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RESEARCH PRODUCTS

24/12/2013



Community Forecasts

SWFX Top 3 Currency Pairs

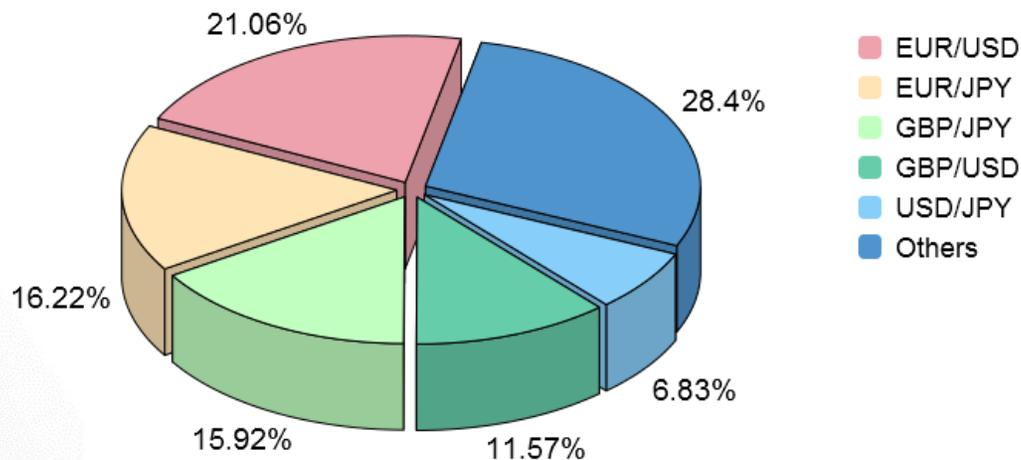
This time Dukascopy Research Team decided to analyze three most traded currency pairs: EUR/USD, EUR/JPY and GBP/JPY. The latter currency pair ranked as the third most popular couple (15.92%) for a fourth straight week, as traders now seem to prefer it over the GBP/USD pair, traded in 11.57% cases compared to 17.3% in the end of November. It appeared that trader sentiment was rather bearish last week, as at least 53% of positions were set to go short. Traders were the most bearish on the EUR/USD couple, most likely because of the Fed's decision to go ahead with the stimulus tapering. Looking back at the last week's forecasts on three rather exotic currency pairs, traders appeared to be more precise in making predictions on the AUD/USD and NZD/USD currency pairs, with 45% and 47% correct forecasts out of all. Congratulations to the most precise forecast makers: khaledalsaadani, templario and cyrus323!

As Christmas is the time, when to thank each other, we want to express our great gratitude to all Dukascopy community members, who contributed to this analytical product, launched in this year's June. In addition, congratulations to davekemet, man2forex and Lyudmilla—the members, who showed the best performance in last week's trader contest.

Merry Christmas!

Instrument	Buy	Sell
EUR/USD	38 %	62 %
EUR/JPY	42 %	58 %
GBP/JPY	47 %	53 %

Instruments



Last Week's Top Traders

EUR/USD		EUR/JPY		GBP/JPY	
Nickname	PNL	Nickname	PNL	Nickname	PNL
davekemet	38486	man2forex	62257	Lyudmila	72579
Erka_shildeg	37340	Bimlesh	58365	santosh13	66950
SoftControl	37111	Daytrader21	40477	Ganerdene	52297

