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QUARTERLY REPORT

FX

Q1, 2017

AGGREGATE TECHNICAL INDICATOR

FUNDAMENTAL ANALYSIS

TECHNICAL ANALYSIS

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"Donald Trump's policies are more likely to influence the markets in the next quarter than anything else"

Janis Macukans, economist at Dukascopy Bank SA

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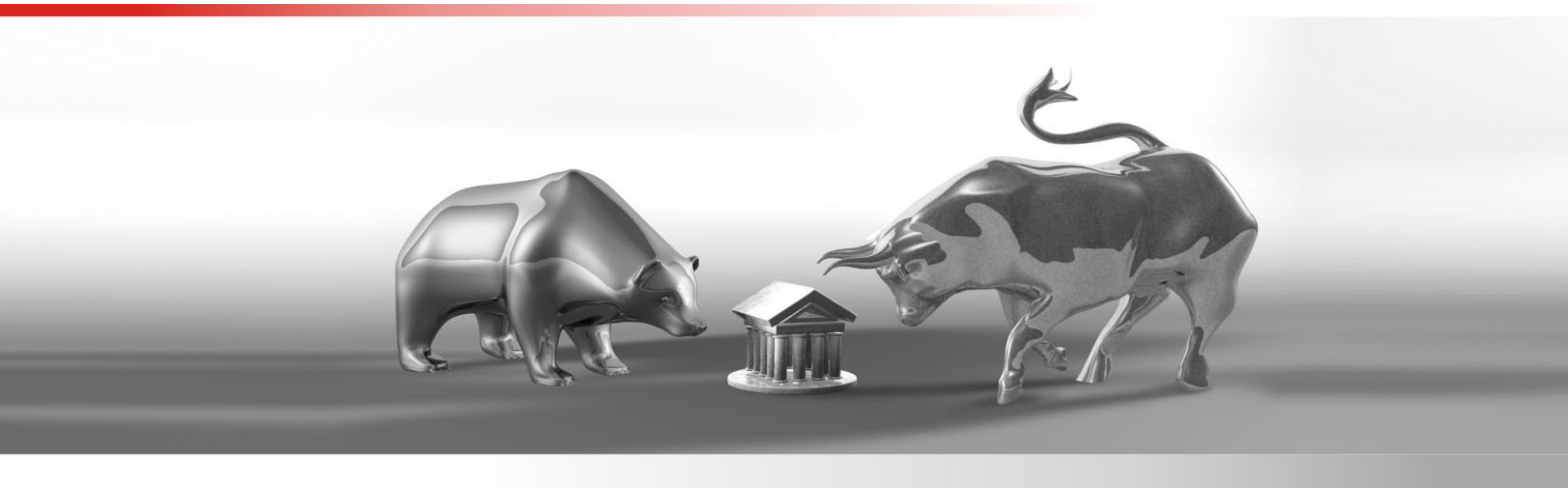


Fundamental Analysis

Highlights of Q4

The world economic growth continued to be relatively soft over the last quarter of 2016 for a number of reasons varying from geopolitical factors to structural reforms in certain countries. In the United States, the key events that were dominating the economic and political arena in the Q4 included the Presidential Election and the interest rate hike by the Federal Reserve. Across the Atlantic, Brexit remained the main concern for both the EU and the UK sides of the equation, while immigration concerns and banking sector hardships continued to weigh. Japan saw weak wage growth and sluggish private investment, though still managed to perform relatively well over the Q4. Both monetary and fiscal policies remained accommodative in China, though in the political arena the country was concerned about Donald Trump taking the Office, as his view on the “One-China” policy might undermine the US-China relations.

Overall, the ongoing war in Syria, enhanced uncertainty over Trump’s Presidency and possible policy alterations in the US and a number of other major economies along with unpredictability of the elections outcome in Europe have been of a deep concern to the economists worldwide. Nevertheless, a wide range of data revealed that the global economy has supposedly remained on track to have expanded at a 2.5% pace in 2016.

Euro zone

While a set of social, political and economic events guided the year for the Euro zone, growth remained halfhearted but managed to contribute to the recovery. Following an optimistic 0.5% surge in economic activity over the first quarter, the Euro zone economy posted two consecutive quarters of slower growth at 0.3%, which pointed out the stability of the expansionary dynamic. A strong domestic sector, stemming from a boosted labour market, lack of growth in prices and an accommodative monetary policy contributed to the success while external factors lagged, putting adverse pressures on the economy. Investment stayed low as well.

Q4 data added to the expanding economy with a rising economic sentiment and composite PMI, disregarding the global uncertainty that stemmed from a tense polit-economic environment. A drop in unemployment in October was yet another signal to reassure that the economy has not caught up with the latest worldwide shocks and it remains unclear if it will at all. Until global experts gain any clarity on the issue, analyst expectations stay optimistic at 0.4% growth for the final quarter, 0.1% up from the three-month period before.

On top of that, a set of steps to be taken in 2017 are expected to add more ground to the optimism that has arisen amid prospects of the Euro zone economy. Italy’s banking sector is amongst the weakest parts of the Euro zone to be optimised in 2017 – an event that, along with a weakening Euro, could indeed bring the single currency economy further into the green zone.

Nevertheless, political uncertainty is most likely to move the economy in 2017, due to both internal and external policy ambiguity. Along with rising populism in large political players, such as France and Germany, Eurosceptic candidates gaining power in various countries' elections and unclear policies in major partners, such as the US, it remains unclear what the future holds for the relationship between the UK and the Euro zone.

UK

The British economy continued to endure quite well despite hardships stemming from the Brexit vote. Having downgraded modestly over the third quarter of 2016, the country's economic growth performed relatively robust in the Q4 if compared to historical levels. Business and consumer confidence remained at reasonable levels, exports managed to rebound, though domestic demand fell short of expectations. Moreover, household consumption continued to be at risk due to the steep fall in the value of the Pound, which dropped around 20% against the US Dollar after the June 23 referendum.

> *"Our estimates suggest the economy grew by 2 per cent in 2016, in line with the long run potential growth rate of the UK economy ".*
>
> *- James Warren, NIESR*

The UK economy presumably grew 0.6% in the final three months of 2016, at the same pace as in the previous quarter. Back in the Q3, economic growth was driven by strong business investment, which advanced 0.9% over the reported period. However, the economy remains entirely dependent on consumer spending and is projected to grow 2.1% in 2016 and 1.1% in 2017 according to the British Chambers of Commerce (BCC). Even though the British unemployment rate declined to a record low of 4.8% in the three months to October 2016, labour market conditions are likely to worsen in the upcoming months due to a widely expected economic slowdown. According to the latest forecasts, the jobless rate is expected to hit 5.1% already in the first three months of 2017.

Consumer prices in Britain climbed 1.2% year-over-year in November, following the preceding month's gain of 0.9% and pointing to rising inflationary pressures linked to the weak Sterling. The BCC reported it expected inflation to climb to 2.1% in 2017, above the Bank of England's target of 2%. Despite a 4.6% increase in British exports posted in October, export growth is likely to lose momentum in 2017, as benefits of the weak Pound were overstated, the BCC said.

The BoE left its key interest rate unchanged at a record low of 0.25% during its December policy meeting. The minutes of the December meeting revealed that the Central bank signalled a shift towards a more neutral stance despite increasing inflationary pressures amid stronger-than-expected data released since the Brexit vote.

Overall, the post-Brexit data cannot give a clear signal of where the economy is heading, as the long-term economic growth will depend on the outcome of the exit negotiations that will shape the new EU-UK relationship.

USA

Back in the Q3, the US economy rebounded sharply, growing at an annualized pace of 3.5%, and it seems to have maintained the expansion trend in the last quarter of 2016, judging from the economic data released during the reported period. The labour market remained upbeat in the Q4, with the unemployment rate finishing the year at 4.7%, in line with analysts' forecasts. Nevertheless, December's nonfarm payrolls disappointed markets, rising to a seasonally adjusted 156,000, following the previous month's upwardly revised gain of 204,000 and falling behind analysts' expectations for 175,000 positions. Over 2016, the US economy created 2.2 million new jobs, or 180,000 a month on average. The last month of the Obama White House marked the 75th consecutive month of job gains, the longest streak since 1939. Moreover, during Obama's term as the President of the United States, the jobless rate improved markedly, falling from the 7.8% level registered in January 2009, when he entered the White House, to the current levels. In addition, initial jobless claims remained below 300,000 for 96 consecutive weeks, the longest stretch since 1973, declining to a nearly 43-year low of 235,000 during the last week of 2016.

Mood of American shoppers improved markedly during the last month of 2016, rising to 113.7 from November's upwardly revised 109.4 points. Back in December, the Expectations Index, which measures consumers' outlook for the next six months, gave the largest boost to overall consumer confidence, advancing from November's 94.4 to 105.5 points, a 13-year high. Business activity in both the manufacturing and services sector also improved during the Q4 of 2016, according to the latest PMI data released by the Institute for Supply Management. Manufacturing activity accelerated to from 51.5 in September to 54.7 in December. Moreover, manufacturers pointed to higher raw materials prices and rising employment, supporting the view that inflation is on track to return to the Federal Reserve's target of 2% and labour markets are at or near full employment. The US services sector also showed signs of improvement in the Q4, with the ISM Non-Manufacturing PMI advancing to 57.2 by the end of 2016, the highest level since October 2015. The Index also pointed to continued improvement in the labour market, as the Employment Index jumped 5.1% to 58.2% month-over-month in December.

