

REPORT

Q2, 2015

AGGREGATE TECHNICAL INDICATOR

FUNDAMENTAL ANALYSIS

TECHNICAL ANALYSIS

TRADE PATTERN

 **IDEAS**

COMMUNITY FORECASTS

**EXPERT
COMMENTARY**

"Chances of a [EUR/USD's] continuous slump are increasing and the pair may head towards parity in course of the second quarter of 2015"

*Maksims Gesins, economist at
Dukascopy Bank SA*





So far this year, the markets have been calm, being characterised by persisting trends. Nonetheless, we can hardly describe the first quarter as dull. The impact of some of the events during the first three months of 2015 extended beyond the changes in the exchange rates; to a certain degree, they even changed the landscape of the forex industry.

Meanwhile, growth in the developed world remains elusive, and the emerging markets fail as a good alternative. However, the prospects are bright, and we finally seem to be at the dawn of a healthy recovery outside the United States. Draghi has finally launched the QE last quarter, the Fed is about to hike the interest rate, and the Bank of Japan remains committed to fight off deflation despite the setbacks in the past.

The topics that will define the new quarter are largely related to Europe: the general election in the United Kingdom and the debt crisis in Greece. In the second half of the year, the focus should fully shift to the path of the interest rates in the United States and to the question of more stimulus measures to prop up growth in Japan, and we are sure to expand more on this in the next issues of our quarterly report.

We retain an upbeat outlook on the themes of the next three months, as they should eventually reach a logical and positive closure. Indeed, it must be acknowledged that there is still a heap of problems, and they may well stay us even after 2015, but we are encouraged by receding unease and growing confidence in the market. However, this does not mean we should let our guard down. These periods tend to conceal significant risks so, on the contrary, vigilance should be increased.

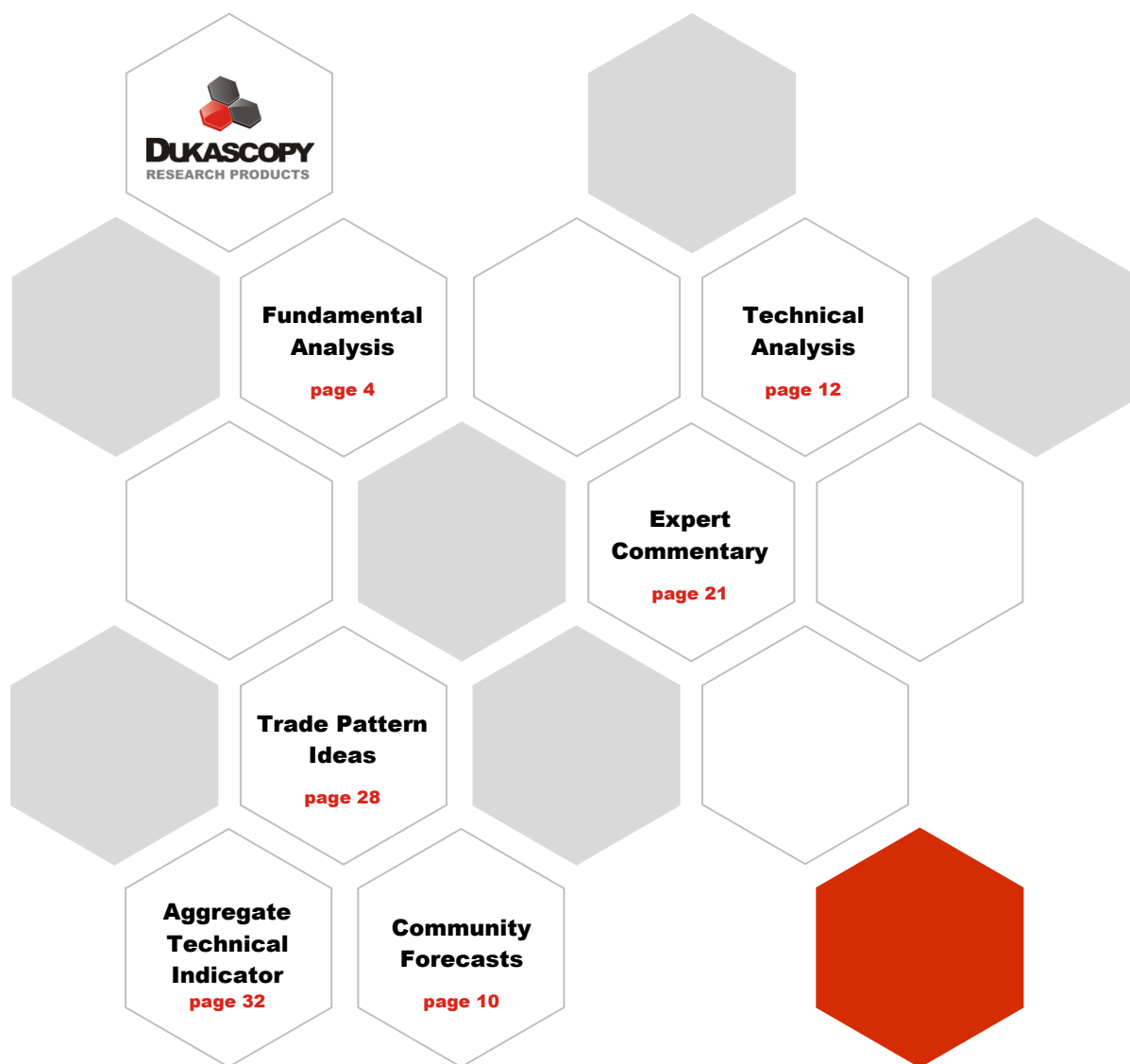
Trade thoughtfully and take care,


Alexander Suhobokov, CFA, FRM

Head of Research

Dukascopy Bank SA

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Fundamental Analysis

The malaise of low inflation is gradually spreading around the world, with all major economies seeing their consumer prices falling below targeted levels. The US, China, the Euro zone, Australia and New Zealand, Canada and Japan, all have become victims of disinflation or even deflation. The main downside pressure comes from plunging global oil prices, with crude prices trading at the lowest levels in six years, forcing consumers and businesses to trim inflation expectations. As a result, central banks around the globe have stepped up to combat low inflationary pressures.



Eurozone

The Euro zone consumer prices remained in deflationary territory at the beginning of the year due to plummeting oil prices. Inflation has been cooling since August 2012, declining below 1.0% in October 2013 and below 0.5% in July 2014, reaching negative territory in December 2014, the first time since the financial crisis more than five years ago. The ECB announced a full-blown QE programme in an ambitious attempt to save the Euro zone economy from being trapped in long-term economic stagnation. The central bank agreed to purchase government bonds worth 60 billion euros a month until at least September 2016.

The ECB revised downwards its inflation outlook for this year due to persistent decline in oil prices. The ECB now expects consumer inflation to be flat in 2015, a downward revision from the December forecast of 0.7%. As for 2016, the inflation outlook was revised higher to 1.5% against 1.3% estimated previously, reflecting expectations for the oil rout to wind down. Looking ahead, in 2017, the ECB sees inflation at 1.8% – close, but still below the central bank's goal of near but just below 2%. At the same time, the ECB has become more optimistic on growth outlook. The central bank revised its GDP growth projection to 1.5% in 2015 up from 1.0% estimated in December and 1.9% in 2016, compared with 1.5% in the December estimate. Meanwhile, 2017 growth is forecast at 2.1%.

“We have to earn the trust of our European partners, but they must also acknowledge that for five years they have been imposing a programme that makes matters worse. They need to convince us that they're serious about rebooting.

- Yanis Varoufakis, Greece's Finance Minister

After Syriza, the anti-austerity party, won national election in Greece in February, there have been continuous negotiations between the new Greek government and Euro group over Greece's financial situation. An agreement between Athens and its European colleagues was provisionally reached, which significantly lowered the chances of a Grexit. The Greek government presented its plan on how to overhaul the nation's economy, which the European Commission saw as “sufficiently comprehensive to be a valid starting point”. Athens pledged to take a disciplined approach to budgets, spending and tax collection. The ECB also approved Greece's four-month bailout extension.



USA

The US economy joined deflation club, as the annual inflation rate in the world's number one economy turned negative in January for the first time since 2009. Consumer inflation fell 0.1% in that month from a year earlier. However, core inflation stayed positive at 1.6% on an annual basis, but below the Fed's 2% goal.

The US jobless rate ticked down to 5.5% from 5.7%, the level that some Fed officials consider consistent with full employment. Still, the normalization of the Fed monetary policy continues to depend on economic data. Market expectations are for the US central bank to raise rates later in the year, with Jeffrey Lacker, President of the Federal Reserve Bank of Richmond, saying the case for raising rates will remain strong at the June meeting.



Prices are beginning to rise appreciably, which gives credence to the Fed's stance on raising rates later this year. Fundamentals remain strong, and better times are ahead.