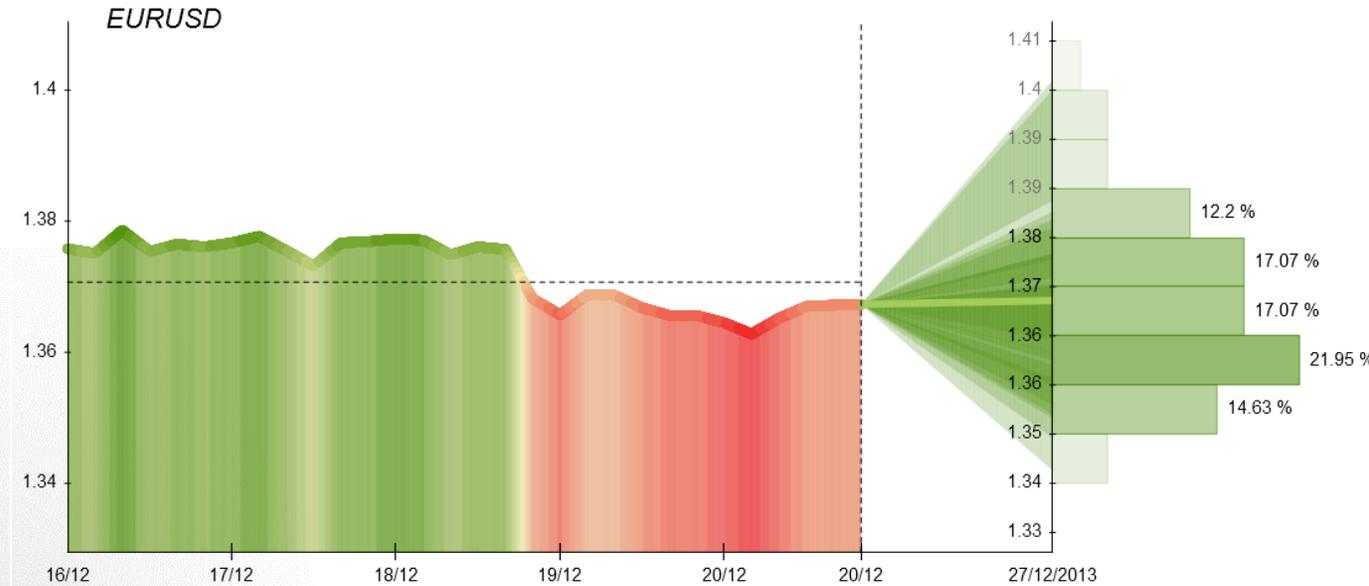
*PNL- Profit & Loss in USD



EUR/USD 1W Chart

It was not a surprise for anyone, who follows important economic data that EUR/USD was bearish last week. The pair plunged to a daily S3 at 1.3622 on December 20, following the FOMC meeting, where the Fed finally began tapering its stimulus programme. Investors, however, did not rush to buy the greenback, as at the moment of writing the buck was bought in 61% of all cases across the board. Meanwhile, the most traded currency pair has a great potential to depreciate even further, as 61% of opened positions are short, while almost 64% of pending orders in a 100-pip range are placed to sell the pair. Hence, the outlook is bearish and the next key level is located at 1.3598, where traders could find Weekly S1, November's high and a 200-period SMA (4H).

In the week of Christmas the Euro is set to stabilize after five straight weeks of advance. With major holidays landing mid-week and very few economic data releases in the docket, the pair is expected to trade sideways, staying around the current levels of 1.36s. Community members predict the pair to finish this week at around 1.3678. While the size of QE tapering is rather small, worth \$10billion, and the move was accompanied with stronger forward guidance, it still means tighter monetary policy, resulting in a stronger U.S. Dollar. Thus, vast majority of traders (69%) are bearish on the pair. However, SpecialFX is "very slightly bullish on the USD (bearish on EUR/USD) for this week, after the decision by the Federal Reserve to slow down its bond buying program, but no major moves are expected and even most technical patterns will not have much relevance this week."



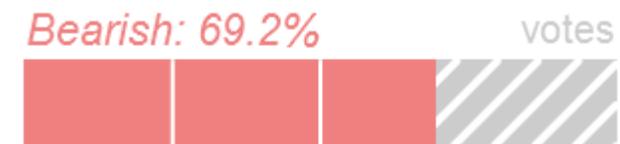
rivo25 on EUR/USD

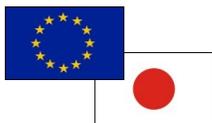
"Breakdown of the level of 1.3832 will enable the price continue the rise up to the level of 1.40."



AdamFx42 on EUR/USD

"The stronger USD after the taper decision will reap havoc among other major pairs for a while, this will result in EUR/USD dropping from its posted high above 1.375 an retracing to technical support eventually around 1.34"