Consumer inflation continued its upward trend during the last three months of 2016, with the headline CPI and core CPI climbing to 1.7% and 2.1% on an annual basis in November, respectively. Accelerating consumer prices and the strong labour market allowed the Federal Reserve to raise its benchmark overnight interest rate from 0.50% to 0.75% at its December policy meeting. This was the second rate hike since 2006. For the year ahead, the Fed signalled the possibility of three rate hikes. The Central bank expects the US economy to expand at an annualized pace of 2.1% in 2017 and PCE inflation to advance 1.9% in the same period. Moreover, the unemployment rate is likely to decline to 4.5%, according to the Bank's latest forecasts.

> *"Business is optimistic because we see a once-in-a-generation opportunity to enact major reforms that could transform the American economy from a low-growth to a high-growth economy ".*
>
> *- Thomas Donohue, US Chamber of Commerce President*

The key event in the last quarter, without doubt, was the 2016 US Presidential Election, the results of which sent shockwaves around the world, as Donald Trump, a billionaire real-estate mogul and reality TV star, was declared the 45th President of the United States, even though Hillary Clinton remained the betting favourite to win the election until the very end. Nevertheless, the US Dollar enjoyed a post-election rally, as the Wall Street supported Trump's plan to invest $550B in US infrastructure, which is expected to result in stronger economic growth and higher inflation.

Canada

Having suffered a dramatic slump in activity in the Q2 of 2016 amid Alberta wildfires, the country's economy managed to pick up steam over the course of the third quarter. An annualised Q3 economy output rebound of 3.5% was mainly driven by the stabilising oil and gas sector along with the newly introduced Child Benefit programme, which managed to bolster household income at a rate of 7.1% quarter-on-quarter.

> *"The big downdraft in the economy had been the collapse in capital expenditures in the oil sector ".*
>
> *- Avery Shenfeld, Canadian Imperial Bank of Commerce*

Going further into the Q4, the economy showed mixed results, suggesting that the momentum is rather lacklustre. Economic data for the month of November came in worse than expected on all fronts: the Ivey Purchasing Managers Index dropped to a three-month low, housing starts edged lower, while the housing market still looks set to chill as home sales took their most substantial fall in more than three years.

In December, the Bank of Canada decided to leave its overnight rate target at 0.50%, the level where it has been starting from July 2015, largely matching market expectations. The latest BoC Monetary Policy Report suggested a modest recovery in world economic conditions; however, the Bank still warned of heightened uncertainty, which might pull business confidence in the country significantly lower. On the other side of the equation, inflation has increased over the recent months, though still falling short of forecasts on the back of low food prices. The counterbalance effect of the exchange rate depreciation on the output gap, which helped the core measure to stay close to 2.0%, seems to be fading away rather quickly, casting a pal on a possible rise in the months to come.

In spite of all negative factors, analysts worldwide presume Canada could come back to life in 2017, being influenced by a firmer US economy and the enforcement of the CETA (Comprehensive Economic and Trade Agreement) along with government spending supposedly having positive repercussions for domestic demand and counterbalancing a possible slowdown in housing market and consumption. On the downside, the risks of slower global growth and a promised revision of the North American Free Trade Agreement by the US President-elect Donald Trump remain persistent.

Japan

Japanese economic growth picked up pace over the last quarter of 2016 mainly due to a depreciating Yen and globally advancing growth rates which, in turn, led to more optimism in the business sector. While an expanding economy proved Japan to be on the right track by posting the third consecutive increase in the GDP growth rate in Q3, disappointing figures on private investment provoked a downward revision of the gauge. Modifications in accounting standards contributed to the downgrade as well.

> ***"While domestic demand still lacks strength, a pick-up in exports is driving up production. Output will likely continue recovering moderately ahead".***
>
> ***- Takeshi Minami, Norinchukin Research Institute***

The lack of sufficient wage growth put pressure on private consumption, causing it to remain one of the government's top priorities in the composition of the 2017 budget. Higher salaries, investment in social security along with an expansion in workforce were set to be on top of the list when a proposed budget was put forth to the Cabinet on December 8 for approval. In addition, a supplementary budget of ¥1.7B dedicated to military expenses and earthquake reconstruction awaits approval from the government.

Analysts see Japan being on top of its game in 2017, projecting a 0.9% GDP growth rate, which would mainly stem from the favourable conditions caused by a falling Yen and a stimulating monetary policy. The expansion should, however, be backed by wide scale reforms of both social and economic nature to reach a climate for sustainable development. Adverse pressures might arise from the protectionist policies intended by the newly elected US President Donald Trump, causing uncertainty to spill into longer-term analyst expectations, which currently lie at 0.8% GDP growth for year 2018.

China

The Chinese economy grew at an annual rate of 6.7% in the third quarter, remaining the second fastest growing major economy in the world after India. Analysts believe the country's economy maintained the pace of expansion from the Q3 or even improved it in the last quarter of 2016. According to the latest survey released by the Institute of Industrial Economics, Chinese economic growth probably held above 6.5% in 2016, within the government's target range of 6.5% to 7% for 2016, which was set in March 2016. However, the majority of economists are of the view that the economy is heading toward its slowest growth since 2009.

Chinese exports plunged 6.1% on a yearly basis in December, compared to the preceding month's 0.1% gain, while economists had had expectations for a decrease of 3.5%. Meanwhile, imports climbed 3.1% year-over-year, following November's 6.7% rise and surpassing forecasts for a 2.4% rise. The country's trade balance declined from $44.61B in November to $40.82B in December. Over the past year, China's exports dropped 7.7%, the biggest fall since 2009. Even though increasing costs and the low-end inefficient industries are expected to put large downward pressure on the country's foreign trade, local economists believe China will manage to overcome the challenges.

> ***"There is much room for the government to ramp up spending and raise fiscal deficits, and policy banks can still issue a variety of bonds, including special construction bonds, to raise funds".***
>
> ***- Robin Xing, Morgan Stanley***

The results of the US 2016 election had a profound effect on the Chinese currency and local stock markets amid the US President-elect Donald Trump's anti-Chinese rhetoric, with the Chinese Yuan falling around 3% against the US Dollar. The most important question regarding Trump's promises is whether the new President will actually break the "One-China" policy, which states that there is but one China and that Taiwan is a part of it.

Technical Analysis

EUR/USD

Daily Chart

100-day SMA 200-day SMA

2016 Q4 Summary

In the last quarter of 2016, the EUR/USD currency exchange rate did not move in the direction forecasted by our analysts. Instead of surging, as expected by analysis done at the end of the third quarter, the currency exchange rate fell below the 2015 low of 1.0462. By the end of the quarter the rate almost fell below the 2003 low level at 1.0332. The reasons for that were fundamental events. In the aftermath of Donald Trump being elected President of the United States of America, the US Dollar began a surge, which lasted from the first part of November until the holiday season. This has now become history, as the members of the financial industry have named the rise of the Greenback in the aftermath of the election the "Trump Jump." However, the common European currency rallied and surged in the second half of December, revealing an ascending channel pattern.

2017 Q1 Outlook

Although not fully confirmed, the medium sized ascending channel pattern, which is located in a large scale descending channel, is set to influence the movement of the EUR/USD currency exchange rate in the next three months. In accordance with the technicals the currency pair is set to rebound and regain ground up to the 1.09 mark. However, that is unlikely due to fundamental factors in the form of Donald Trump's promised reforms in the US. The fundamental changes, as soon as they come, are likely to propel the rate southwards, which will be in accordance with the large scale descending channel. In the meantime, even as some analysts forecast the parity of the currency pair, it is unlikely to become reality during the next three months, as there is still enough support to keep the Euro trading higher against the US Dollar.

GBP/USD

Daily Chart

100-day SMA 200-day SMA

2016 Q4 Summary

During the last quarter of 2016 the British Pound attempted to recover from an initial sharp decline, but met resistance at the 1.28 mark, namely the 100-day SMA. The Cable lacked sufficient impetus to climb over the given SMA, which resulted in another set of bearish developments, which lasted through most of December. Overall, the quarter has been rather positive for Sterling, with the exception of the failure to pierce the SMA resistance.

2017 Q1 Outlook

The Cable set off on a rather positive note in the first month of the year 2017, having posted some gains, but failing to maintain trade above the 1.24 major level. A turnaround at that point suggests a psychological resistance is present, which could be the upper border of a broadening falling wedge pattern. The pattern exists for only one month, with no particular strong confirmations present, thus, the trend-lines are represented by the stroking lines. Assuming the pattern is validated, the GBP/USD currency pair could find strong support at 1.1919, a multi-year low, afterwards bouncing off and ultimately breaching the wedge's resistance line by the end of January. In this case the 100-day SMA is unlikely to be of any use in reversing the movement, and the Pound would have the potential to reach its December 2016 high. However, for the Cable particularly, the political factor remains a strong driver and game-changer. Market keeps interpreting Brexit as a serious economic risk, weighing on the Sterling since the referendum back in June. Consequently, downside risks persist, which could lead the exchange rate to a new multi-year low, with the lower trend -line not necessarily being able to keep the Pound elevated.

