DUKASCOPY
Swiss Forex Bank & Marketplace

QUARTERLY REPORT

FX

Q3, 2016

AGGREGATE TECHNICAL INDICATOR

FUNDAMENTAL ANALYSIS

TECHNICAL ANALYSIS

TRADE PATTERN IDEAS

EXPERT COMMENTARY

"Global markets have become more unstable than it could have been predicted by the market participants. Due to this fact, the yellow metal has surged even faster than previously expected."

Janis Macukans, economist at Dukascopy Bank SA

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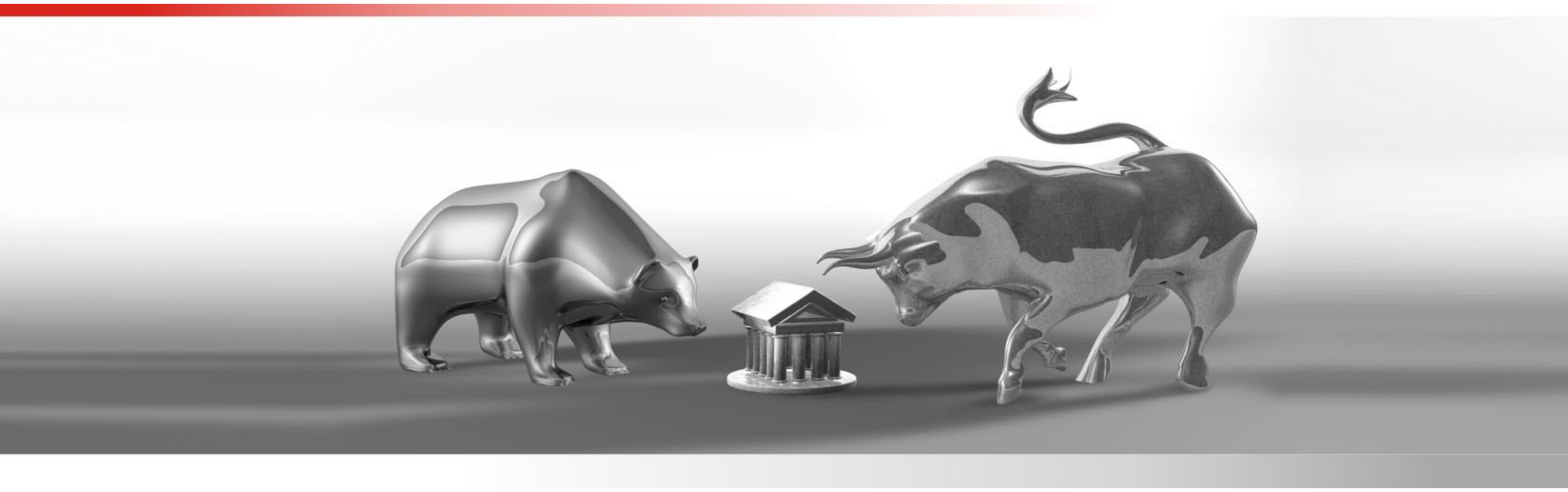
DUKASCOPY RESEARCH PRODUCTS



Fundamental Analysis

Shock waves caused by the decision of the United Kingdom to leave the European Union are expected to ripple across the globe. Though there is a high degree of uncertainty about the consequences as they will largely depend on the goodwill of both the UK and the EU during the negotiation process and on the timing of the divorce, Brexit is fuelling market volatility and is worsening overall economic sentiment.

Euro zone

The Euro zone economy gained momentum in the Q1 of the year, recording the largest expansion in one year. Robust growth in the domestic economy drove the recovery, as an improving labour market boosted private consumption growth to an almost over the one year high. Data for the start of Q2 is tentatively positive, since industrial production rebounded in April and the unemployment rate remained steady for several years. That indicates that the United Kingdom's vote to leave the European Union on 23 June has taken centre stage in recent days and is casting a shadow on the Eurozone's outlook. Negotiations will likely drag out as European rules set a two-year period for negotiating an exit, with a possibility for an extension, once formal notice from a member country has been given. While a country leaving the EU is unchartered territory with huge uncertainties in terms of economic consequences in the long term, in the near term, the Eurozone economy is likely to feel the effects of the vote through heightened volatility in financial markets along with pressure on the Euro and reduced confidence.

UK

In an unprecedented vote on 23 June, the United Kingdom decided to separate from the European Union, thus raising concerns regarding the future of the British economy. The full economic impact of Brexit is not clear yet and the country will experience a prolonged period of uncertainty until new agreements are approved. Following the Brexit news, Prime Minister David Cameron announced his resignation and also delegated the right to officially trigger the UK separation from the EU to his successor. The leave vote prompted a collapse of the financial markets and the Pound hit its weakest reading in over 30 years on 24 June. Besides the economic impact, there are other consequences associated to the Brexit. Political risks such as the resurgence of the Scottish independence issue, increased tension within the ruling Conservative Party and the negotiation of new political links with the EU threaten the political stability of the country in the medium term. The Brexit vote threatens to rattle the country's strong macroeconomic fundamentals, even though the full impact of the exit will take years to quantify.

> ***Though political events have been fast-moving, there is a need for stable economic policy until we are clearer how the economy is performing in the wake of the EU Referendum result. That will not be clear until the Autumn, and the MPC should hold fire until then.***
>
> *- MPC*

USA

The US economy expanded more than previously estimated during the first three months of the year. Moreover, the overall trend remains vulnerable to a new round of global economic turmoil. According to the Commerce Department, gross domestic product, the most important measure of goods and services produced across the US, advanced 1.1% at an annual pace in the first quarter, showing the weakest growth in a year. Also, the agency previously forecast the economy rose at a 0.8% pace. The following announcement confirms that the economy has regained momentum following the stable slowdown in Q1. Consumer spending, the single biggest source of US economic growth, which implies as much as two-thirds of economic activity, likely remained strong in Q2 as retail sales rose for the second consecutive month in May. The increase in following data could be explained by higher demand for automobiles and other goods; however, it is worth pointing out fears Britain will leave the European Union could damage confidence and force households to cut consumption. In addition, rise in the ISM manufacturing index was another positive announcement in May; however, the following number still suggests soft growth in the sector. Meanwhile, the May jobs report took centre stage as non-farm payrolls rose at the weakest pace since September 2010.

Speaking about the political side, on 8 June, Hillary Clinton, became the Democratic Party's supposed nominee for the 2016 presidential election. Clinton is going to compete with the Republican representative, Donald Trump, in an important battle to head the country. American citizens are facing a stiff decision as they must choose between one candidate who intends to support the dysfunctional Washington status quo, and another who is brave enough to take a dive into the unknown. Concerning the current situation with Brexit, which sent shockwaves throughout the global

> ***The U.S. economy is doing fine. It's difficult to go down further in jobless claims. We may have reached the bottom.***
>
> *- Standard Chartered Bank*

financial markets, the US economy is not greatly affected by this. However, the gloomy economic projections for the UK and the Euro zone still cast a light shadow on the US outlook. In the meantime, the Fed revised its US economy growth forecast, stating that GDP is expected to expand between 1.8% and 2.0% in 2015, compared to its previous expectation of 2.3%. Moreover, policy makers project the unemployment rate to be at 5.2% to 5.3% at the end of the year. Eventually, the US Federal Reserve was forced to keep the target range for the Federal funds rate flat at 0.25–0.50% after its June 14–15 meeting, owing to continuous risks to economic outlook and stagnating inflation expectations. Overall, despite rather mixed forecasts, the Fed remains convinced to lift interest rates once or twice over its four remaining monetary policy meetings this year.

Japan

The Bank of Japan decided to keep interest rates and QE settings unchanged in line with expectations, but economists see room for further easing in the coming months amid sluggish global growth and anaemic inflation. However, GDP growth for Q1 was revised upward due to stronger private consumption, while on 1 June, Prime Minister Shinzo Abe decided to postpone the implementation of a controversial sales tax hike from 8% to 10% in order not to derail Japan's economic recovery. Moreover, the tax hike was originally supposed to be implemented in April 2017, but it will now likely occur in October 2019. In the meantime, the BoJ's Governor Haruhiko Kuroda and his colleagues continue to evaluate the economic effect of their negative-rate policy ahead of an election in August. The BoJ Governor Haruhiko Kuroda's decision to keep policy settings unchanged comes just a week after data showed Japanese economy grew by 0.5% in the first quarter, beating the initial reading of 0.4%. While the central bank maintained its upbeat view of the world's third biggest economy, it revised downwards its outlook for consumer inflation to say prices were likely to decline slightly year-on-year or hover around flat for the time being. Based on the recent economic data, the Japanese economy entered Q2 on a rather weak note mostly due to the April's earthquakes and growing yen which left an impact on growth. Moreover, the decision in the Brexit referendum on 23 June pushed the yen to new records which it had not seen since 2014, putting additional pressure on Japan's fragile economic recovery and paving the way for further policy incentives. Nevertheless, Abe's decision to postpone the sales tax could slightly spur the Japanese economy during the next year. Eventually, we see the economy growing 0.6% this year, which is 0.1 percentage points up from the last month's projection.

