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QUARTERLY REPORT

Q2, 2017

AGGREGATE TECHNICAL INDICATOR

FUNDAMENTAL ANALYSIS

TECHNICAL ANALYSIS

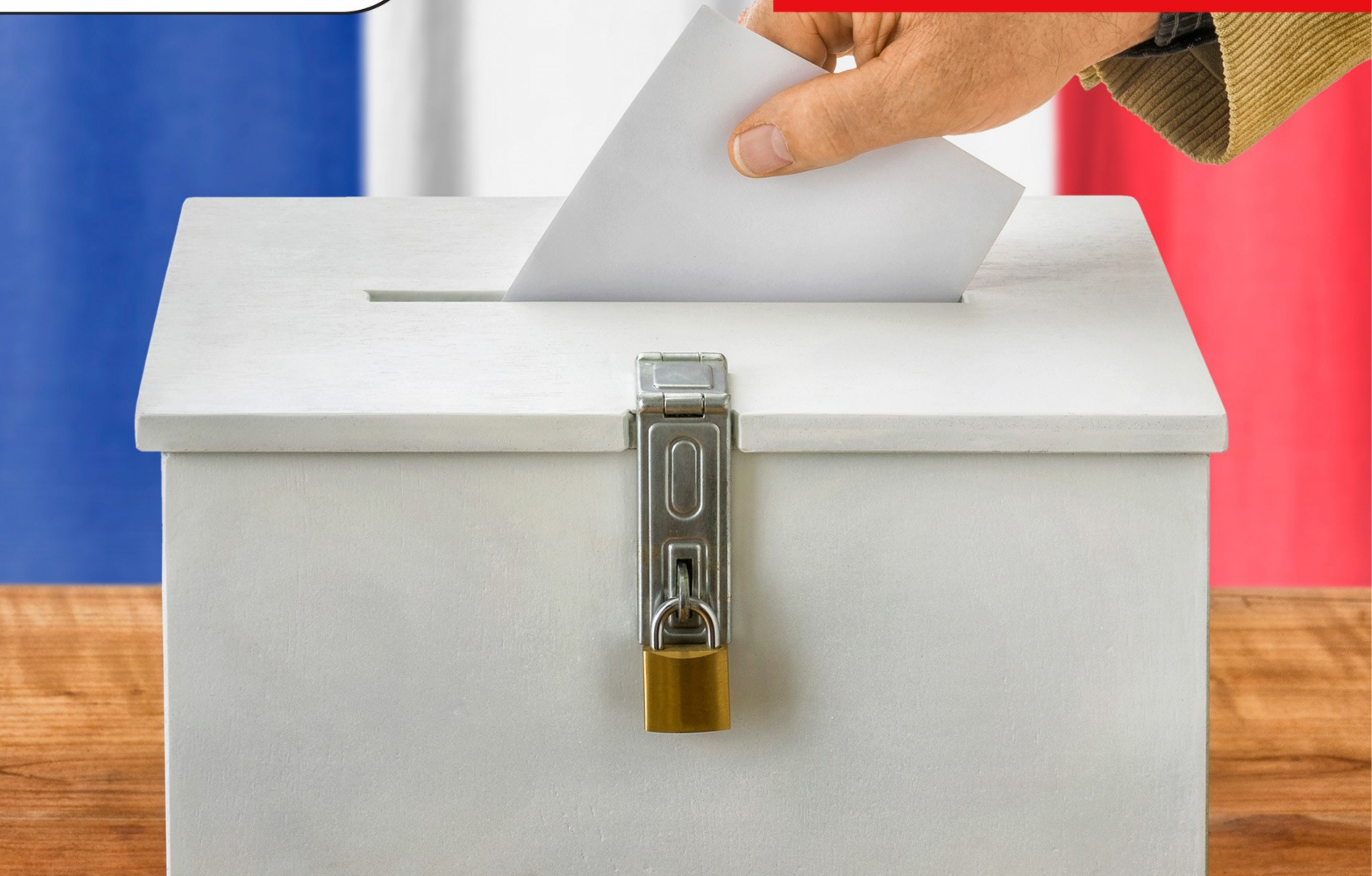
TRADE PATTERN IDEAS

EXPERT COMMENTARY

ANALYST PERSPECTIVE

"It is likely that the fundamental events in the US and EU politics will set the direction in the upcoming months."

