0.91 level seems unrealistic for now, as the Aussie has almost completely lost its allure. Additionally, important level is around 0.88, as it was an important support and resistance level at the end of the year and at the beginning of this year. All in all, we anticipate the AUD/USD cross to trade around the 0.88/0.89 levels for most of the Q4; however, both bullish and bearish break-outs are possible. In the most bullish scenario we see the pair moving towards 0.90 level, while in the bearish one the pair will remain around current trading levels.

USD/CAD

Daily Chart



100-day SMA 200-day SMA

2014 Q3 Summary

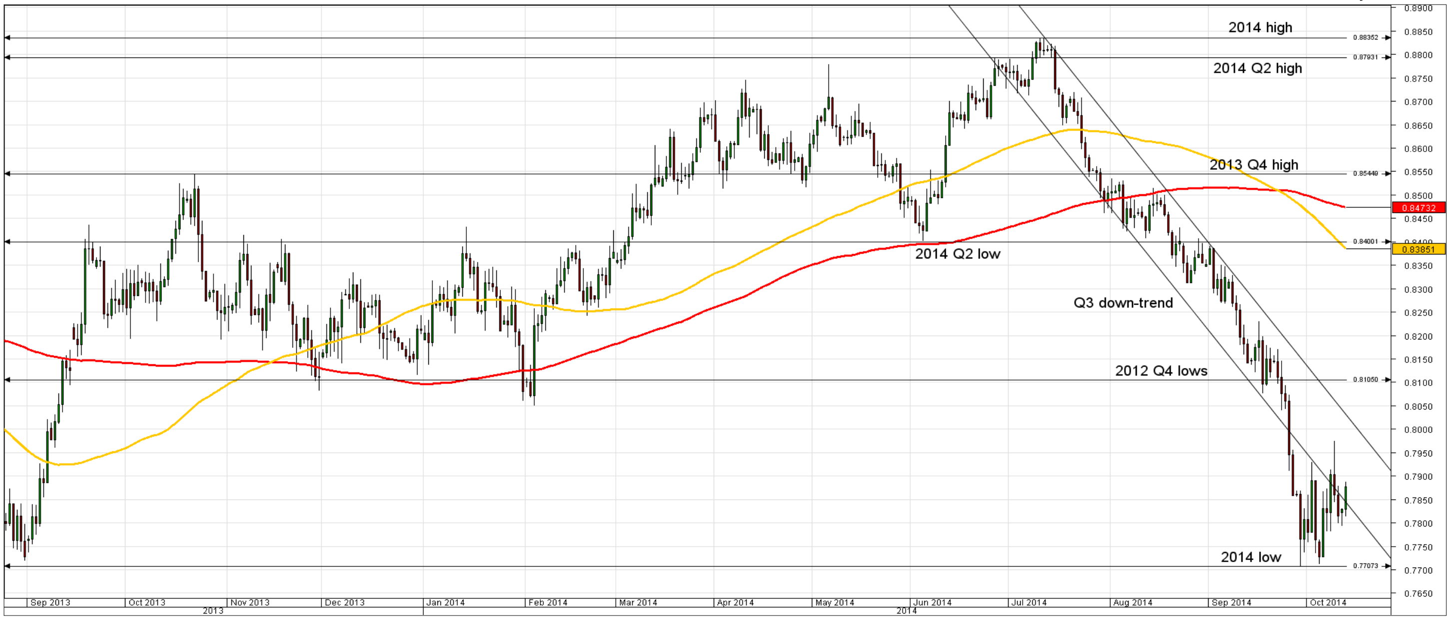
USD/CAD has been on an up-trend in the Q3, after the US Dollar underperformed against the Canadian peer in the second quarter of the year. Through the last three months the pair has recovered all of the Q2 losses and even managed to appreciate above the 1.11 level, which was not touched since March. Recently, the Greenback breached the rising wedge pattern to the up-side around the 1.1150 level, which certainly is pointing on the strongly bullish momentum.

2014 Q4 Outlook

After the strong performance the pair demonstrated in the Q3 it is unlikely that USD/CAD could climb higher in the last quarter of the year. We expect the U.S. Dollar losing some of its value against the Canadian peer; however, at the same time the pair should not fall significantly below the 1.10 mark through the period. At the first part of the Q4 the pair might slide towards the 1.11/1.1050 levels, since a correction has not occurred after the latest gains. Additionally, last year we saw a more or less stable up-trend, while this year's movements has been dictated by three trends already—sideways trend (Q1), down-trend (Q2), up-trend (Q3). Moreover, the 200-day SMA is hovering around the monthly S1 at 1.0946, making it the lowest possible level for the time being. On the other hand, in order to continue the bullish trend that we witnessed in the Q3, the pair has to find a support at the lower boundary of the Q3 up-trend. In case this level holds, there is a good chance of the pair rebounding towards 1.12 level once again.

