DUKASCOPY
Swiss Forex Bank & Marketplace

QUARTERLY REPORT

FX

Q3, 2015

AGGREGATE TECHNICAL INDICATOR

FUNDAMENTAL ANALYSIS

TECHNICAL ANALYSIS

TRADE PATTERN IDEAS

COMMUNITY FORECASTS

EXPERT COMMENTARY

"USD/JPY outlook remains moderately positive. Long traders are likely to target the 127-130 area."

Maksims Gesins, economist at Dukascopy Bank SA

Finding a silver lining throughout the previous quarter proved to be a difficult task. Nevertheless, the risky currencies have performed relatively well compared to their safer counterparts since the previous report. Three months ago, there were good reasons to be hopeful, but in the end it turned out that there was too much complacency in the market and the world sighed in relief a little too soon. Back in April 'Grexit' was only a hypothetical event, a word used to scare countries who misbehaved and were reluctant to implement structural reforms, but just a few days ago one less country using the Euro was about to become a reality.

Everyone is likely to agree that the problem itself is relatively small compared to the Euro zone as a whole, but it does not take much to deal a lot of damage to the monetary bloc. Convulsions throughout the periphery in 2012 proved the contagion risks are more than just significant, and, despite a number of mechanisms implemented by the ECB since then, the threat still lingers.

It is important to understand that the monetary bloc is not a race. It is not about winning. It is about getting to the finish line together, and this time around we failed to see determination of the European leaders to stick to this principle, as they do not allow those who cannot keep up the pace to stay. Perhaps it is not in the long-term interest of the bloc to leave the wounded behind.

There is no doubt that Greece was mismanaged by the previous governments, but it mostly shows that the Euro zone has a lot of work to do in bringing the countries closer together through better monitoring and guiding. The recent events have also forced us to rethink statements such as 'whatever it takes'. Mario Draghi and many other officials were ready to accept Greece exiting the Euro zone, and this a strong signal for the other countries that no concessions will be made and no kind of blackmail will work.

The past six months leave us with a lot to think about. Prospects of the long-anticipated rate hike in the United States later this year coupled with the struggle of Greece to remain in the Euro area are unlikely to let the markets relax for a second. As September is getting closer, anxiety will be building up among the market participants, who will be closely scrutinizing every single gesture, every single sigh of Fed Chair Janet Yellen. Yet, misfortunes never come alone. The Chinese economy's performance will dictate its rules over the course of coming months, particularly after the recent stock rout. Thus, make sure you are on the alert.

Trade thoughtfully and take care,

Dukascopy Research Team

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Fundamental Analysis

Euro zone

After the ECB had exhausted most other options to revive growth in the Euro area, it is pressing ahead with a full-blown QE launched in March. Mario Draghi, the ECB President, said there were signs QE supported the Euro zone economic recovery. Although ECB expects the economy to strengthen, it does not plan to curb or curtail its money-printing scheme. On the contrary, stimulus measures will remain in place "as long as needed" until the ECB is confident inflation heads towards the targeted level.

The Euro zone economic output rose 0.4% in the first quarter, faster than both the US and UK for the first time since the first quarter of 2011. The economy grew an annual 1.6%. For the first time since the first half of 2010, all four of the Euro zone's biggest economies recorded growth. Faster and more evenly spread growth will fuel hopes that 2015 could mark a turning point in the Euro zone's efforts to recover from the debt crisis, supported by an extraordinary mix of stimulus measures, a considerably weaker Euro, and lower oil prices. Nevertheless, policy makers remain concerned over the strength of recovery.

Inflation in the currency bloc returned firmly to the green territory, easing fears the Euro zone is set for a prolonged Japan-style era of deflation. Consumer prices climbed an annualized 0.3% in May, with energy prices becoming less of a drag. More surprisingly, core inflation soared to 0.9%, the fastest rate since August 2014. Despite some relief, the headline inflation has remained in what the ECB calls the 'danger zone', below 1% since October 2013, that is, for 20 straight months. The ECB revised its inflation outlook, with consumer prices expected to climb 0.3%, 1.5% and 1.8% in 2015, 2016 and 2017, respectively. The gauge is seen staying low in the months ahead and accelerate its growth later in the year. Still, inflation is predicted to remain well below the central bank's target – close to, but below 2%. Meanwhile, the GDP growth projections remained virtually intact with the exception of 2017, for which the bank revised its outlook down by one notch. It said it expected increase in GDP by 1.5%, 1.9% and 2% in 2015, 2016 and 2017, respectively.

Cash-deprived Greece remains the biggest headache to European leaders in the short-term. After Greek voters supported Alexis Tsipras' government by saying "no" to more austerity in exchange for a new round of bailout funding from its international creditors, the question that bothers market participants is—whether Greece will manage to stay within the currency bloc.

My wish is that a 'Grexit' should be avoided.

- Jean-Claude Juncker, European Commission President

USA

Although the US economy's growth pace was lackluster at start of the year, analysts are predicting strong expansion during next quarters as consumer spending and employment are likely to pick up during the year. The IMF forecast the US economy to grow 3.1% in 2015, despite the fact that after the Great Recession economic growth in average did not exceed 2.2%.

Referring to an improving economy, the Fed signaled that it is on track to hike all-time low interest rates as early as September. Nevertheless, the rates are likely to rise more gradually than it was previously thought. While the economy heads for a sturdy growth this year, concerns remain over the recovery of the nation's labour market. Fed Chair Janet Yellen is looking for "more decisive evidence" that the labour market was healing and wages would grow beyond the current sluggish pace. Fed policy makers are looking for signs of firmer inflation before they start to hike interest rates. The central bank's preferred inflation gauge, the personal consumption expenditures price index, has remained below the Fed's 2% annual inflation target for three years.

Still, Fed policy makers remained divided on a timing of monetary policy move. An interest rate hike this year would miss the chance to support employment and inflation in the still fragile US economy, Narayana Kocherlakota said. Kocherlakota insisted that the Fed must be extremely patient with its monetary policy decision to ensure the labour market can regain the strength it enjoyed before the Great Recession. Vice Chairman of the Fed Stanley Fischer believes there is too much importance placed on the first hike of federal fund rate, and the process of returning back to the pre-crisis level will take some time. Since markets expect raising the rate in September, Fischer said it will be driven by data and not by date. The US central bank might push back the timing of the interest rate hike if slower-than-expected foreign growth affects the US economy. Fischer predicts the interest rate will range between 3.25% and 4% by 2017-2018.

The Fed revised its US economy's growth outlook, stating that GDP is poised to expand between 1.8% and 2.0% in 2015, compared to its previous forecast of between 2.3% and 2.7%. Policy makers expect the unemployment rate to be at 5.2% to 5.3% at the end of the year. With regards to inflation, the Fed projected a gradual rise to its 2% over the medium term. Despite a slightly gloomier forecasts, the Fed remains on track to lift interest rates once or twice over its four remaining monetary policy meetings this year.

> *I think the earliest window for a Fed rate increase will be December.*
>
> *- Brian Bethune, an economics professor at Fisk University*

Great Britain

BoE Monetary Policy Committee's nine members remained unequivocal to maintain the benchmark interest rate at all-time low of 0.5% and to keep the size of the central bank's bond portfolio at 375 billion pounds. With the inflation rate in negative territory, there is no immediate pressure on the central bank to begin policy tightening now, and markets expect a rate hike to come not earlier than mid-2016. BoE officials led by Governor Mark Carney said they see price-growth to resume towards the end of the year, fuelled by faster wage growth and a recovery in oil prices. Minutes of May's policy meeting showed the MPC expected annual inflation to accelerate "notably" towards the end of 2015 and return to its 2% goal by early 2017. British inflation turned positive again in May after sliding below zero in the preceding month for the first time in 55 years. Consumer prices rose 0.1% in May from a year earlier, following the 0.1% decline in April.

Central bankers predicted the UK economic growth to gain steam in the second quarter after a weak start to the year. The BoE estimated a quarterly growth in the three months through June to increase to 0.7%. Policy makers also expected slack in the economy is likely to fully eroded within a year, pointing to potential future price pressures that will spur policy tightening.

> *They [BoE officials] want to see some evidence that inflation is rising back toward target. We'll get that near the end of this year, start of next year.*
>
> *- George Buckley, an economist at Deutsche Bank AG*

Japan

Bank of Japan Governor Haruhiko Kuroda said the Japanese economy is now overcoming deflation, offering a more upbeat outlook for the nation's economy. Kuroda said that Japan is still half-way to hit the inflation target, underscoring it is too early to discuss exiting the central bank's QE programme. The BoJ saw no need for further easing now, but the central bank would not hesitate to adjust monetary policy if needed.

The BoJ lowered its growth and inflation forecasts. Japan's gross domestic product will rise 2.0% in the year to March 2016, while the inflation rate is seen at 0.8%. That compares with the previous estimate of 2.1% and 1.0%, respectively. The BoJ pushed back the timeline for reaching a 2.0% inflation goal to the first half of fiscal 2016, which starts from April till September next year. Three board members said the new timeframe was still too optimistic, suggesting that policy makers did not share a univocal view on the timing when cost of living in Japan will reach the targeted level.

Central bank's decision makers agreed that the risks to Japan's growth are balanced, but they warned that growth could slow temporarily due to a nationwide sales tax hike in the beginning of fiscal 2017. Official data showed the world's third largest economy expanded an annualized 3.9% in the first quarter.

Australia

After Australia's economy unexpectedly expanded 0.9% in the March quarter, RBA Governor Glenn Stevens said the surprisingly strong growth would unlikely to be repeated in the June quarter. Australia's economy expanded 2.3% in the first quarter from a year earlier, below its 30-year average of 3.3% and its projected potential of about 3%. Thus, the RBA said it would continue to monitor economic developments thoroughly to assess whether further monetary policy stimulus are needed, as economic growth and business investments remain weak. However, Stevens warned that the effectiveness of further monetary policy easing may be limited and that it could even be risky.

The RBA cut its official cash rate to an all-time low of 2% in May. The RBA said monetary policy should remain "accommodative" in the light of the current domestic and international economic environment. The central bank pointed to "output growth" as a key area of concern influencing monetary policy, saying it was expected to continue below trend until late 2016. It also underscored spare capacity in labour and product markets, as well as weak business investment. The central bank also reiterated the need for further currency depreciation to balance economic growth. The Australian Dollar has fallen more than 3% in the past month versus its US peer. Market participants are pricing in 15 basis points of rate cuts in the next 12 months, or less than a quarter-point reduction.