USD/JPY

Daily Chart

100-day SMA 200-day SMA

2016 Q4 Summary

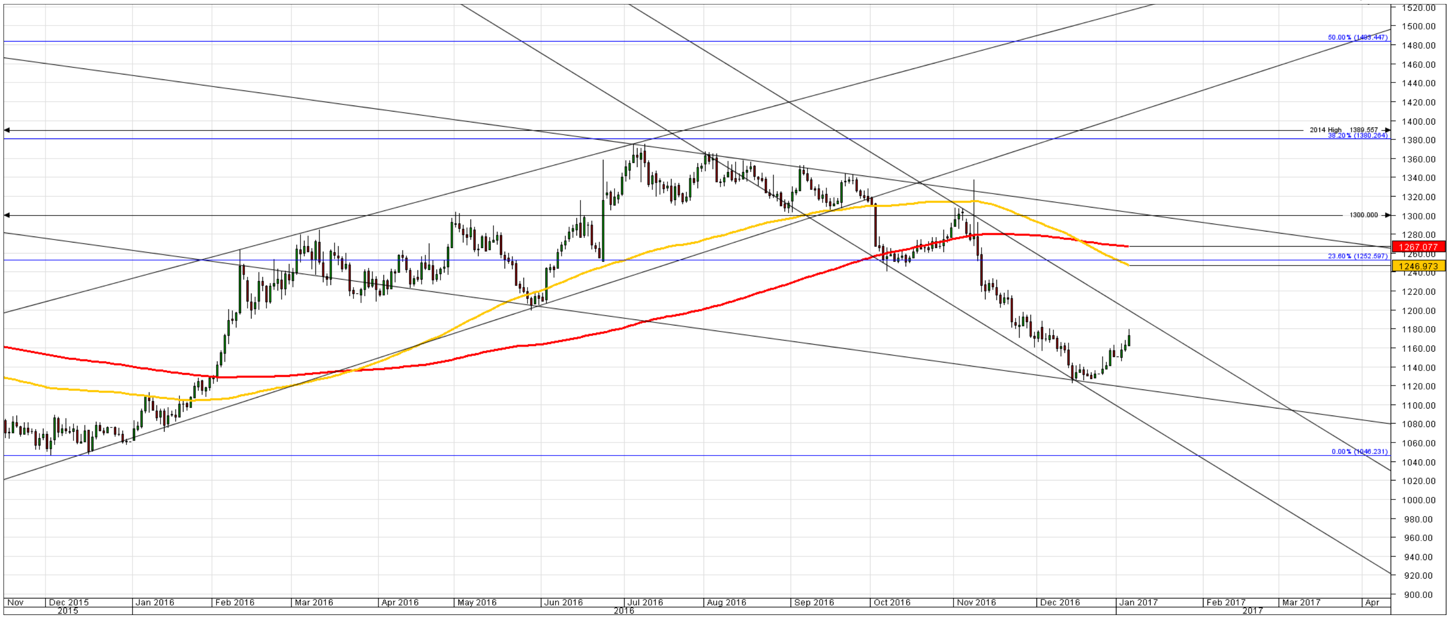
The first month of the fourth quarter of 2016 was rather quiet for the USD/JPY currency pair, with the only exception being the breach of the 100-day SMA. The given SMA later provided support, sufficient for a strong eight-week rally, which caused the pair to approach the 119.00 mark. The given surge occurred right after the US presidential elections and was later named the 'Trump rally'. However, the Greenback appears to have topped out after nearing the 119.00 level, with the exchange rate beginning to slide down until the end of the year.

2017 Q1 Outlook

Even though the US Dollar lost some steam at the end of the previous month and continued to slide down in the beginning of January, there are still positive notes present. First of all, technical indicators keep giving bullish signals in the monthly timeframe. Second, there is always a possibility the 'Trump rally' will be reignited, causing the Buck to climb over the 119.00 threshold. Finally, the 100-day SMA has recently crossed the 200-day SMA to the upside, indicating that the trend reversal is due, meaning that the stroking trend-line on the chart is soon to be pierced, as price is expected to rise. A successful breach of the down-trend is to allow the USD/JPY pair to continue moving higher, with the main target being the 2016 high of 121.70. The Buck has the potential to climb beyond this level within the next three months, possibly in the beginning of February. On the other hand, the new US administration is not keen on seeing the US Dollar stronger, thus, some measure to weaken the Greenback could be taken, resulting in the preservation of the bearish trend. Political factors are the main drivers nowadays, making the technical ones move to the second place, despite them being in larger numbers.

XAU/USD

Daily Chart



100-day SMA 200-day SMA

2016 Q4 Summary

The yellow metal plummeted at the start of October, as on October 3 the bullion lost almost 3.5% of its price and dropped to 1,266 mark. However, that was not the end of the decline, as after regaining losses for the rest of the month fundamental events sent the metal's price even lower. During the following fall a descending channel revealed itself, as by the end of the quarter the bullion found support in the channel's lower trend line. The fundamental event was the election of the new president of the United States, Donald Trump. Initially market analysts expected the US Dollar to fall in the case of victory of the republican candidate. Instead, what is called the "Trump Jump" ensued, as the newly elected president has promised reforms and an increase of infrastructure spending in the US to stimulate the economy.

2017 Q1 Outlook

The yellow metal surged by the end of December. However, that occurred due to various reasons, which are only temporary. It is most likely that the commodity price will begin a fall after it reaches the descending channel's resistance line and bounces off of it just below the 1,200 mark. Afterwards, gold is set to continue its path lower, and by the end of March it might even fall below the 1,000 level. However, that is unlikely due to the existence of a strong support level in the way. The support is provided by the 2015 low level, which is located at 1,046.23. In addition, there is still a vaguely confirmed large scale descending channel pattern, which has been dictating the movement of the yellow metal's price since March. Although the large scale pattern has only recently been discovered, it needs to be taken into account, as it will reveal the direction of the bullion in case the smaller.

EUR/JPY

Daily Chart

100-day SMA 200-day SMA

2016 Q4 Summary

For the EUR/JPY currency pair the year 2016 ended on a positive note, as through most of the final quarter of the year the Euro has been outperforming the Japanese Yen. The first trend-line was breached a lot earlier than was anticipated, with the Euro also retaining sufficient strength to pierce the second trend-line near 120.00, allowing the given cross to even climb over the 124.00 level for a short period of time.

2017 Q1 Outlook

The Euro appears to have changed its trend from bearish to bullish, but could have reached its ceiling in December 2016. The pair entered a consolidation phase, where it remained for the better part of the last month of the previous year. Currently, the EUR/JPY is struggling to reclaim the 124.00 major level, while the exchange rate keeps gravitating towards the 123.00 mark, occasionally finding support around the 122.00 handle. Since the BoJ successfully managed to weaken its currency by year's end, given that more stimulus is provided, the given pair has the potential to keep appreciating. At this rate the 2016 high of 132.38 could easily be reached by the end of the first quarter of 2017, as there are no major obstacles on the Euro's path. However, downside risks are also present, which appears to be a broadening rising wedge pattern. Rising wedges usually end with their support lines getting pierced, with rather hard selling following afterwards. In this case the single currency risks returning under 119.00, but a sharper bearish development is highly unlikely, as the 100 and the 200-day SMAs are soon expected to merge and form a tough demand area below the mentioned major level. The wedge may not last through all of the quarter, but its breach is expected to cause a setback and not a full-blown trend reversal.

AUD/USD

Daily Chart

100-day SMA 200-day SMA

2016 Q4 Summary

The Aussie's performance was rather disappointing in the final months of the previous year, as the breach of the three-year down-trend did not ensure the continuation of the bullish trend for the commodity currency. After another retest the AUD/USD currency pair managed to breach the 11-month up-trend, despite it being supported by the 100-day SMA. The main catalyst of this bearish development were the US presidential elections, as the victory of Donald Trump strengthened the US Dollar substantially.

2017 Q1 Outlook

The so-called Trump-rally kept providing the Greenback with a boost since mid-November 2016, causing the AUD/USD exchange rate to even drop under the 0.72 major level by the end of 2016. However, rumour has it that the Trump-rally has run its course, suggesting the Antipodean currency may once again begin its recovery. Some signs of this have already been seen in the beginning of Q1 2017, but it is still uncertain whether it is just a mere setback or a trend reversal. According to our technical studies, the Aussie is likely to make a U-turn at some point in January, ultimately prolonging its bearish trend, which emerged in the first half of November 2016. The U-turn could be triggered once the exchange rate approaches the 0.75 mark, where the 100-day SMA currently coincides with the 200-day one; this could occur around January 20, when Donald Trump's inauguration is due. Should the American Dollar fail to strengthen by the end of the first month of 2017, the Australian Dollar could resume its movement towards the 2016 high of 0.7836, assuming the main resistance is also overcome.