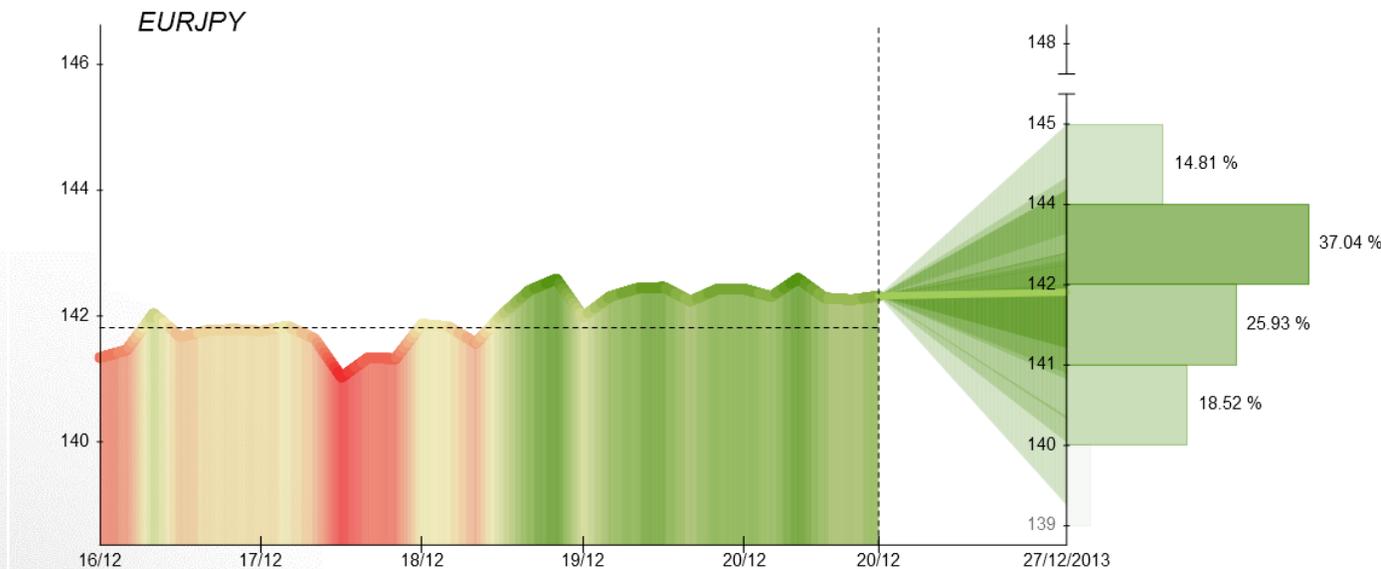




EUR/JPY 1W Chart

EUR/JPY currency pair has been rather stable last week, fluctuating around recent highs slightly above 142. Moreover, the pair is still trading in boundaries of a double top pattern, which was formed early November. The key level for long traders is located at 142.91, and in case it is breached, weekly R2 at 143.98 will be put on the map. However, the pair is sold 26% more often rather than bought, meaning that traders are expecting it to depreciate. Moreover, taking into account low trading volumes and a lack of liquidity before Christmas, a pullback from current level is more likely. Therefore, short traders could focus on a weekly pivot and a recent low at 142.06, which is 60 pips below the current market price.

Community forecasters seem to be indecisive as to the EUR/JPY currency pair, with sentiment being evenly distributed among bulls and bears. The Euro is seen to close at 142.37, slightly changed from the current level. "EUR/JPY has moved aggressively higher, from 131.00 towards 143.00, since November 7. A correction lower is now imminent. I expect bears will seize the opportunity and move price lower this week," wrote geula4x. Nevertheless, rokasltu believes that "EUR/JPY is above important 140 mark, and I think it will not dip sustainably under this mark during coming week. But on the other hand I think the Euro will weaken, therefore I see it closing near 140 mark at the end of the coming week." Despite bank holidays all around the globe, some important economic data is due to be published this week in Japan, such as Minutes of the Monetary Policy Meeting, Tokyo Core CPI, Retail Sales and etc.



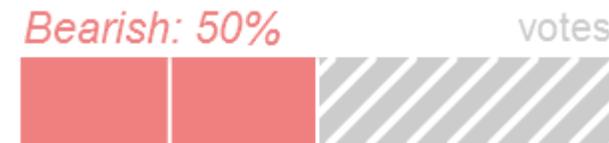
Daytrader21 on EUR/JPY

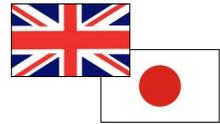
"I am actually neutral on EUR/JPY, expecting the market to stay in a tight range, as the next week the market will enter in the holiday season and during the Christmas days the major banks are closed. Thus, there will be less trading activity."



SpecialFX on EUR/JPY

"During important holiday periods, such as Christmas, with much lower liquidity, there's usually a phenomenon, which I call "holiday reversals". This is characterized by the slight reversal of established trends, for apparently no reason. The big market participants, which led the market in the past are not present during these days, so the market is at the mercy of contrarian traders, who can move the market in this period of lower liquidity. So I'm bearish for the week, after a very long uptrend."