> *In such circumstances, monetary policy needs to be accommodative. Low interest rates are acting to support borrowing and spending.*
>
> *- Reserve Bank of Australia*

China

As the Chinese economy continued to remain unresponsive to Beijing's efforts to kick-start the growth rebound, the People's Bank of China moved again at the end of the second quarter. The central bank cut its benchmark interest rate and relaxed reserve requirements for some lenders. The decision was aimed at lowering borrowing costs and stabilizing growth in the world's second biggest economy. The central bank slashed its one-year benchmark lending rate by 25 basis points to 4.85%, the lowest rate in more than five years, and its one-year deposit rate by the same amount to 2%. The central bank has rarely trimmed both interest rates and the reserve-requirement ratio on the same day. The last time it did so was in October 2008, the height of the global financial crisis.

The PBoC began its monetary policy easing cycle in November, and some economists had predicted it would be forced to move again in the next few months. Nevertheless, most had expected the central bank would hold off until the second-quarter economic growth figures were released. Policy makers have refrained from letting the Chinese Yuan weaken this year, a move that would help support exports, as they encourage greater global use of the currency in an attempt to win reserve-currency status at the International Monetary Fund.

New Zealand

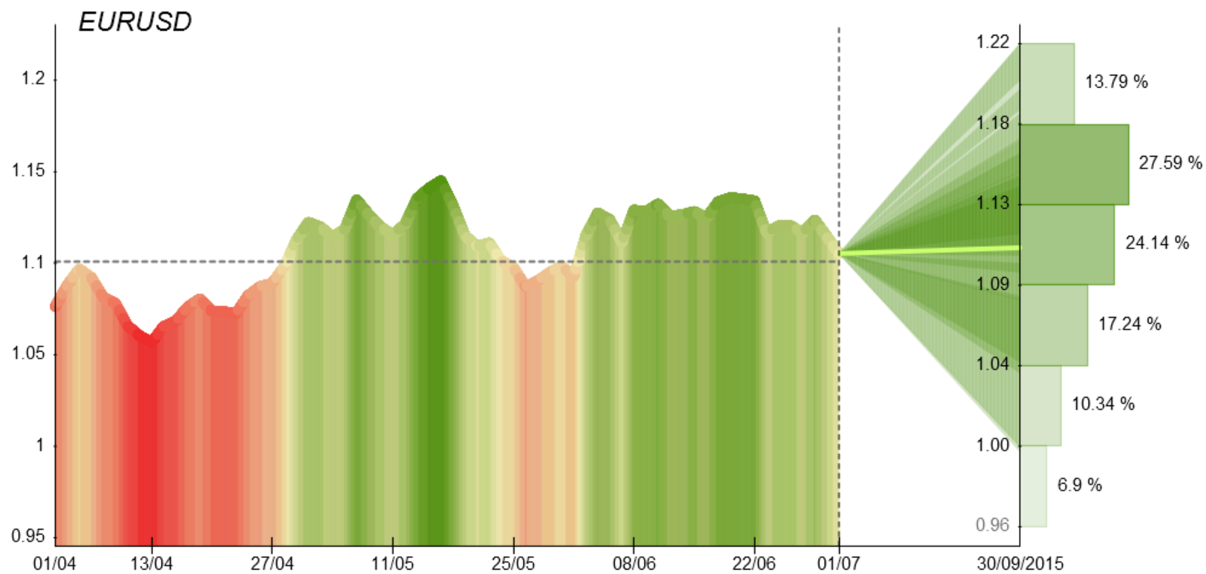
New Zealand's economy slowed considerably in the first quarter, growing by 0.2% and marking the lowest quarterly rate in two years. The annual growth rate slid to 2.6% from the previous quarter's 3.5%, which was the highest level in seven years. The data confirmed the economy is much weaker than most economists thought, but precipitous slowing in growth was caused largely by temporary factors.

As a result, the RBNZ lowered interest rates and signalled that more cuts are on the cards. The move was the first reduction in the rate since January 2011 and aimed to boost inflation, which has been pressured by sharply lower terms of trade and the economy's growing supply potential. The RBNZ cut its official cash rate by 25 basis points to 3.25%, in an attempt to push the nation's currency lower and fuel inflation from near zero to its 2% goal next year. In the first quarter inflation stood at 0.1%, well below the RBNZ's medium-term target band of 1-3%. Weak prices pressures have been driven mostly by tradables inflation, which has been suppressed by a strong New Zealand Dollar and low global inflation. Dairy prices have plummeted by more than 50% from a high in early 2014, considerably reducing dairy farmers' incomes and the terms of trade. The RBNZ projects that the decline in prices will deduct $7 billion from the economy this season, translating into a fall of around 3% of nominal GDP.

RBNZ Governor Graeme Wheeler said the New Zealand economy was growing at an annual rate of around 3%, propped up by low interest rates, high net migration and construction activity and the drop in fuel prices. However, he warned that the decrease in export commodity prices that began in mid-2014 appeared to be more devastating. Economists predict a 25-basis-point rate cut to 3% with opinion divided between July and September.

Community Forecasts

EUR/USD



During the second quarter we could observe a rapid growth, almost reaching a four-month high. That makes it the most traded currency pair during the April-July period. Nevertheless, at the beginning of the quarter there was a false breakout on April 13, another sign of a strong bearish environment. The Euro dropped to a one month low, as European Central Bank's bond buying stimulus programme continued to pressure the single currency. However, the major spikes were registered on May 14 and June 22, surging 500 and 300 pips, after data showed a strong decline in US jobless claims which was stimulated by falling producer prices. Furthermore, during the last three months the pair was influenced positively as European leaders were holding the last talks on Greece situation in order to prevent country from defaultinh after Athens submitted new proposals, breaking a deadlock with its creditors.

Despite the pair's volatility in recent months, Dukascopy Community Members are considering the pair as undervalued, suggesting EUR/USD will go higher by the next quarter. Furthermore, according to "megajorko" there is a possibility for reaching a target of 1.17 level but it will be highly difficult for the pair. Conversely, RacerX claims that, regardless of the outcome for Greece, the Euro is likely to weaken against the USD.

megajorko

"I see a possibility for reaching a target of 1.17 level but it will be very difficult. "

RacerX

"After the Greek issue deal, the ECB will be able to focus on its QE programme."

Bullish: 57.1% votes

Bearish: 42.9% votes

Technical Analysis

EUR/USD

Daily Chart

100-day SMA 200-day SMA

2015 Q2 Summary

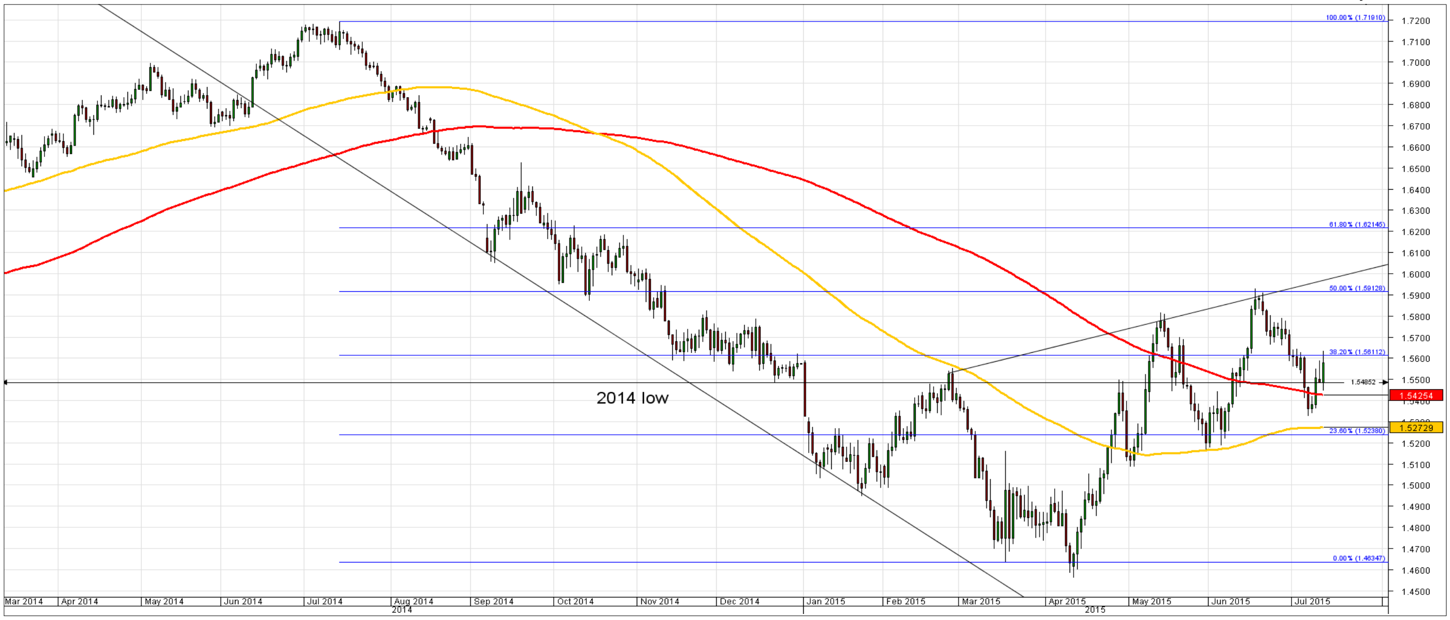
In the course of this year's second quarter, the 19-nation currency developed perfectly between two boundaries of the broadening falling wedge pattern. The pattern's support is represented by the 2015 low at 1.0462, which the pair hit in the middle of March. The downward-sloping resistance line has in turn been placed in the 1.12-1.14 area by the end of June. The quarter began on a positive note, as the Euro has already been rallying against the US Dollar for five consecutive weeks. However, the second week of April brought weakness to the market, and the pair bounced back to approach the yearly low again. Nevertheless, bulls gained enough momentum in order to send the Euro substantially upwards in the second part of April and the in following month. The Q2 high was touched at the 1.1462 mark, above both the 100-day SMA and 23.6% Fibonacci retracement of May 2014 – Mar 2015 downtrend. They decided to control the pair until the end of June to close the quarter at the 1.1110 level.

2015 Q3 Outlook

The amplitude of the sell-off from the 1.40 level back in March 2014 has been massive. There were strong projections that the Euro will eventually hit the parity against the Greenback. However, the recent events showed that the single currency is still capable of increasing in value, thus overshadowing the most-awaited negative outlook. It seems that the parity scenario will most likely depend on the pair's behaviour in July-September quarter. In case the cross decides to respect the upper trend-line of the pattern, currently at 1.13, then we will most probably see a considerable downward trend of the Euro in the nearest future. However, the Euro may rely on support from the 100-day SMA, which seems to be reversing its bearish trend at the moment.