USD/CAD

Daily Chart

100-day SMA 200-day SMA

2016 Q4 Summary

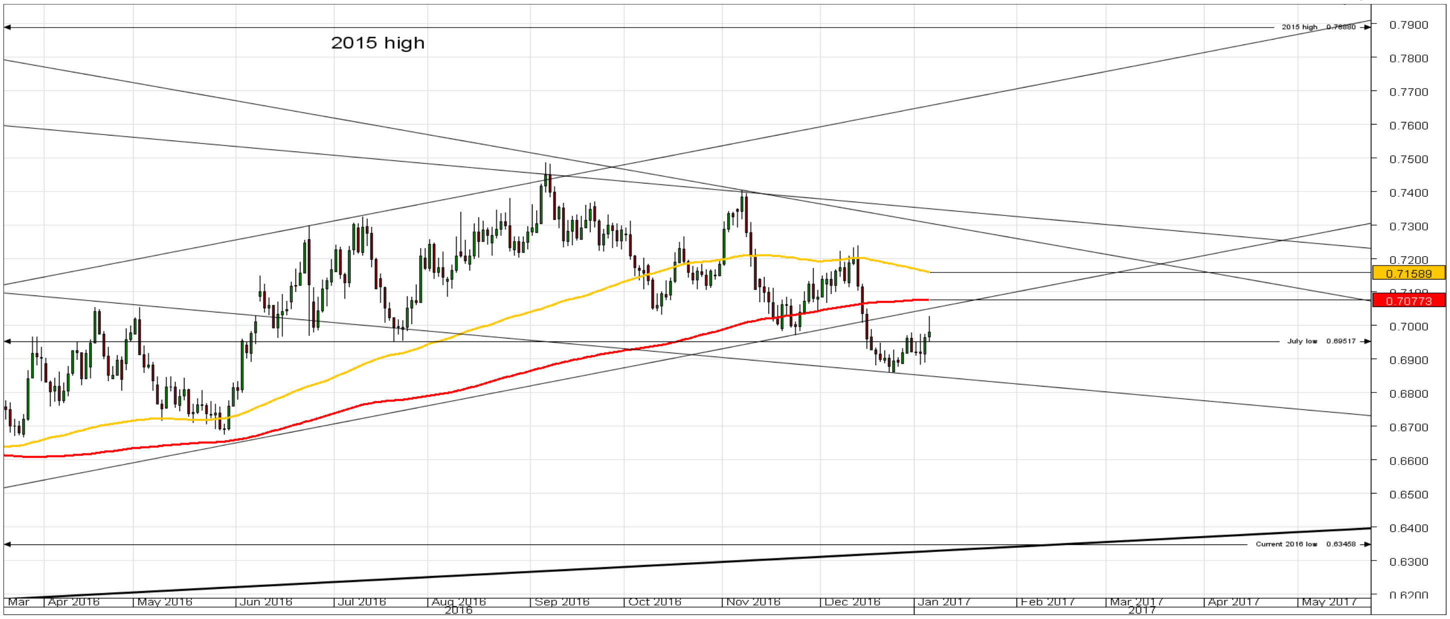
During the last quarter, the US Dollar moved against the Canadian Dollar in accordance with the forecast for that pair, which was made in the third quarter of last year. The currency exchange rate fluctuated between the two trend lines, which have constrained the currency pair since April. Although it might seem that the rate traded in this ascending channel pattern, it is actually a combination of two trend lines that work individually. First of all, from the downside, the rate is supported by a long term ascending trend line. Secondly, from the upside, the trend line which is providing resistance to the Greenback against the Loonie has been only active since last April. In addition to all of that, the currency exchange rate was largely influenced by the 100 and 200-day SMAs.

2017 Q1 Outlook

The US Dollar is set to continue the surge against the Canadian Dollar in accordance with the pattern. It is indicated by various clues, which have to be dissected one by one. First of all, the ascending channel has proven itself more than once in the past year. In addition, the lower trend line is not likely to be broken in most cases, as it has been providing support to the currency exchange rate since June 2014, when the rate first rebounded against it. Secondly, the 100 and 200-period SMAs are providing additional support to the pair. The 100-day SMA moves through the middle of the ascending channel, while the 200-day SMA is located below the channel. However, as the rate surges, it is likely that the 200-period SMA will move higher. It is likely that the rate will be at least at 1.34 by the end of March.

NZD/USD

Daily Chart



100-day SMA 200-day SMA

2016 Q4 Summary

The Kiwi was unable to rebound against the US Dollar against the ascending channel's lower trend line. On December 15 the currency exchange rate fell below the trend line of the channel up pattern. The move occurred in accordance with the descending channel, which had guided the currency pair from the upper trend line of the ascending channel to the same channel's lower trend line. The strength for the push down was provided by the fact that the pair hit the resistance line of a larger scale descending channel pattern on November 9. It is strange that this occurred just on the US presidential election day, when Trump won and the "Trump Jump" began. As a result, the rate fluctuated lower and on its second attempt broke through the support provided by the half a year active ascending channel.

2017 Q1 Outlook

The Kiwi might trade against the US Dollar at the start of March in a range from 0.6775 to 0.7150. Because of that, it has to be analysed more than most rates. The reason for such a range is that, although the pair is in a descending channel, the rate recently hit the lower trend line of that descending channel. Because of that, the New Zealand Dollar has begun a surge against the Greenback, and there is a need to thoroughly analyse the resistance levels which the rate is set to face. First of all the rate has been struggling against the July low level at 0.6952. Secondly, the previous pattern's lower trend line is located near 0.7050. Afterwards, the 200-day SMA is located at 0.7075. Then there is the 100-period SMA at 0.7150, and the larger scale pattern's upper trend line in three months will also be at 0.7150 mark. Due to these reasons traders are advised to watch the rates bounces between these levels.

Expert Commentary

Pound Sterling

Where do you see the Sterling during the first quarter of 2017?

At Societe Generale, we were expecting the Cable to move to 1.20 by the end of the first quarter, though it seems now that it had definitely reached the abovementioned level much faster than our prediction. Still, the pair is definitely going the same direction as we have forecast.

At this point, our view is that the ongoing Sterling pressure is likely to continue because our expectation is that the US Dollar will remain on an uptrend. Despite that, we suppose that the low that we saw in the GBP/USD currency pair in October last year is the cyclical low and it will not breach below the level of 1.15. Our current view is that this low will hold for the time being.

Alvin Tan
FX Strategist
Societe Generale SA
UK

At this point, our view is that the ongoing Sterling pressure is likely to continue because our expectation is that the US Dollar will remain on an uptrend.

- Alvin Tan

What would be your forecast for EUR/GBP for the Q1 of 2017?

In our forecasts that were published in December last year, we were looking for 0.84, though now we can see that it has actually bounced a little bit higher than that. At the current moment, we do think that pressure on the Euro will intensify as we get closer to the French elections in spring and then it will come off again.

Our current view is that this low will hold for the time being.

- Alvin Tan

US Dollar

Richard Franulovich
Senior Currency Strategist
Westpac
US

Where do you see the Greenback during the first quarter of 2017?

I assume that the US Dollar performance is going to be all about Trump and prospects for a big fiscal stimulus in the United States. Once we get more detail on the size and timing of tax cuts and infrastructure deregulation, we will be able to fully shape the US Dollar outlook. Generally, the bigger the tax cuts and the larger the infrastructure program is, the more it will boost the US growth prospects. Besides all, expectations that the Fed will proceed with its rake hike path this year along with the abovementioned factors should send the Greenback rallying in the Q1.

What would be the main headwinds for USD throughout the same period?

I believe that the main drivers for the US Dollar would be, obviously, Trump, the Fed and the ECB. If the Trump fiscal programme proves to be larger than expected, it should give the Greenback a further boost. On the contrary, if that programme disappoints, seeing smaller amount of infrastructure spending and a small tax cut, which would obviously be a disappointment, we will witness the Dollar selling.

I believe that the main drivers for the US Dollar would be, obviously, Trump, the Fed and the ECB.

- Richard Franulovich

Nevertheless, I think that we will have to keep an eye on the ECB as well. In the upcoming quarter we may have some indications that the ECB officials are prepared to taper their bond purchasing programme, which is also an important factor that could determine the performance of the US Dollar.

What would be your forecast for EUR/USD, USD/JPY and GBP/USD for the Q1 of 2017?

By the end of the Q1, we anticipate the Euro to edge down and eventually finish at 1.05. Talking about the USD/JPY currency pair, our expectation is that it will close the quarter at 114, while the Cable we see finishing at 1.20.

Canadian Dollar

Benjamin Tal
Deputy Chief Economist
CIBC Capital Markets
Canada

Where do you see the Loonie during the first quarter of 2017?

We believe that we will probably see some downward pressure on the Loonie over the Q1 of 2017. The main reason, of course, would be what is happening with the US administration, namely, direction of Donald Trump's protectionism that is considered a negative factor impacting the Canadian Dollar. Given the fact that the monetary policy in Canada is expected to be neutral and we will see interest rates stabilising, the Loonie will be compromised. The only thing that might keep the Canadian Dollar on limited damage is oil prices. Whenever they go up, it is positive for the Canadian Dollar; however, with the US acting as a swing producer we will see the limited upside potential for the Loonie in the first quarter.

What would be the main headwinds for CAD throughout the same period?

I think that there will be two main factors: interest rates and commodity prices, especially energy. These two drivers may take the Loonie in different directions: interest rates will take the Canadian Dollar down, whereas oil will take it up. Nevertheless, my general view is that the Loonie will edge lower.

> *Given the fact that the monetary policy in Canada is expected to be neutral and we will see interest rates stabilising, the Loonie will be compromised.*
>
> *- Benjamin Tal*

What would be your forecast for USD/CAD, CAD/EUR and CAD/AUD for the Q1 of 2017?

We see the Canadian Dollar trading at 0.75 against the US Dollar in the Q1. Against the Euro, we anticipate to see the level of 0.72. Talking about the CAD/AUD currency pair, we expect it to finish the first quarter at 1.04 versus the Australian Dollar.

Euro

Peter Frank
Global Head of
G10 FX Strategy
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Where do you see the Euro during the first quarter of 2017?

We think that the current range is what we are going to see through the first quarter. However, around March, supposedly, the Euro could dip a little bit closer to the parity level. At this point, we are looking at a fairly narrow range of 1.02-1.07 during the Q1. Our view is that we are going to keep seeing erratic movements on the market, with the Euro generally heading with lower lows into the end of March ahead of the Article 50 signing.

Furthermore, we think that the new US President will start to unveil a long list of fiscal pump-priming measures that should be more positive for the US Dollar than for any other currencies including the Euro, which should drive EUR/USD a little bit lower. Nevertheless, we are not negative on the Euro but we are definitely more positive on the Dollar.

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- Peter Frank

What would be the major headwinds for EUR throughout the same period?