> ***Short-term shocks from Brexit subsided for now but it's certain downside risks to the global economy have increased.***
>
> *- SMBC Friend Securities*

New Zealand

The RBNZ also stunned markets by cutting the OCR and said that further easing may be required to help offset a recent decline in inflation expectations and help faltering dairy sector amid weak global economic background. The RBNZ lowered the country's cash rate by 25 basis points, taking it to a record low of 2.25%. The central bank said the outlook for the world's economy had deteriorated since December, due to slower growth in China and Europe. The surprised decision came just five weeks after Governor Graeme Wheeler's speech in which he signalled no rush to ease further in response to weak inflation. Most economists now expect a second reduction in the OCR in June, with a key risk to the nation's economy remaining the dairy sector, where export commodity prices stay some 55% lower than their 2014-peak.

> ***The RBNZ would like to see the New Zealand dollar weaker***
>
> *- Deutsche Bank AG*

China

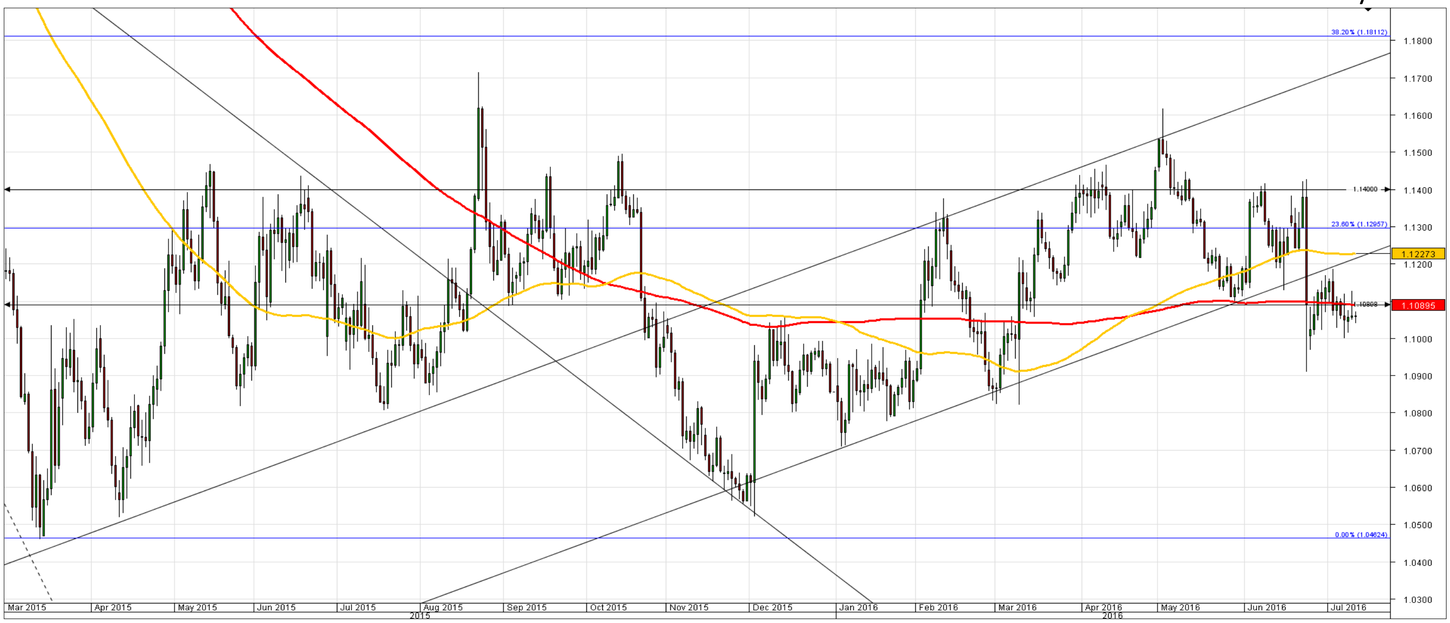
According to the economic releases, China maintained mixed development during the second quarter of 2016. The Chinese trade surplus rose less-than-expected in May. The report released by National Bureau of Statistics of China announced that Chinese trade surplus rose to 49.98bn, from 45.56bn during the preceding month. In the meantime, value of China's exports continues to decline further in dollar terms in line with expectations. Chinese imports, in turn, contracted at their slowest pace since 2014 in May, suggesting that government stimulus measures focused on housing and infrastructure are succeeding in stabilising demand. Chinese imports of unwrought copper and copper products plunged 3.7% on a monthly basis to 430,000 tonnes in May. This pushed imports to 2.31m tonnes in January-May, up 22.1% year-on-year. However, weakening private sector investment has raised concerns about the medium-term prospects. The pace of Chinese investment growth slowed notably during the first five months of this year, pushing lower the world's second-largest economy and renewing uncertainty over its prospects. Fixed asset investment growth weakened to 9.6% in the January-May period as tepid demand and industrial overcapacity continued to weigh on the economy. This data could be compared to the 10.5% rise in the four months through April. Investment in real estate also weakened, growing at 7% between the same period of four months compared to the same period last year. Eventually, taking into account official GDP measure, China's economy is still on track to expand by 6.5% in 2016. Nevertheless, this is still the lowest target set by government (6.5-7%) growth in 2016. Also, it is worth noting the government has eased its budget deficit target for 2016 to 3% (from 2.3% in 2015), providing additional room for some fiscal stimulus in the upcoming quarter.

> ***Growth has stabilised, and we also see that the structure is improving. Investment growth is coming down, which is a correction for the over-investment of the past seven years.***
>
> *- JPMorgan*

Technical Analysis

EUR/USD

Daily Chart



100-day SMA 200-day SMA

2016 Q2 Summary

Our previous quarter's outlook forecast the EUR/USD pair's movement correctly, as for the second quarter of 2016 the currency exchange rate was bounded between 1.09 and 1.15. In addition, as the pair was volatile between the two boundaries, the pre-Brexit level did not differ from the March 31 level, as on both days the Euro was at 1.1378 against the US Dollar. Before the results for the UK referendum were published, the pair was in a channel up pattern, which it started back in December 2015, and the rate dropped around 300 pips on the news. However, as the world recovered from the Brexit-induced risk-off sentiment, the Euro has begun to regain strength in the recent trading sessions.

2016 Q3 Outlook

The fundamental data coming from the UK shook the world's financial markets with a massively induced risk-off sentiment, from which it is recovering rather slowly. As it can be seen on the chart above, the Brexit moved the pair a lot lower. However, if the Brexit shift would be ignored, the currency exchange rate would have moved in accordance with the pattern. Taking that into account, if no major fundamental changes happen regarding the EU and the UK's exit from the EU, the EUR/USD pair will most likely resume upward movement in a new ascending channel, which will be about 300 pips lower and parallel to the previous channel up pattern, which was broken due to the referendum results. Most market participants keep watching the events surrounding the issue, and the final decision still remains in the hands of the British parliament.

GBP/USD

Daily Chart

100-day SMA 200-day SMA

2016 Q2 Summary

From the end of March until June 23, when the Brexit referendum results came in, the Cable gradually climbed higher and higher, as investors presumed that an exit from the EU is unlikely. The UK Referendum on the European Membership results came in as a “no” to the EU, and with that the GBP/USD tumbled down to historical levels not seen since 1985. The scenario with the biggest fall came true, as in the previous report we mentioned that the currency exchange rate might go down as low as 1.28 dollars in the long term. However, even at the start of July the rate managed to fall below this level, as the Bank of England published its Financial Stability Report, and the bank’s governor Mark Carney explained the grim outlook.

2016 Q3 Outlook

The previous channel up pattern was broken by the Brexit, and since then no new strong patterns have been established on the daily chart, which would indicate anything but a continuous downfall of the Pound against the Greenback. However, on a larger scale and on the weekly chart there is a distinct channel down, if one connects the 2014 high together with the heights of 2015 and the pre-referendum height of May from the upside and the 2015 lows with the level of 1.28 reached at the start of July from the downside. In accordance with the pattern, the currency exchange rate is set for a rebound very soon, although it might only last the next quarter, as the trend is still oriented downwards.