GBP/USD

Daily Chart



100-day SMA 200-day SMA

2015 Q2 Summary

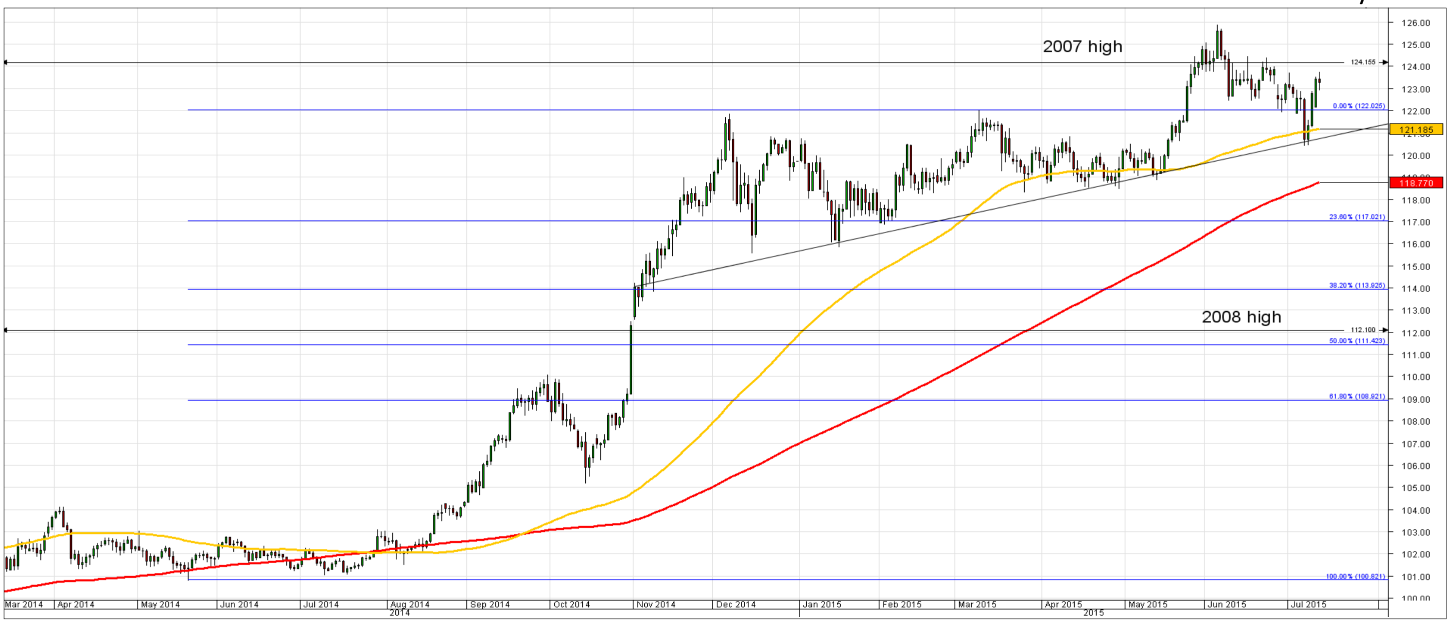
Against any expectations, the British Pound showed a surprising up-trend against the American Dollar during the three months through June, especially considering the heavy sell-off of the pair that has taken place since July of the previous year. A rebound of the Sterling started when GBP/USD bottomed out at the 1.4566 level during the second week of April. The following recovery was predominantly caused by the weakness of the Greenback, rather than strength of the Sterling, as the same movement was observed with the EUR/USD currency pair. The Cable has easily pierced through the bearish pattern's downtrend, at that time located around 1.5250, and decided to move further to the north first weeks of May. The pair experienced a short-term correction late the same month, prompted by the downward-sloping 200-day SMA. However, the bullish tendency managed to resume in the first month of summer and helped the pair to close the three-month period at the 1.5736 mark.

2015 Q3 Outlook

The pair's future is largely undecided at the current moment. Looking at the long-term historical development, the Cable has usually traded in the range between 1.68 and 1.45 from the year 2010, registering a number of spikes and declines. This range applies to the present trading situation of the Pound. Therefore, a rebound is likely to persist in the medium-term, covering the period of the third quarter of 2015. From a technical point of view, the pair is now limited by a 50% Fibonacci retracement of Jul 2014 – Mar 2015 downtrend at 1.5912. However, the main scenario includes a violation of this mark along with the next supply at 1.6215 (61.8% Fibonacci). Moreover, as the 100-day SMA is going to cross the 200-day SMA shortly, the probability of a further growth is increasing rapidly.

USD/JPY

Daily Chart



100-day SMA 200-day SMA

2015 Q2 Summary

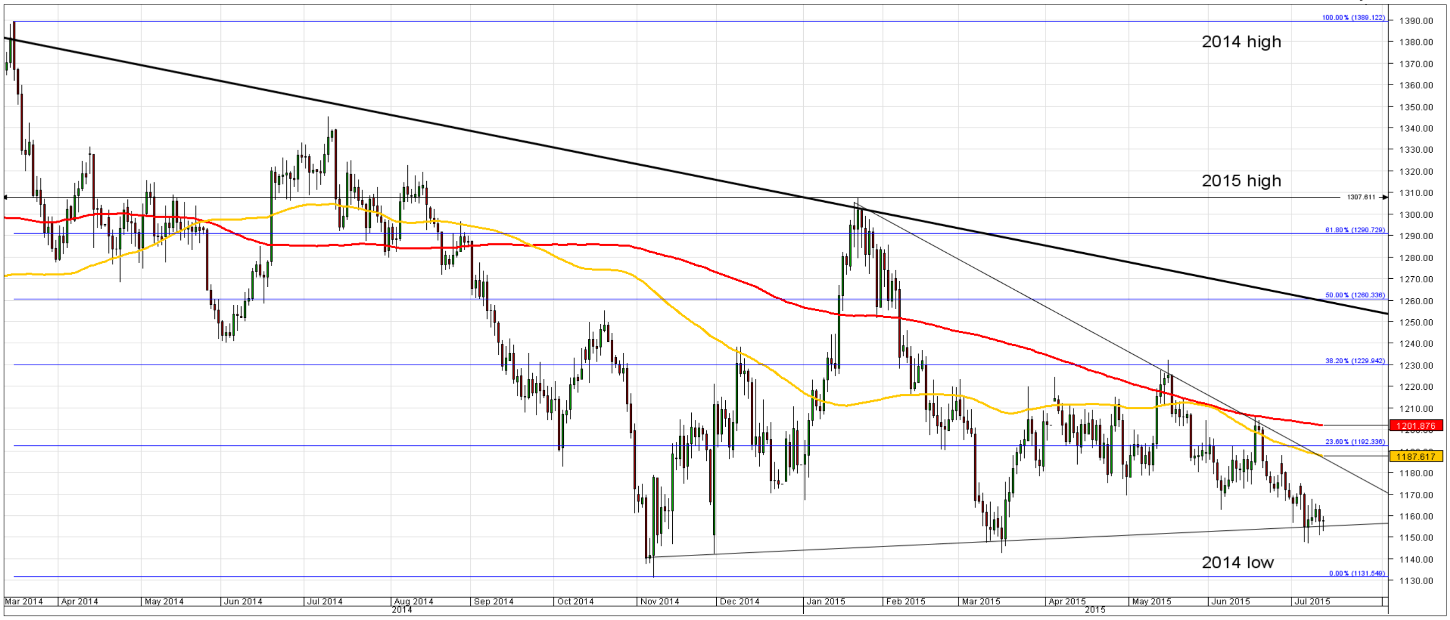
The US Dollar has accomplished its quarterly goal of breaching the main resistance of 122 versus the Japanese Yen, which is also the upper boundary of the ascending triangle pattern. However, the quarter itself began in the fairly neutral way for the USD/JPY currency pair. Following a horizontal trend of December-March, it continued to develop sideways until the middle of May. After that, it seems that the Buck received a significant bullish impetus from the 100-day SMA at 119.40, also realising that it was already trading somewhat below the pattern's support. The recovery was fast, as in just two weeks the cross covered seven figures to reach the quarterly high of 125.86, while penetrating the 2007 high on its way to the upside. However, the bullish sentiment eased slightly by the end of the month, and the June 30 closing level stood at the 122.52 mark.

2015 Q3 Outlook

Despite the growth the Dollar/Yen currency pair experienced in the second quarter of this year, the outlook for the next three months is not automatically changing in favour of bulls, even though the majority of factors are still pointing to the pair's advance. Among risks, the Greenback returned back below the 2007 high in June, which now seems to act as the main supply level for bullish market participants. On the contrary to that, the 200-day SMA, currently at 118.23, is quickly nearing the shorter-term 100-day SMA at 120.90. In case these lines cross each other, it will signal about the general positive long-term trend of the American currency against the Yen. Moreover, the pair is actively fuelled by the March high at 122. Therefore, the Q3 outlook remains moderately positive, while long traders are likely to target the 127-130 area, which failed to be reached back in April-June.

XAU/USD

Daily Chart



100-day SMA 200-day SMA

2015 Q2 Summary

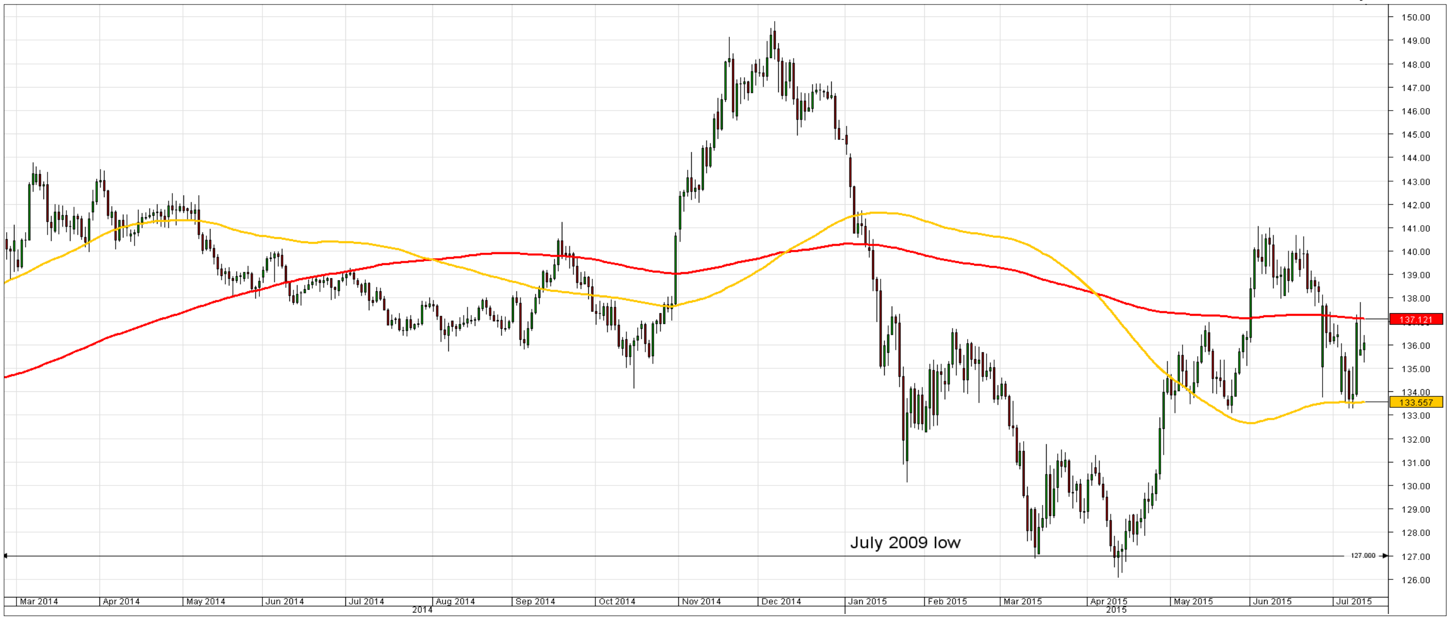
The bullion formed a bearish channel pattern a long time ago, which was unusual due to its wide boundaries. In the second quarter gold was expected to bounce off the lower boundary and head upwards. At the same time, the reality turned to be somewhat different, with the metal trading mostly sideways during the three months of the second quarter 2015. Considerable influence has been created by both the 100 and 200-day simple moving averages, which denied any idea of pushing the precious metal higher. While attempting to breach the 100-day SMA four times during the quarter, the bullion has made just one attempt to overcome the 200-day SMA slightly above the shorter-term moving average. The scenario was immediately rejected as soon as gold approached the 38.2% Fibonacci retracement of Mar-Nov 2014 downtrend at 1,229. As a result, the metal remained discouraged until the end of June, closing the period around the 1,172 mark.