- Christopher Velarides, Moody's Analytics

For 2014 as a whole, GDP expanded 2.4%, only slightly better than the average 2.2% growth of 2010-2013, a moderate pace compared to prior growth periods. During the 1990s, the economy grew an average 3.4% a year. The world's biggest economy is seen growing 3.2% or even more in 2015, the best performance since 2005, as a strengthening job market underpins consumer spending. Deutsche Bank expects US GDP to grow 3.7% this year. Thus, the world's number one economy will contribute almost 18% to global growth of 3.6% in 2015, compared with 11% for all other industrial countries combined.



New Zealand

Graeme Wheeler, RBNZ Governor, reiterated his stance on interest rates, saying the official cash rate will be held unchanged at 3.5%, probably stretching the interest rate pause into 2016 in light of the recent easing actions by other major central banks amid world's disinflation pressures. Future economic data will determine interest rate adjustments, Wheeler said, underlying that policy easing may be justified should domestic demand weaken and price pressures cool further. Majority of economists do not expect the RBNZ to alter borrowing costs until 2016 following Wheeler's move to neutral policy stance.

New Zealand inflation fell to the lowest level in 18 months in the final quarter of 2014 amid cheaper petrol and vegetables prices, providing room for the RBNZ to keep interest rates unchanged for longer than previously thought. The consumer price index slipped 0.3% in the three months ending December 31, compared with a quarterly rise of 0.3% in the third quarter. That resulted in annual inflation cooling to 0.8% from 1% in September, the lowest level since the second quarter of 2013 and below the central bank's target band of between 1%-3%. Petrol prices dropped 5.7% over the December quarter, while vegetables prices plummeted 14%.



Great Britain

The BoE opted to keep the interest rate intact at 0.5% in March, marking six years since officials cut borrowing costs to an all-time low to help the

UK economy recover from a deep recession. While growth brings prospects of rate hikes closer, the likelihood of outright deflation in the coming months put little pressure on the BoE to act. Besides, the prospect of a very low near-term inflation led the MPC members to unite on rate vote in January after five months of a disagreement at the panel.

Inflation slid to all-time low since records began in 1989, driven down by a plunge in food and fuel prices and the effect of late 2013 and early 2014 Pound's appreciation. As a result, the BoE Governor Mark Carney was forced to write an official letter to the Chancellor George Osborne, explaining why consumer prices have been rising too slowly recently. The last letter to the Chancellor, which the central bank is legally obliged to write in case inflation strays more than 1 percentage point in either direction from the official goal, was written by then Governor Mervyn King in February 2012, when price increases were running above 3%. No letter has ever been triggered by inflation falling below the threshold since the BoE became independent in 1997. With the annual rate of inflation at 0.3%, Carney highlighted that there is no risk of persistent deflation in the country. BoE Governor admitted that inflation is seen falling below zero in the coming months on back of weak oil prices, and the central bank stands ready to deploy more measures to combat prolonged low inflation. Inflation should then rebound at the turn of the year as cheap oil data drops out of annual comparisons. Consumer prices are expected to reach the BoE's targeted rate of 2% by 2017, sooner than it had predicted three months ago.



We've had a significant upgrade to GDP, the highest consumer confidence for over 12 years and confirmation that living standards are higher than they were at the last election.

- George Osborne, UK Chancellor

Additionally, the central bank raised its growth forecast and expected wages to grow faster. Annual GDP growth in 2015 is projected to remain at 2.9%, while economic output in 2016 has been revised up to 2.9% from the 2.6% estimated in November. The GDP is then expected to slow to 2.7% in 2017. With regards to the UK's labour market, the policy makers see the unemployment rate at 5.6% in the January quarter of 2015 and at 5.4% at the same time next year.

The IMF expects the UK economy to grow at 2.7% this year, the fastest in the G-7 after the US. Investors expect the BoE to finally hike rates early in 2016. Andrew Haldane, chief economist at the BoE, pointed that the interest rate will rise gradually over the course of the next couple of years in order to ensure a sustainable growth. The rate lift could be as slow as half a percentage point a year, and interest rates are unlikely to return to levels seen in 1980s or 1990s.



Australia

The RBA has joined the easing trend spreading around the world's leading central banks. The central bank announced a 25 basis point rate cut, bringing the official cash rate down from 2.50% to 2.25%. A deteriorating economic outlook, soft inflation, doubts about a pickup in domestic spending and weak Chinese demand for raw materials triggered the latest interest rate cut. That was the first time in 17 months that the RBA has altered the rates. By cutting the rates, the central bank hopes to boost business activity and household spending in light of slowing growth, low commodity prices and weak investment.

The central bank now expects the Australian economy to grow at 2.75% in the year ending June 2015, down from the previous estimate of 3%, but the bank hopes that lower interest rates as well as weakening Aussie Dollar will boost demand and growth into 2016 and 2017. For the December 2015 year, the bank cut its GDP projection to 2.25-3.25% down from 2.5-3.5%. The lower end of the December 2016 growth forecast was upgraded slightly to between 3% and 4% from November's forecast of between 2.75% to 4.25%. Additionally, the RBA downgraded its inflation forecasts amid the effects of a sharp plunge in oil prices and weaker outlook for labour and product markets. The annual change in consumer prices was cut from 1.5-2.5% in the year ending June 2015 to 1.25%, and from 2.5-3.5% in the year ending December 2015 to 2-3%. The jobless rate, meanwhile, is seen rising further in the observable future to around 6.5%. The central bank reiterated its stance that the Australian Dollar is still overvalued and said a further decline in the nation's currency could further support the Australian growth.



China

The PBoC unexpectedly announced interest rate cut for the second time in less than four months, in a new attempt to stimulate flagging growth in the world's second biggest economy. The central bank's decision reflected growing concerns over China's economy as it struggles with its domestic problems, including a slumping property market and deflationary threat. The cut lowers by 25 basis points both the benchmark one-year loan rate, to 5.35%, and the one-year deposit rate, to 2.5%. Last year, the Chinese economic growth slid to 7.4%, the lowest since 1990, due to sluggish export growth, weakening domestic demand, falling government investment and a spluttering housing market. China's economy may slow this year as the country is facing the risk of deflation and sluggish demand undermines economic performance raising risks of job losses. The world's second biggest economy is seen growing between 6.9% and 7.1%. Fixed asset investment growth is expected to cool further this year, affected by a sagging property market and a fall-off in state investment. Consumer inflation would also stay weak throughout this year. China's CPI climbed just 0.8% on year in January, hitting five-year low after rising 1.5% in the preceding month.



It means the economy is adjusting to a more sustainable path -- we'd expect the economy to slow as it re-balances.

-Andrew Colquhoun, Fitch Ratings

Economic Growth Outlook for 2015

Since the end of the global financial crisis most high-income economies have been struggling to strengthen. Yet, growth outlook of the world's leading think-tanks continues to brighten. According to the World Bank, the overall global growth will be 3% in 2015, slightly higher compared with its 2014 forecast of 2.6%. Developed countries such as the US and UK are expected to grow 3.2% and 2.9%, respectively, while Japan's economy will considerably lag behind, growing 1.2%. However, growth in China, the world's second largest economy, is estimated at 7.1% in 2015. While such a growth rate would be the envy for most economies, it is the lowest level for the Chinese economy in more than two decades. Meanwhile, the Euro area's economy is projected to grow marginally 1.1%.

The IMF's forecast slightly differs from the World Bank's outlook. According to the IMF, the Euro zone's growth is forecasted at 1.2% thanks to the QE programme implemented by the ECB. The world's biggest economy growth is likely to accelerate 3.6%, while the British economy is expected to grow 2.7%. China is seen enjoying a 6.8% growth pace in 2015 amid dropping oil prices, whereas Japan's economic expansion is estimated to be a marginal 0.6%, the gloomiest growth outlook among the world's top think-tanks. The IMF predicts the global growth rate to be 3.5% in 2015.

According to the Organisation for Economic Co-operation and Development, the global growth in 2015 is estimated at 4%, one of the most optimistic forecasts. The OECD expectations about China and the Euro area economic growth coincide with the World Bank's forecast. However, Japan growth is projected to be 0.8%, while the UK and US growth rates are estimated to be marginally lower, 2.7% and 3.1%, respectively.