Janis Macukans, economist at Dukascopy Bank SA



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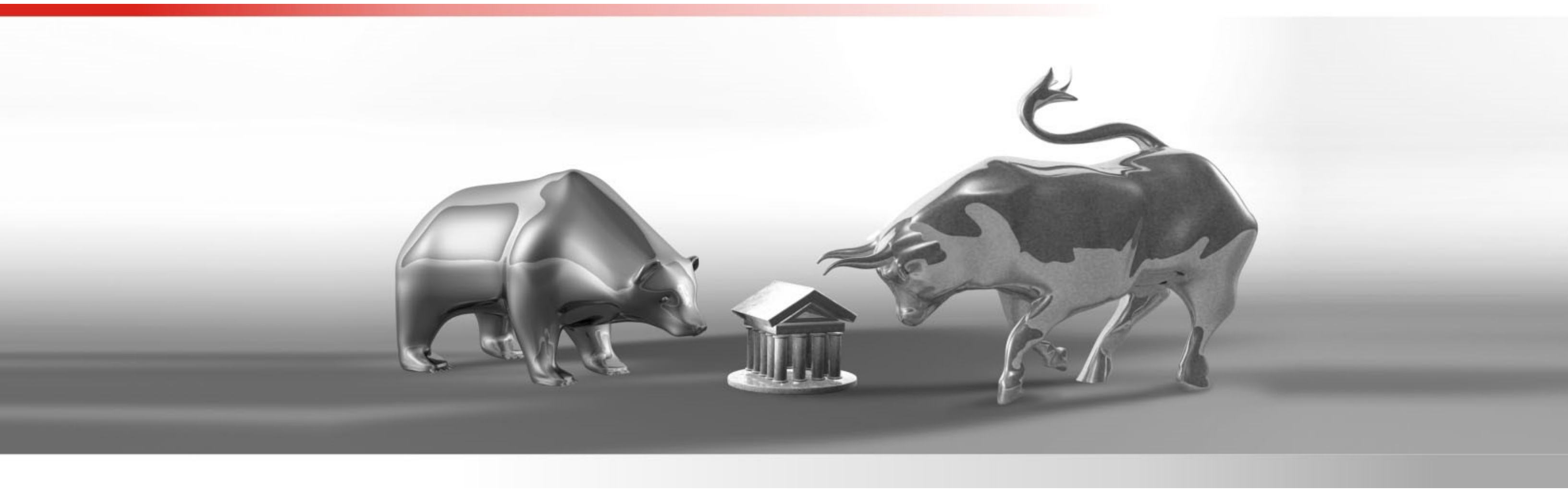


Fundamental Analysis

Highlights of Q1

The global economy managed to start the year on a strong footing due to improved conditions in emerging economies and strong growth in developed countries. In the United States, the Federal Reserve raised rates for the second time since December 2016 and signalled two more rate hikes this year. Moreover, the US labour market continued to be strong over the March quarter, suggesting that the US economy is at or close to full employment. However, the Trump administration's failure on the Obamacare repeal raised serious doubts about the White House's ability to take on and pass major legislation. Across the Atlantic, the UK Prime Minister Theresa May triggered the Article 50 and began shaping the future relationships between Britain and the EU. On the economic front, rising inflation and subdued wage growth put significant pressure on British economic growth in the Q1. As to the Euro zone, the ECB kept its neutral stance intact, saying that the monetary policy will remain unchanged until underlying inflation trends improve. Meanwhile, rising oil prices provided significant support to the commodity-dependent economies such as Australia.