NZD/USD

Daily Chart



100-day SMA 200-day SMA

2014 Q3 Summary

The New Zealand's Kiwi has lost all of its allure and its bets-performer title that it earned in the first part of the year. Now, the Q3 has been diametrically opposite, as the NZD/USD currency couple plummeted from this year's high at 0.8835, just a few pips below the pair's all-time high, to this year's low at 0.7707. Just in last two weeks the pair has lost more than 400 pips, making the Kiwi a clear worst-performer among the major currencies. Moreover, with these recent losses the pair's bears breached the down-trend, which was in effect for most of the Q3, to the down-side.

2014 Q4 Outlook

Despite the success earlier this year, the NZD/USD cross is very unlikely to approach these levels any time soon. However, probably we are going to see some reversal in the currently very bearish trend. In case the pair fails to breach the psychological level at 0.80 then a test of 2014 high at 0.7707 is possible. Given the current conditions, an up-move towards the previously mentioned 0.80 mark is not unrealistic, since the pair has lost a lot of its value recently, but certainly it will become more realistic after a period of consolidation at current levels. In the most bearish scenario, the pair could touch the 2011-2012 lows around the 0.75 mark, levels unseen since this period; however, that may happen only if the 2014 low does not hold the pressure from the pair's bears. Nonetheless, as the most likely scenario we see the NZD/USD currency pair's fluctuation in the range from 0.79 to 0.81 for the most of the time. And from time to time some dips and climbs below or above these levels will occur. If this is the case, there is a rather high possibility of rectangle pattern's formation.

Expert Commentary

Euro

Jonathan Webb
Head of FX Strategy
Jefferies Bache
UK

Lutz Karpowitz
Senior Currency Strategist
Commerzbank
Germany

What performance do you expect from the Euro versus its major counterparts during the fourth quarter of this year?

J.W.: Since the trend in the Euro is currently down and the Dollar benefits from the end of QE, continuing a strong growth in the US, we believe that the EUR/USD is probably the best way to play that. In addition to that, the EUR/GBP pair could be also considered appealing, as the Scottish referendum is out of the way.

L.K.: Our view for the Euro is rather negative due to the probability of the ECB action regarding the quantitative easing, which we do not expect to start this year. However, there is always a risk in waiting how all the measures that are already implemented are going to work out. Respectively, the continuously falling inflation pulls out an issue that the QE may come out earlier than expected.

We think it is mostly the combination of a policy divergence with the ECB easing policy, whilst the market starts to focus on higher rates both in the UK and US next year.

- Jonathan Webb

What will be the main drivers for the Euro during the fourth quarter of this year?

J.W.: We think it is mostly the combination of a policy divergence with the ECB easing policy, whilst the market starts to focus on higher rates both in the UK and US next year.

L.K.: The main driver for the Euro is still the Quantitative Easing itself. In addition to that, a rather weak Euro zone data plays not a really supportive role for the currency.

What are your forecasts for the EUR/USD, EUR/AUD and the EUR/GBP for the fourth quarter of this year?

J.W.: We think the EUR/USD will be trading around 1.23 and the EUR/GBP at 0.75 by the end of this year.

L.K.: We expect the EUR/USD to trade at 1.30 by the end of 2014. As for the EUR/AUD, we anticipate the currency pair to reach 1.43 levels. Finally, regarding the EUR/GBP our target is 0.78 for the Q4.

Pound Sterling

What performance do you expect from the British Pound versus its major counterparts during the fourth quarter of this year?

During the Q4 of this year we expect the Sterling to gain ground against the Euro, and for the EUR/GBP exchange rate to continue to fall for the end of 2014. Furthermore, we do not anticipate the Pound to appreciate versus the Dollar.

__Alvin Tan__
__FX Strategist__
__BNP Paribas__
__UK__

What will be the main drivers for the Pound during the fourth quarter of this year?

I believe the main driver in currency market is the monetary policy expectations and the divergence of such. We expect the ECB to continue on its easing measures versus the BoE, and since the last one is getting rapid to increase the interest rates early next year, we can see the Sterling outperforming the Euro in to the year's end.

However, if we look at the Pound against the US Dollar we come across with situation when the Federal Reserve is preparing the ground to raise rates as well in the fourth half of the next year. As such, we do not expect the Sterling to gain versus the Greenback.

__If we look at the Pound against the US Dollar we come across with situation when the Federal Reserve is preparing the ground to raise rates as well in the fourth half of the next year.__

__- Alvin Tan__

What are your forecasts for the EUR/GBP and GBP/USD for the fourth quarter of this year?

We believe the EUR/GBP will end the year at 70.7 levels, whereas we expect to see the GBP/USD to be at around 1.64.

US Dollar

Douglas C Bohrtwick
Managing Director/ Head:FX
Chapdelaine & Co
US

What performance do you expect from the US Dollar versus its major counterparts during Q4?