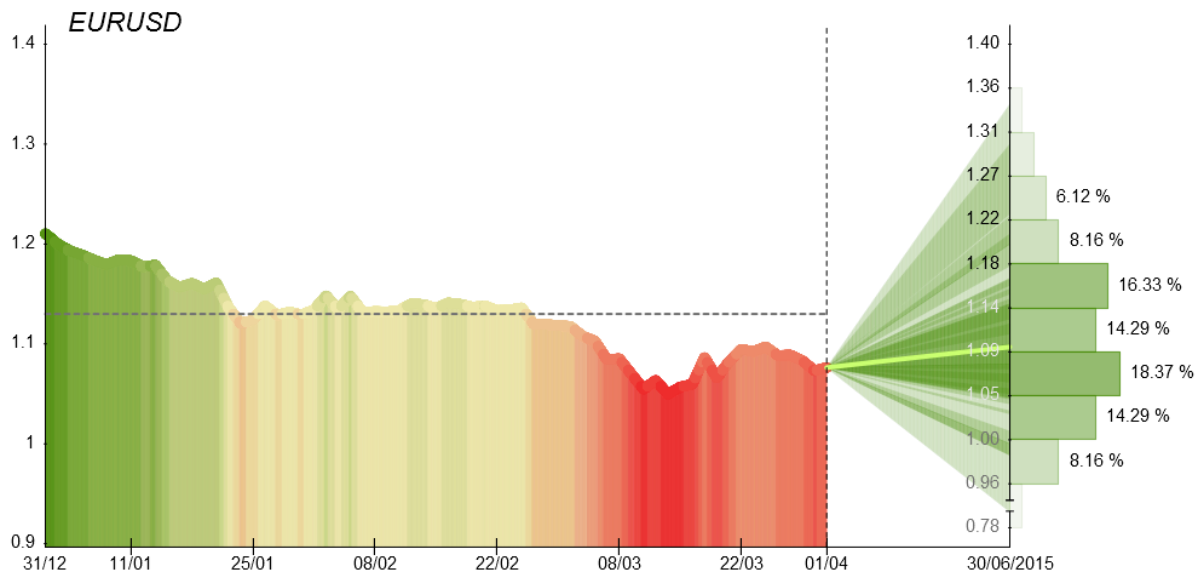
Economic Growth Outlook for 2015





Community Forecasts

EUR/USD



During the January-April period we observed strong downward tendency, and the Euro depreciated almost to the point of parity against the US Dollar. The currency pair declined around 14 handles within the quarter, with 60% of losses made in January and 40% in April, while throughout February the exchange rate was stable. The major drop was registered on March 9, after the ECB launched the quantitative easing programme to buy 60 billion euros worth of bonds per month.

According to the consensus forecast of the Dukascopy Community Members, there is likely to be a small rally in the next three months. By the end of the second quarter the Euro is expected to be worth a little more than 1.09 US dollars, though the most popular price interval was 1.05-1.09 with 18.37% of votes. One of the Euro-bears, aslamhammad, sees the common currency as weak because of the ECB buying bonds and maintaining the benchmark rate depressed, which in turn translates into low borrowing costs. Conversely, Panzer claims that the price could rise significantly, if the problems with Greece are resolved, as the Euro has been previously oversold due to a possible interest rates hike by the Fed.

Panzer

"Euro could rise significantly if the problems with Greece are resolved."



aslamhammad

"Currently the ECB is buying bonds and maintaining low interest rate, which is good for Europe."

Bullish: 47.6%

votes



Bearish: 52.4%

votes





Technical Analysis

EUR/USD

Daily Chart



2015 Q1 Summary

In course of the first quarter of this year, the single European currency registered one of its most negative quarters in terms of the overall development against the US Dollar. The pace of slump was especially strong at the beginning of the period in January. Just from January 1 till January 26, EUR/USD plummeted as much as 1000 pips, crossed both 38.2% and 23.6% Fibonacci retracement of May-March downward move, and approached the 1.11 mark. Following that, the Euro managed to rebound marginally and hovered above 1.13 until the end of February, when bears took over the leadership one more time. During first two weeks of March, this currency pair dropped down to its lowest level in more than 12 years, hitting 1.0462 on March 16. At the same time, the quarter was closed just below the 2003 low at 1.0707, thus giving the pair a Jan-Mar plunge of 13%.

2015 Q2 Outlook

Considering the amplitude of the sell-off from 1.40, which started back in May, as well as positive signs posted by the cross at the end of March, it is reasonable to expect a sort of bullish correction that would remove the strain from the market. At the same time, it is observed that there are no considerable support levels left in order to push the pair North, the only exception being the 2003 low at 1.0759, which is currently acting as the main demand area for the common currency. Moreover, if we assume that this pair is trading just in between two parallel downward-sloping lines since mid-December, it is located just at the upper boundary of this bearish channel. Therefore, chances of a continuous slump are increasing and the pair may head towards parity in course of the second quarter of 2015. Meanwhile, there is only one important technical level that could try to prevent the negative outcome for Euro, represented by this year's low at 1.0462.

GBP/USD

Daily Chart



2015 Q1 Summary

Strength of the American Dollar was observed with the majority of its currency pairs, and the Sterling was not an exception, even though there were some bullish signs for both currencies during the first three months of 2015. The beginning of the year was rather disappointing for the British currency, which slumped more than 500 pips against its US counterpart in just the first trading week of January. By doing that, GBP/USD also crossed two important demand zones, reinforced by the 2014 low at 1.5485 and 23.6% Fibonacci retracement of July-March downward development at 1.5238. Nevertheless, the Pound succeeded in gaining enough positive momentum as it rose back towards 100-day SMA around 1.5550 by the end of February. However, all attempts used to be excessive and the Buck surged in March, while GBP/USD hit its lowest point so far this year at 1.4634 on March 18.

2015 Q2 Outlook

Contrary to the strongly bearish outlook on the British currency in the first quarter, during the April-June time period the Pound is not estimated to decline significantly any more. However, the forecast still remains fairly bearish, taking into consideration strong influence from fundamental factors both in the US and Britain. Since July, GBP/USD has been following two parallel negative-sloping lines, and the pair stabilised in March even without reaching the channel's lower boundary. Therefore, the Sterling is forecast to rebound in April, with a target level just above 1.50. However, bears should overtake the market then, and the pair is likely to continue falling in its value. With such developments in place, the current 2015 low at 1.4634 should be erased by the end of May, and the pair will probably set a new goal in face of 1.42-1.44 for the end of the second quarter.

USD/JPY

Daily Chart



2015 Q1 Summary

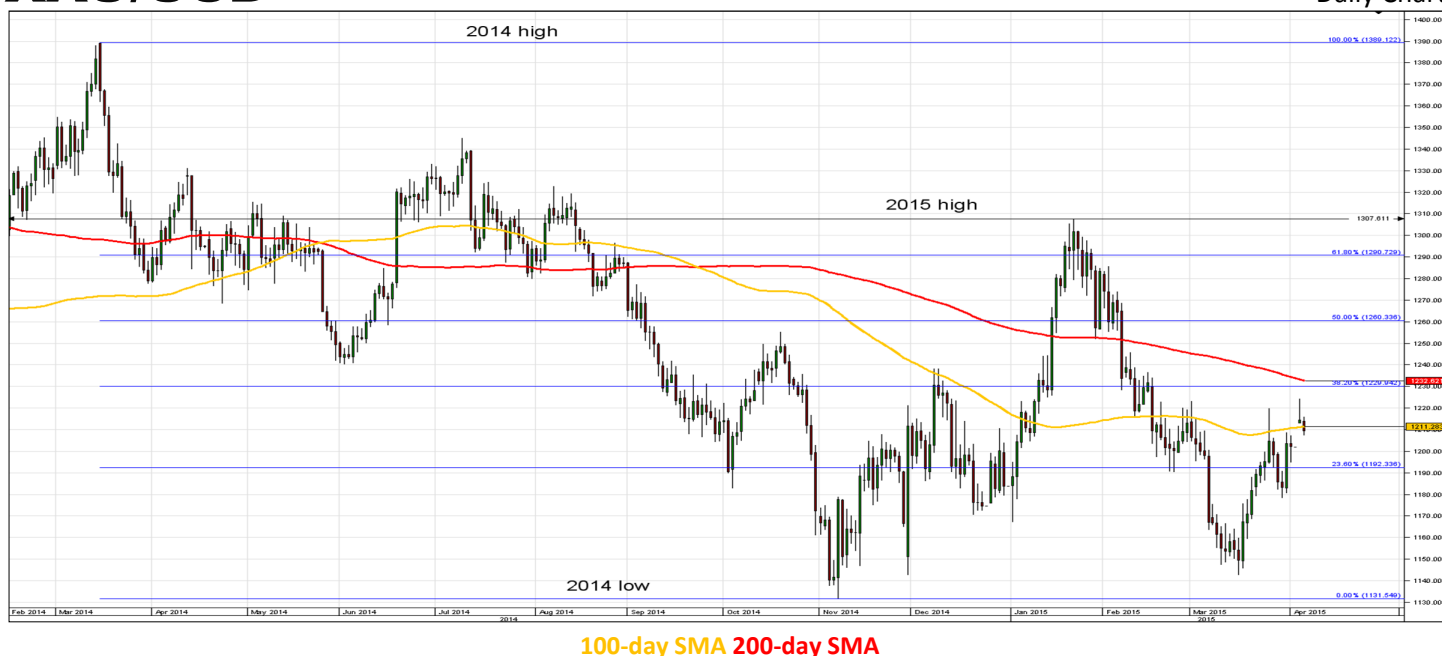
After reaching the multiple-year highs at the end of the previous year, USD/JPY has been facing a tough resistance at 122 in course of first three months of this year. All in all, the pair developed in a broad-range sideways trend from January till March. The period's low below 116 had been reached by the middle of January, and the pair was recovering slightly throughout the next two and a half months, receiving a sustainable support from 200-day SMA and 23.6% Fibonacci retracement at 117.02. While the US Dollar continued to be capped by the major level at 122, the first quarter's development can be summed up by the rising wedge pattern, underlying the trading range that has been narrowing all the time, starting in November.