2015 Q3 Outlook

The main outlook for the third quarter of the current year tends to remain fairly pessimistic. The bullion failed to make gains it was expected to do in the preceding three months while being driven by two simple moving averages. For the bullish outlook to be established, the long market participants are required to push the bullion above 1,200 and consolidate above this mark. Otherwise, the risk of a failure will rise, as the yellow metal remains trading in a mild downtrend at the moment. Bears are most likely going to target the nearest support, which is represented by the 2014 low at 1,131 and is followed by the pattern's support around 1,100. On the other hand, a successful recovery is going to open doors to the 38.2% retracement at 1,229 and, subsequently, the pattern's upper boundary at 1,260.

EUR/JPY

Daily Chart



100-day SMA 200-day SMA

2015 Q2 Summary

Although the EUR/JPY started Q2 with a slump, the July 2009 low provided enough support to help the currency pair rebound, as was anticipated. The Euro then rallied off, reaching the targets mentioned in the previous report, namely, 131 and 136, until it reached the 141 level. A serious supply then caused the give cross to start losing the bullish momentum, although attempts were made to remain above the 138 psychological level. Finally, the Greek bailout situation also influenced the cross, which resulted in a serious gap at the end of June.

2015 Q3 Outlook

The short-term outlook for the European currency is positive, since the Euro, surprisingly, failed to plunge amid the Greek debt crisis situation. In case of a Grexit, the Euro will definitely experience a boost, as the European Union would lose its weakest link in the economy. During the first month or two of the third quarter we should see the single currency rise towards the first target, namely, the 2013 high. If the pair manages to reach that far and preserve the bullish momentum, we could potentially even see it soar towards the 2014 high at 149.83. Nevertheless, that should be the highest point that the Euro will be able to climb at, since the long-term perspectives are not as bright. If indeed the EUR/JPY hikes near the 150 mark, a correction is then likely to take place and the pair could fall back under the 2013 high. However, trade should remain above the 140 major level once it is overcome, at least in Q3.

AUD/USD

Daily Chart

100-day SMA 200-day SMA

2015 Q2 Summary

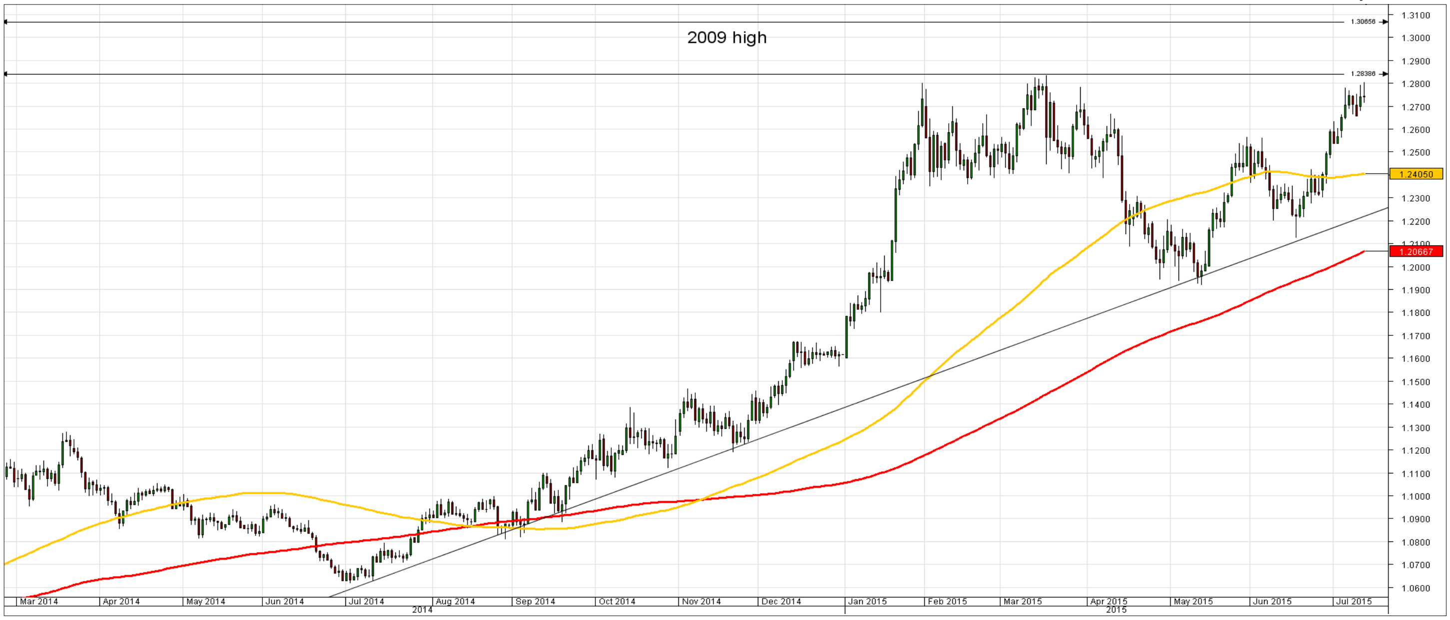
The AUD/USD broke out of the descending channel earlier than anticipated, in the middle of April, as the 0.7532 caused the pair to bounce back once again. However, the pair's rally did not last for long; at the end of the first month of Q2, the 2010 low provided substantial resistance. Ultimately, it pushed the Aussie back towards the 0.76 level, which prevented the Australian currency from plunging during the last month of the quarter.

2015 Q3 Outlook

Starting from 2013 the Australian Dollar has been declining against its US counterpart, with a sharper downward sloping channel since Q3 of 2014. The Aussie's bearish trend is quite clear, but it cannot last forever; it is unclear whether the previous quarter's consolidation period was just a setback, which the Aussie has been experiencing during the two-year fall, or a sign of a possible rebound. In the beginning of Q3 the exchange rate already fell under the previous quarter's low of 0.7532 and even beyond the 0.75 mark, indicating that the Australian currency could be subject to more weakness in the medium-term. If the fall continues (and it is quite possible, since the Fed is on the verge of rising interest rates), the first target level would be the 0.70 major level, from which a possible rebound could occur. Taking into account the AUD/USD's rate of decline, the 0.70 mark is unlikely to be reached earlier than near the end of Q3.

USD/CAD

Daily Chart



100-day SMA 200-day SMA

2015 Q2 Summary

The USD/CAD underperformed in the second quarter of 2015. First of all, the pair experienced a rather sharp slump through all of April, which caused the Greenback to reach the long-term support trend-line in May. Secondly, even though the US Dollar managed to rebound, it failed to gain enough momentum to reach the first quarter's high or the 1.29 target level. Risks of edging lower were also present in June, but the trend-line, along with the 200-day SMA, provided sufficient support to prevent the decline.

2015 Q3 Outlook

In the third quarter we should see the USD/CAD appreciate further, as both the trend-line and the 200-day SMA keep providing support. The Greenback had a good start in Q3, as it keeps climbing rather steadily. The first target remains the first quarter's high at 1.2838, which is assumed to be reached in July. Once that level is overcome, the next target would then become the area above the 1.30 major level, namely the 2009 high at 1.3065. Nevertheless, both target levels form an ascending triangle pattern, meaning that the USD/CAD risks bouncing back and breaking out of the pattern to the downside. Moreover, if the tide does turn from either target, the breach of the support does not necessarily have to occur. The 200-day SMA could once again bolster the trend-line and force the pair to remain within the borders of 100-day SMA and Q1 high, thus prolonging the current one-year trend for at least another quarter.

NZD/USD

Daily Chart

100-day SMA 200-day SMA

2015 Q2 Summary

During the second quarter of 2015, the NZD/USD pair behaved almost according to the forecast. After bouncing back from the descending channel's resistance trend-line, the pair began a rather gradual decline. As a result, the Kiwi reached Q1 lowest point earlier than anticipated, which also resulted in breaching the 2011 low at the end of May, rather than June. Furthermore, the 0.70 major level failed to prevent the fall, which allowed the plunge to extend for approximately 250 pips more.

2015 Q3 Outlook

Although the NZD/USD keeps declining dramatically, losses cannot continue forever. We expect the New Zealand Dollar to rebound somewhat in the second half of July. Upon reaching the 2010 low where it coincides with the lower channel border at 0.6559, the bullish momentum should be regained. However, the upper border will unlikely be reached during this quarter, as the Kiwi would require too much of a boost in order to take that target. Concerns of a consolidation after a rebound persist, which could last even through the fourth quarter, suggesting the NZD/USD could resume sliding down the channel at any time. Nevertheless, trade is to remain between the 2010 and 2011 low, as the rebound would not be sufficient in order to retake the 2011 minimum in the next three months. The reclaim of the 0.69 psychological level would be possible with 2-2.5 months and, by the end of the quarter, maybe even 0.70. However, if the NZ Dollar actually breaks out of the channel to the downside and ignores the 2010 low, the main target would then be the support trend line just under 0.59, as it caused the Kiwi to rebound on several occasions since 2001.

Expert Commentary

Euro

Ulrich Leuchtmann
Head: Currency Strategist
Commerzbank
Germany

What performance do you expect from the Euro versus its major counterparts during the third quarter of 2015?

We expect the Euro to be under moderate pressure during the third quarter, as the partial recovery of the common currency was mainly due to technical reasons, including positioning. In other words, surely the Euro zone economic data have been better than expected. However, the positive effect has been greatly amplified by the fact that market participants had held considerable Euro short positions in the past, and at the moment are covering them. Nevertheless, this action is not something that would keep the currency around the current level.