I think that there will be two big domestically-related factors just inside the Euro area. Firstly, we will have the electoral cycle beginning, namely, the Dutch election around the term between the Q1 and Q2, then, when we get into the Q2, we will have the French election; thus, again, March will be tricky for the Euro. The Dutch electoral issue, in turn, is the big risk factor given the strong showing in the polls of the populist leader, while the French election, the first round of which is in April, will bring a lot of news headlines and anti-EU comments that could be antagonistic towards the Euro. In case Marine Le Pen is at the top of the first round which is quite possible, that does not mean that she will win the second round (we think that she will not), bringing up a number of other negative Euro risks associated with that political cycle.

Euro

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Another negative issue would be triggering of the Article 50. As Mark Carney suggested in his speech in the beginning of the year, the Brexit will be negative for the Euro and the Euro zone could be eventually far worse off than the UK if they take a hard line with Britain.

Overall, these two big downside headwinds (the domestic Euro area political cycle risk from the elections and the way the Euro zone is going to respond to the triggering of the Article 50) are two very important Euro risks. While everyone is aware of the first, the second is probably being underestimated by the market that is still focusing on the Brexit risks to the UK and the Sterling rather than to the Euro zone.

On the macro side, the Euro zone data is improving and the overall trend was very good over the Q4: we saw five-year highs in some of the PMIs for things like industrial activity and business sentiment, while consumer confidence kept rising. Hence, we had a decent recovery from the poor third quarter, therefore, I suppose that as long as there is no really big “train wreck” in the political cycle, the consumer confidence, business confidence, etc. should continue to support the Euro and help it to stabilise and possibly hold back weakening dramatically against the Greenback. Against the background, we see only a mild drop in EUR/USD.

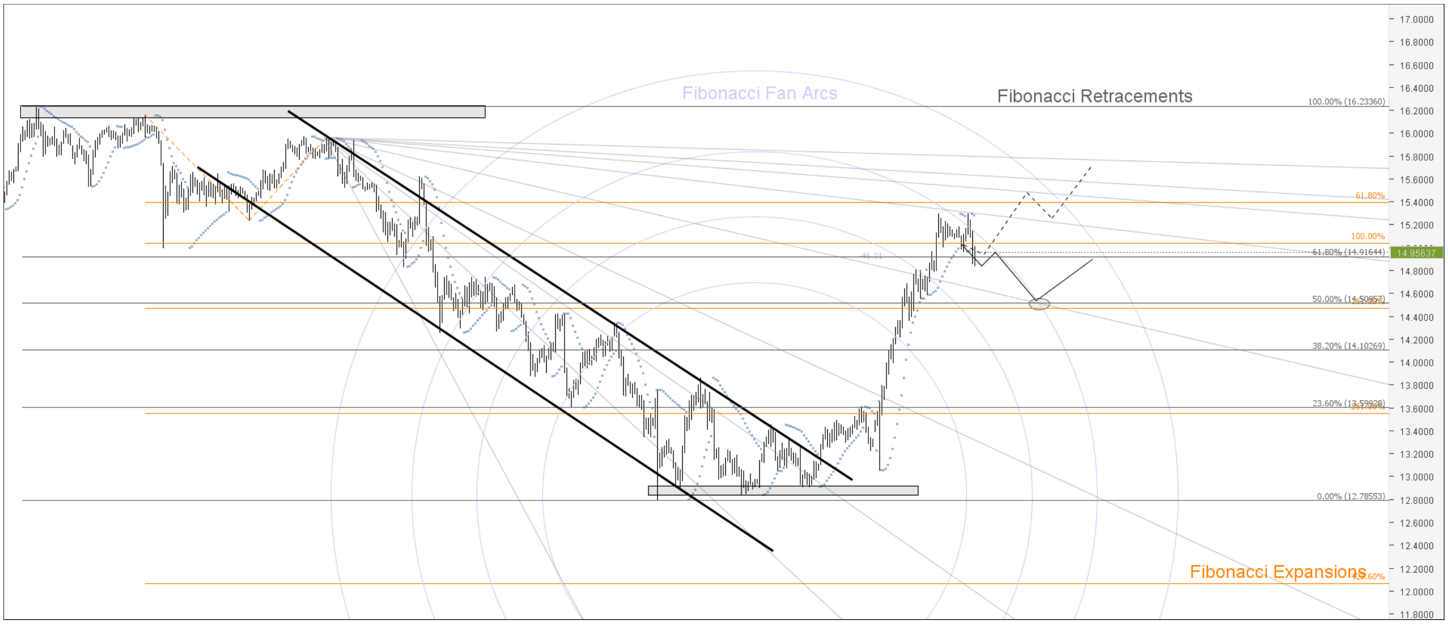
What would be your forecasts for EUR/USD, EUR/GBP for the Q1 of 2017?

Talking about the EUR/USD currency pair, we have it finishing at 1.03, though we are not denying the possibility of it dropping below that level. Thus, we see it sliding a little bit; however, we do not see parity or sub-parity for this quarter. The EUR/GBP currency pair we expect to trade around 0.88 by the end of Q1, but again, a lot will depend on the nature of the UK politics around the time of triggering of the Article 50. Clearly: the harder the Brexit, the higher EUR/GBP. In the short term, quite negative pressure is expected on the Sterling with a lot of emphasis on a “hard” Brexit. However, it might be that people do not necessarily understand the fact that the negotiations will start on an antagonistic level; we will see a lot of bargaining between the UK and the Euro zone, pointing to a very “hard” Brexit, which would keep EUR/GBP elevated.

Trade Pattern Ideas

HKD/JPY

Daily Chart



HKD/JPY

Channel Down

An attractive crossover of the Fibonacci Fan Arc, 50% retracement and Gann angle at 14.50 could come into play late February.

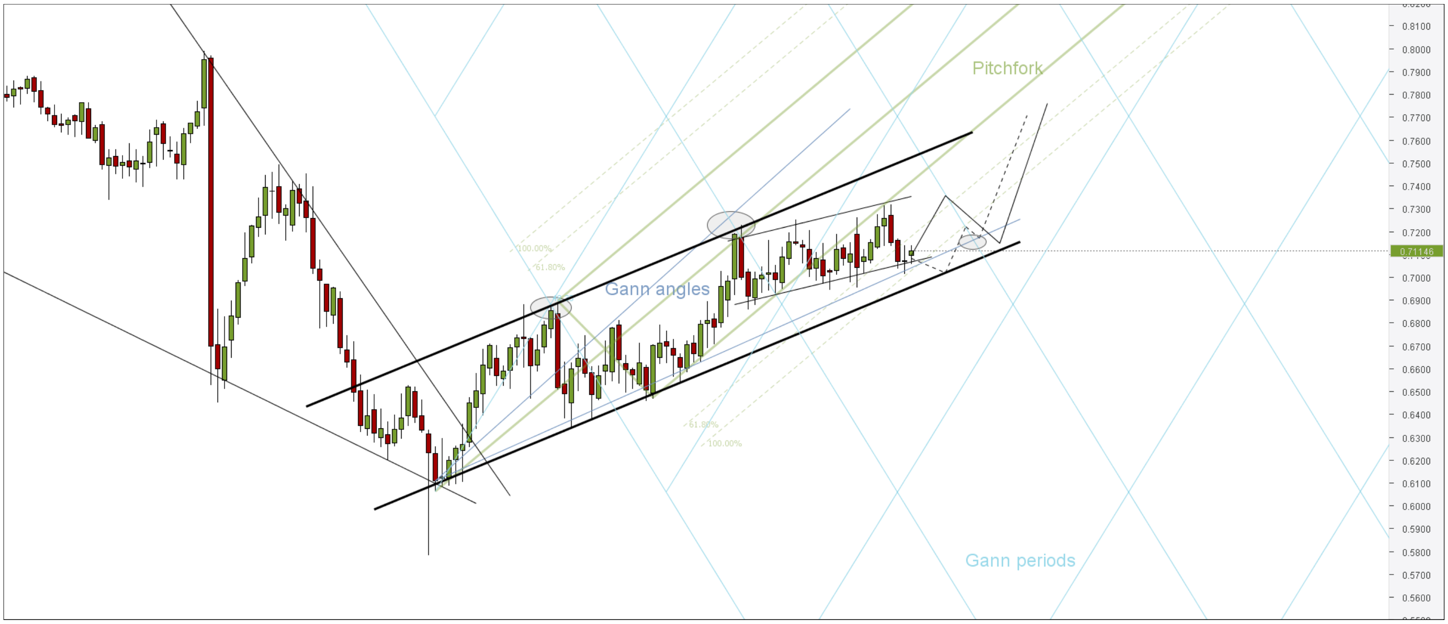
HKD/JPY surged from all time lows to all time highs over a period of four years, posting an ultimate ground at 9.8074 and major supply at 16.0363. Recent resistance lies at 13.0451 and has denied access to levels below two consecutive times, setting distinctive bounds for predicting the somewhat ranging motion.

The weekly chart shows that the pair has bumped into the 61.80% Fibonacci Expansion at 15.2033 and is squeezed in between the expansion and the Gann angle. A downward sloping channel is consistently broken to the upside, making the motion steep and suggesting it might be time to subside. We would expect this week to close with a small green candle below the expansion and then potentially enter a flattish motion with a little more risk skewed to the downside. An attractive crossover of the Fibonacci Fan Arc, 50% retracement and Gann angle at 14.50 could come into play late February. Although there has been a bearish crossover of SMAs beneath, little credibility should be assigned to the signal due to the lagging nature of the indicators and the recent bullish reversal. We move on to the daily chart to seek more conclusive support for our expectations.