2015 Q2 Outlook

Despite strong bearish expectations for the Japanese Yen due to many fundamental and monetary factors, it failed to drop further in the first quarter, and USD/JPY traded sideways during the period. As mentioned before, the pair managed to form the rising wedge pattern on a daily chart, implying that the trading range has been shrinking. If the cross continues to respect the two trend-lines of the figure, it may reach the break-out point by the third week of June, when the next quarter will already be coming to end. Strong resistance is created not only by the upper boundary of the wedge and 2014 high; bulls are also going to watch closely the next supply zone at 124.15, which is represented by the 2007 high. If the pair breaks out to the North earlier than expected, this line will become the next short-term target, while a longer-term quarterly goal will then be set as far as 127-130.

XAU/USD

Daily Chart



2015 Q1 Summary

Volatility of the bullion's development has increased considerably during the first three months of this year, as compared with the fourth quarter of the previous year. In January, bulls decided to get the market situation under their control. As a result of that, in just first three weeks of the month the precious metal managed to gain 12%, growing from \$1,167 up to \$1,307 on January 23. However, it seems that bullish momentum turned out to be exhausted by the end of that three-week marathon to the North. With help provided by 2011 low, bears decided to act quickly and sent Gold significantly to the downside in the next two months. However, after reaching this year's current low at \$1,142 the bullion managed to advance slightly by the end of March and closed at \$1,185 on March 31.

2015 Q2 Outlook

Assuming that XAU/USD is currently trading in the wide-range bearish channel, the present development of the first days of April should be considered as a recovery towards the pattern's resistance. Volatility of Gold is likely to remain high in the second quarter of this year, fuelled by uncertainty over the future Federal Reserve's monetary policy which is weighing on the yellow metal's price rather considerably. Therefore, a bullish move up to \$1,280 is considered to be a realistic scenario for the first half of the second quarter. However, the general trend should remain pessimistic for the bullion, and bears may attempt to stop Gold from growing as soon as they have an opportunity to do so. Major resistances will include 23.8% Fibo / 100-day SMA around \$1,230 and 50% Fibo at \$1,260 as the metal is on its way to the North. If they succeed, the markets should expect a drop down to \$1,130 (2014 low) by the end of June.

EUR/JPY

Daily Chart



2015 Q1 Summary

The beginning of 2015 was bearish for the Euro as the single currency kept slumping rapidly. After reaching the psychological level of 130, the EUR/JPY pair seemed to have started regaining ground; however, the rally did not last. After edging closer to the resistance trend-line, the single currency extended its decline down to the July 2009 low at 127.00. This support level provided enough demand in order for the Euro to bounce back, and in the second half of Q1's final month the down-trend was breached, though the rally failed at 131.

2015 Q2 Outlook

The 2009 low seems to have scared off the bears, but the main question remains: will the Euro start appreciating or plunge further? In the previous quarterly report we mentioned that the pair requires a strong support level to rebound. We believe the 2009 low is this support. The prospects for the cross in Q2 of 2015 are positive, as the pair is anticipated to gain bullish momentum after Q1's sharp losses. Even though EUR/JPY faces difficulties at the beginning of Q2, the situation is expected to change soon. The first objective for the common currency is to reclaim the 131 mark. Moreover, the 100-day and 200-day SMAs are located quite far from the current price level, meaning there is a lot of room for growth. The next target is 136.00, and it was confirmed to be a notable level, as EUR/JPY was unable to conquer it in February. Once this obstacle is overcome, the advance should become more stable.

AUD/USD

Daily Chart



2015 Q1 Summary

During the first quarter of 2015 the AUD/USD pair extended its slide down the channel, meaning the pair has been declining for nine consecutive months. The Aussie also dropped below the 2010 low against the US Dollar in the first month of the year. Since then there have been attempts to rebound, but all were in vain, as the Australian Dollar lacked the strength to pierce through the resistance trend-line of the channel at 0.7874. As a result, the gains the Aussie had made previously were negated, and the price was pushed back down to 0.76, a level not seen for six years.

2015 Q2 Outlook

The outlook for the Aussie in the next quarter is not bright, even though at the beginning of April the currency was seen gaining ground. However, the channel's border is right above the spot, which is likely to result in considerable selling pressure on the Australian Dollar and push it down to 0.7532. Not only did this level stop the pair from falling at the very start of Q2, but it also acted as an anchor for AUD/USD back in 2005. Back then, the pair was actively trading around this level, with minor fluctuations in both directions. If the 0.7532 barrier proves to have enough strength to turn the tide for the Aussie, a break out of the channel is likely to occur by the end of the month. Conversely, if the support is violated, the next target will be the psychological level at 0.73, which can be quite possibly reached either in April or May. As for June, if the Fed decides to raise the interest rates in the first month of summer, rather than in September, the US Dollar will outperform its Australian counterpart, prolonging the bearish channel.

USD/CAD



2015 Q1 Summary

The US Dollar outperformed its Canadian counterpart for the third quarter in a row. However, unlike the steady growth during the last two quarters of 2014, the first month of 2015 began with a substantial hike, and the currency pair decoupled from the previously established support trend-line. Meanwhile, during the last two months USD/CAD was trading flat, with only a slight upside bias, as the recovery stalled after the rate hit a formidable supply area near 1.28. The 1.24 psychological level prevented a heavy sell-off, but the 2009 high still turned out to be unattainable.

2015 Q2 Outlook

At the moment USD/CAD is gaining upward momentum, and we continue to see broad strength of the US currency, despite the recent pause in its appreciation. The overall US Dollar outlook is therefore bullish, and we expect the currency pair to continue rising, but at a slower pace than before. The first target is the last quarter's high (1.2834), which may well be hit either by the end of April, or sometime in May. The end-goal of Q2 is 1.29, which is anticipated to be conquered in June. In case this level is touched earlier, the next target will be the 2009 high. As for the potential floor, the 100-day SMA is seen closing in on the current market price, and for the time being it reinforces support at 1.24. At the same time, the 200-day simple moving average creates a dense demand zone at 1.18 together with the long-term rising trend-line.

NZD/USD

Daily Chart



2015 Q1 Summary

The first months of 2015 were marked by serious fluctuations, especially if compared to the pair's behaviour during the last year's ultimate quarter. In January the Kiwi tried but in the end failed to appreciate, as the resistance trend-line was too strong an obstacle. As a result, the given currency pair declined sharply until February. Then the price made a U-turn just before hitting the 2011 low at 0.7119. The subsequent challenge of the trend-line also turned out to be unsuccessful, but the New Zealand Dollar was nonetheless able to break resistance in the second half of March.

2015 Q2 Outlook

Now, after a pull-back to the falling trend-line, NZD/USD is poised for gains from a technical perspective. However, the pair seems to be anchored to 0.75, as it continues to trade in a tight range near this level. The factor that prevents a surge is the fundamental strength of the US Dollar, and the currency is presently preferred to the other major peers. If the pair does extend its decline, we are likely to see a slump towards the previous quarter's minimum of 0.7175 around the middle of May. Once this goal is attained, the following target may be the 2011 low, which could be tested in June. The losses, however, should be stopped by support at 0.70. On the other hand, the base case scenario is that the dips will be limited by the trend-line at 0.7320. Slow but steady growth can then be anticipated starting from the end of April, while major resistances are represented by the 100 and 200-day SMAs at 0.7550 and 0.7750, respectively.



Expert Commentary

Euro



Richard Falkenhall
Trading Strategist

SEB
Sweden

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

We expect the Euro to continue being weak and underperform among other currencies. For instance, if we look at the Euro versus Dollar, which is the pair that most people watch, we expect it to trade down towards the parity level by the end of this year. As a matter of fact, the major forces behind the European currency weakness are, of course, the divergence in the monetary policy between the US economies, since the markets expect a rate hike in the second half of this year. Meanwhile, the European Central Bank will most likely continue to stick to its monetary policy without any significant changes at least until September 2016. Keeping all this in mind, these two central banks, the ECB and the Federal Reserve, are moving in completely different directions which, no doubt, brings the exchange lower.

What will be the main drivers for the Euro during the Q2 of 2015?

Of course, among all the factors that could define the further performance of the Euro, I still believe that the Central Bank and its monetary policy as well as the relative monetary policy between other banks will remain the key driver for the Forex market in general, particularly in case if

”The major forces behind the European currency weakness are, of course, the divergence in the monetary policy between the US economies, since the markets expect a rate hike in the second half of this year.

- Richard Falkenhall

we look at the Euro area. Therefore, a further monetary policy easing will impact as a negative key factor for the currency going forward.

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

Regarding the Euro versus the Greenback pair, we believe that the parity will be reached. As far the Sterling is concerned, we expect for the EUR/GBP to go down towards 0.69 by the end of this year.

Pound Sterling



Geoffrey Yu
Currency Strategist
UBS
UK

What performance do you expect from the British Pound versus its major counterparts during the second quarter of 2015?

The British Pound should perform in line with our previous expectations due to the problem that it is being too strong against the Euro at the current moment. We can obviously note that the Bank of England is becoming more concerned about the potential impact on inflation, whereas, the Sterling should weaken accordingly in the given circumstance.

What will be the main drivers for the Pound during the Q2 of 2015?