What will be the main drivers for the Euro during the same period?

Obviously, we are at the discussion about the Grexit probability; however, I believe that this deadlock is not influencing the Euro significantly. The European Central Bank owns several backstop mechanisms, including QE and OMT, which, in case of the Greece leaving the Euro zone, would prevent the systemic risk for the rest of the Euro area. As we look at the things from the short-term perspective, the common currency might experience some negative effects due to increased uncertainty regarding Greek crisis.

Otherwise, one must realize that there is some potential for the US Dollar in the times to come; therefore, this might show as a burden for the exchange rate. The market is expecting a very shallow Fed rate hike, which means some positive surprise potential for the Greenback could be experienced in the Q3, driving the EUR/USD down.

By the end of the third quarter, we anticipate the shared currency would be trading around 1.06 against the US Dollar.

- Ulrich Leuchtmann

What are your forecasts for EUR/USD and EUR/JPY for Q3 of 2015?

By the end of the third quarter, we anticipate the shared currency would be trading around 1.06 against the US Dollar. We see the Japanese Yen lower than the current level, reaching 129 by the end of September. In my opinion, the Bank of Japan has realized that increasing QE is not the best solution in the long run and might not bring inflation rate up to 2%. Hence, they need new measure, and this could take quite a while.

Pound Sterling

Michael Sneyd
FX Strategist and Lead Quant Strategist
BNP Paribas
UK

What performance do you expect from the GBP versus its major counterparts during the Q3 of 2015?

Over the third quarter we are looking for an outperformance from the Sterling against most of the other G10 currencies. However, we expect the Greenback to be the best performing currency out of the G10, and we believe that the Federal Reserve will be hiking rates in September. Therefore, we are anticipating the Pound weakness versus the US Dollar.

What will be the main drivers for the GBP during the same period?

If you focus on why to expect the Pound to be one of the outperformers against the G10 currencies, except for the US Dollar, one of the things we are really looking at, is the Bank of England policy. While the Fed is likely to be the first of the major central banks to tighten policy, we believe the BoE is not going to be very far behind. Hence, our expectations are that the BoE will be raising rates in February 2016, which is ahead of what market anticipates. Currently, the market is pricing in the first rate hike to be delivered in May, so it is suggested that there is still some scope for the yields providing support for the Pound.

In terms of the economic variables, one thing that we are keeping an eye on is the labor market. As we saw from the previous data, the tightness in the labor market, the decline in the unemployment rate - has started to see through the higher wage pressures. We think this is going to be continuing in Q3 and provide a lot of support for the Sterling.

We expect the GPB/USD heading towards 1.51 during Q3 of 2015, but we are looking for the Sterling strength against other major currencies.

- Michael Sneyd

What are your forecasts for GBP/USD, EUR/GBP and GBP/CHF for Q3 of 2015?

We are looking for the Pound to appreciate against the Euro and the Swissie in the third quarter. We expect the GPB/USD heading towards 1.51 during Q3 of 2015, but we are looking for the Sterling strength against other major currencies. Talking about the EUR/GBP in particular, our forecast is 0.59, and we are looking for the GBP/CHF to rise up to 1.57.

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 the Q3 of this year?

While the Euro is expected to weaken a little versus the US Dollar, we see the Japanese Yen as a beneficiary of anxiety over what is currently going on in Greece and China. A lot of people have been buying Yen, and I think we are going to see that unwind within a few weeks.

Investors have been selling the Euro and buying the Greenback over some months now, selling the Dollar and buying Yen, or going short on Sterling and long on the U.S. Dollar. Therefore, we are really looking for unwind of these risk-off positions. We anticipate the USD/JPY jump higher, as well as the EUR/USD and the GBP/USD.

What will be the main drivers for the US Dollar during the Q3 of this year?

We see a lot of things going on in the Europe and the UK right now. Therefore, by the end of the third quarter Greece will once again be in the background and the market will eventually recover, together with the Euro zone currency, and so will the Sterling.

> *Over the following quarter, it looks like the Fed is going to push back later, say, in September rather than in June.*
>
> *- Douglas C Bohrtwick*

What are your forecasts for EUR/USD and GBP/USD for Q3 od 2015?

First of all, we think that the EUR/USD pair will be trading around 1.15. As for the Sterling, we see the level 1.58 approaching.

Canadian Dollar

Alvin Tan
FX Strategist
Societe Generale
UK

What performance do you expect from the Canadian Dollar versus its major counterparts during the Q3 of this year?

The broad move that we expect in the currency market during the third quarter of 2015 - is a revival of the U.S. Dollar uptrend. Specifically, the Fed is expected to hike the rates in the month of September, which will move the Greenback higher against the all major currencies including the CAD/USD pair. Respectively, we expect the pair to move higher toward the 1.28 level, the highest of the 2015. As a matter of fact, we do not see any particular weakness in the Canadian Dollar in any near-term. Such cross pairs like the EUR/CAD are not expected to shift significantly in the Q3.

What will be the main drivers for the Canadian Dollar during the Q3?

We actually see the Canadian economy rebounding from the recent shocking weakness that we have seen in the first quarter. However, the Bank of Canada is unlikely to raise rates any time soon. We expect the Bank of Canada to keep the rates unchanged and steady on its third quarter scheduled policy meetings. Yet, the main driver is the Federal Reserve with the monetary policy, as we expect the Fed to commence the liftoff of the US rates in September this year, as already mentioned. Therefore, the move in the Canadian Dollar exchange rate will come from the Dollar rate.

We expect the Bank of Canada to keep the rates unchanged and steady on its third quarter scheduled policy meetings.

- Alvin Tan

What are your forecasts for the USD/CAD and GBP/CAD for the same period?

We anticipate the USD/CAD pair to reach the 1.28 level, while the GBP/CAD we see at 1.9 in Q3.

Swiss Franc

Lutz Karpowitz
Senior Currency Strategist
Commerzbank
Germany

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

Currently we see a situation where we have at least slight risk sentiment due to the Greek problem, and that would usually create some appreciation pressure on the Swiss Franc. On the other hand, we have the SNB, which has already announced that they started interventions to avoid a strong appreciation. That is something which is keeping the EUR/CHF currency pair around the level of 1.04. However, the Swiss National Bank cannot do it forever, but for the medium term it looks like they are already renewed interventions, which definitely gives a strong support.

What will be the main drivers for the CHF during the third quarter of this year?

Interventions are very important, as is the level to which the SNB is ready to intervene. That, of course, depends on the stage of the economy and especially on the level of deflation. We have got the CPI news data from Switzerland and they were rather positive. We had a slight increase in month on month terms, and overall inflation rate is now at minus 1% against the previous year. This certainly still is not the outcome the SNB wants to create, and that is why we believe they will make sure the appreciation is not too strong. However, if we see inflation rates picking up, and the economy being in a better shape, the SNB might allow the Swiss Franc to create some more strength at least in a contain manner.

> ***We forecast the USD/CHF currency pair to be at 0.94 levels in Q3 of this year. Talking about the EUR/CHF, we anticipate it rolling up to 0.98 levels for the same period of time.***
>
> *- Lutz Karpowitz*

What are your forecasts for the USD/CHF and the EUR/CHF in Q3 of 2015?

We forecast the USD/CHF currency pair to be at 0.94 levels in Q3 of this year. Talking about the EUR/CHF, we anticipate it rolling up to 0.98 levels for the same period of time.

Japanese Yen

Esther Maria Reichelt
FX Strategist
Commerzbank
Germany

What performance do you expect from the Japanese Yen versus its major counterparts during the Q3 2015?

We still anticipate a slide depreciation of the Japanese Yen against the US Dollar, although the speed of the decline or the upward movement in the USD/JPY will be determined to large extend by the behaviour of the Greenback. The Yen weakness, which we have seen a lot recently, is not that pronounced as it was previously.

What will be the main drivers for the JPY during the same period?

Actually, we believe it will be the speculation whether the Bank of Japan will further expand its monetary policy. Right now, we do not see any evidence that the Bank is indeed willing to do this, although from the perspective of inflation it should be necessary. A new rate hike seems to be sensible, in order not to lose the markets' confidence that they indeed are willing to reach the inflation target.

After the tax hike dropped out in April 2014, it has now dropped out of the inflation, so we will see inflation rates close to 0%. Hence, in order to ensure the credibility of the inflation target, the BoJ needs either to show that they are indeed willing to do something by further expanding their monetary policy, or explain credibly why they expect inflation to increase in the coming month.

> *While we expect some correction of the Euro strength in the upcoming month, with the EUR/JPY sliding to 130 levels and then moving sideways.*
>
> *- Esther Maria Reichelt*

What are your forecasts for EUR/JPY and USD/JPY for Q3 of 2015?

At the moment our forecast for the USD/JPY is 122, however, we are still expecting a sideways movement, as we do not see the BoJ willing to expand their monetary policy further, as already mentioned. In the course of speculation for further expansion, we have witnessed excessive Yen weakness that might be corrected in the upcoming months.

We believe that we have seen some Euro strength in the EUR/JPY, which will be corrected, as it comes clear the Euro zone economic data will not be able to meet such an optimistic forecast from the ECB. Therefore, we expect some correction of the Euro strength in the upcoming month, with the EUR/JPY sliding to 130 levels and then moving sideways.

Australian Dollar

Adam Cole
Global Head: FX Strategy
RBC Capital Markets
UK

What performance do you expect from the Australian Dollar versus its major counterparts during the third quarter of this year?

We think it has become a bit of a range trade, and the Australian Dollar has taken on board an awful lot of bad news over the last year as well. It is now at levels that are broadly consistent with the Central Bank's view of a fair value in the mid-70s.

We believe it really trades a range from the mid to high-70s versus the US Dollar. Moreover, we see some scope of outperformance against the other commodity currencies and against the New Zealand Dollar in particular, where it is looking much like the Aussie did two years ago.

What will be the main drivers for the AUD during the third quarter of this year?

I would say the two main drivers are the outlook for commodity prices generally, and particularly the industrial metals that Australia exports. Equally important is the prospects of further easing from the Reserve Bank of Australia. We suppose the Central Bank is rather reluctant to cut rates further from here. It ultimately will cut, but it will be very slow and very measured. There is perhaps some scope for disappointment in the market, which is very much set up for the Central Bank to cut further from here.

I would say the two main drivers are the outlook for commodity prices generally, and particularly the industrial metals that Australia exports.

- Adam Cole

What are your forecasts for AUD/USD, EUR/AUD and AUD/JPY in Q3 of 2015?

Our target for the Greenback versus the Australian Dollar is a little higher than we are currently. However, it is very much within the recent range and we believe we could go back around 76 levels. Against the Euro and the Yen we have very little change, actually. I think the Aussie versus the Yen is very much the story for the fourth quarter rather than the third, once we get to the other side of what we still think is a September Fed rate hike. Afterwards, we expect much bigger moves against the Yen in particular.