A broken junior channel emerges on the daily chart, suggesting that a steep southward motion should extend from here. Additionally, the pair has exited a Pitchfork, drawn from the latest slope, pointing in the same direction. A bearish Harami candle sends the same signal. The 100-day SMA is approaching a confluence point with the 200-day SMA, but we do not expect a crossover to happen, given our slightly bearish scenario.

NZD/CHF

Weekly Chart



NZD/CHF

Channel Up

The next Gann period is likely to be reached mid February, as we expect the pair to stay inside the bounds of the junior channel on the daily chart, but also respect the parallels of the broken Pitchfork along the way.

After posting an ultimate high at 0.9423 and an all time low of 0.5829, NZD/CHF entered and broke a set of patterns, the latest of which has led it out of the red zone in the form of an ascending channel. 2015 put an end to the long-term downtrend in a falling wedge pattern, taking the first step towards a truly bullish market. The pair has lost some of the accumulated momentum since then, taking a path of lesser steepness.

NZD/CHF has been respecting a set of indicators and their most significant clusters, attributing more credibility to similar future signals. The areas denoted by ellipses show the clusters and their successful attempts at moving the market. Clusters of Gann angles and Gann periods have been causing reversals with the highest degree of precision, suggesting them to be credible for future analysis. The exited Pitchfork has proven to still hold some power, due to the stickiness of the broken bottom trend-line as well as the respect showed to the parallels. With a healthy location in the middle of Bollinger Bands, the pair shows no signs of a reversal, setting our expectations on the bullish side.

The next Gann period is likely to be reached mid February, as we expect the pair to stay inside the bounds of the junior channel on the daily chart, but also respect the parallels of the broken Pitchfork along the way. This movement would then make 0.7361 the next target with hitches at 0.7257, the Fibonacci retracement and expansion.

A multitude of candlestick patterns emerge on the latest small-scale wave south, most of which send bearish or grey-zone signals. This could be an indication on the pair being ready to tap at the bottom boundary of the superior channel and break the Pitchfork 100% parallel, which would make it sticky until the Gann period is reached. This would mean that the channel boundary - 50% retracement crossover of 0.7024 is the next target just before a bounce towards the upper trend-line. The primary and secondary scenarios as well as the next area of interest are depicted on the above chart.

USD/ZAR

Weekly Chart

USD/ZAR

Channel Down

Bearish pressures are put on the pair by a red Ichimoku cloud above, a set of mostly bearish and inconclusive candlestick patterns (Spinning Tops, High Wave, Belt Hold, Closing Marubozu, Rickshaw Man and Short-line candles along with many others), as well as several bearish triangles on the daily and hourly charts.

USD/ZAR gained roughly 165% over the period of 2011-2016 and now appears to be ready to reverse the trend. The previously solid uptrend, which is also the bottom boundary of the channel up pattern, now appears to be quite sticky, signalling that a break below might come soon. The area is strengthened by a Gann angle of the same soar, meaning that a severely sharp downfall could be stalled by the next angle, Fibonacci Fan Arc, Expansion and Retracement crossover of B. This is, however, not our basis scenario, due to the extreme steepness of the potential fall.

A break below the senior uptrend would result in bearish outburst, causing a prominent dip to the downside. We would expect the slip to trigger a retracement to the broken trend-line and enter a consolidative phase, which would bring our attention to A in two separate scenarios marked on the weekly chart. The area A denotes a cluster of a Fibonacci Expansion, Fibonacci Retracement and Fibonacci Fan Arc and suggests 12.85/13.00 could be an area of significance in October.

Bearish pressures are put on the pair by a red Ichimoku cloud above, a set of mostly bearish and inconclusive candlestick patterns (spinning tops, high wave, belt hold, closing Marubozu, rickshaw man and short line candles along with many others), as well as several bearish triangles on the daily and hourly charts. A conclusive exit from the Andrew’s Pitchfork on the weekly chart sends a similar signal.

NZD/USD

Monthly Chart

NZD/USD

Channel Down

A distinct downtrend on the daily and weekly chart adds to the loss of volatility, creating a descending and symmetrical triangle combination, which could lead the pair to break the senior wedge bottom trend-line at 0.9659.

NZD/USD attacked 0.8789 twice in the last six years and lost, arguably forming double top at the aforementioned level. The latest tap at the level made the pair break a channel up and led to a dive to enter a wide range motion. A descending channel emerged in 2013, and the pair has just tested the upper boundary, meaning that a wave south is about to guide the long-term fall. The pair has now set a floor at 0.6325 and 0.6077, but the ultimate low lies at 0.4997.

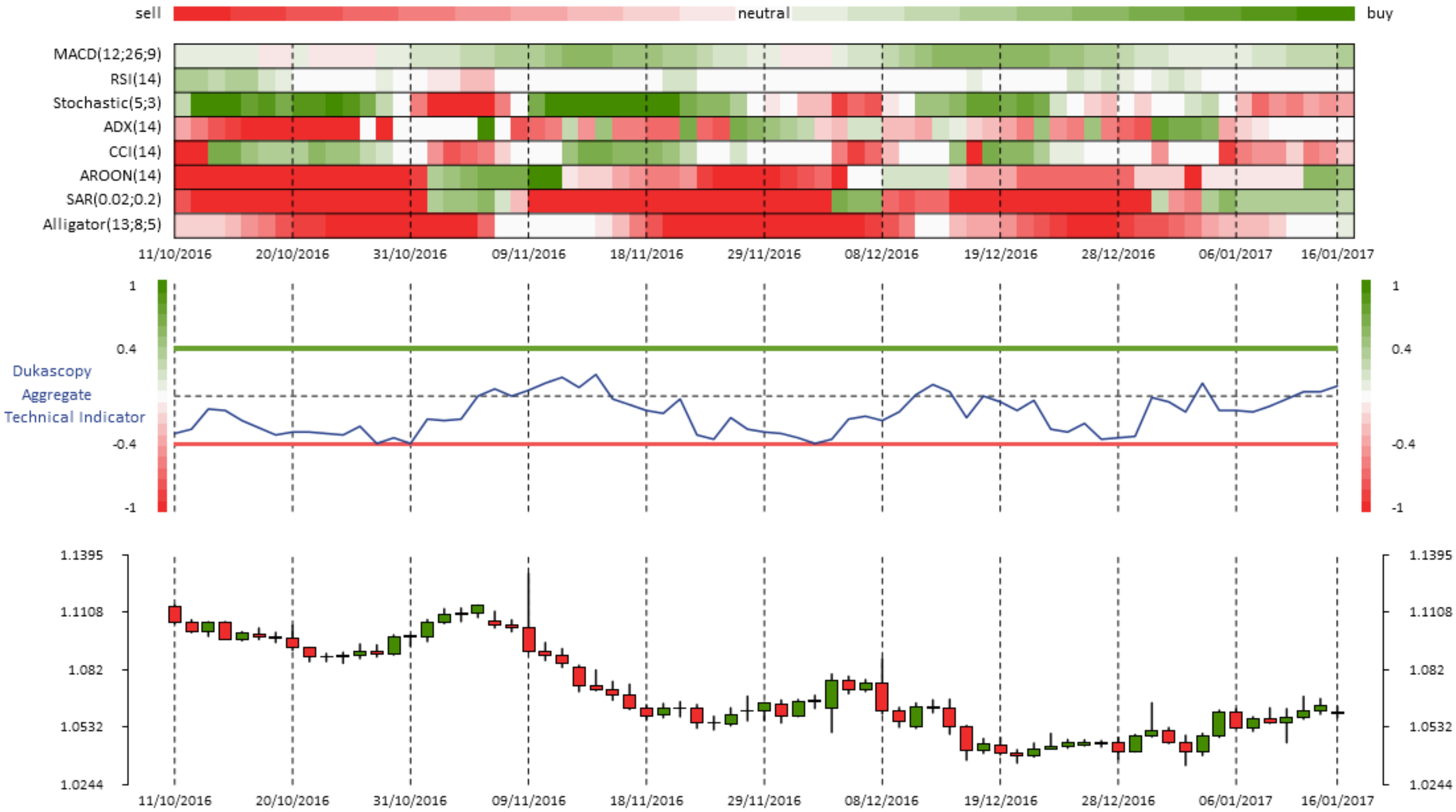
After applying Gann analysis, we detect several areas of significance, which gain our trust with historical confirmations. Firstly, point A timed late January – late February could provide some pressures when the time comes, meaning that the rate could possibly stick to the upper trend-line of the channel for now and take a more prominent dip inside A. The area is set by the Fibonacci Fan Arc, Fibonacci 50% Retracement of the 2009-2014 surge and the Gann Angle and Gann Period of the current dip all crossing inside of this area. The same indicator crossover made NZD/USD cut its losses and start a wave north in July 2015, making us believe that the region might indeed be of significance. The area B has the same characteristics as A, but without the Retracement, which makes us believe that this is a secondary target and we will shift our focus there in case A is missed.

The daily chart confirms our scenario of a sticky upper trend-line of the senior channel down. NZD/USD has been trading inside of a descending channel which coincides with the upper trend-line of the superior pattern since August. We see no signs of its weakness for now, meaning that the pair could enter A as we expect. The pair is currently on its fifth wave inside the junior pattern, which could mean that an attack at the upper boundary could be unsuccessful and tests of it could be delayed. Two high-wave candles show a balance in supply and demand, pointing to uncertainty and suggesting that the market might not make sharp movements. Spinning tops suggest bulls losing interest.