To my mind, we are going to witness the continuous strength of the Greenback against the Japanese Yen and the Euro zone currency, as well as the Sterling. The reason behind this is because the US is currently discussing a significant decrease in their balance sheet and increasing rates. Moreover, the Japanese officials are talking about implementing more measures in terms of quantitative easing, whereas the ECB is discussing the opportunity of increasing its balance sheet. Therefore, as long as that is the case – the US Dollar should be relatively bid versus its peers.

What will be the major drivers for the Greenback during the fourth quarter of this year?

One of the most important headwinds for the USD is going to be the relative size of balance sheets that the central banks are holding. As the central banks decrease their balance sheets, that indicates a positive signal for the currency. Speaking more broadly, the US central bank is decreasing its balance sheet by raising rates and, at the same time, the ECB is increasing its balance sheet through asset-backed purchases, whereas the BoJ is meeting the same goal by implementing more measures of quantitative easing. Taking all this into account the US Dollar will rally.

> ***One of the most important headwinds for the USD is going to be the relative size of balance sheets that the central banks are holding.***
>
> ***- Douglas C Bohrtwick***

What are your forecasts for the EUR/USD and USD/JPY for the Q4 2014?

Talking about the long-term forecast for the EUR/USD, I think it could go down to 1.25 by the end of the year. And if we look at the USD/JPY currency pair, to my mind the Greenback might go up to 115.

Japanese Yen

Esther Maria Reichelt
FX Strategist
Commerzbank
Germany

What performance do you expect from the Yen versus its major counterparts during the Q4?

Recently, we can see that the USD/JPY has moved upwards quite considerably, although from a fundamental perspective nothing has changed on side of the Yen. I suppose a large part of the movement has been due to the U.S. Dollar recent strength. Moreover, the Bank of Japan remains quite optimistic in respect of the economic recovery path in Japan, and there is no immediate reason for the further excessive weakness of the Yen, as long as the BoJ does not change its view. The EUR/JPY will be dominated by the Euro's side. We do not expect that the ECB QE speculation will increase further this year, we believe that the EUR/JPY should only decrease quite gradually.

What will be the main drivers for the Yen during the fourth quarter of this year?

The development of inflation on the JPY side could lead to a fast change in the BoJ's view. In case inflation adjusted for tax effects drops below 1%, we assume that the Bank of Japan could quite fast ease its monetary policy even further. Moreover, a sharp deterioration in real economic indicators, such as retail sales and industrial production, could lead to increasing speculations on further easing – and would weaken the Yen. If the Japanese economy does not show clear signs of recovery in Q3, the pressure on the BoJ for further measures will increase.

> ***The Bank of Japan remains quite optimistic in respect of the economic recovery path in Japan, and there is no immediate reason for the further excessive weakness of the Yen, as long as the BoJ does not change its view.***
>
> ***- Jonathan Cavenagh***

What are your forecasts for the USD/JPY and EUR/JPY for the fourth quarter of this year?

We anticipate the USD/JPY to be at around 1.06 by the end of the year. And talking about the EUR/JPY currency pair, we can see it rolling up to 1.38 levels.

Swiss Franc

Peter Frank
Global Head:G10&Asia FX Strategy
Banco Bilbao Vizcaya Argentina SA
UK

What performance do you expect from the Swiss Franc versus its major counterparts during the fourth quarter of this year?

We expect to see the CHF rising higher. Hence, we forecast it to trade between 1.22 and 1.23 from December till January. However, since the German growth cycle obviously faded as well as the Italian data faced a recession, the SNB is certainly aware that in case of further rate cuts in the Kiwi, there will be a lot of pressure put on the Swiss Franc.

What will be the main drivers for the Swiss Franc during the fourth quarter of this year?

We believe that there are two competing teams going on for the Swissie. First of all, there is a pressure to drag the currency higher against the Euro. This is obviously coming from the bad news flow and the weakness of the data in the Eurozone, together with the negative interest rates, further rate cuts by the ECB and the threat of Kiwi, pushing EUR/CHF downwards. On the other side, the Central Bank might step up with a new significant action if the 1.20 floor is broken. They repeated the concept several times after the quarterly meeting, increasing their rhetoric concerning this slide below the floor. The situation was less of an issue for five months ago, when the Eurozone growth rate looked to be on the up with some strong pulls in Germany and improvements in Italy. As for the Swiss economy, it had been weakened a little bit, but holding reasonably well. There are some fears on the export market which is fading, but generally, we are optimistic about the strength of the Swiss economy going forward.

> ***There are some fears on the export market which is fading, but generally, we are optimistic about the strength of the Swiss economy going forward.***
>
> ***- Peter Frank***

What are your forecasts for the USD/CHF, EUR/CHF for the fourth quarter of this year?