Trade Pattern Ideas

AUD/CHF

Weekly Chart

200-week SMA

AUD/CHF

Channel Down

The base case scenario is the continuation of the gradual decline.

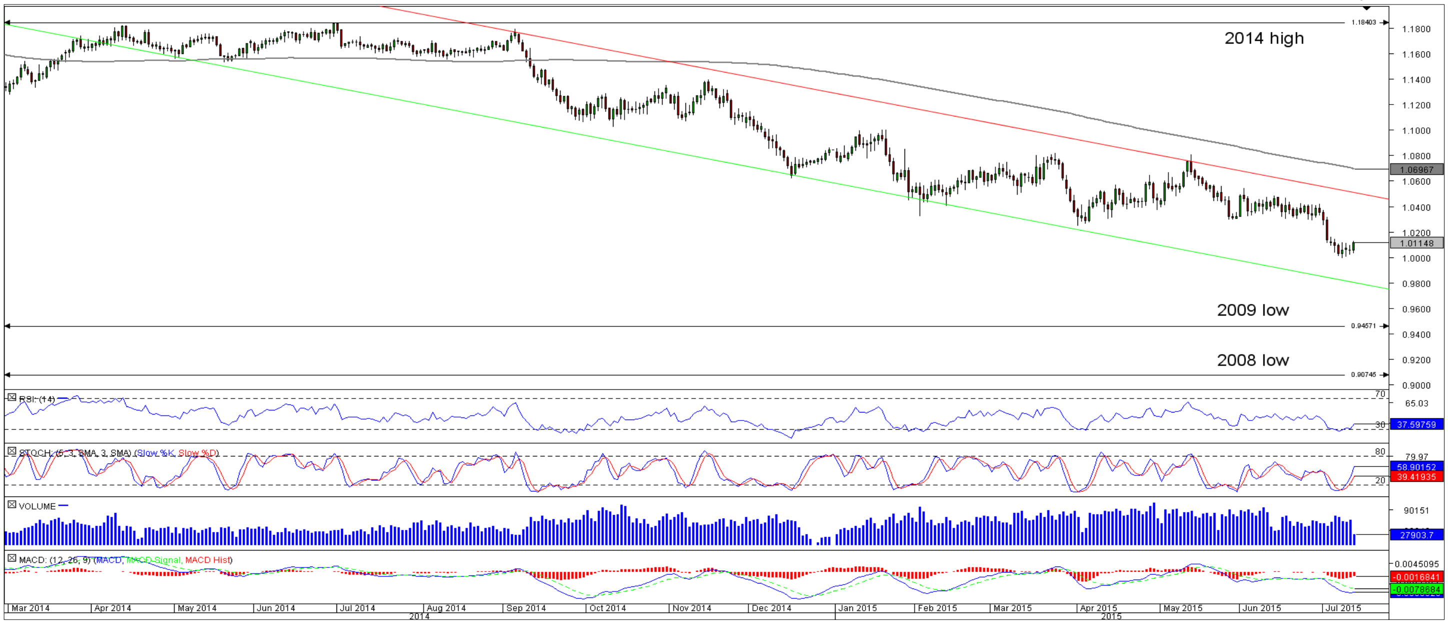
The channel has been in place since 2012, and the base case scenario is the continuation of the gradual decline. Considering that the latest rally failed to result in a challenge to the resistance trend-line, a break-out to the downside is even more likely than a break-out to the upside, and we do not expect a reversal any time soon.

Right now the focus is on 0.6934, namely the 2008 low, and the action around this level will have a significant impact on the future development of the exchange rate. In the near term the risks are skewed to the upside, and the SWFX market participants seem to share this view, being that three out of four traders are currently holding long positions. The Australian Dollar is expected to rebound from this support level and rise up to 0.76 before the bears again regain full control of the pair.

From there AUD/CHF is likely to gather enough momentum in order to update the lowest mark in seven years and move further south. In this case, the target will be at the level of 66 cents, represented by the major support line that connects the troughs at lease since the beginning of 1992, if examined in the monthly chart.

AUD/SGD

Daily Chart



200-day SMA

AUD/SGD

Channel Down

In the long run the objective is the 2009 low at 0.9457, and if the momentum stays strong, the next potential target is not far away, at 0.9074, the lowest point in the last seven years.

The bias towards AUD/SGD is bearish both in the short and long term. Presently we are in the middle of a down-leg being formed within the boundaries of the channel, and the decline should extend down to 0.98 before the currency pair makes a U-turn. The Australian Dollar is expected to use this support as a springboard and start a recovery, but the gains are to be limited by the upper boundary of the pattern at 1.03. If supply at this level turns out to be insufficient to contain the bulls, the bears will still have an opportunity to recuperate with the help of the 200-day SMA (currently at 1.07).

In the long run the objective is the 2009 low at 0.9457, and if the momentum stays strong, the next potential target is not far away, at 0.9074, the lowest point in the last seven years.

In the meantime, while the traders are optimistic with respect to the Aussie in AUD/CHF, they are divided on the prospects of AUD/SGD. At the moment 54% of open positions are long and the remaining 46% are short.

EUR/GBP

Weekly Chart

200-week SMA

EUR/GBP

Channel Down

It would be more or less safe to assume that the Euro will keep appreciating until the demand dies out at the price of 80 pennies.

The European currency has been underperforming against the British Pound since the very end of 2008, and for now there are no reasons to believe this tendency has run its course. However, there appear to be some tactical opportunities, and we start receiving signals of a nascent short-covering charged recovery.

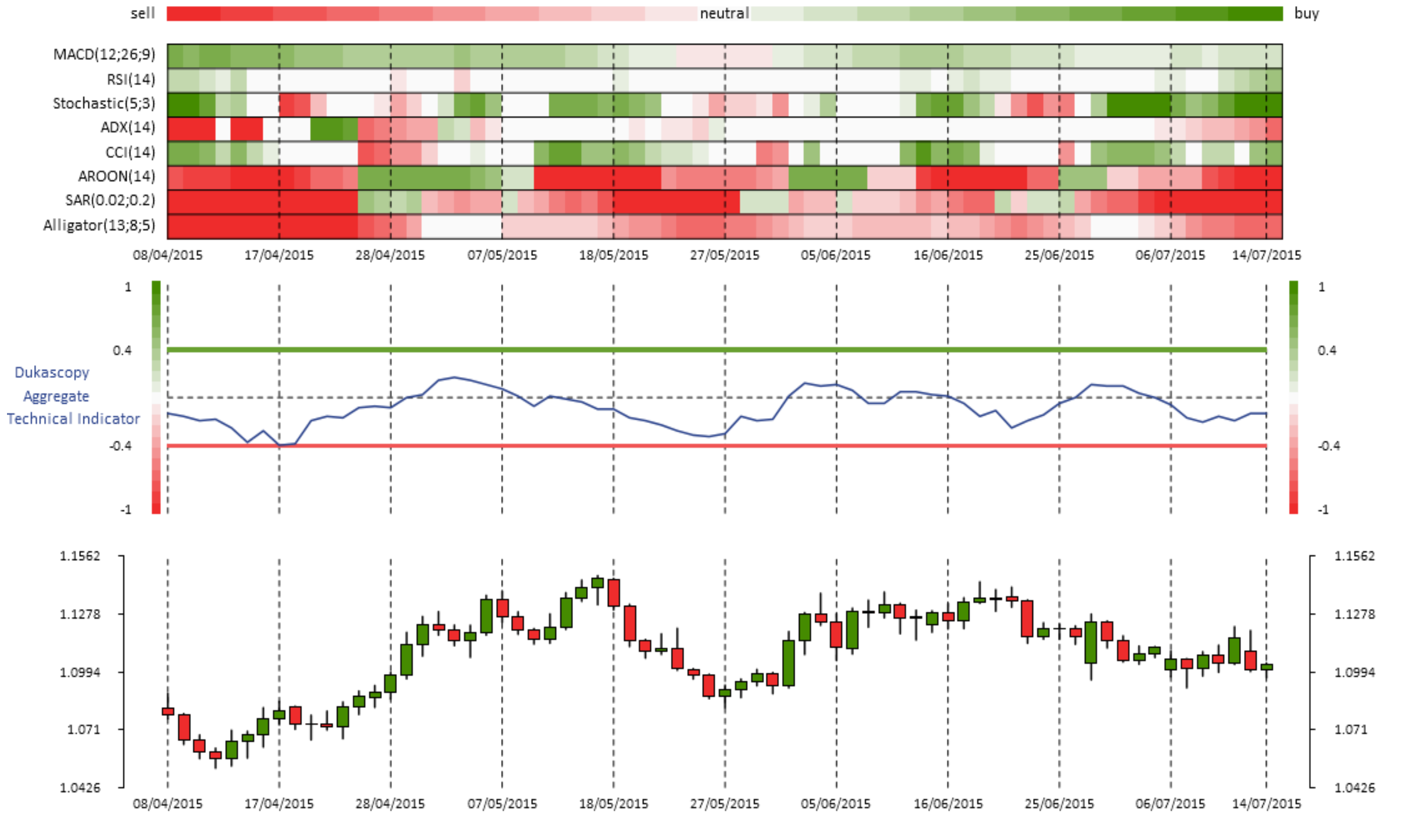
At the moment the exchange rate is oscillating just above the major support trend-line, which is an auspicious environment for a retracement within the entrenched downward trend. It would be more or less safe to assume that the Euro will keep appreciating until the demand dies out at the price of 80 pennies, where the currency couple is to bump into a combination of the upper edge of the channel and possibly the 200-week simple moving average.

As for the longer-term outlook, the objective remains the 2007 low at 0.6536. This level will also be the target in an unlikely case of a bearish break-out during the next few weeks.