USD/JPY

Daily Chart

100-day SMA 200-day SMA

2016 Q2 Summary

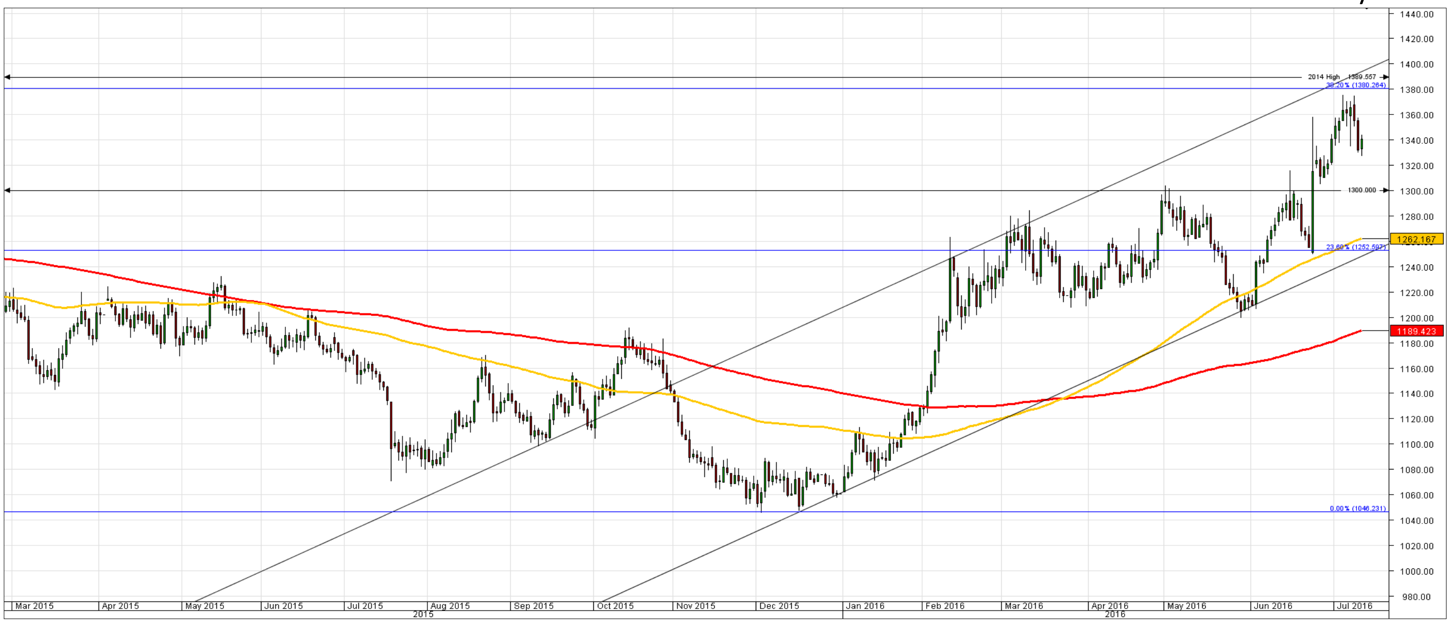
A rebound of the Buck did not occur in the last quarter, as the Greenback continued to lose strength against the Japanese Yen. The pair's movements were mainly within the borders of a channel down. The currency exchange rate had to struggle various times with the 55-day SMA, which was continuously moving near the pattern's upper trend line, however, and the pair also struggled with resistances and supports provided by the Fibonacci retracement levels, which at various times managed to hold off or even reverse the movement of the US Dollar against the Yen. In addition, the currency rate reached the lowest level of 2014 (100.72) by end of June, which, together with the pattern's lower trend line, stopped and afterwards reversed the pair's movement down.

2016 Q3 Outlook

In accordance with the channel down pattern, the US Dollar rebounded against the Japanese Yen in the middle of July, as it met the support provided by the pattern's lower trend line around the level of 99.00. It is followed by a surge of the Buck against the Yen, which could continue for the rest of the quarter, if not affected by drastic change in fundamentals. The pair will not meet serious resistance on its way upward to the pattern's upper trend line at 106.00 level, as the SMAs and Fibonacci retracements will stay far above the currency exchange rate at levels above the 100.00 mark.

XAU/USD

Daily Chart



100-day SMA 200-day SMA

2016 Q2 Summary

Global markets have become more unstable than it could have been predicted by the market participants. Due to this fact, the yellow metal has surged even faster than previously expected. Every level of resistance, which was seen as possible stopping point for the metal, has been broken, as all of the SMAs and the 2015 high level of 1,300.85 are below the current price. However, from the start of the quarter up to end of May, the outlook seemed that gold would fall below 1,200, as in the last days of spring the bullion fell for nine consecutive trading sessions, amidst which it penetrated the 100-day SMA. Afterwards, in June the metal rebounded and in the timeframe of a month surged from 1,207 in June 1 to 1,341 by June 30.

2016 Q3 Outlook

On its way up, the bullion still remained in an ascending channel, and it is closing in on the pattern's upper trend line, which is strengthened by the resistance provided by the 2014 high at 1,389.56 and the July's monthly R1 at 1,384.32. Due to the high resistance put up by this cluster, the yellow metal is poised to lose value. In addition, the metal is going in for the resistance for a second time already, as it already moved lower for two sessions. Moreover, as the Brexit situation calms down, there might be additional profit taking. However, considering the pattern, gold will most likely not fall below the level of 1,300, which in one month will be supported by the 2015 high and the channel up pattern's lower trend line. The metal is expected to rebound again and continue its movement up after the downfall to 1,300.

EUR/JPY

Daily Chart

100-day SMA 200-day SMA

2016 Q2 Summary

In the second quarter of 2016 the European single currency kept sliding down against the Japanese Yen, same as since June 2015. However, closer to the end of June 2016 the unexpected occurred, Britain voted to leave the European Union during the referendum, causing the Euro to weaken substantially. As a result, the expectations were not met, causing the EUR/JPY cross to fall to the lowest level since December 2012.

2016 Q3 Outlook

Although the Euro began recovering after 'Brexit', the overall picture still represents a bearish trend. At this point even if the single currency manages to keep posting gains, the resistance trend-line around the 121.00/122.00 major levels is unlikely to be reached. Since the beginning of the year we have seen the EUR/JPY currency pair several times put the 100-day SMA to the test, but unable to pierce it. In case the trend persists, the exchange rate is expected to hit the given SMA around the 120.00 mark, where the bearish momentum is to prevail again. On the other hand, if a breach of the 100-day SMA takes place, the next target will become the one-year down-trend, which is now also reinforced by the 200-day SMA. Nevertheless, before approaching the 100-day SMA the EUR/JPY cross is first required to breach the other resistance line, which was established only since the beginning of the year. Overall, even if the pair manages to regain the bullish momentum during the third quarter of the year, the trend is to remain bearish, as no upcoming events are expected to push the exchange rate above the 124.00 major level, therefore, exiting the bearish trend.

AUD/USD

Daily Chart

100-day SMA 200-day SMA

2016 Q2 Summary

The Australian Dollar failed to meet expectations during the second quarter, as it struggled to maintain trade above the 0.78 major level against the US counterpart. Afterwards, the pair plunged and negated most of its first quarter gains, but the bullish momentum appears to have been regained in the middle of Q2, with the Aussie refusing to remain below the 0.72 mark for long. Moreover, the pair appears to have formed a new ascending channel pattern, which defines the borders of its trading range since the rebound in May 2016.

2016 Q3 Outlook

Since the AUD/USD currency pair has entered an ascending channel pattern and remained within its borders for more than a month, the exchange rate is also expected to be contained within the channel. Neither 100 nor the 200-day SMAs are providing sufficient support or resistance to limit the volatility, therefore, at this point they are unlikely to bolster the channel's support line. Meanwhile, above the 0.77 major level there is a three-year down-trend, which could prevent the Aussie from continuing trade inside the channel. However, during this period the pair has been rather volatile, meaning that risks of a breakout are present. Meanwhile, technical indicators for the first month are giving mixed signals, implying that the Aussie is to remain anchored around the 0.75 major level up to the point where the trend-line coincides with it near the end of the month. Consequently, demand at that spot could push the Australian currency to prolong trade within the channel, but this outlook will be confirmed only if the exchange rate fails to drop below the 0.74 mark in the second half of June.

USD/CAD

Daily Chart

100-day SMA 200-day SMA

2016 Q2 Summary

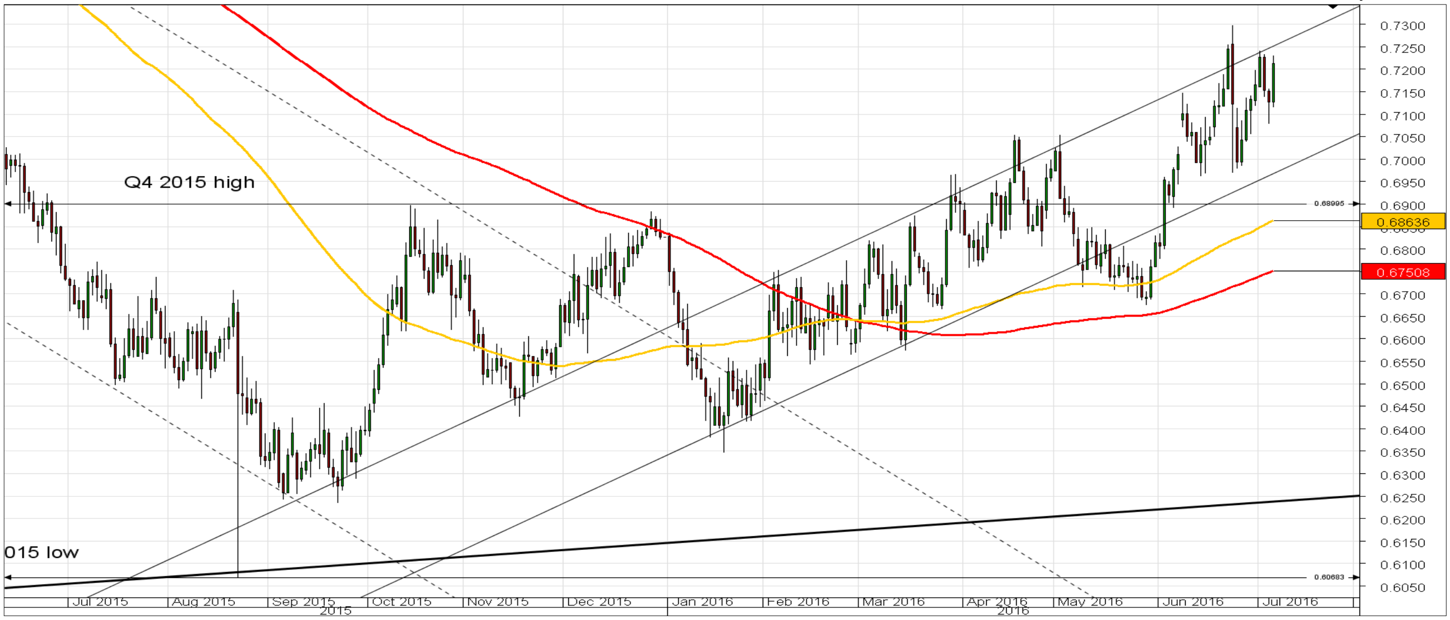
During the second quarters of 2016 the American Dollar managed to regain the bullish momentum, easily piercing the descending channel's upper border due to it being violated on several occasions previously. Nevertheless, the USD/CAD currency pair appears to have formed a solid ascending channel afterwards, where it remained by the end of Q2, with the exchange rate gradually edging closer the support line.