As concerns the main events, which could determine the performance of the Pound in Q2, I would like to mention political developments in the country as the key factor. We are all keeping an eye on the upcoming General election, that will take place on May 7, which is obviously not that far already. Moreover, domestic inflation is an important factor in terms of Sterling's future direction.

” *We can obviously note that the Bank of England is becoming more concerned about the potential impact on inflation, whereas, the Sterling should weaken accordingly in the given circumstance.*

- Geoffrey Yu

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

In regards of the GBP/USD, we expect it to trade at around 1.50-1.51 during the mentioned quarter. Talking about the EUR/GBP, we anticipate the pair to fold back to below 0.70, somewhat around 0.68, however, we do believe that by the end of Q2 the Pound. Finally, we see the GBP/CHF to reach 1.61, which again is slightly off the current targets.

US Dollar



Alvin Tan
FX Strategist
Societe Generale
UK

What performance do you expect from the US Dollar versus its major counterparts during the Q2 of 2015?

Actually, I believe there is a positive consolidation in the Dollar over the next 1-2 months. Longer than that, I suppose the Dollar will still outperform, but the shorter term, I think, there will be some strengthening as the market loves the very much Dollar at this point. Thus, I believe there will be a flash start at some extent.

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

I suppose the most important driver will indeed be the expectations of the Federal Reserve rate hike. There are quite a lot of talks that Fed is going to raise interest rates either in June or in September. Over the following quarter, it looks like the Fed is going to push back later, say, in September rather than in June. If that would happen, I believe the Dollar will not be able to advance much. Thus, the most important is the Federal Reserve expectations.

”

Over the following quarter, it looks like the Fed is going to push back later, say, in September rather than in June.

- Alvin Tan

What are your forecasts for EUR/USD and USD/CAD for the Q2 of 2015?

We forecast the EUR/USD to be at around 1.07 levels by the end of Q2. The USD/JPY we expect to see at 122 by June. And talking about the GBP/USD currency pair, we can see it rolling up to 1.49 levels.

Swiss Franc



Jonathan Webb
Head of FX Strategist
Jefferies Bache
UK

What performance do you expect from the Swiss Franc versus its major counterparts during the Q2 of 2015?

Our general view is that the Swiss Franc should strengthen relative to the Euro zone currency, whereas the USD/CHF pair will show some appreciation. In details, if the greenback will continue to strengthen, we expect the USD/CHF to go higher than it is now, although the EUR/CHF is more mixed and unbalanced. On this basis, we see the EUR/CHF falling closer to the parity level, yet the expected move will likely be gradual.

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

We think that the main drivers are actually external to Switzerland as we do not see any interventions or announcements from the Swiss National Bank. This is really a matter of the Euro zone currency weakening on back of the ECB Quantitative Easing, particularly versus the Greenback. In addition, Greece is still having some problems with solving their issues and if the situation deteriorates, that would definitely impact the Swissie, although we expect the SNB to intervene and stop the strenghtening too much. Our base case scenario is that any deeping in the Greek crisis would lead to the stronger Swiss Frank.

” *If the greenback will continue to strengthen, we expect the USD/CHF to go higher than it is now, although the EUR/CHF is more mixed and unbalanced.*

- Jonathan Webb

What are your forecasts for USD/CHF and EUR/CHF for Q2 of this year?

We foresee the Swissie to rise toward 1.03 versus the Dollar, whereas, the EUR/CHF will probably be brought down to 1.02 level.

Japanese Yen



Josh O'Byrne

FX Strategist

CITIGroup Global Market LTD

UK

What performance do you expect from the JPY versus its major counterparts during the Q2 of 2015?

The JPY story remains rather sidelined with the domestic policy picture quite well understood and far from intensifying. Over the coming months, investors will focus on wage discussions, understood to be going well, and their relevance for inflation expectations. While energy prices have pulled down the near-term inflation outlook, the boost to growth balances out somewhat but should be paid close attention to.

What will be the main drivers for the Yen throughout the second quarter of 2015?

Given that the domestic picture looks reasonably static, the external environment will be the key for direction. Continued progress toward the exit of the lower bound in the US should support the US Dollar yields and

encourage the Japanese outflows. While the Yen weakness is unlikely to match that seen in the Euro, policy divergence underpins the direction in FX market.

” *While energy prices have pulled down the near-term inflation outlook, the boost to growth balances out somewhat but should be paid close attention to.*

- Josh O'Byrne

What are your forecasts for USD/JPY and EUR/JPY for Q2 of 2015?

CITI Group Global Market anticipates the USD/JPY to be at 124 levels by the end of Q2-15 and we can see the EUR/JPY rolling up at 127 levels.

Australian Dollar



Jonathan Cavenagh
Currency Strategist
Westpac
Singapore

What performance do you expect from the Aussie during the Q2 of 2015?

The Aussie is still likely to struggle, since the environment that the currency faces itself in is still a fairly negative one, and that reflects a few factors. First of all, we have got a likely lower RBA interest rate potentially in the middle of April. Hence, that is something that is definitely going to be towed away. Also, we can mention weaker commodity prices.

What could be the main drivers for the AUD during the second quarter of 2015?

Obviously, weaker commodity price is very much of the forefront of direction in which market is thinking at the moment. We are generally seeing a lot of downside pressure on iron ore prices in particular, since there is still a significant concern in

oversupply in the market. Hence, that is an important sign for Australia's term of trade outlook and overall commodity price performance.

”We anticipate seeing the EUR/AUD a little bit lower from current levels at 1.428.

- Jonathan Cavenagh

What are your forecasts for AUD/USD, EUR/AUD and AUD/JPY in Q2 of 2015?

By the end of the second quarter, we anticipate the Australian Dollar would be trading at 0.75 against the US Dollar. It will probably be a little bit weaker versus the Euro, but not by a great deal on a basis that you see another RBA cut, whereas the commodity prices remain quite weak or trend down further. We see the Pound fairly steady against the Yen, so not a great deal different on a cross basis. As concerns the forecast, we see the pair at 91.5 levels. Finally, we anticipate seeing the EUR/AUD a little bit lower from current levels at 1.428. To sum up, there is not a great deal of divergence between the Aussie, Euro and Yen and how they will perform against the Greenback.



Trade Pattern Ideas

AUD/CHF

Monthly Chart



AUD/CHF
Channel Down

Current year should be marked by strong performance of the Aussie, but the gains should be capped at 0.77.

The Australian Dollar has been generally underperforming against the Franc at least since 1992, and neither the Swiss currency's peg to the Euro nor the abolition of the cap was able to change this. Right now the currency pair is moving towards the lower edge of the major bearish channel, meaning the upper trend-line of the recently established channel is in a real danger of being breached. Once this happens, we will first look at the 200-month SMA (currently at 0.91) and then at parity, where the rate is supposed to meet the red trend-line, given that the upward momentum is preserved.

However, the bullish break-out is expected to take place late next year, perhaps even in 2017. Current year should be marked by strong performance of the Aussie as well, but the gains should be capped at 0.77. From here we are likely to see a decline to 0.66, and then an upward correction may begin.

Additional signals to buy are provided by some of the technical indicators, such as the RSI and stochastic oscillator. The former has recently crossed the 30 level to the upside, and concerning the latter, the faster %K line has just crossed the %D line. Meanwhile, judging by the long/short ratio, it does not seem that the traders are expecting another down-wave any time soon, but this may well change once we get closer to 0.77. The SWFX market participants mostly anticipate a rally, being that 67% of positions are long and the remaining 33% are short.

XAU/USD

Weekly Chart



XAU/USD

Channel Down

Right now XAU/USD is undergoing a bullish correction, which is likely to extend up to \$1,300 before the bears regain control of the situation.

A test of \$1,900 in 2011 turned out to be decisive for the precious metal. Gold's value fell by more than 300 dollars, and subsequently it failed to resume the rally, being capped at \$1,800, and dropped beneath the 200-day SMA. The price continues to trend downwards, and we can expect even deeper decline in the future.

Nevertheless, right now XAU/USD is undergoing a bullish correction, which is likely to extend up to \$1,300 before the bears regain control of the situation and force the price to retreat back to the lower boundary of the bearish channel, probably somewhere in the region of \$1,100, a level last seen in 2010.

Speaking of the sentiment in the SWFX market, by and large the traders also appear to be optimistic with respect to the bullion in the near-term perspective. Right now there are almost twice as many bulls as there are bears.

As for the technical indicators, neither the RSI nor the stochastic oscillator is giving any specific signal, meaning the current rally might be fragile, and entering the market right now might not be reasonable. Perhaps it would be more justified to wait for the price to reach the resistance trend-line to sell at a potential peak, at least from the weekly chart perspective.

GBP/AUD



GBP/AUD Channel Up

The outlook for the next month is bullish. Once we get close to 2.04, however, being long the Sterling will be considered risky.

In the second half of 2014, the currency pair resumed the surge that began near 1.44. This initial rally lasted 10 months, and afterwards GBP/AUD went into a correction right at the beginning of the previous year, as the pair had difficulties breaching the dense supply area around 1.90. The British Pound managed to surpass this notable barrier only after forming a double bottom pattern near the 200-day simple moving average in January.