Since the start of the year, attention shifted to the upcoming European elections that continued to support the high degree of uncertainty. However, the far-right party leader Geert Wilders' loss in the general Dutch elections was welcomed with open arms and eased slightly the political uncertainty hanging over Europe. Overall, global GDP is set to expand 2.8% on a yearly basis in the Q1, meeting the past quarter's results.

Euro zone

Robust consumer spending has been boosting economic growth in the common currency block over the last several quarters and the latest economic data suggested that the Euro zone economy managed to maintain positive momentum in the first quarter of 2017. GDP growth forecasts for the region in the upcoming quarters were held steady, painting an optimistic picture. Furthermore, headline inflation in the 19-country currency bloc improved significantly over the past several months, coming in at 2% in February. However, the European Central Bank President Mario Draghi claimed that inflation was boosted by temporary factors, such as energy prices, and underlying inflation trends remained weak. Subdued core inflation growth forced the Central bank to leave its monetary policy unchanged at its meeting on March 9. Furthermore, the ECB Executive Board member Peter Praet said that the Bank would run its Quantitative Easing programme launched two years ago until at least the end of the year and it could be increased again if needed, adding that a reduction in asset purchases from €80B to €60B was "not the beginning of the end" for the QE.

Britain's decision to leave the European Union resulted in an increased capital flow to the region's largest economy, Germany. The German economy continued to show strong performance throughout the Q1 of 2017, with core inflation hitting 1.97% in February, business confidence remaining deeply in the positive territory and both manufacturing and services activity rising above 55 points in Markit's PMI surveys for March. However, a high degree of uncertainty in both global and domestic economies continued to put downward pressure on the German and 18 other economies.

At the beginning of the year, investors' attention shifted from the United States and the newly-elected US President Donald Trump to the upcoming elections in the Euro zone's largest economies – Germany, France and the Netherlands. The general Dutch elections were held on March 15 and resulted in significant seat losses for Geert Wilders' far-right Party for Freedom (PVV) that promoted protectionist politics. Geert Wilders' loss was welcomed with open arms and eased the political uncertainty hanging over Europe.

> ***"The acceleration in growth towards the end of the quarter, as well as improving trends in new business and an increased appetite to hire, suggest that strong growth momentum will be sustained into the second quarter".***
>
> ***- Chris Williamson, IHS Markit***

Following the Dutch elections, the world mostly stood still ahead of the upcoming French Presidential Election, the first round of which is set to be held on April 23. Nevertheless, the latest opinion polls showed France's far-right presidential candidate Marine Le Pen losing to Emmanuel Macron, the founder and leader of the political movement 'En Marche!', who served as the Minister of Economy, Industry and Digital Affairs in 2014 under the Second Valls Government. If Le Pen manages to pass the first election round, we will witness a clash between Macron and the far-right presidential candidate, the outcome of which, in fact, is likely to depend on whether Macron sustains positive momentum going forward.

In the region's largest economy, Germany, Martin Schulz's centre-left Social Democrats party overtook the current Chancellor Angela Merkel's Christian Democrat Union in the latest set of opinion polls. Nevertheless, even if Schulz beats Markel in the upcoming election, his victory will likely please markets as long as the far-right Alternative for Germany party stays out of the sight.

Overall, during the Q2 of 2017, the focus will mostly be on the French presidential election, and if Le Pen loses the first round and Emmanuel Macron meets with the centre-right candidate Francois Fillon in the final round, the market uncertainty should begin to wane. As to the ECB and its monetary policy, the Bank is unlikely to divert from the course which was originally intended until core inflation shows signs of life.