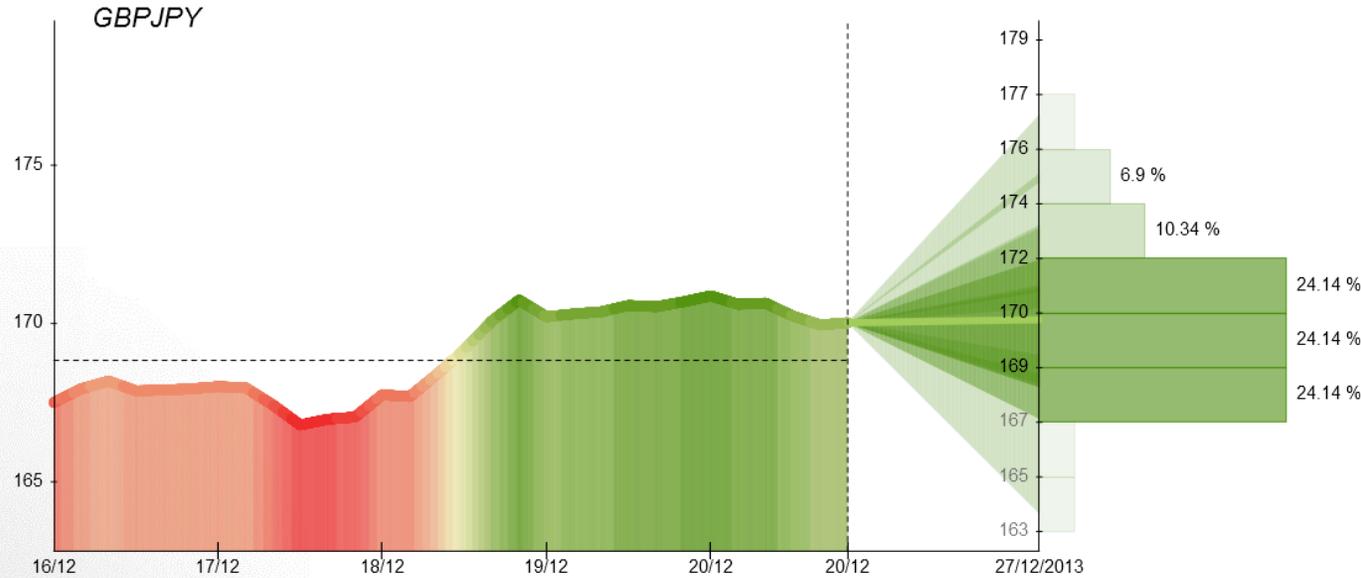




GBP/JPY 1W Chart

The Sterling–Yen cross has been performing similarly to EUR/JPY during the last five trading days. After once again approaching a recent high at 171.23 the pair inched lower and is changing hands at 170.34. In case previous high is reached again, the pair can possibly form a double top pattern. Market sentiment, however, is strongly bearish, as more than 70% of opened positions are short, hence the pair is likely to move to the south, and to a weekly pivot and daily S3 at 169.23 in particular. Pending orders, however, may limit pair's depreciation, as 68% of orders in a 100-pip range are placed to buy the Pound versus the Yen.

Respondents shared a bearish outlook on the GBP/JPY currency pair, with 63.6% of bears outweighing 36.4% of bulls. Nevertheless, the pair is predicted to stay around the current levels, reaching 170.128 on Friday, December 27. "Like the EUR/JPY pair, this one has enjoyed a strong uptrend since mid-November. I expect this pair to consolidate and reverse a little bit during this week marked by lower liquidity and much lower number of traders. Contrarians and profit taking in such thin market conditions should take the pair slightly lower," according to SpecialFX. Elkan also believes that the pair is likely to fall, as "strength is hurting the Pound, and it should reverse". Meanwhile, rokasltu sees the pair around an import level of 170, above which it will be difficult to stay sustainably. Thus, rokasltu expects that "the Pound will start weakening during coming week and I predict GPB/JPY to fall approximately 200 pips during mentioned period."



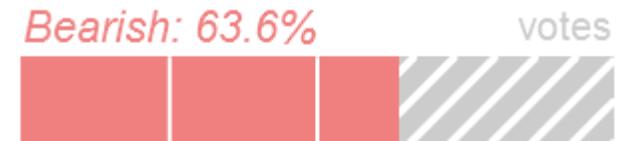
mandalafxbz on GBP/JPY

"The GBP/JPY currency pair has 4 hour chart support, with the Daily chart maintaining strength and is poised for further advancement."



geula4x on GBP/JPY

"The Fed announced QE tapering, causing the USD to strengthen significantly. With a tighter monetary policy, market will probably favor "safe haven" currencies like the JPY, over more risky ones like the Pound. GBP/JPY has moved aggressively higher, from 156.00 towards 171.00, since October 7. A correction lower is now imminent. I expect bears will seize the opportunity and move price lower this week."