Aggregate Technical Indicator

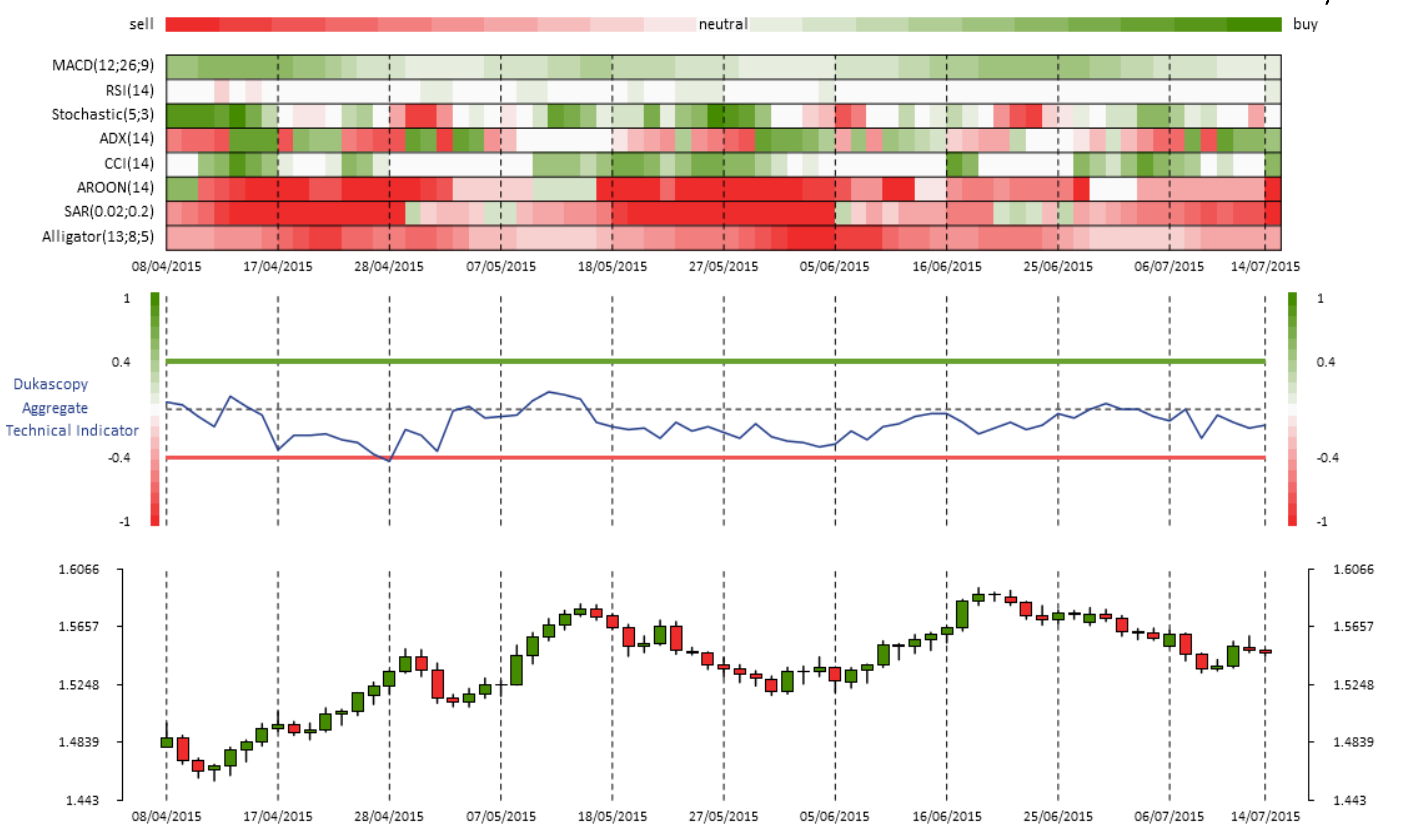
EUR/USD

Daily chart



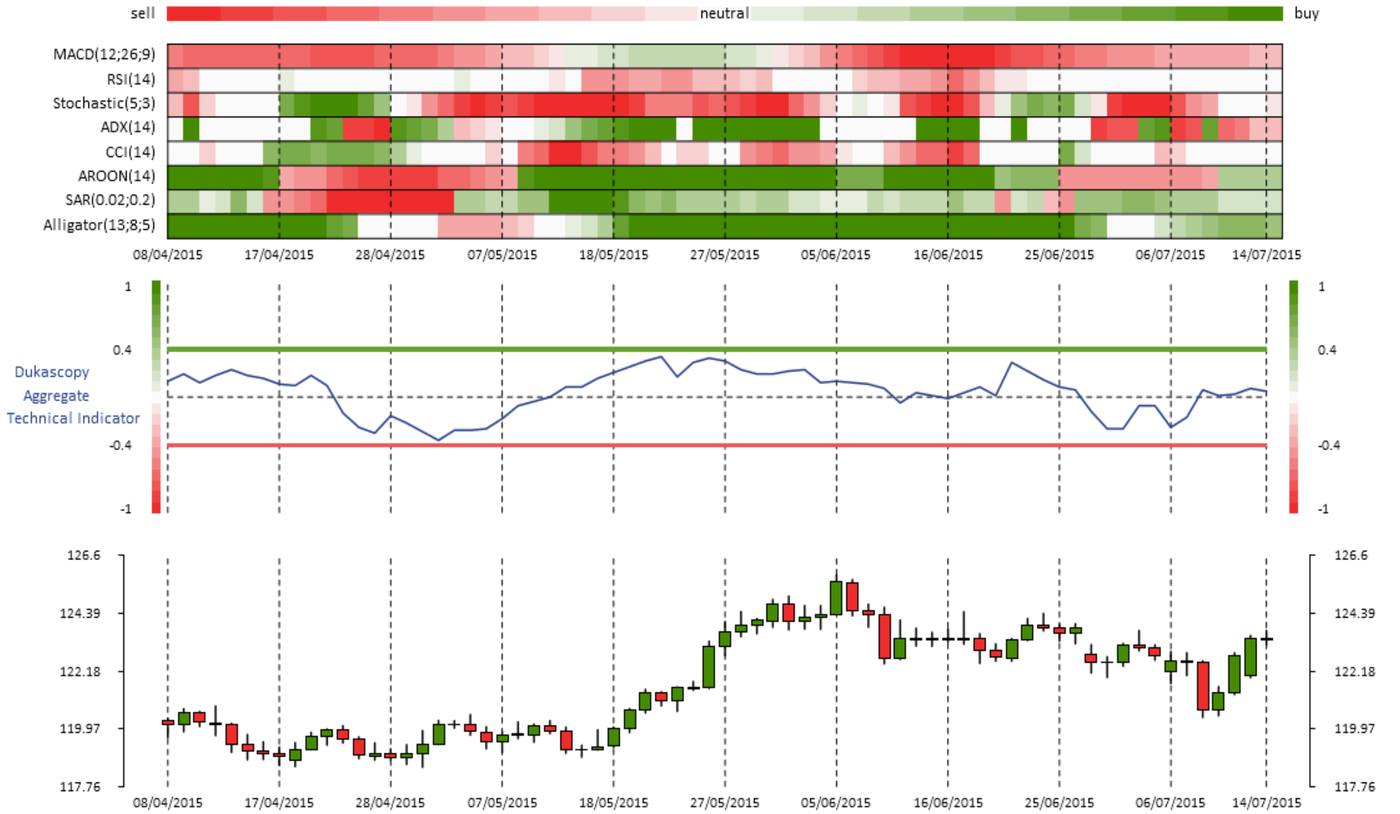
GBP/USD

Daily chart



USD/JPY

Daily chart

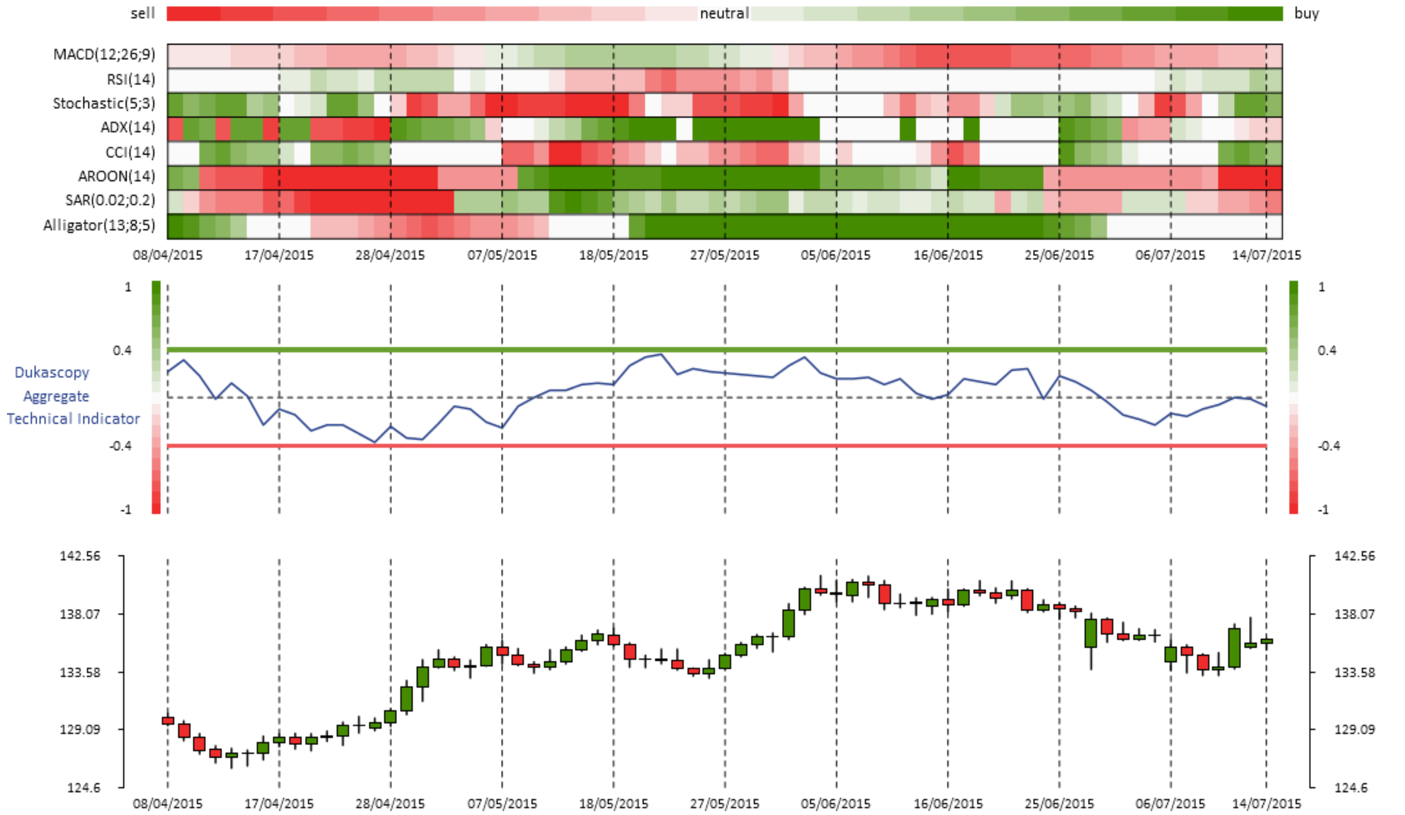


USD/CHF

Daily chart