We are quite bullish on the Dollar in general; hence, we anticipate the USD/CHF pair to trade between 0.97 and 1.01 by the peak in March, above 0.9750 in early December. Considering the EUR/CHF pair, we are already near the weakest part of the EU economic cycle. If that is matched with more aggressive intervention by the SNB, we see 1.22-1.23 been reached for the particular pair.

Trade Pattern Ideas

USD/NOK

Monthly Chart

200-month SMA

USD/NOK

Double Bottom

Despite positive signals from technical studies, market sentiment is overwhelmingly bearish: almost 73% of traders forecast depreciation of the pair in the foreseeable future.

The pair started forming the double bottom pattern in October 2000, when the all-time high at 9.6626 was reached. Since then the U.S. Dollar lost more than 47000 pips to hit the lowest point in its history at 4.9419 in April 2008. During past five years the pair has been trading sideways, just between the upper trend-line and mentioned all-time lowest point. If the pair manages to confirm the pattern, crossing the upper boundary at major level of 7.3175, we can expect a considerable upward movement to take place. This scenario is suggested by technical indicators, as they point to the north on all time-frames. Long traders could focus on monthly R3 at 6.4709, 200-month simple moving average at 6.7675, major level at 7.00, pattern's resistance at 7.3175 and major level at 8.00.

Despite positive signals from technical studies, market sentiment is overwhelmingly bearish: almost 73% of traders forecast depreciation of the pair in the foreseeable future. Moreover, at least 86% of all pending orders on the currency pair are set to go short. It shows negative attitude towards the pair among market participants, meaning that it can go lower in the nearest future and even cross the all-time low. Besides this long-term level, short traders should focus on upper Bollinger band at 6.3967, monthly R2 at 6.3890, monthly R1 at 6.2948, monthly pivot point and S1 at 6.2129 and 6.1187, middle Bollinger band/monthly S2/major level at 6.0558/6.0368/6.00, monthly S3/100-month SMA at 5.9426/5.9248, 50-month SMA at 5.8516 and lower Bollinger band at 5.7149.

USD/TRY

Weekly Chart

200-week SMA

USD/TRY

Channel Up

Long-term technical indicators support the present move, as they give clear bullish signals, while pending orders in 1000-pips range are set to acquire the U.S. Dollar in more than 72% of all deals.

The pair has been moving in a distinct uptrend since last quarter of 2010, as it managed to gain more than 8700 pips for the time being. At the moment it is trading at the 2.2570 level, just below the monthly R3 resistance line. The pair was in decline since January, but was able to gain some upward momentum even before reaching the lower trend-line and is now heading North. Long-term technical indicators support the present move, as they give clear bullish signals, while pending orders in 1000-pips range are set to acquire the U.S. Dollar in more than 72% of all deals. Long traders should pay attention to monthly R2 at 2.2582, upper Bollinger band at 2.2614, weekly R2 at 2.2669, weekly R3 at 2.2933, as well as major level at 2.30.

On the other hand, market sentiment is mixed for the time being, as bullish and bearish positions are divided as 49% to 51%, respectively. Alongside, daily and weekly technical indicators send neutral signals, meaning that we could see a bounce back from current trading levels and a subsequent sideways movement for some time in the future. Short traders could focus on weekly R1 at 2.2512, weekly PP/monthly R2 at 2.2248/37, weekly S1/major level at 2.2091/00, monthly R1 at 2.1927, weekly S2 at 2.1827, weekly S3/middle Bollinger band at 2.1670/53, monthly pivot point at 2.1581, 50-week SMA at 2.1368, monthly S1 at 2.1271, major level/monthly S2 at 2.10/2.0926, lower Bollinger band at 2.0693 and monthly S3 at 2.0616.

CAD/HKD

Weekly Chart

200-week SMA

CAD/HKD

Broadening Falling Wedge

Pending orders are decisively speaking in favour of pair's increase, as all of them are set to buy the Canadian Dollar in 1000-pips trading range.