Aggregate Technical Indicator

EUR/USD

Daily chart

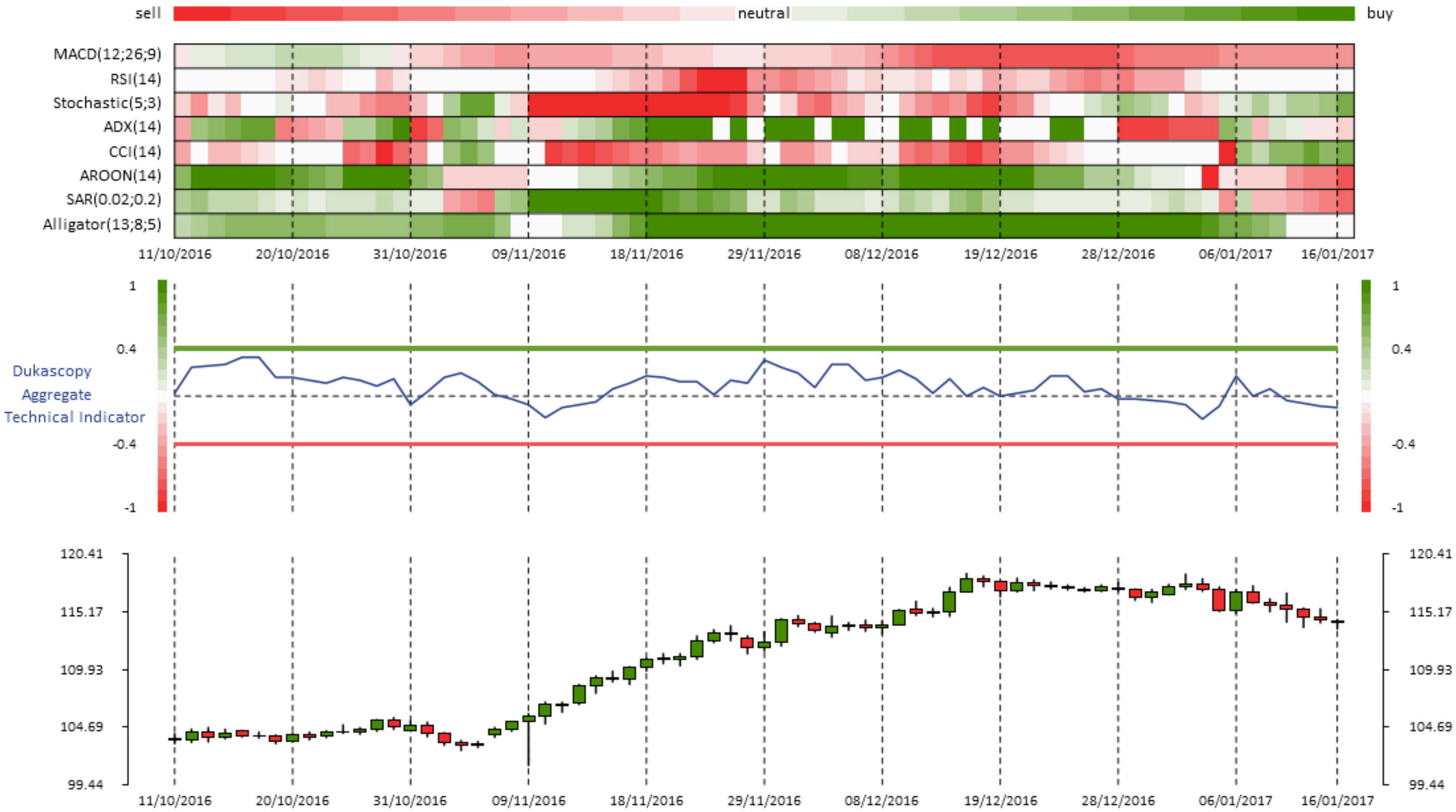


GBP/USD

Daily chart

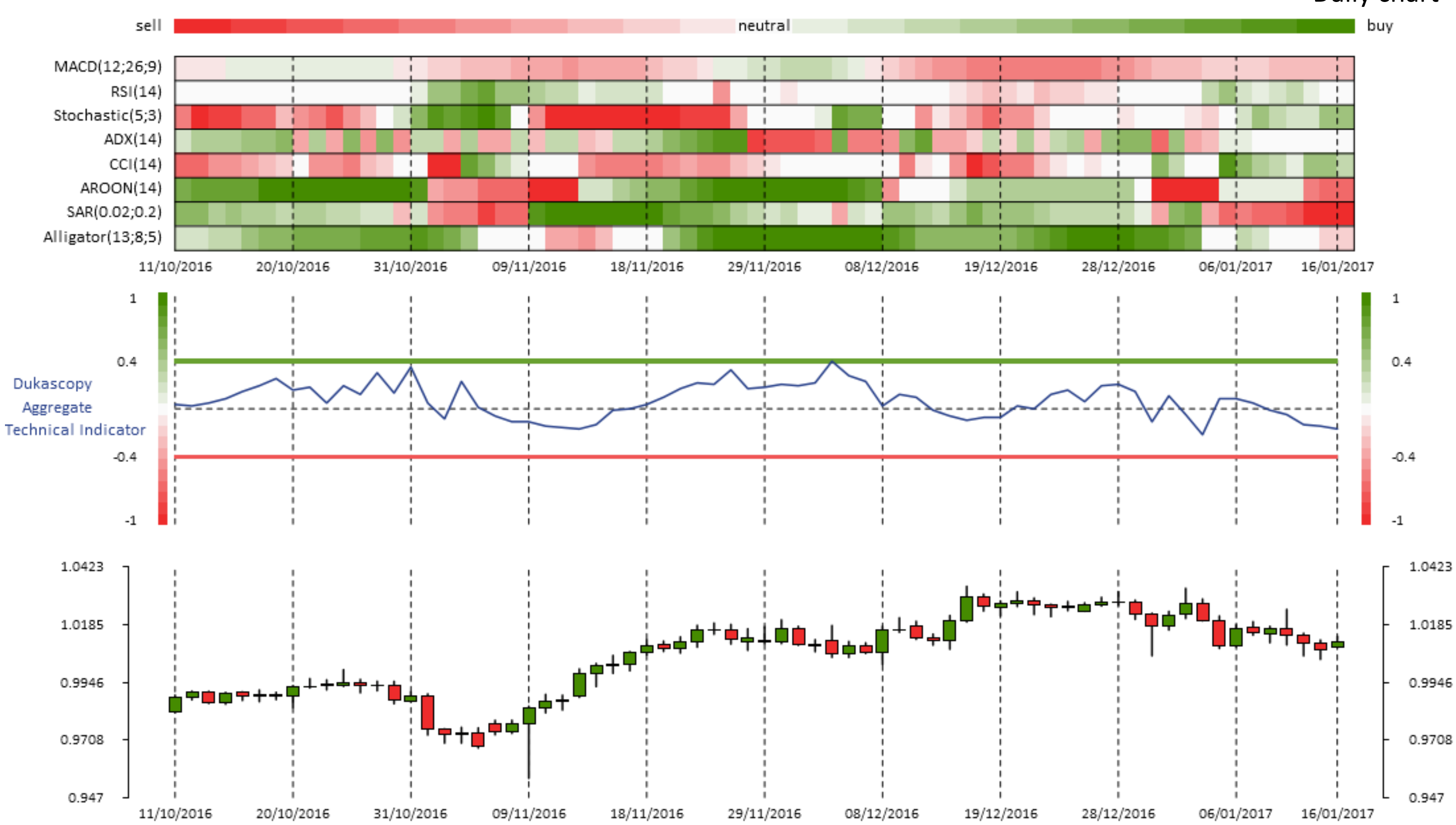
USD/JPY

Daily chart



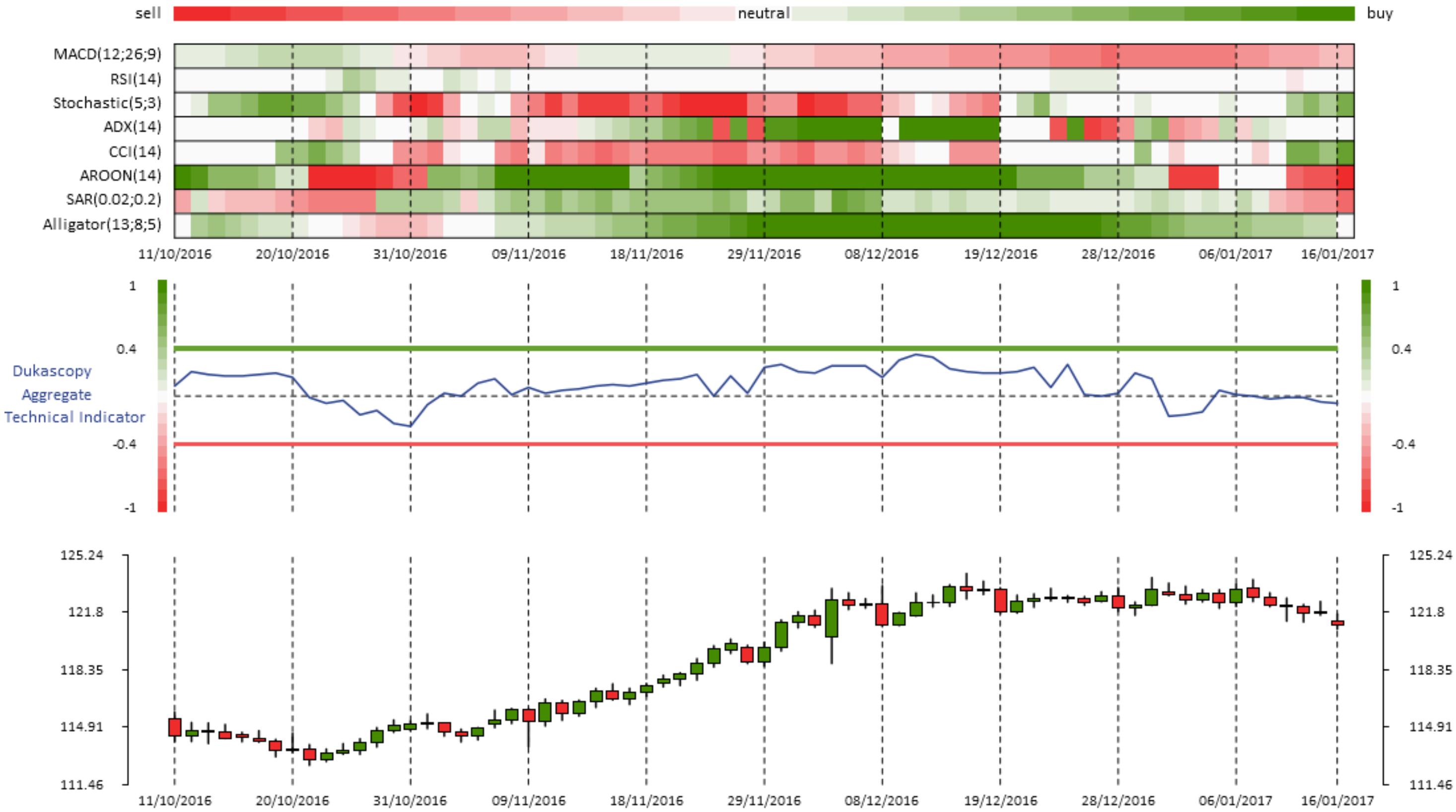
USD/CHF