UK

The UK economy continued to ignore the post-Brexit uncertainties, having managed to start the year with solid growth. Consumer prices in the UK jumped 0.7% month-over-month in February, compared to January's 0.5% increase, while inflation rose to 2.3% in February, following the preceding month's 1.8% gain and marking the highest rate since September 2013. At the latest policy meeting, the Bank of England Governor Mark Carney said that the Bank was prepared to tolerate inflation running above the 2% target over the next several months, adding, however, that there were certain tolerance limits. The sharp fall in the value of the Pound since the Brexit vote not only boosted inflation but also provided significant support to British exports. Economists hope that strong export growth can help the economy become less reliant on domestic spending. Since the June 23 referendum, household spending has been one of the most significant drivers of economic growth, therefore, any drop will raise concerns over future economic prospects. In the meantime, activity in both services and manufacturing sectors remained in the expansionary territory, with the Markit PMI for the manufacturing sector coming in at 54.2 and the PMI for the services sector coming in at 55.0 in March. Nevertheless, manufacturers pointed to rising raw material costs due to the weak Sterling. Furthermore, the unemployment rate dropped to 4.7%, the lowest level in more than 40 years, as companies kept on hiring despite Brexit.

"That weaker trend is likely to continue into the second quarter".

- Rob Dobson, Markit

Despite the sustained fall in unemployment, however, pay growth continued to slow down, raising concerns over consumer spending power. According to the Office for National Statistics, average hourly earnings, including bonuses, climbed 2.2% in the three-month period to January, down from 2.6% in the prior three months. The government's decision to freeze child benefit until 2018 combined with rising inflation, subdued wage growth and tax credits are likely to put significant downward pressure on households in the upcoming months. Nevertheless, the Bank of England's monetary policy is expected to ease the economic slowdown.

On the political front, the Chancellor Philip Hammond delivered the 2017 budget plan, which represented a neutral fiscal policy stance despite lower public borrowing. Hammond's annual budget plan is set to prepare Britain for the withdrawal from the European Union. Furthermore, at the end of March, the UK Prime Minister Theresa May officially triggered the Article 50, forcing Britain and the European Union to come to the negotiating table. Freedom of movement for goods, people and capital between the regions will be the cornerstones of the negotiation. The British Prime Minister will also have to deal with the Scottish parliament's plan to hold a second independence referendum between autumn of 2018 and spring 2019.

USA

The US economy started the year with solid growth, benefiting from strong household spending, improved both business and consumer confidence and strong growth in the labour market. Moreover, a rebound in oil-drilling activity and rising oil prices prompted producers to resume investment.

Inflation rose further from 2.5% in the first month of the year to 2.7% in February, reaching the highest level since February 2012. Thus, annual average inflation climbed to 1.5%, compared to January's 1.4% increase. Excluding volatile items, core inflation came in at 2.2% in February, unchanged from the previous month. According to market forecasts, inflation is expected to hit 2.3% this year.

> ***"I think there is a fair chance that the Q2 numbers are going to look pretty good".***
>
> ***- Daniel Tarullo, Federal Reserve***

Rising inflation and the strong labour market forced the Federal Reserve to raise rates at its recent meeting and discuss the possible need for a faster pace of rate rises than currently mapped out by the Fed. As markets expected, the Federal Reserve's Open Market Committee announced at the March policy meeting its decision to raise the Federal Funds rate from a range of between 0.50% and 0.75% to between 0.75% and 1.00%. Policymakers noted that inflation was approaching the 2% target, adding that the Bank could tolerate inflation above the 2% target. At the March meeting, the Fed said it would probably raise rates two more times this year. Analysts are predicting that the next increase, the third-rate boost since December 2016, will occur in June. Moreover, some analysts expect the FOMC to raise the federal funds rate as many as four times in 2017.

The US labour market started the year on a strong footing, as initial jobless claims continued to remain below the 300,000 level and job growth averaged 178,000 per month in the Q1 of 2017, despite a gain of just 98,000 new jobs in March. Furthermore, back in March, the unemployment rate fell to 4.5%, the lowest since May 2007. According to economists, March nonfarm employment was hit by the weather-related effects of the big storm that hit the Northeast and Midwest. Therefore, analysts suggested that the past month's subdued job growth marked a temporary blip.