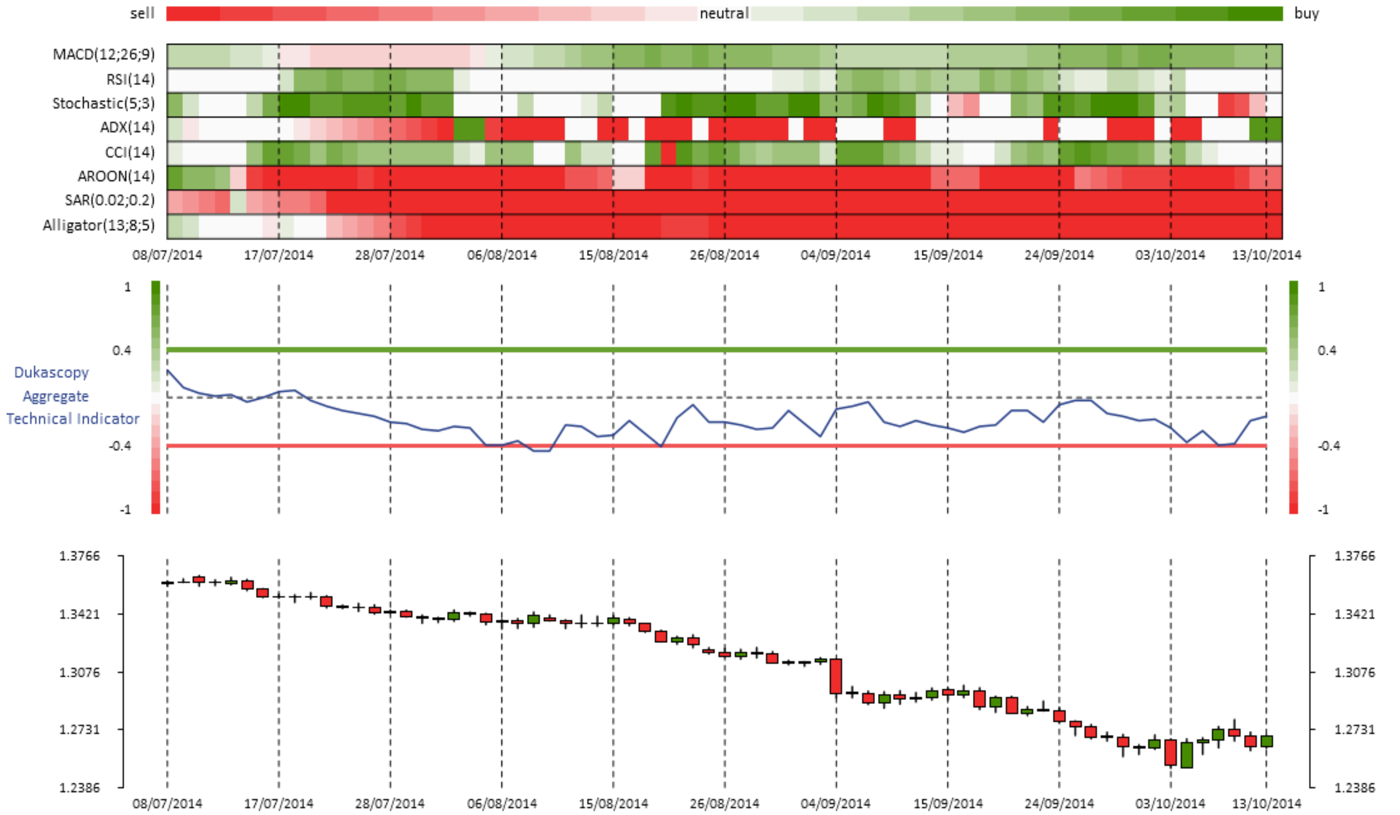
The pair has been gradually moving down since the second quarter of previous year, as it formed an unusual broadening falling wedge pattern, meaning that trading range is expanding over the time. The present move is taking place to the south, as the Loonie has recently bounced from the upper-boundary of the pattern. Present market sentiment is strongly negative, being that more than 71% of all opened positions on this currency cross are short at the moment. In addition to that, technical indicators on daily and monthly time frames are sending bearish signals and the majority of significant levels are located above the current trading level. Short traders should focus on lower Bollinger band at 6.9481, monthly S3 at 6.9371, weekly S2 at 6.9249, major level at 6.90 and weekly S3 at 6.8663.

At the same time, pending orders are decisively speaking in favour of pair's increase, as all of them are set to buy the Canadian Dollar in 1000-pips trading range. Alongside, mid-term technical studies are neutral, meaning that we can expect some sideways movement to take place. Long traders, in turn, should pay attention to monthly S2 at 6.9923, major level/weekly S1 at 7.0000/28, monthly S1/weekly pivot point at 7.0588/614, major level/middle Bollinger band at 7.1000/28, monthly pivot point at 7.1140, weekly R1 at 7.1393, 50-week SMA at 7.1502, monthly R1 at 7.1805, weekly R2/major level/pattern's resistance at 7.1979/7.20/7.2064, monthly R2 at 7.2357, upper Bollinger band at 7.2579, weekly R3 at 7.2758, major level/monthly R3 at 7.3000/22 and 100-week SMA at 7.3820.