YOUR OPINION MATTERS

If you are also willing to take part in creation of Community Forecasts product, please write us to research@dukascopy.com

Week's 16.12-20.12 Most Precise Forecasts

AUD/USD				USD/JPY				NZD/USD			
Nickname	Min	Max	RMSD	Nickname	Min	Max	RMSD	Nickname	Min	Max	RMSD
 templario	0.895	0.895	0.003	 khaledalsaadani	104	104.3	0.158	 cyrus323	0.819	0.8275	0.005
 Anatoli	0.885	0.8935	0.005	 minamina	103.4	103.8	0.539	 MAI	0.81	0.82	0.007
 Cutseiya	0.88412	0.89379	0.006	 Anatoli	104	105	0.64	 sankit	0.811	0.8154	0.007

*RMSD = Root-mean-square deviation

Dukascopy thanks all the participants!

	AdamFx42
	cetomi
	Daytrader21
	elkan
	geula4x
	mandalafxbz
	marius1
	mongoliawolf
	ninjaproger
	rivo25
	rokasltu
	SpecialFX
	XINGO



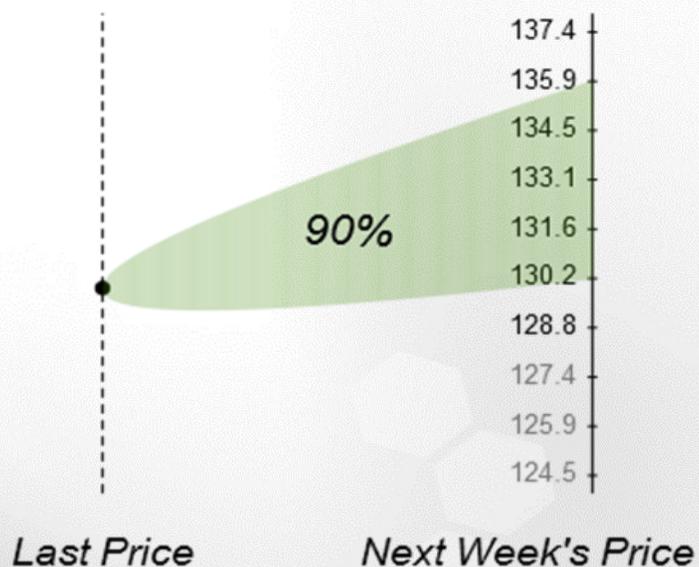
Fundamental Analysis Contest

Do you know how the price will react to the news? Submit your prediction for the price movement direction and win!

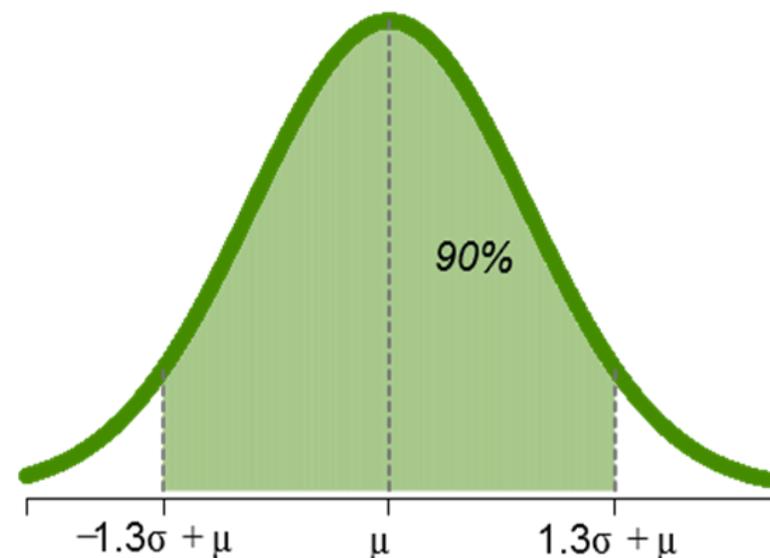
EXPLANATIONS

The right-hand scale of the first graph depicts the range of values that the next week's exchange rate can take with a 90% probability. The construction of this range is based on statistical notions.

Under the assumption that currency pair logarithmic returns are normally distributed with mean μ and standard deviation σ as illustrated by the second graph, the respective probability density function can be used to find a 90% probability range for weekly returns. Obtained critical values can be then converted into the end points of the price range.



Graph 1: Confidence interval used for "Community Forecasts"



Graph 2: Probability Density Function for a Normal Distribution

For convenience, the price range is divided into four inner intervals, marked by black labels. Two outer intervals denote values that are greater or less than critical, and therefore fall out of the 90% probability range.

Grey labels, if any, show additional intervals that are introduced if the basic range does not cover all forecasts.



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