It must be noted that the formed channel is of high quality, considering the number of confirmations of each trend-line, and for the time being there are no reasons to doubt the reliability of the upward-sloping trend-lines.

At the moment the exchange rate is in the middle of the journey from the lower boundary of the channel towards the upper boundary of the pattern. Accordingly, the outlook for the next month is bullish. Once we get close to 2.04, however, being long the Sterling will be considered risky. From there the bears will be expected to push the price back to 1.95 before we see another major leg up.

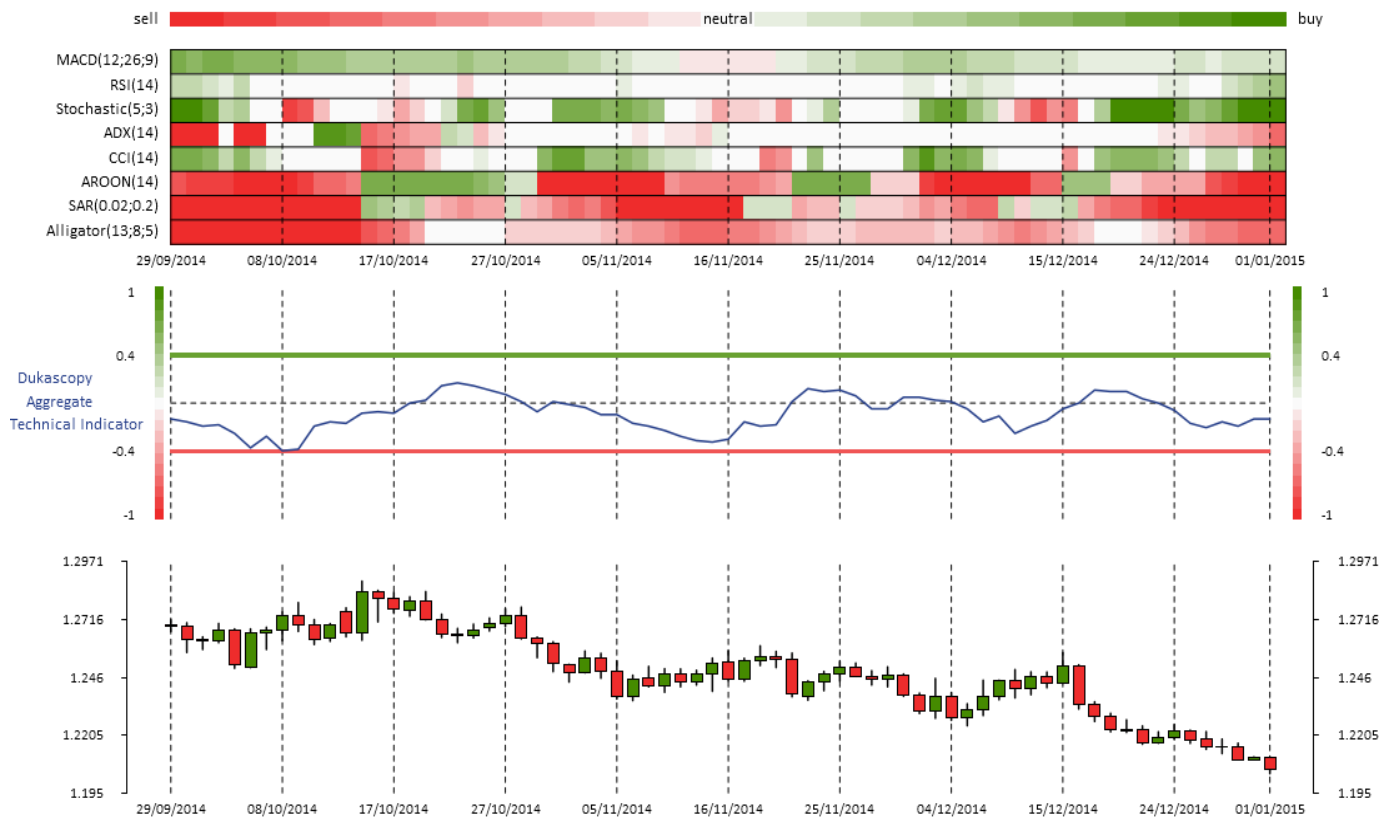
At the same time, most SWFX traders share our bullish view on GBP/AUD. Currently two thirds (66%) of the open positions are long, which leaves the bears in a distinct minority.