Aggregate Technical Indicator

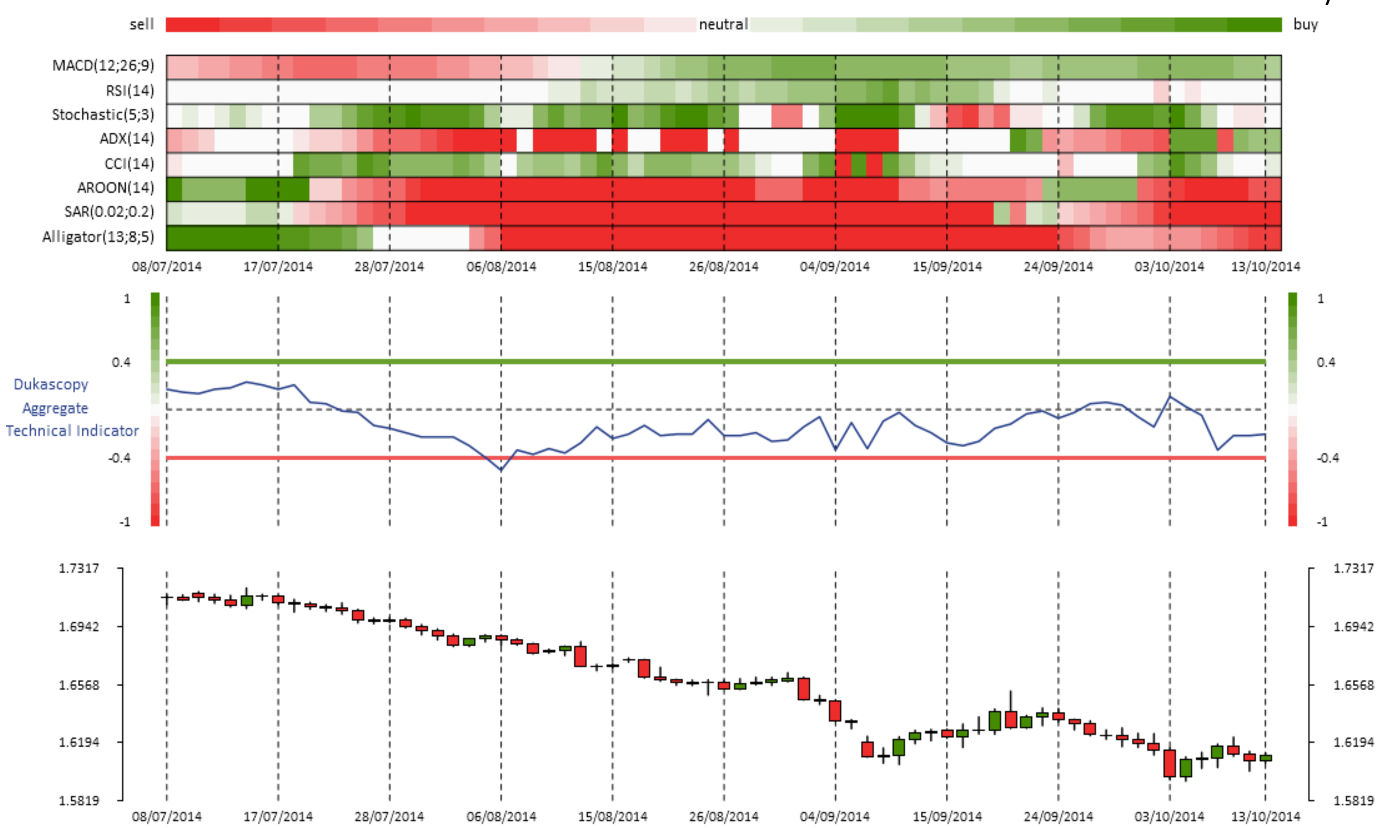
EUR/USD

Daily chart



GBP/USD

Daily chart

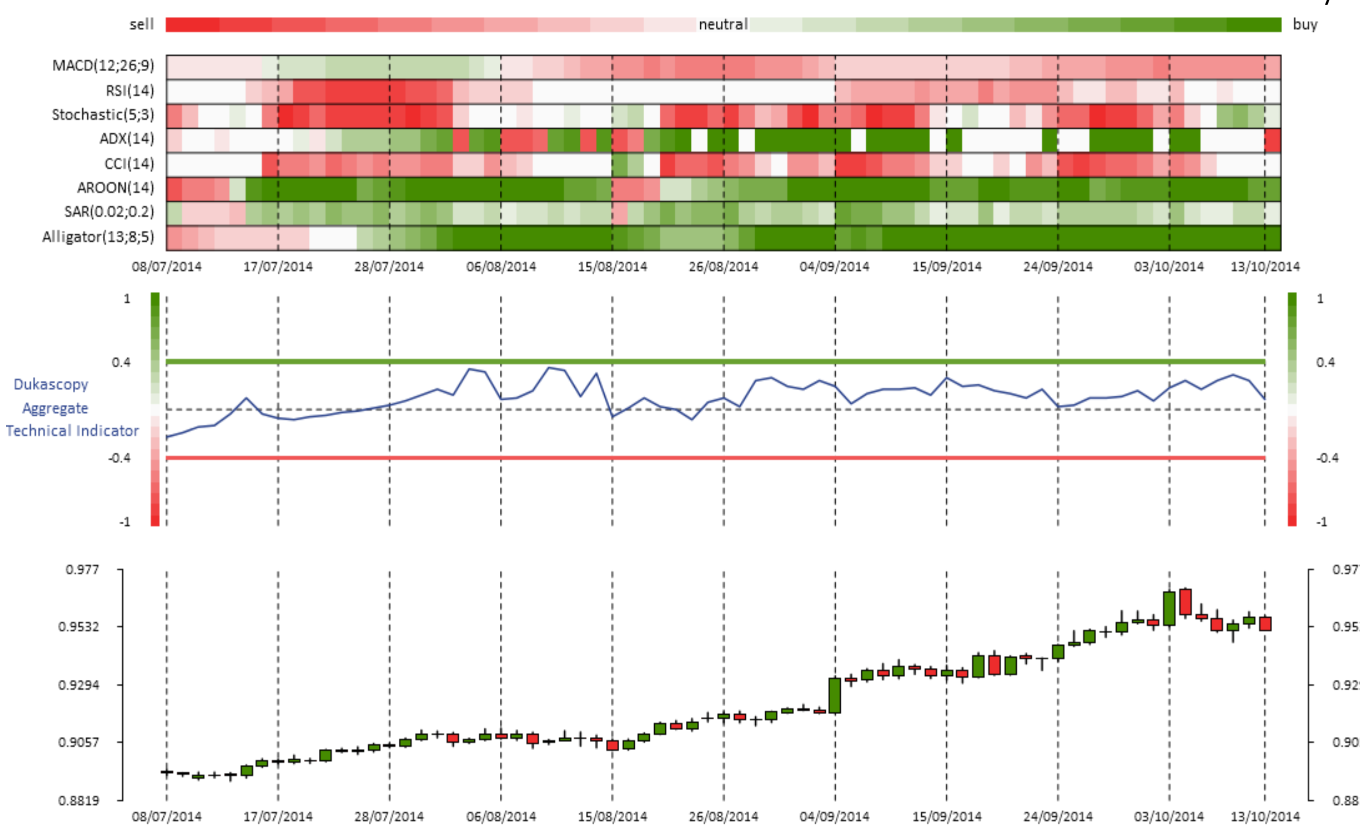