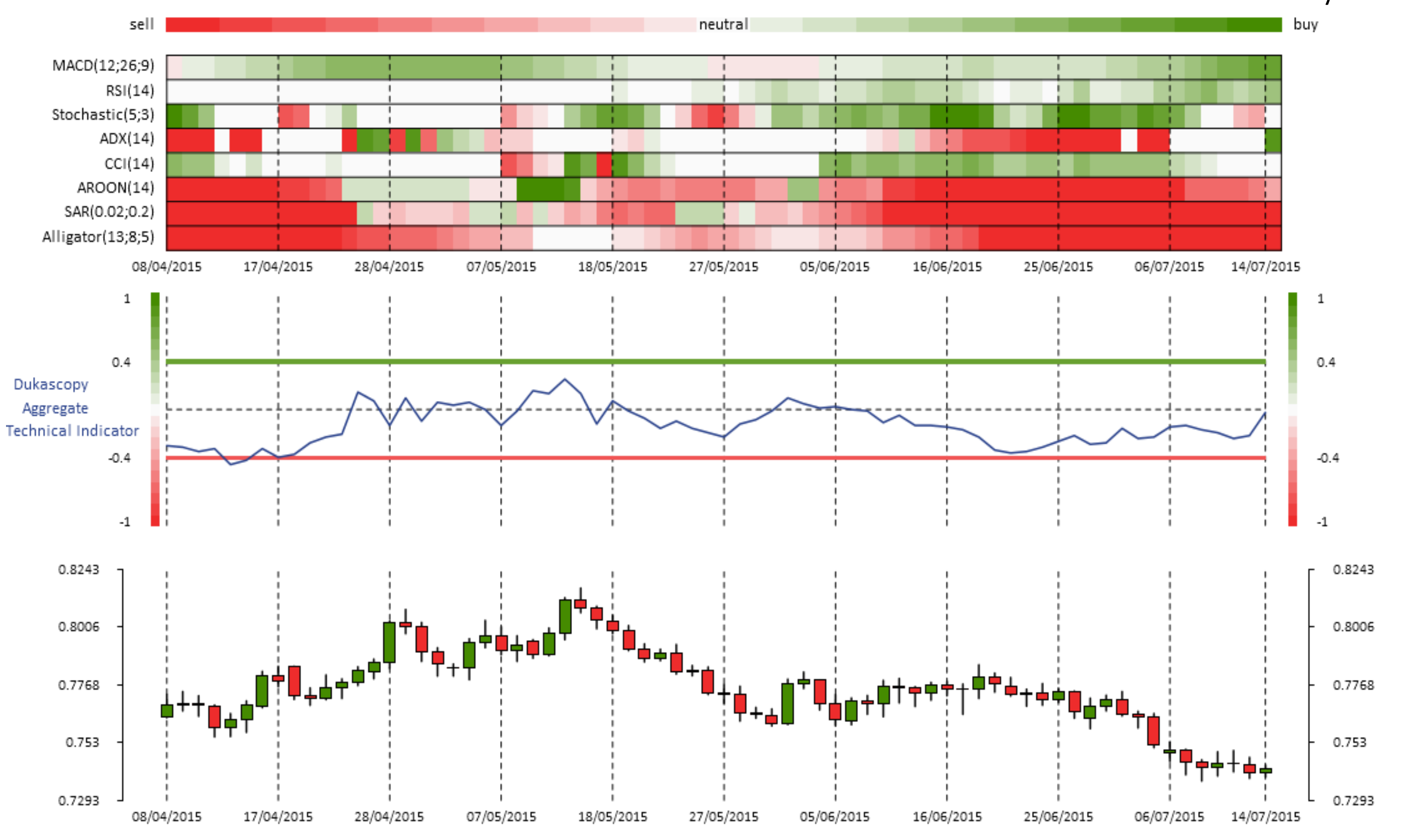
EUR/JPY

Daily chart



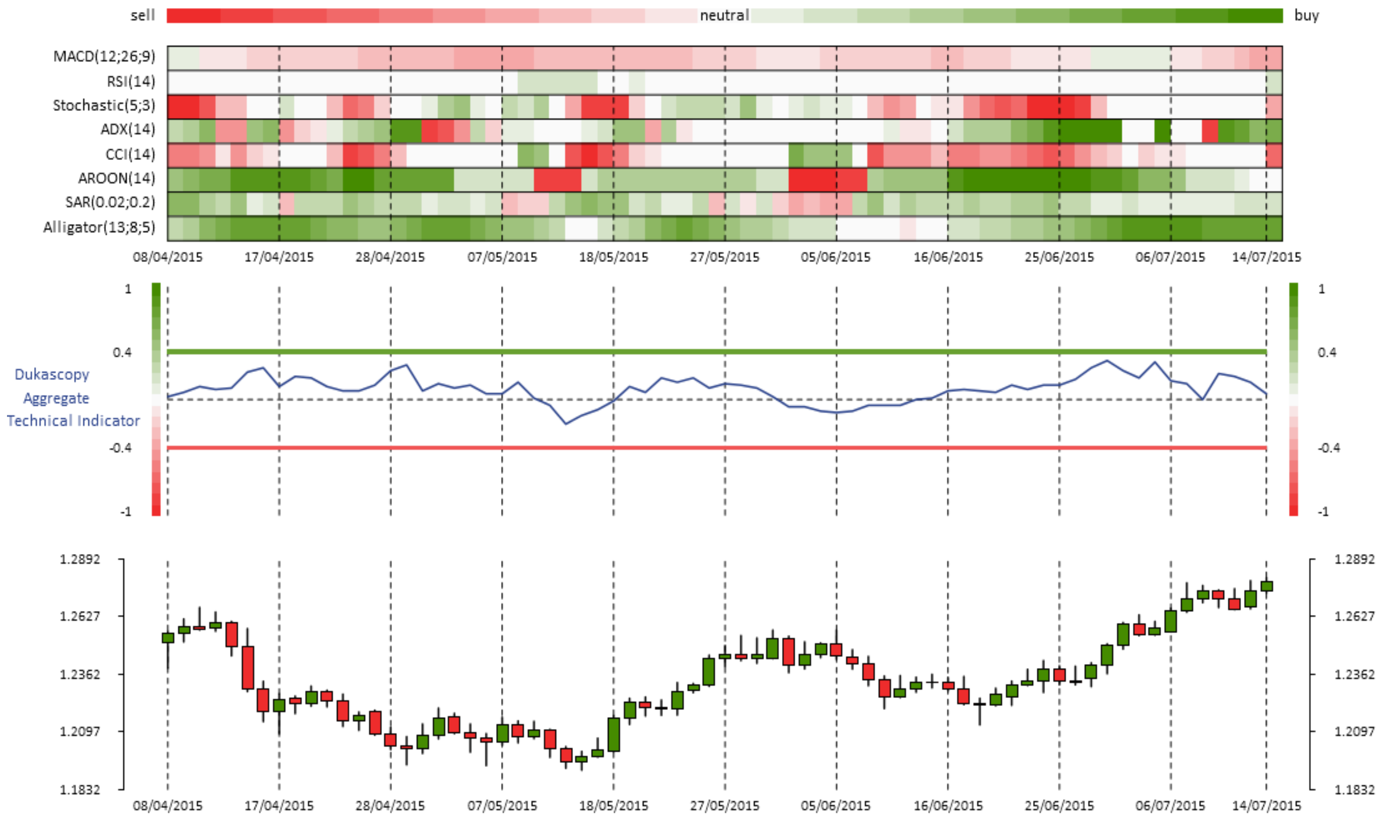
AUD/USD

Daily chart



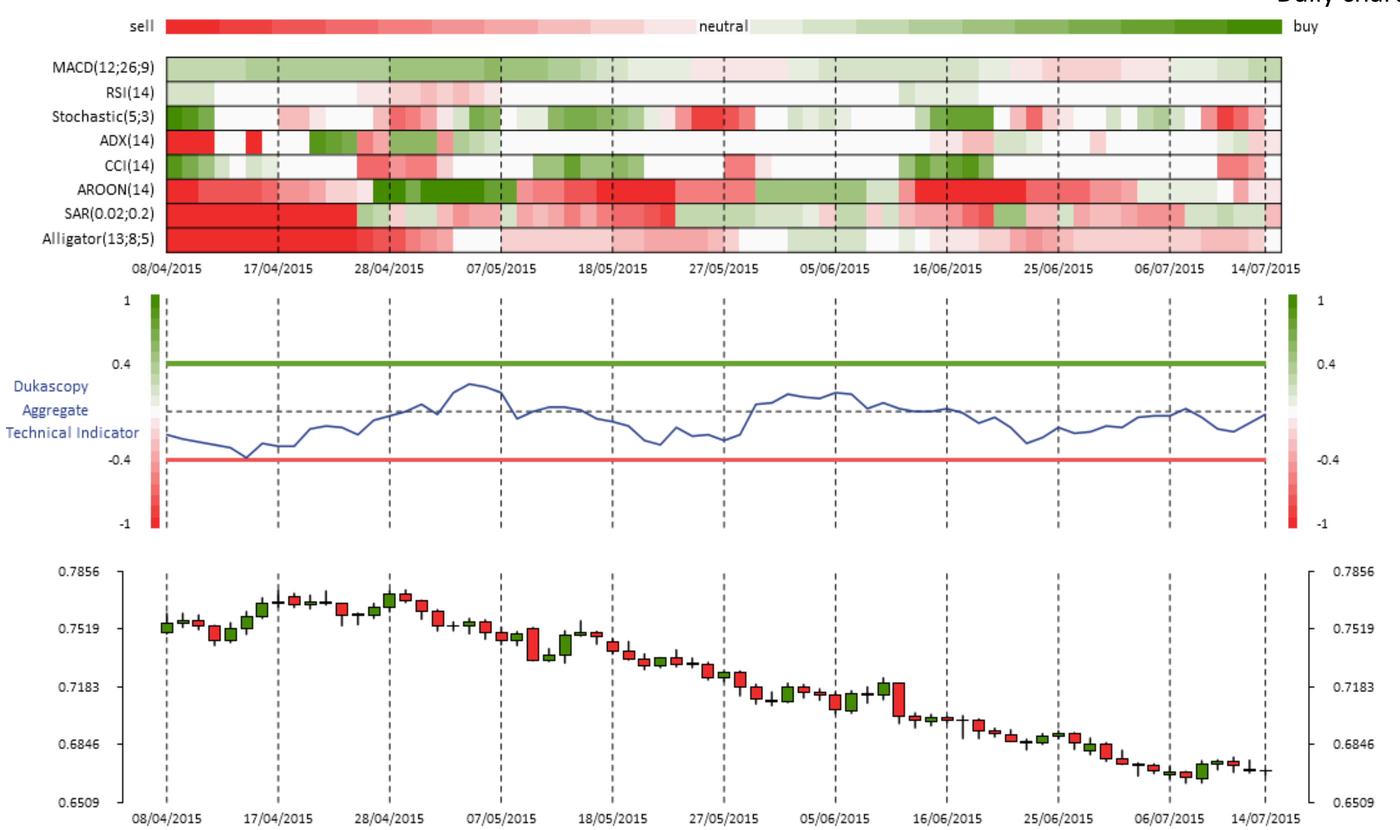
USD/CAD

Daily chart



NZD/USD

Daily chart



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