2016 Q3 Outlook

There are risks present that could cause the US Dollar falling into another period of sharp declines against the Canadian counterpart, as the Fed's decision to postpone interest rate hikes first until September, then possibly even by year's end, could spark more weakness. The 100-day SMA is also weighing on the Buck, preventing it from appreciating further and putting the channel's resistance line to a test. By the end of the first month of Q3 either a breakout to the downside should occur, which would drive the exchange rate towards the 2015 low of 1.16, or the pair is to climb up towards the 200-day SMA and the channel's upper border circa 1.3350. More bullish development afterwards is unlikely to take place, as we should see the price bounce back from the tough resistance area, ultimately leading back towards the ascending channel's support line. The second outlook is somewhat more probable, as technical indicators in the monthly timeframe suggest that a rally is due. Consequently, if this outlook prevails in the first month, the pattern is expected to be preserved through all of the third quarter, with the USD/CAD stabilising around the 1.32 psychological level.

NZD/USD

Daily Chart



100-day SMA 200-day SMA

2016 Q2 Summary

The New Zealand Dollar avoided the worst-case scenario during Q2, as the NZD/USD currency pair succeeded in regaining the bullish momentum after having slumped in May, with demand represented by the 100 and 200-day SMAs being sufficient for such movement. The Q4 2015 high was also pierced to the upside, causing the exchange rate to reconfirm the six-month ascending channel's upper border.

2016 Q3 Outlook

There is not much to say about the Kiwi, as it is also a commodity currency, which is quite dependent on oil prices. Taking into account the fact that the NZ Dollar has been appreciating against its US counterpart since the beginning of the year, the trend is expected to remain unchanged. The trading range is represented by the borders of an ascending channel pattern, despite some violations occurring from time to time. There are currently no major obstacles on the NZD/USD pair's path, thus, the exchange rate is expected to retake the 0.75 mark by the end of the third quarter of the year, ultimately aiming for the 2015 high of 0.7888. In spite of the positive outlook, we recommend being wary of a possible downside breakout, as it has occurred in May. Fortunately, the 100 and 200-day SMAs are bolstering the lower boundary of the channel, making it difficult for the New Zealand currency to lose value. However, in case bears manage to push the NZD/USD significantly lower, there is still a support line just on top of the 0.63 level, indicating a long-term bullish trend, but a drop that low to take place would require more than a quarter of a year. Overall, the outlook is positive, with the Kiwi anticipated to remain strong against the Greenback.

Expert Commentary

Pound Sterling

How do you evaluate the performance of the British Pound during the Q3 of 2016 and what will be the major drivers for GBP throughout the same period?

Alvin Tan
FX Strategist
Societe Generale
UK

At this point, we believe that the Sterling will continue to be under broad pressure throughout the Q3 and in fact further into the year-end.

As concerns the key factors that could influence the performance of the Sterling, I believe that one of the issues weighing on the Pound will be the expectations for a rate cut by the UK's Central bank. Another very important factor, to my mind, would be uncertainty of the Kingdom's place within the European Union after the 'Brexit', especially in terms of any agreement it may have with the EU. For example, in the recent days there has been a bit of optimism about the 'Brexit', particularly given that the Article 50 has not been involved; nevertheless, I think that concerns about the risk coming from the vote will come back.

> *At this point, we believe that the Sterling will continue to be under broad pressure throughout the Q3 and in fact further into the year-end as well.*
>
> *- Alvin Tan*

What are your forecasts for EUR/GBP and GBP/USD for the Q3 of 2016?

For the moment, we do expect the British Pound to fall to 1.29 against the US Dollar, while we see the EUR/GBP currency pair rise to 0.85 cents. Overall, we see the Sterling weaken against both currencies in the third quarter of this year.

US Dollar

Rob Carnell
Chief Economist
ING Bank
UK

How do you evaluate the performance of the Greenback during the Q3 of 2016 and what will be the major drivers for USD throughout the same period?

To my mind, the performance of the US Dollar will be contingent on political developments not just within the UK but within Europe. If, as we suspect, things remain very uncertain, then the Greenback should continue to attract inflows and perform well against its major counterparts.

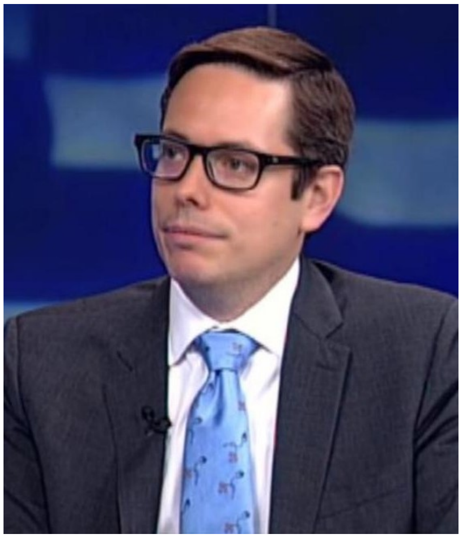
If we talk about the drivers that will influence the moves in the value of the US Dollar, then I would highlight the heightened risk aversion and uncertainty over politics in Europe as well as a sense of further easing from other Central banks including the Bank of Japan, the ECB and the Bank of England. Extra easing from them should drive the US Dollar stronger despite the fact that the Fed is going to be on hold.

> ***If, as we suspect, things remain very uncertain, then the Greenback should continue to attract inflows and perform well against its major counterparts.***
>
> ***- Rob Carnell***

What are your forecasts for EUR/USD, GBP/USD and USD/JPY for the Q3 of 2016?

By the end of the third quarter of 2016, we have the EUR/USD trading at 1.08. The USD/JPY currency pair we see finishing at 95, while the GBP/USD cross we see at 1.23 by the end of Q3 this year.

Canadian Dollar



Charles St Arnaud
Senior Economist
Nomura Securities
UK

How do you evaluate the performance of the Loonie during the Q3 of 2016?

I suppose that in the coming quarter the performance of the Canadian Dollar will certainly depend on what we see in terms of performance of oil and performance of the domestic economy as such. Obviously, there is a big risk that the upcoming data for Canada will take a big turn to the worse, especially given the data will start to incorporate the event of the forest fires that hit Alberta oil production in May. Subsequently, that may put some downward pressure on the Canadian Dollar. Until now, the Loonie has been trading very well in line with stronger oil prices and weaker US economy, which has basically been translated in terms of a repricing the probability of the Fed rate hike that has now been pushed back quite late into 2017. Ultimately, that change in the rate differentials has been supporting the Canadian Dollar.

> *The main drivers will remain the same over the next quarter, more specifically, stronger oil prices and the economic data in the country.*
>
> *- Charles St Arnaud*

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

The main drivers will remain the same over the next quarter, more specifically, stronger oil prices and the economic data in the country. Nevertheless, we also have to keep in mind that we are currently at the levels where we are starting to enter a slightly overvalued territory in terms of the Canadian Dollar; therefore, further appreciation will remain relatively limited.

What are your forecasts for AUD/CAD, EUR/CAD and USD/CAD for the Q3 of 2016?

By the end of the third quarter of 2016, we have the AUD/CAD trading at 0.94. The USD/CAD currency pair we see finishing at 1.38, while the EUR/CAD cross we see at 1.48 by the end of Q3 this year.

Chinese Yuan

Hans Gustafson
Chief Emerging Markets Strategist
Swedbank Markets
Sweden

What performance do you expect from the Chinese Yuan and what are your forecasts for USD/CNH for the Q3 of 2016?

Since November last year, The People's Bank of China has been targeting both the USD/CNH currency pair and currency basket, as they have their own CFETS RMB Index's currency basket, which means that the PBOC is no longer forced to follow the USD. Now, as the Yuan's performance is compared against a wider selection of peers, the PBOC has more freedom, as they can choose between the two targets: the currency basket or the US Dollar. At the moment, I expect the USD/CNH, which is currently around 6.65, to move to 6.80 in one year's time, hopefully in an orderly fashion. Moreover, I anticipate the Chinese currency to weaken 4% to 5% against the currency basket during the same period.

Over the recent time, the CNH has weakened a little bit too fast; therefore, the PBOC had to intervene in the market to prevent further weakening. The reason for the weak trend is that the Chinese still have deflation in the producer prices; thus the weaker currency will help the industry move out of the overcapacity problem that they are facing. Otherwise, they do not have any obvious need for a weaker currency, as China runs a very high trade surplus.

> *At the moment, I expect the USD/CNH, which is currently around 6.65, to move to 6.80 in one year's time, hopefully in an orderly fashion.*
>
> *- Hans Gustafson*

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

The major driver for the moves in the Yuan will definitely be the Greenback. If the US Dollar remains where it is right now or continues to weaken, the Chinese Central bank could continue to gradually weaken the Yuan. However, in case the Dollar grows much stronger, things would complicate, as that may create a similar situation to what we have had in January, when there was a massive speculation against the Chinese Yuan. In such case, the CNH might actually fall much lower, but that is not what I expect; nevertheless, that is still the risk. However, the main risk is certainly the Greenback, which could be triggered by more uncertainty and chaos in the EU after the 'Brexit'. The other drivers would be deflation in producer prices and also weak growth in the industrial production.