Aggregate Technical Indicator

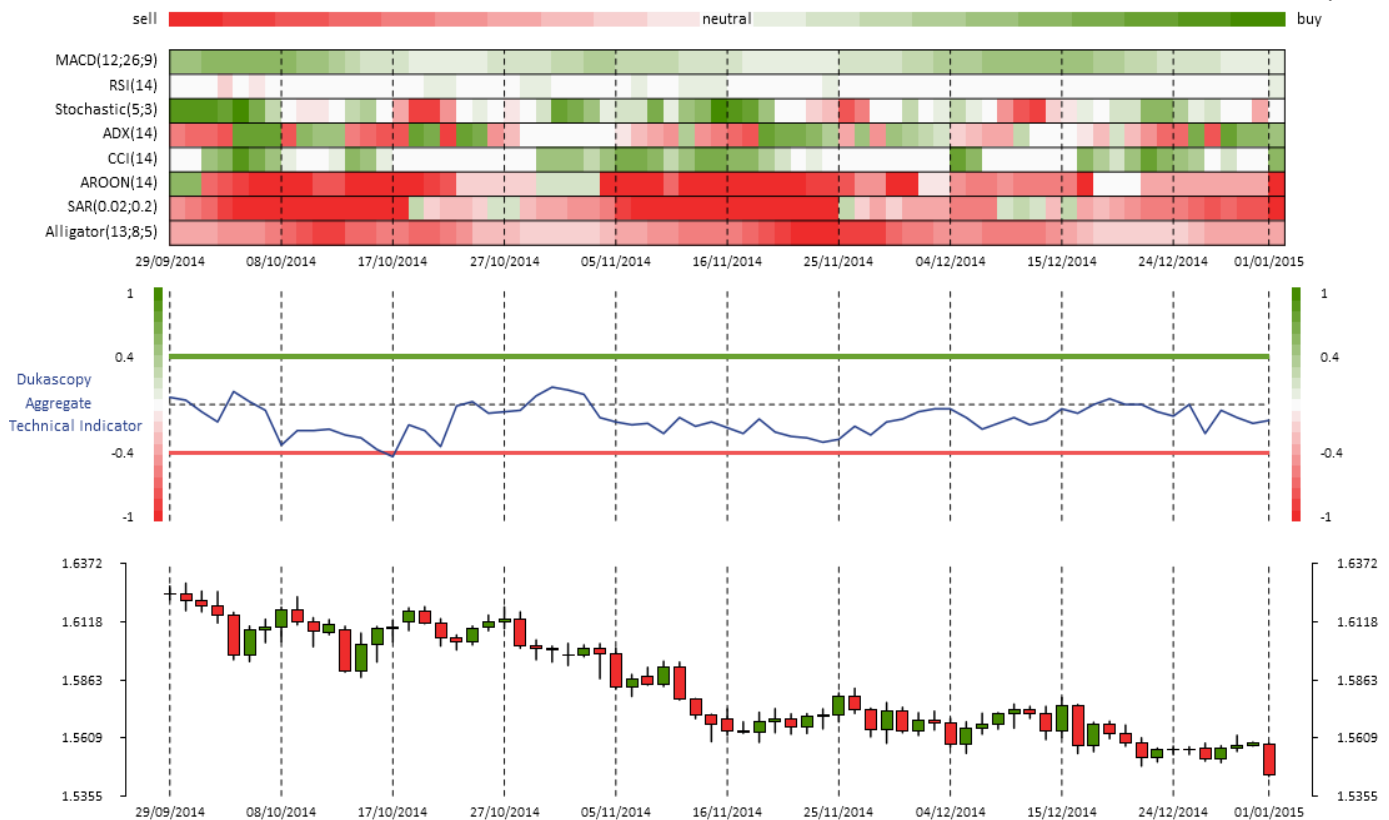
EUR/USD

Daily chart



GBP/USD

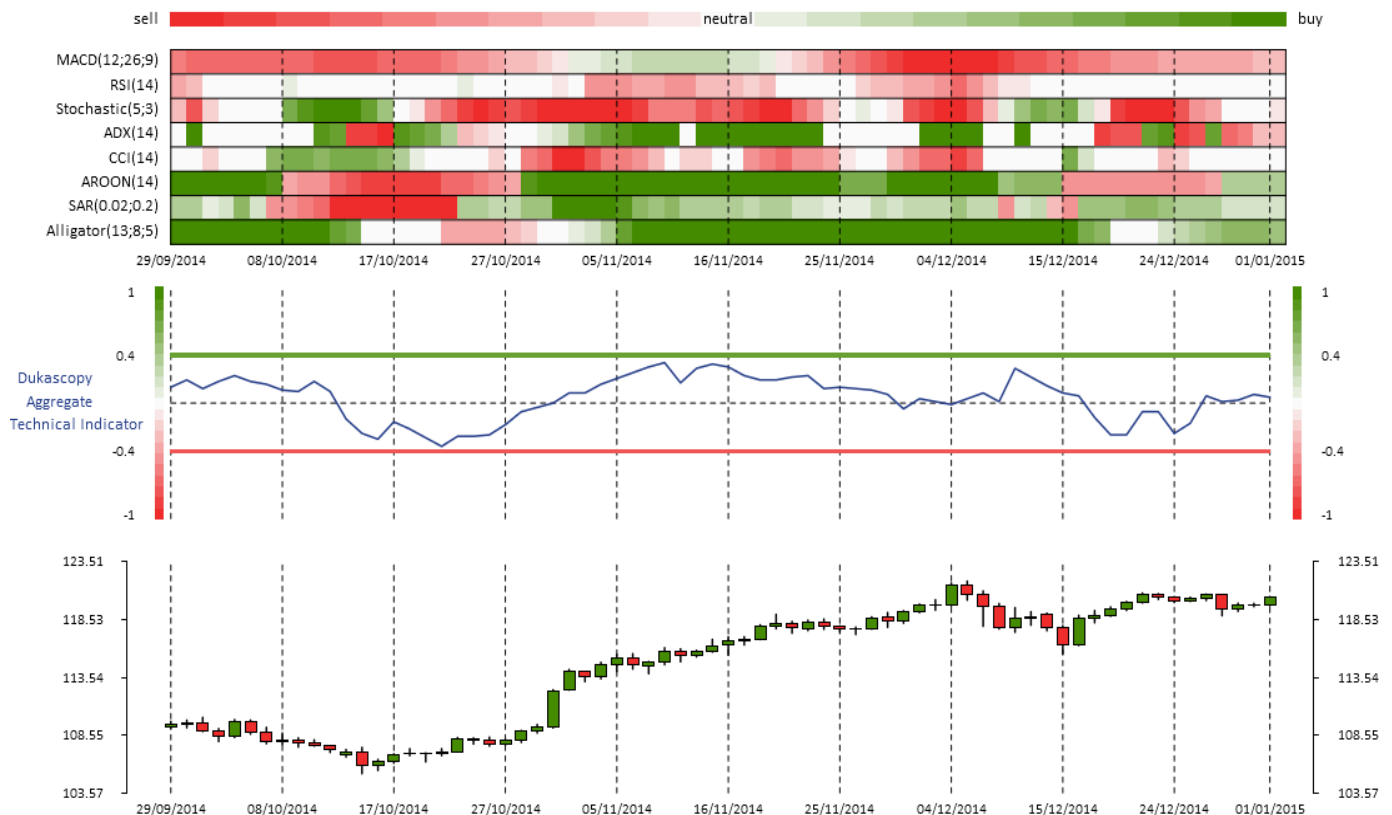
Daily chart





USD/JPY

Daily chart



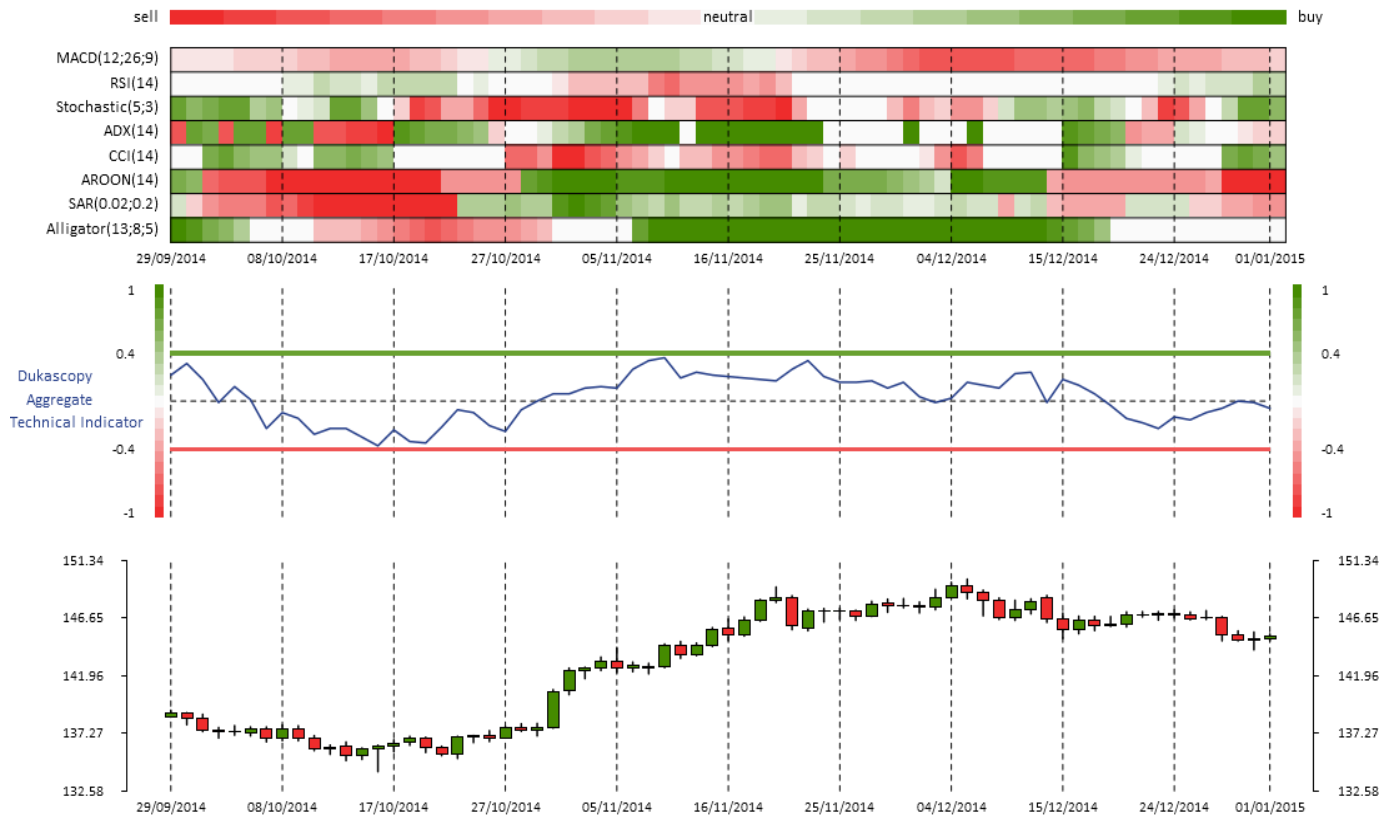
USD/CHF

Daily chart



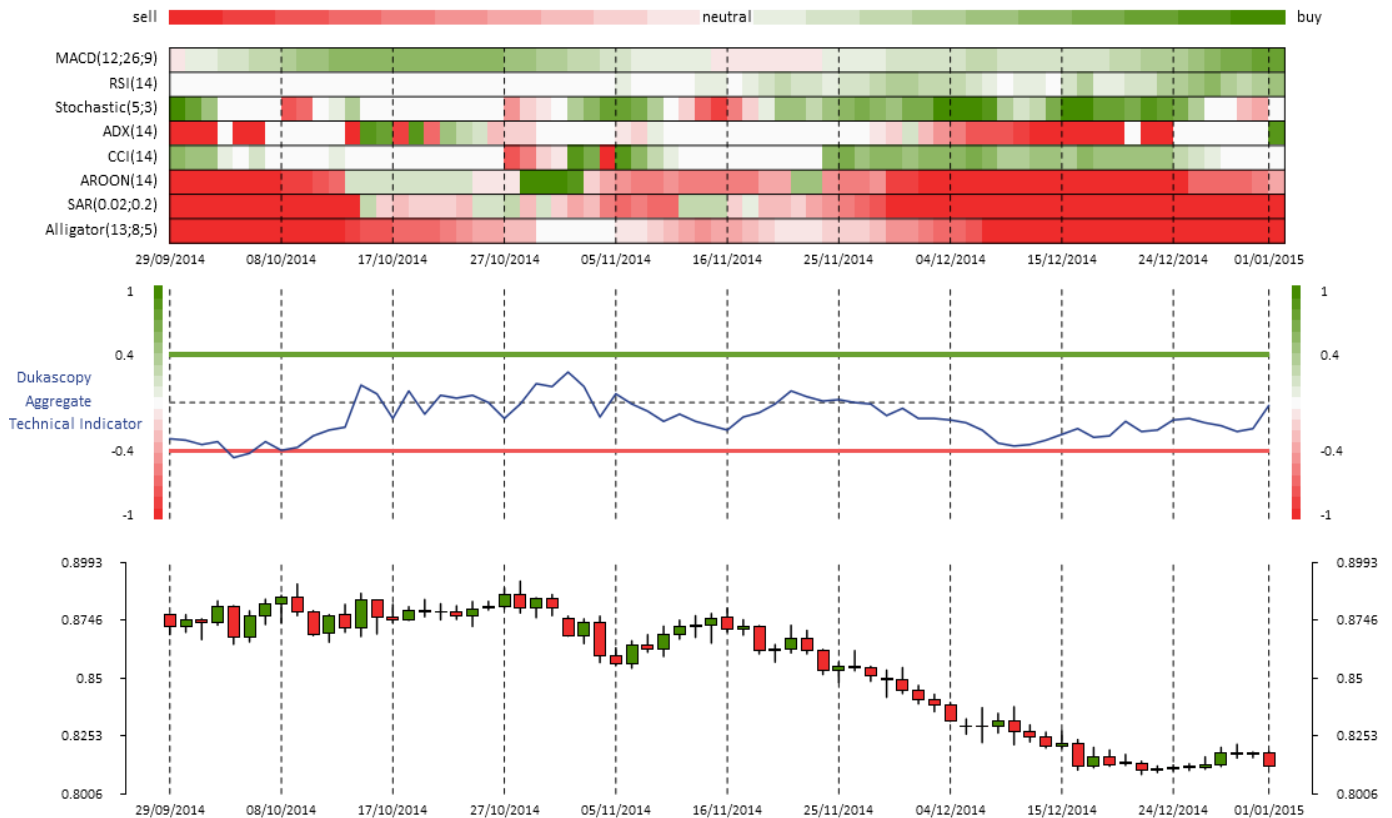
EUR/JPY

Daily chart



AUD/USD

Daily chart





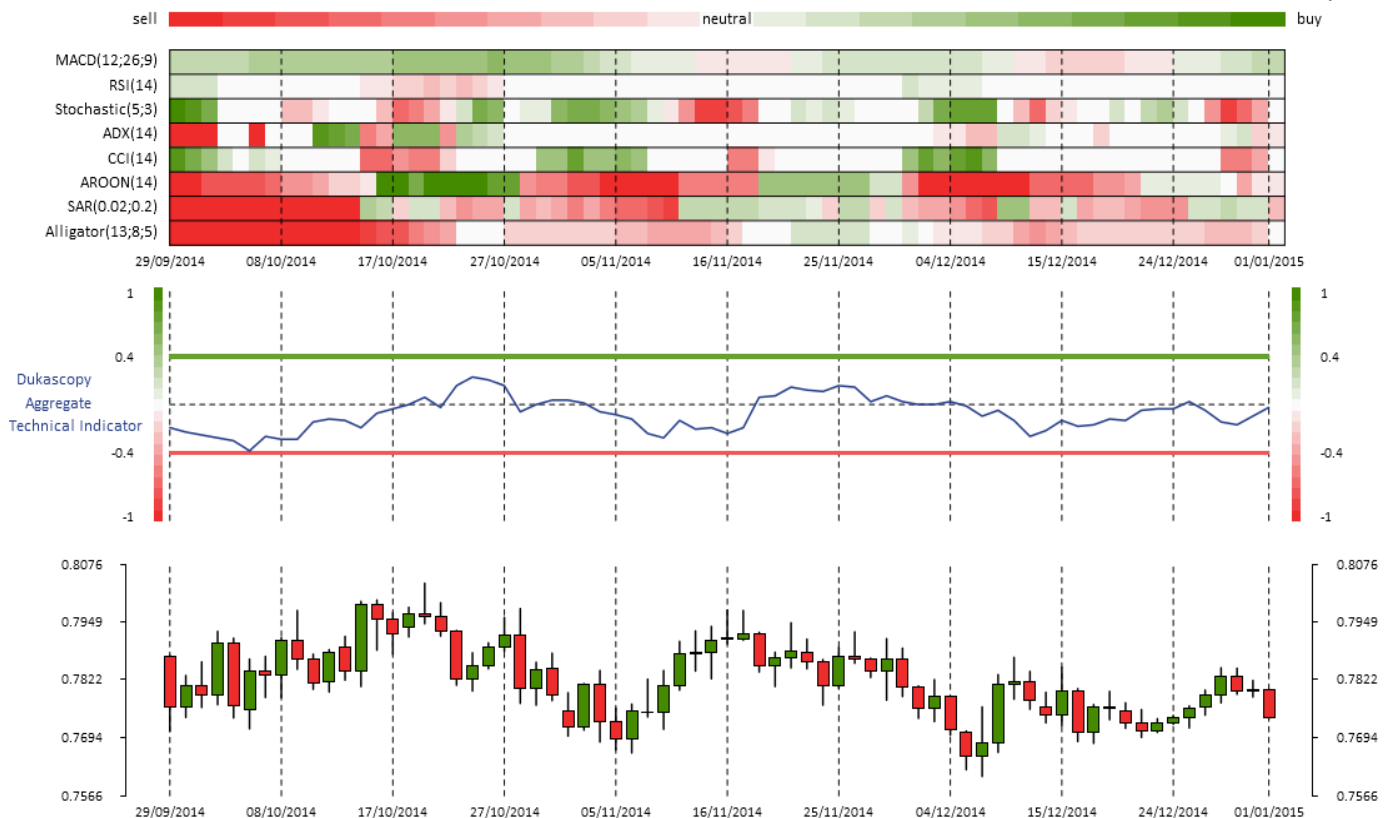