USD/JPY

Daily chart

USD/CHF

Daily chart



EUR/JPY

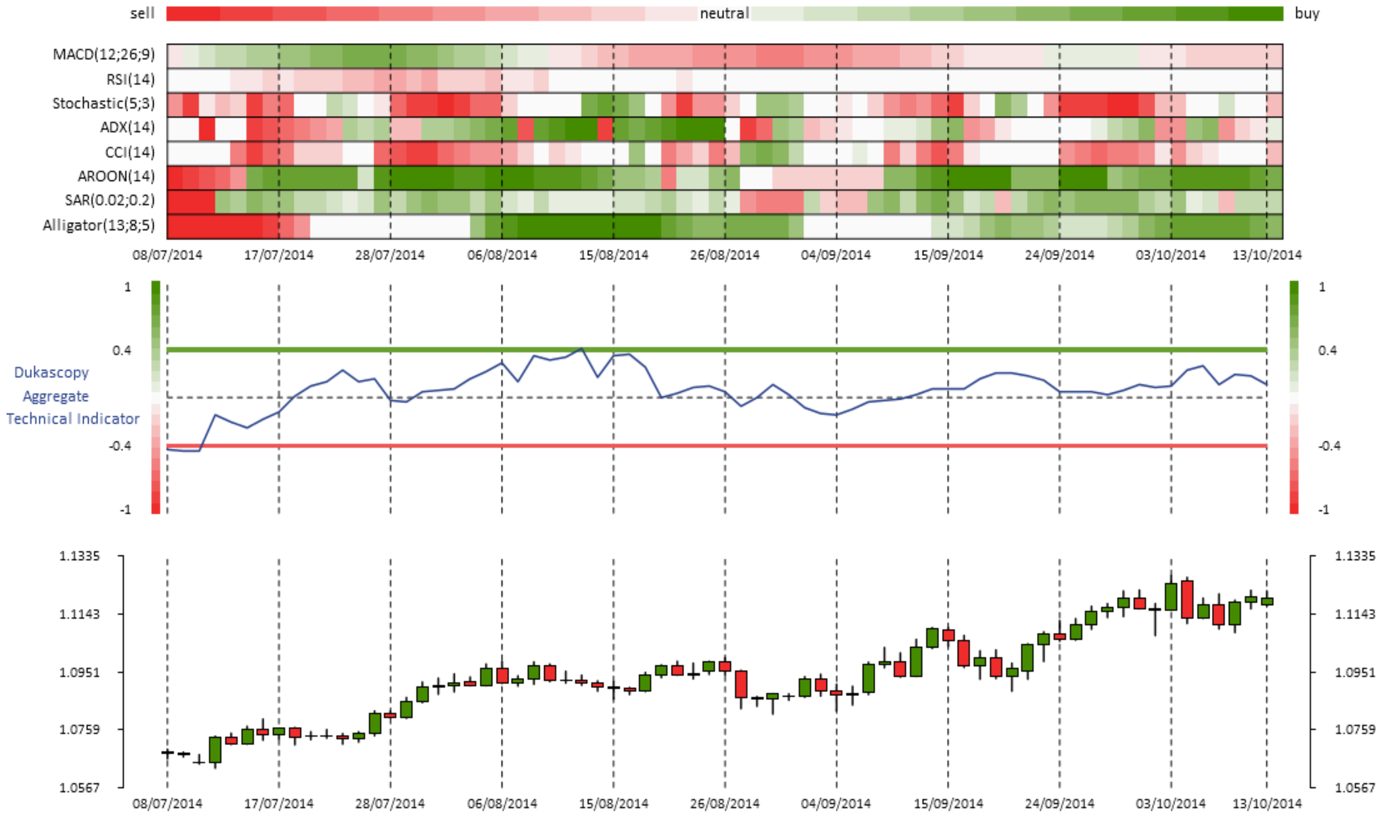
Daily chart

AUD/USD

Daily chart