Japanese Yen

Mark Williams
Chief Asia Economist
Capital Economics Ltd
UK

What performance do you expect from the Japanese Yen for the Q3 of this year?

It mostly depends on what happens to global fears over 'Brexit'. If we see a big pick-up in risk aversion, perhaps on worries about the outlook for the wider EU, then the Yen will almost certainly strengthen further. I suppose, in such circumstances the Ministry of Finance in Japan would intervene and try to slow the Yen's rise; however, it would not be able to prevent the Yen from strengthening. Nevertheless, that is not our central scenario. Instead, I actually think that global concerns about 'Brexit' should fade fairly soon and it will be more of monetary policy divergence that will determine the outlook for the currency. At the moment, we are expecting more monetary loosening from the Bank of Japan coming in the nearest future, probably even in July, and if we are right about that, then the Yen should start weaken again.

At the moment, we are expecting more monetary loosening from the Bank of Japan coming in the nearest future, probably even in July, and if we are right about that, then the Yen should start weaken again.

- Mark Williams

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

There will be two drivers: one is what happens to the risk appetite, which is obviously very difficult to predict given its nature, and worries over UK's exit from the EU, that will lead to another surge in safe-haven flows into Japan. The major factor, however, will be monetary policy divergence, as I expect the Bank of Japan to loosen again very soon, while the Fed is slowly edging towards tightening.

What are your forecasts for EUR/JPY currency pair for the Q3 of 2016?

We believe that the Yen will weaken towards maybe 120 by the end of this year. If we talk about the third quarter of this year, then we would see the Yen fluctuating at around 110-115.

Trade Pattern Ideas

EUR/GBP

Weekly Chart

200-week SMA

EUR/GBP

Channel Up

Increased uncertainty over the fate of the United Kingdom within the European Union negated a large portion of the earlier losses in June, and the vote itself forced the price to leave the pattern, paving way for a prolonged recovery.

Three months ago, we expected EUR/GBP to turn around between 79 and 81 pennies. The supply there was implied by the long-term moving average, and more importantly, by the upper bound of the descending channel that originated back in 2009. This scenario was in fact materialising during the early days of the second quarter, as the first attempt of the currency pair to break this resistance area failed, leading to a five-penny drop during the last two months of spring.

Later on the market changed. Increased uncertainty over the fate of the United Kingdom within the European Union negated a large portion of these earlier losses in June, and the vote itself forced the price to leave the pattern, paving way for a prolonged recovery. As a result, EUR/GBP soon started forming a bullish channel, but eventually violated its upper boundary and the 2014 high along the way, which adds to the immediate bullishness of the European currency.

Some of the indicators, such as RSI, are suggesting that the pair could already be overbought, but considering the absence of any significant resistance areas until the 2013 highs, there is unlikely to be a substantial downward correction before the price hits 0.8830/0.8870. If a subsequent bearish reaction is limited by the former upper bound of the channel, we will expect an extension of the rally towards 2010 and 2011 highs between 0.9150 and 0.9050. Meanwhile, if 0.86 fails to rekindle a recovery, EUR/GBP will be expected to retrace back to a cluster of major supports in the 0.80/0.79 region, which apart from two major trend-lines will also include the 200-week SMA.

AUD/JPY

Weekly Chart

200-week SMA

AUD/JPY

Channel Down

The rebound from 72 could amount to 10 yen without breaking the channel and thus endangering the overall bearish trend.

Since the last time we looked at AUD/JPY, the currency pair has confirmed the upper trend-line of the emerging channel. Now the Australian Dollar is probing the lower edge of the pattern at 72 yen, which together with the 2010, 2011 and 2012 lows should trigger a bullish correction within the pattern. The rebound from 72 could amount to 10 yen without breaking the channel and thus endangering the overall bearish trend.

As for the longer-term perspective, continuous appreciation of the Aussie does not seem plausible. The main downside risk we mentioned in the previous report, namely deteriorating global sentiment, only intensifies flight to safety. This hardens the case of a weaker Australian Dollar and stronger Japanese Yen.

In addition, the distribution between the longs and shorts does not favour the prospect of the Aussie becoming substantially more expensive than it is at the moment. The share of bulls is already at 74%, and there is hardly any place left for new buyers to enter the market and thereby push the price higher. Instead we are looking forward to a retest of the demand area between 74.50 and 72. If breached, this will open up a path towards 55.50 yen – the lowest levels since 2008 and 2009 .

AUD/CHF

Weekly Chart

200-week SMA

AUD/CHF

Channel Down

Australian Dollar is poised to leave the boundaries of the more recent four-and-a-half-year-old channel after the currency confirms support at 0.65.

AUD/CHF is currently trading near the very edge of the bearish channel it has been forming since the beginning of 2012. Our outlook for the next several months is therefore negative. The bearish potential, however, is limited, being that the channel is the ending downward wave within the major descending channel that has been forming since the beginning of 90's, according to which we should expect a multi-year bullish correction. The Australian Dollar is thus poised to leave the boundaries of the more recent four-and-a-half-year-old channel after the currency confirms support at 0.65. Out target for the first quarter of 2017 will then be a wide supply area between 0.7750 and 0.7550, represented by some of the most important 2015 and 2016 highs. Additional resistance is created by the 200-week SMA at 0.8150.

Alternatively, should demand for the safe-haven Swissie rise, most likely amid worsening sentiment, there might not prove to be enough buyers to initiate the rally that will be able to break the red trend-line. In case the price settles under 0.65, the sell-off will likely extend by another 10 handles. In this case an upward correction is to be triggered near 0.55, namely by the lower bound of the channel the currency pair is now forming .

CAD/JPY

Weekly Chart

200-week SMA

CAD/JPY

Channel Down

While there could be a significant increase in selling activity around 86 yen after the anticipated bullish reaction from 77, the bulls should eventually overpower bears and push the price out of the pattern.

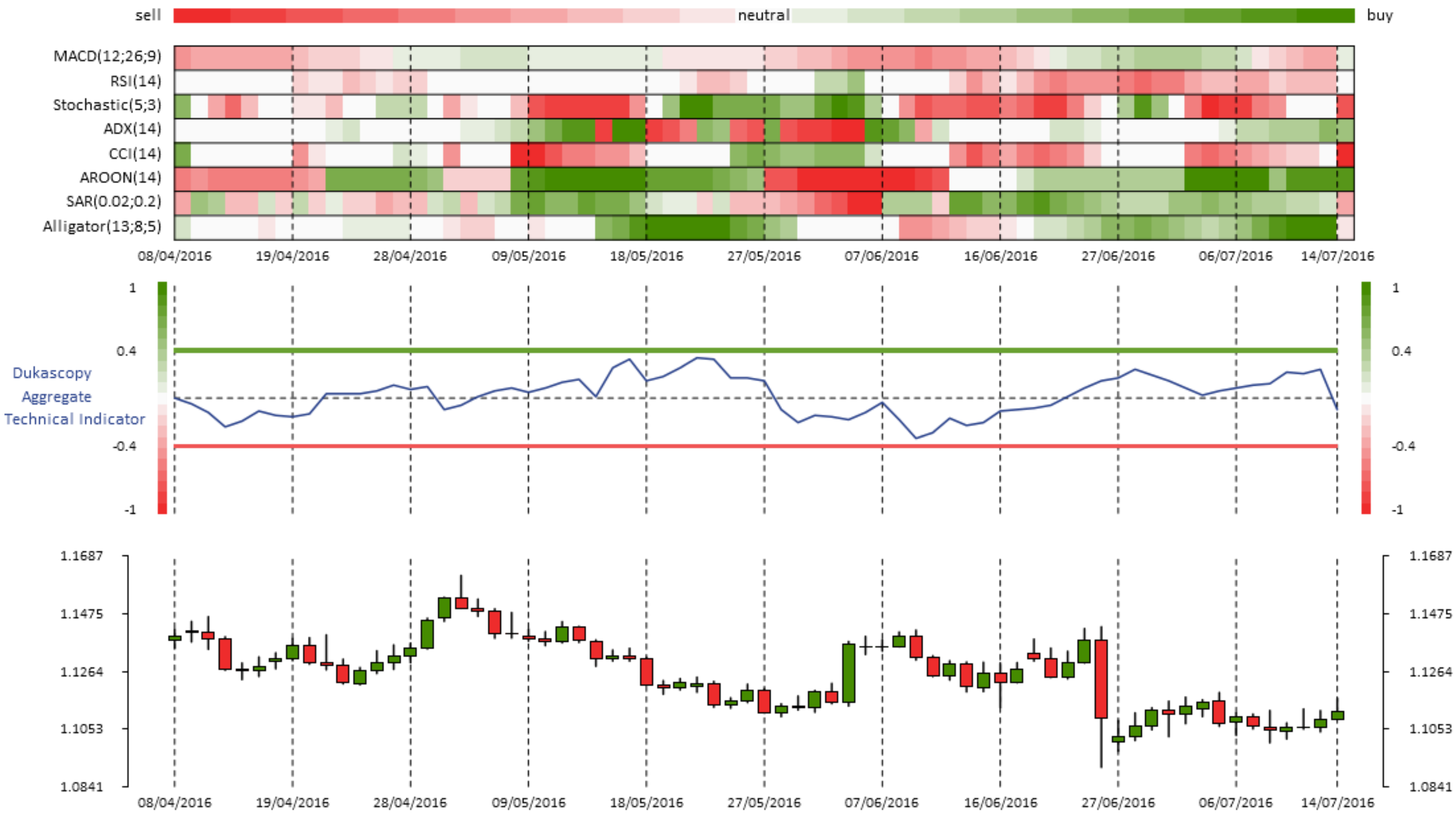
Fundamentally there are very few arguments in favour of appreciating Loonie. This is especially true in its pair with the Japanese Yen, since recently the global risks have been noticeably skewed to the downside. Nevertheless, chart analysis implies a massive demand zone around 77 yen, where we have the trend-line that has been guiding the pair higher for the last eight years. Hence, while there could be a significant increase in selling activity around 86 yen after the anticipated bullish reaction from 77, the bulls should eventually overpower bears and push the price out of the pattern. We will then expect the exchange rate to set course towards the 200-week SMA – currently at 92.50 yen.