Daily chart



EUR/JPY

Daily chart

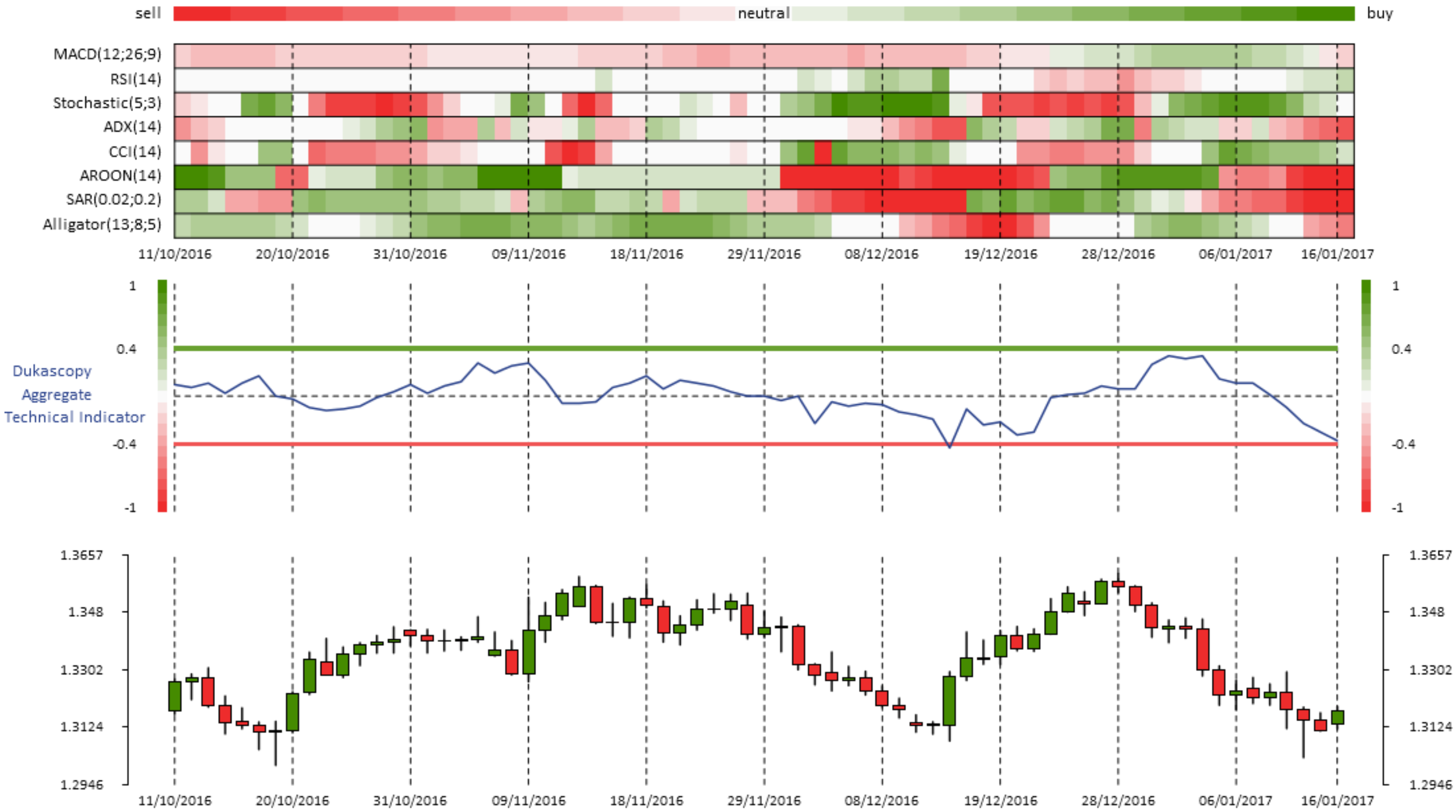


AUD/USD

Daily chart

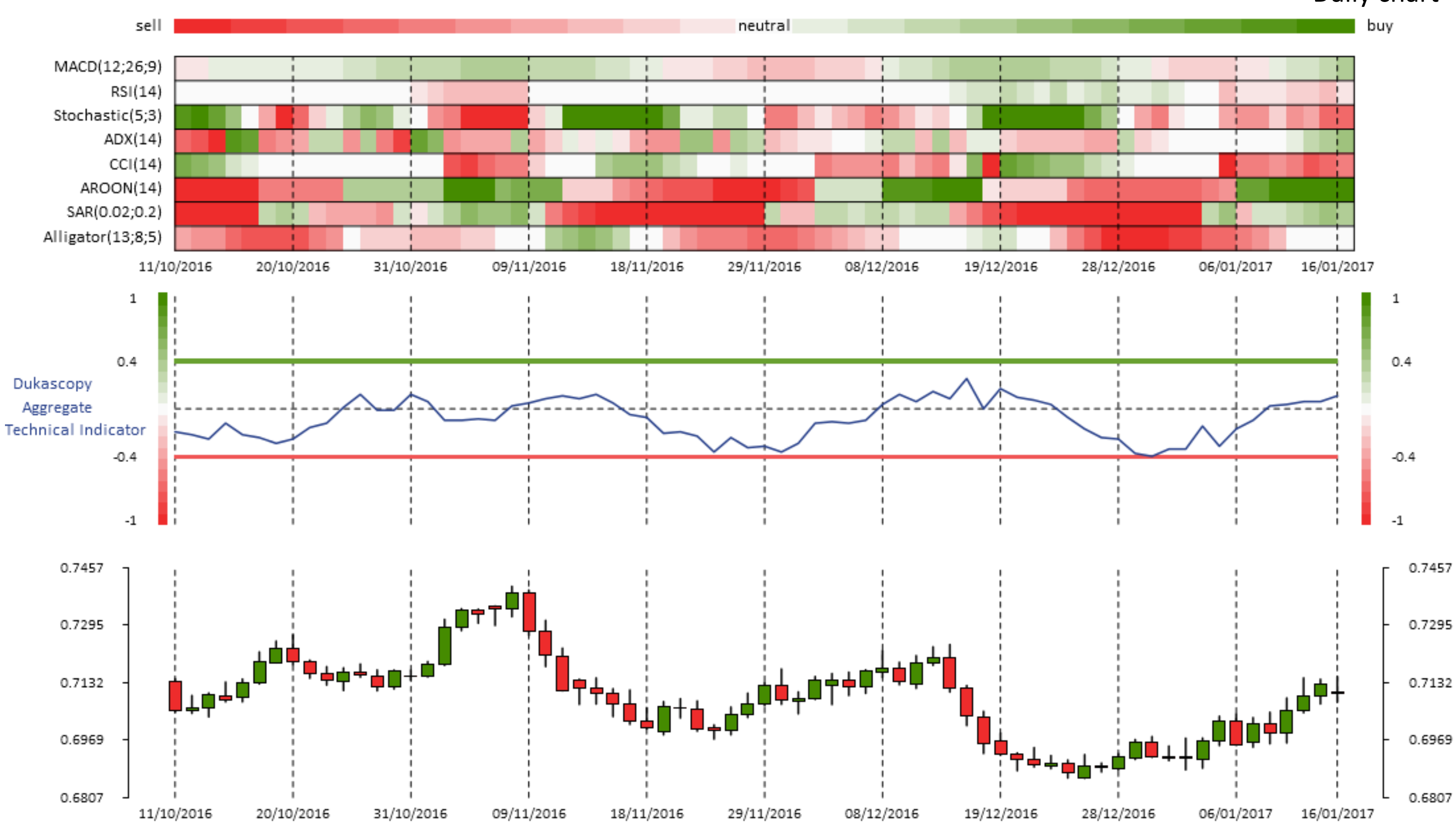
USD/CAD

Daily chart



NZD/USD

Daily chart



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