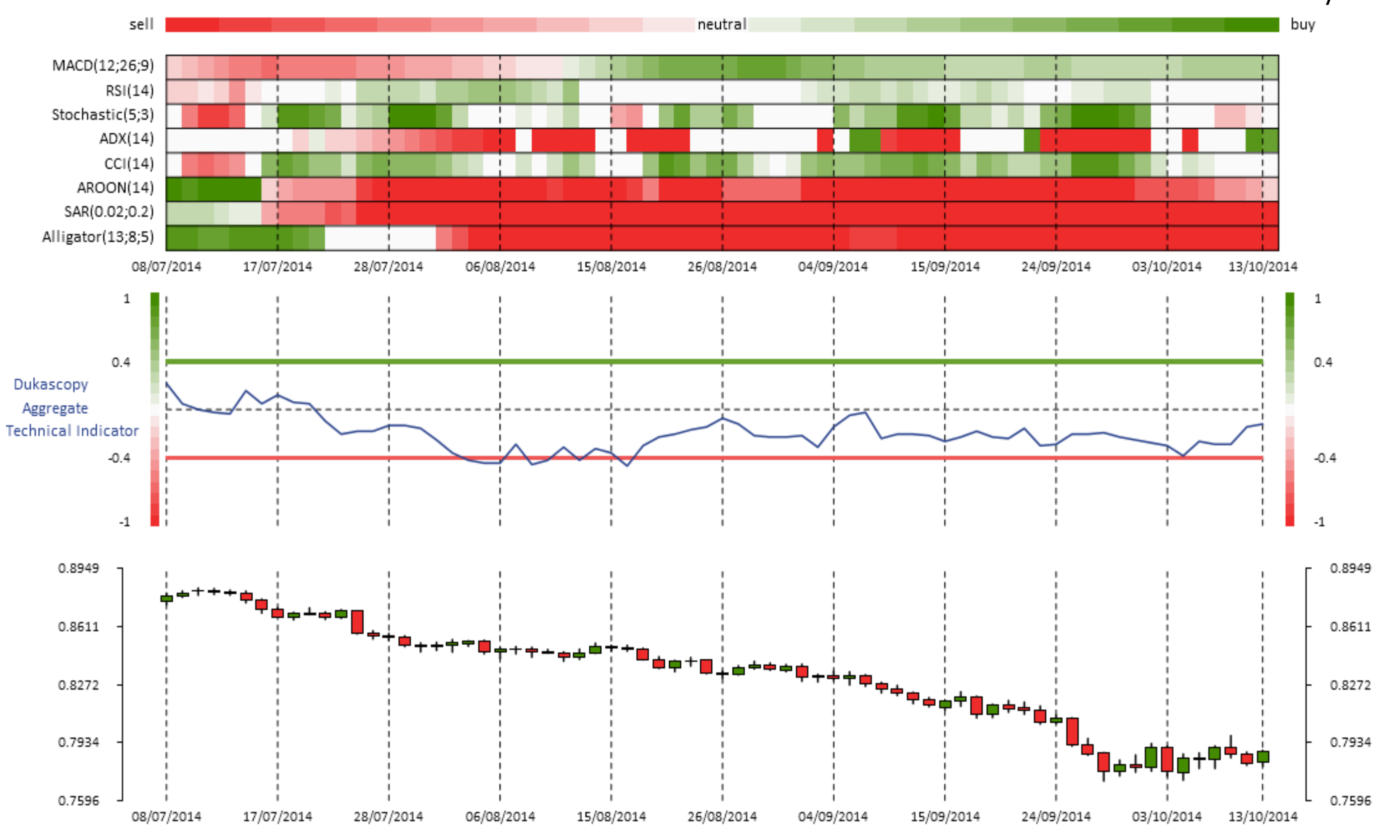
USD/CAD

Daily chart



NZD/USD

Daily chart



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