Alternatively, in case the value of the Canadian Dollar falls under the key mark, the focus will shift to a level five yen lower. Apart from the bottom bound of the channel, this demand area at 72 yen will also be reinforced by the 2011 minimum. In addition, this level managed to withstand an earlier fierce bearish attack as well, namely the one that took place at the turn of 2007 and 2008 .

Aggregate Technical Indicator

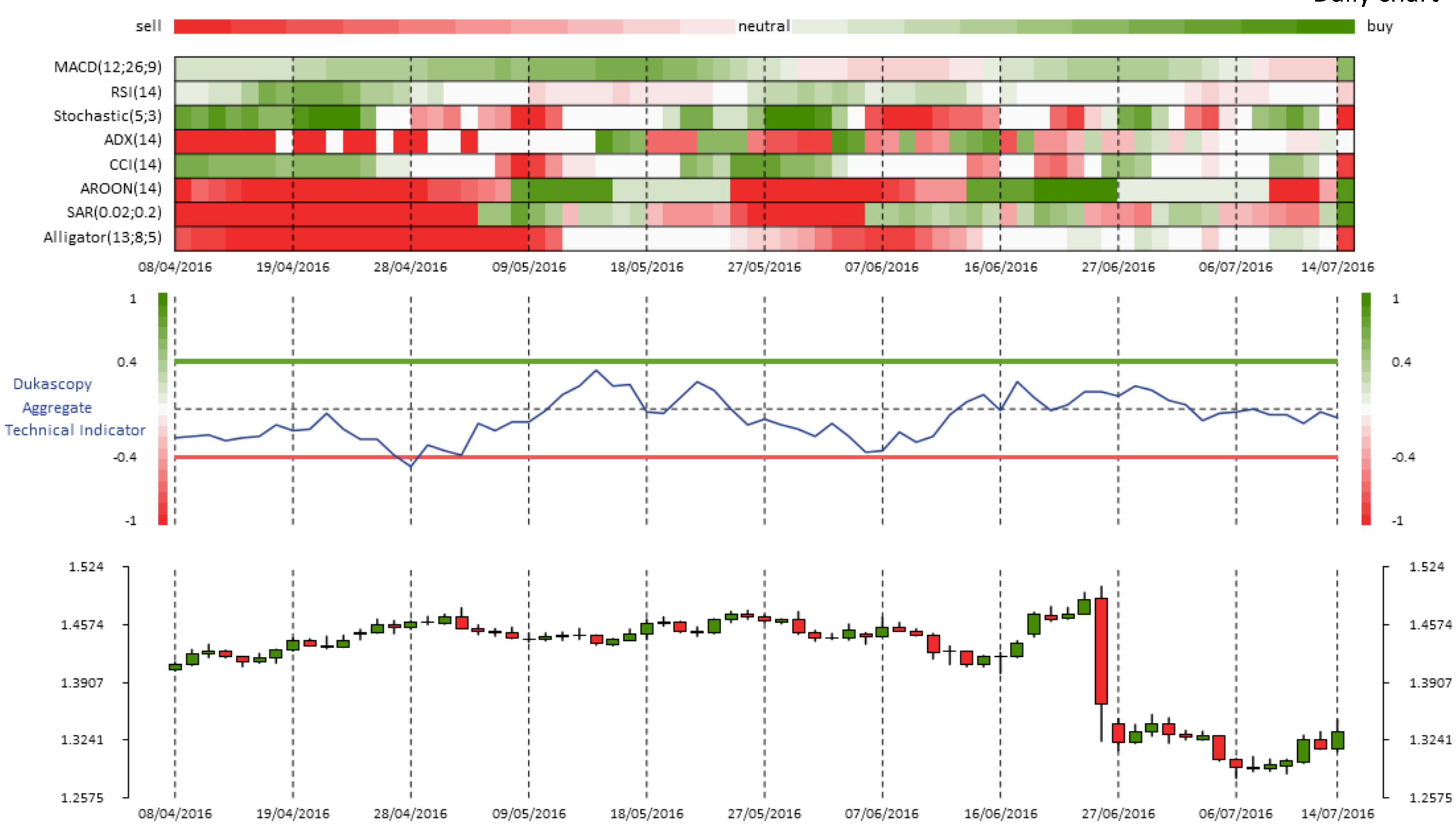
EUR/USD

Daily chart



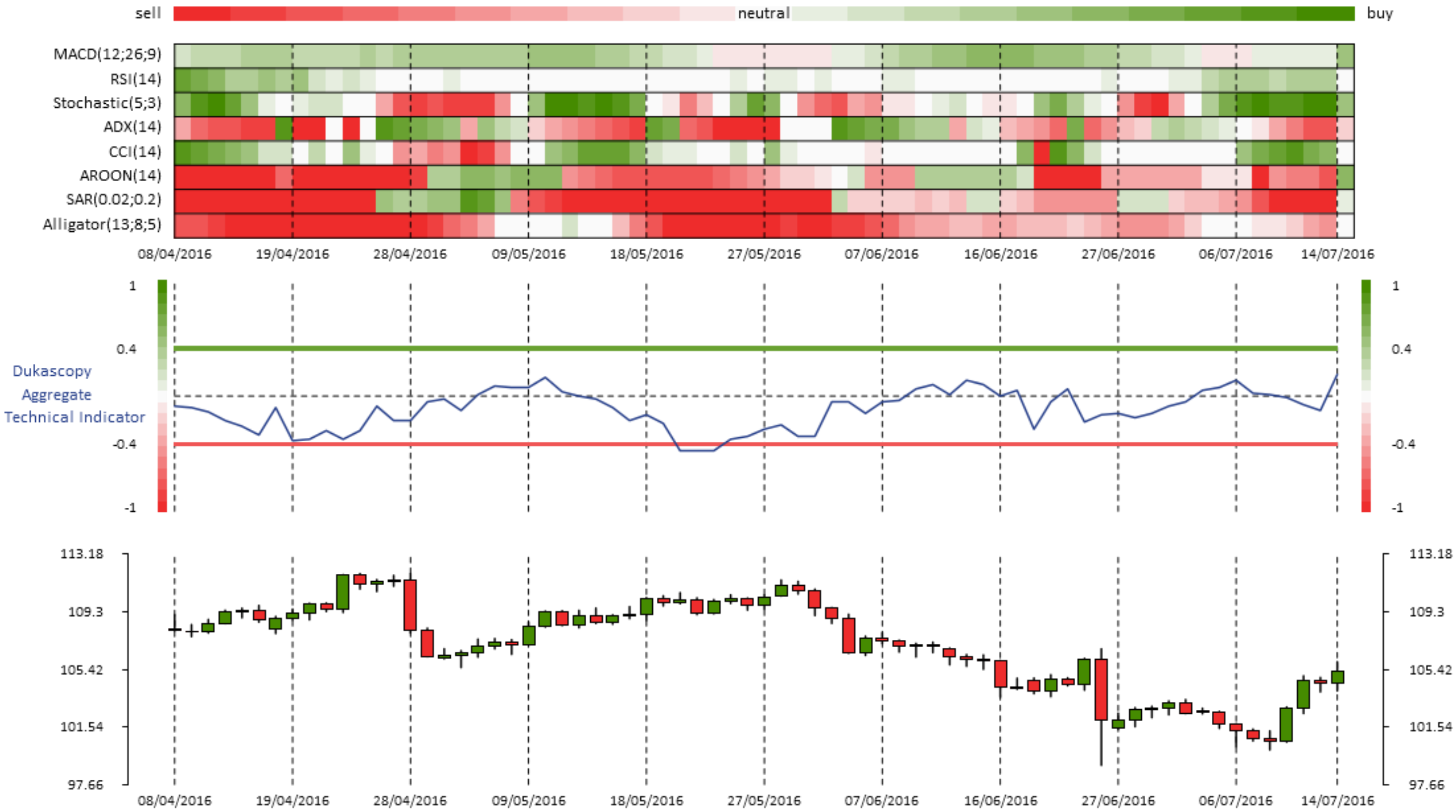
GBP/USD

Daily chart



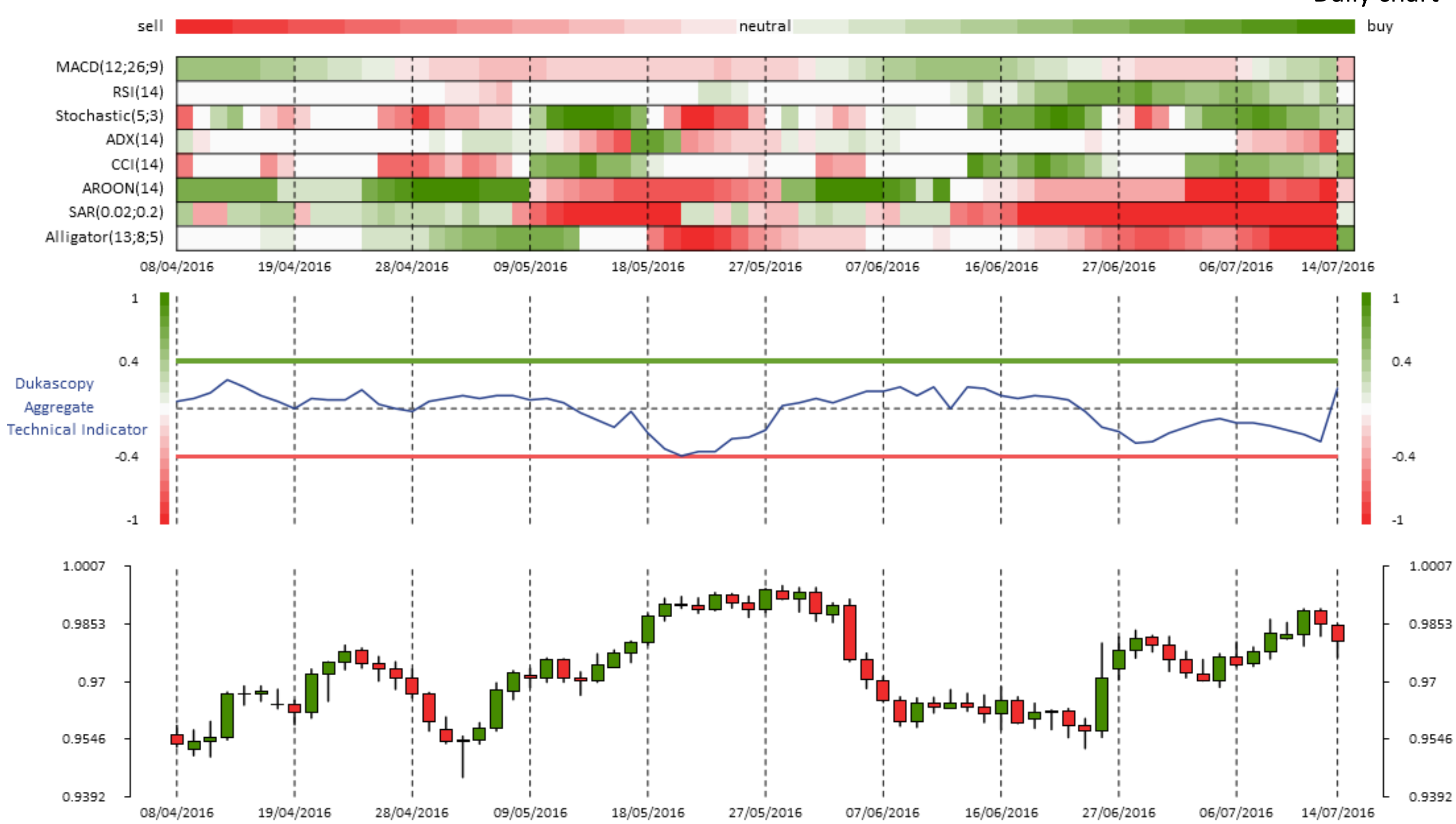
USD/JPY

Daily chart