USD/CAD

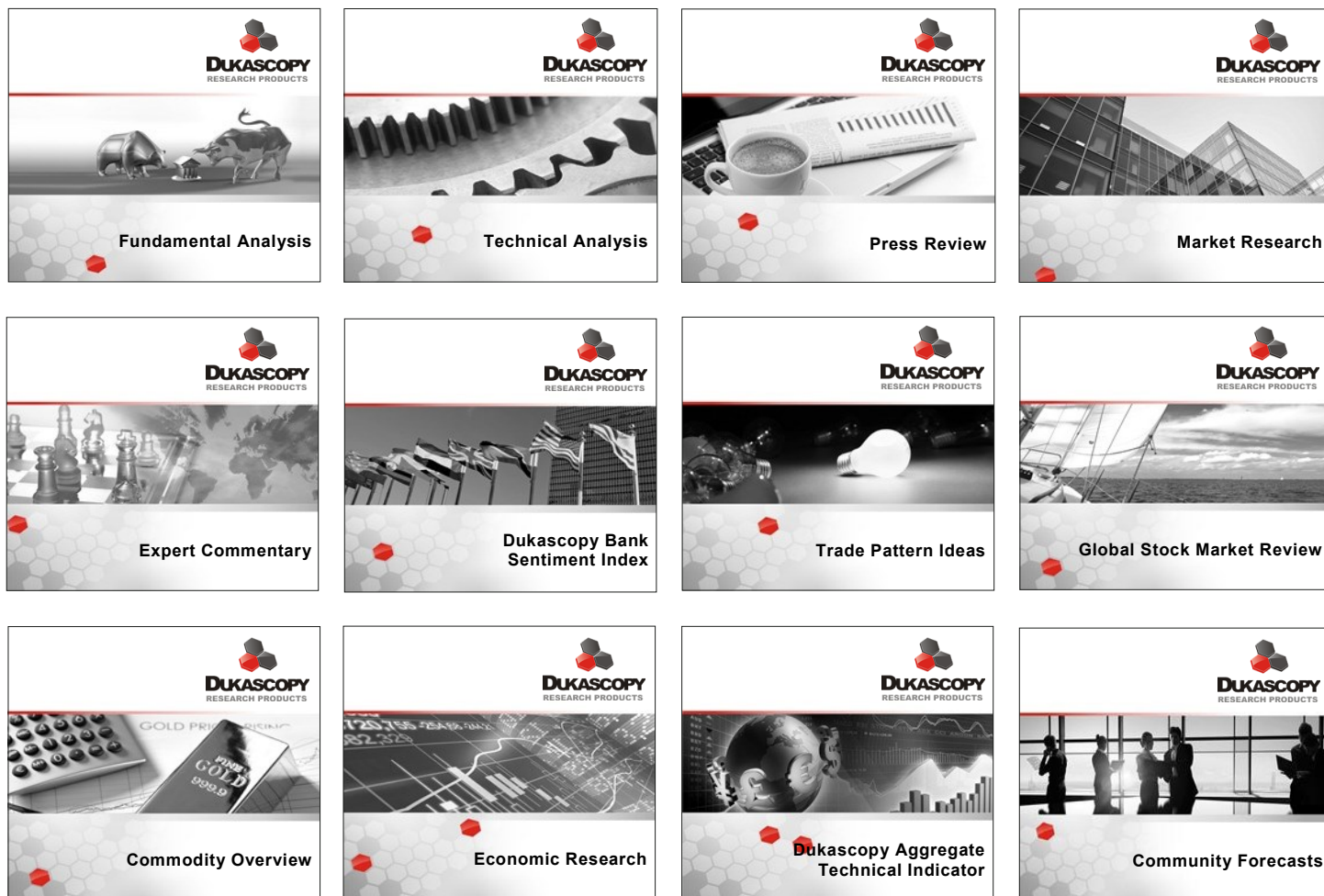
Daily chart



NZD/USD

Daily chart





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Dukascopy Bank SA
Route de Pré-Bois 20, ICC
1215 Geneva 15, Switzerland
Tel: +41 (0) 22 799 4888
Fax: +41 (0) 22 799 4880
e-mail: info@dukascopy.com

www.dukascopy.com

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