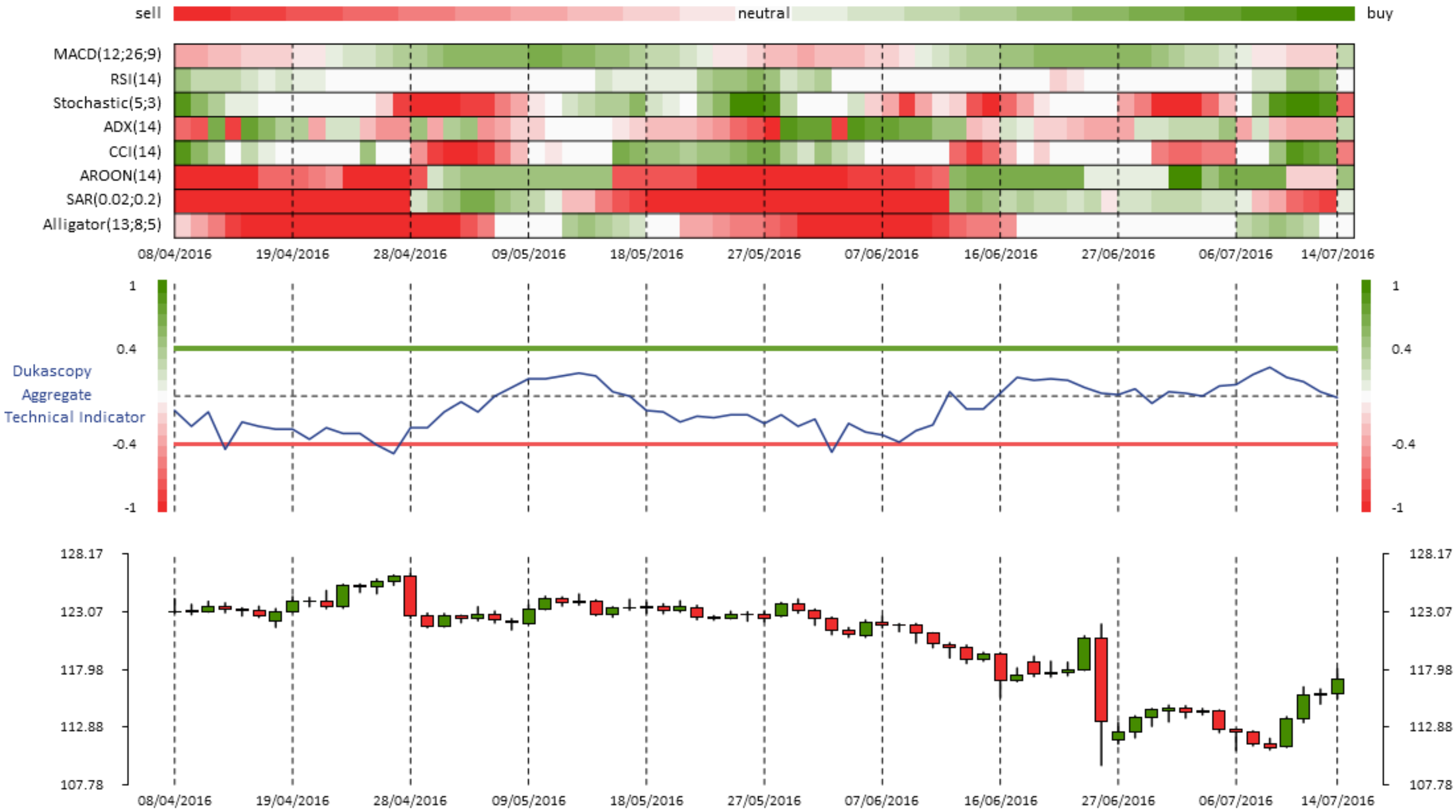
USD/CHF

Daily chart



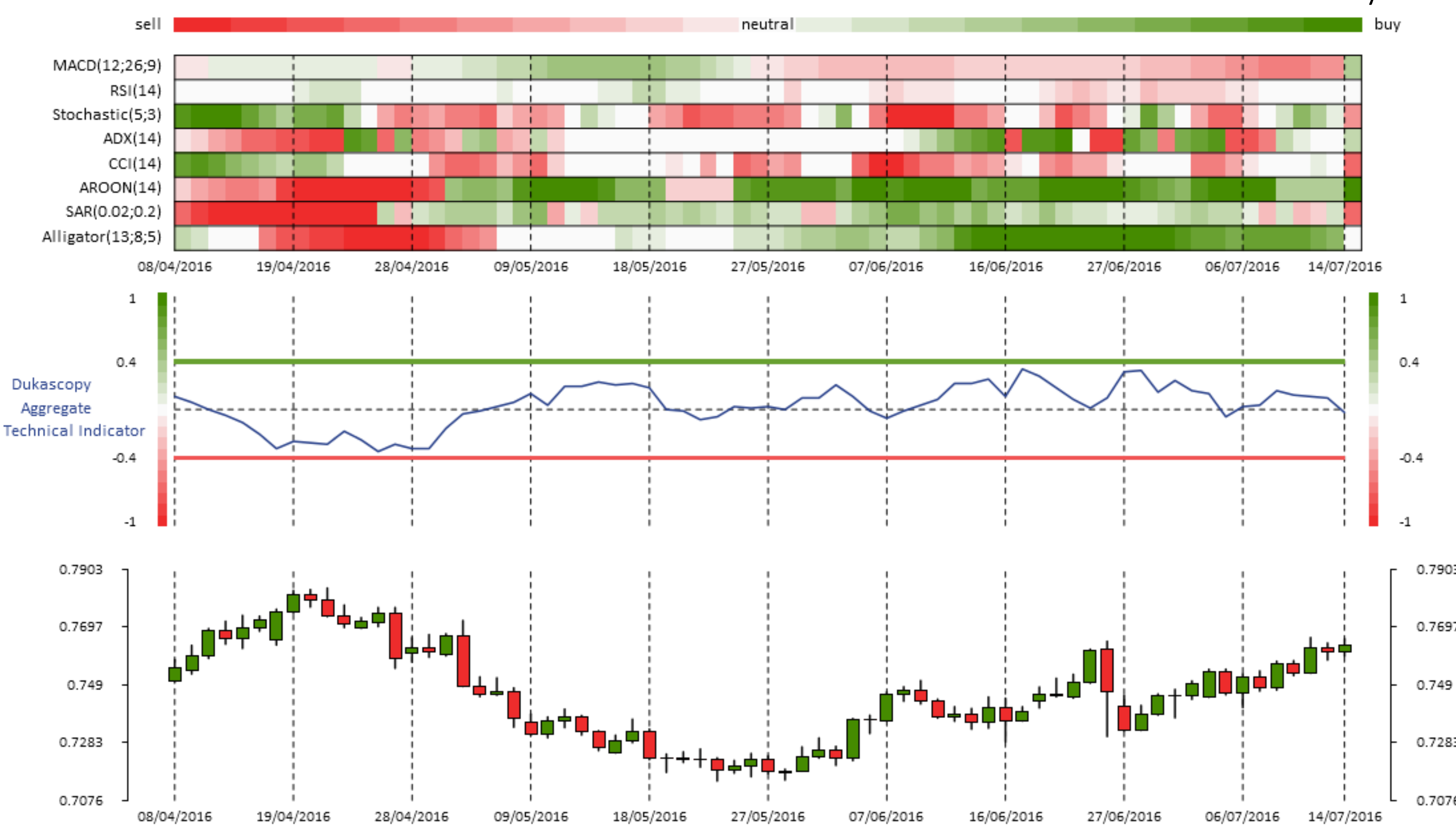
EUR/JPY

Daily chart



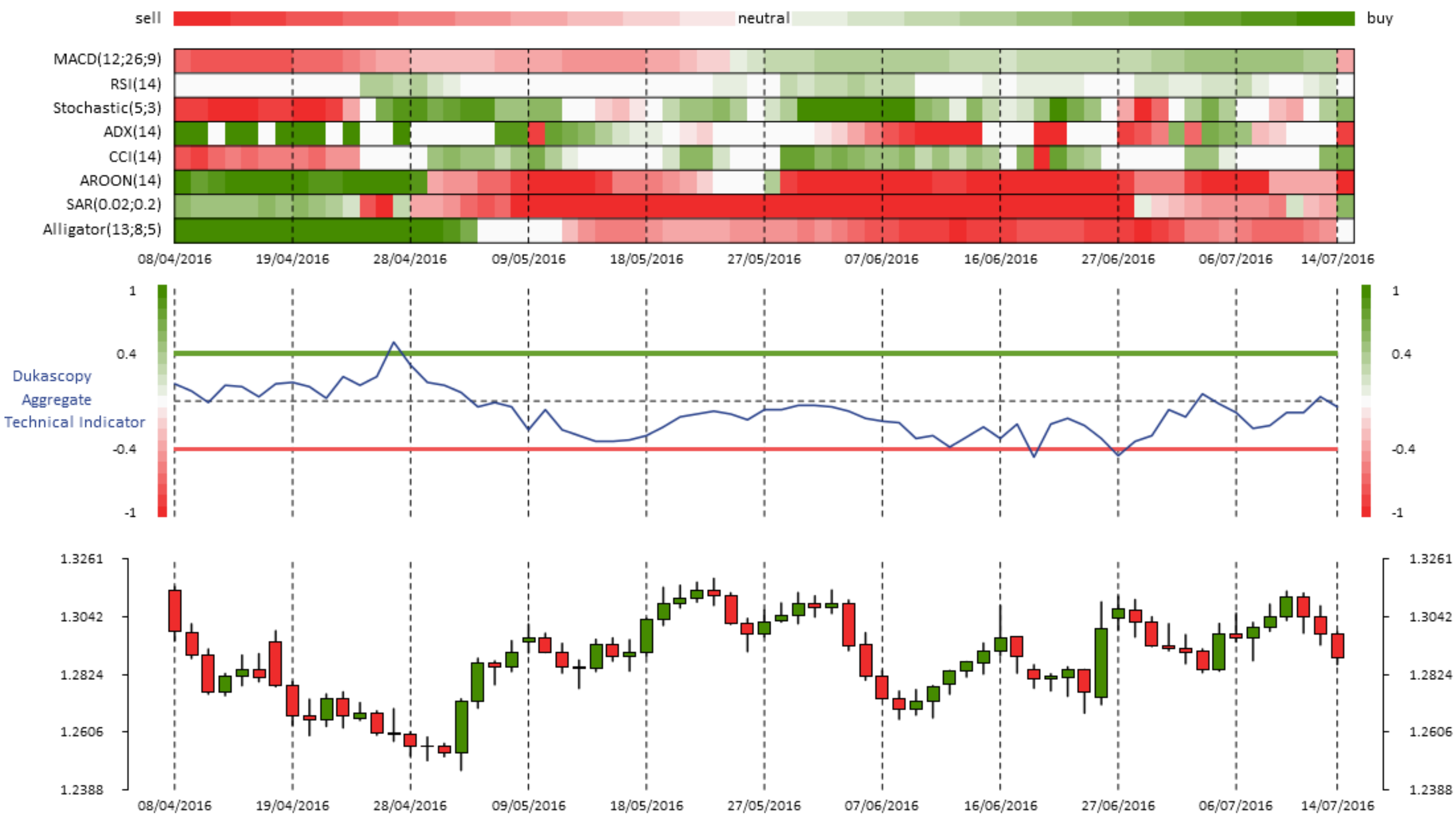
AUD/USD

Daily chart



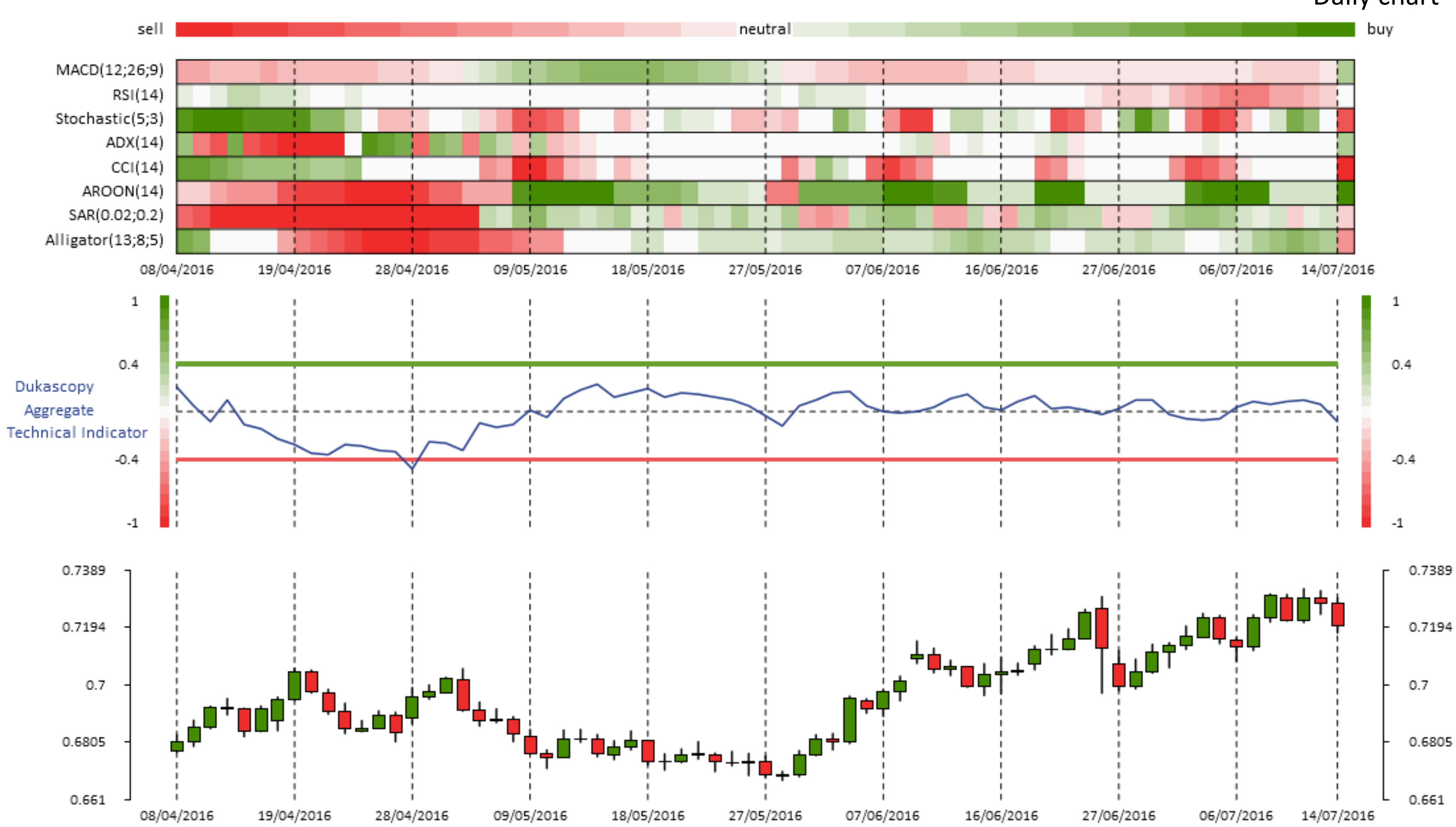
USD/CAD

Daily chart



NZD/USD

Daily chart



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