The Conference Board's Consumer Confidence Index surged to 125.6 in March, the highest since December 2000, topping expectations for a decline to 114.0 and suggesting that consumer spending, which accounts for more than two-thirds of the US economic activity, contributed significantly to economic growth in the Q1 of 2017. Moreover, the stronger-than-expected confidence data pointed to improved retail sales figures for March.

The Institute for Supply Management reported its Purchasing Managers' Indexes for the services and manufacturing sectors fell slightly in March. However, both readings came in above the 50-point level, indicating expansion. Furthermore, the majority of the respondents' comments pointed to a positive outlook on business conditions and the overall economy. Nevertheless, some managers highlighted the high degree of uncertainty surrounding "future government policies on health care, trade and immigration".

During the Q2 of 2017, the US economy's performance will mostly depend on the following factors: the ability of the Trump administration to repeal Obamacare and the situation in the Middle East, following US air strikes on Syria. Nevertheless, the top risk to US growth would come if the US President Donald Trump keeps his protectionist promises related to US trade relations with the rest of the world. Despite significant uncertainty surrounding US fiscal policy under the Trump administration, the US economy is set to grow 2.3% in 2017, following the preceding year's 1.6% growth.

Japan

A modest global recovery and the weak Yen continued to support the Japanese economy during the first quarter of 2017. However, according to the Bank of Japan, the pace of improvement remained subdued despite massive stimulus measures. Low inflation, muted economic growth and other weak leading economic indicators were the main factors that forced the Central bank to leave its monetary policy on hold at its March 15-16 meeting. At the meeting, policymakers voted to keep the Quantitative and Qualitative Monetary Easing with Yield Curve Control programme unchanged, adding that the Bank would maintain an easy stance until inflation exceeds its target of 2%. Seven out of nine members of the Policy Board voted in favour of keeping the Bank's policy on hold and the benchmark interest rate at -0.1% in the wake of the US Federal Reserve's interest rate hike. However, market participants and economists had widely expected the BoJ to maintain its current monetary policy unchanged.

> ***"We won't be satisfied just because consumer inflation hits our 2 percent target".***
>
> ***- Haruhiko Kuroda, Bank of Japan***

Even though headline inflation had improved significantly during the past several months, coming in at 0.3% in February, the BoJ stated that most of the recent boost came from the sharp rise in energy prices and underlying inflation remained modest. Moreover, the Bank added that inflation would unlikely accelerate in the upcoming months. Thus, the majority of analysts point out that it is unreasonable to expect the BoJ to shift away from its usual monetary policy this year.

In the final quarter of 2016, the Japanese economy expanded at an annualised pace of 1.2%, boosted by higher exports, which, in turn, were supported by the weaker Yen. Back in February, Japan posted an ¥813.4B ($7.29B) trade surplus, the largest in nearly seven years, compared to a ¥235.5B ($1.12B) surplus recorded during the same period a year ago. Japan's trade position improved in February amid a sharp rise in exports to China, which allowed Japan to log the first trade surplus with its western neighbour since February 2012, with the balance coming in at ¥111.77B ($1.00B). Overall, exports surged 11.3% on an annual basis in February, whereas imports rose just 1.2% during the same period. In January, the US President Donald Trump accused Japan of weakening the currency by its monetary policy and, indeed, the Yen weakened more than policymakers previously expected. Back in 2012, the Japanese Prime Minister Shinzo Abe said that he would expand the monetary policy base in order to weaken the Yen to 90 against the US Dollar but, in fact, the Yen dropped from 80 to 100 after the BoJ launched the QQE programme and is currently trading at 110 against the Greenback. If the Central bank continues favouring the weak currency, it is reasonable to assume that exports will continue providing a significant boost to the Japanese economy. Moreover, Shinzo Abe's meeting last month with the German Chancellor Angela Merkel over a free trade deal between the EU and Japan could provide additional support to export growth.

Despite a significant 2.0% increase in industrial production in February, Japanese manufacturers' outlook deteriorated. According to the Survey of Production Forecast published in February, manufacturing companies said that industrial output would likely fall 5.0% in March, compared to the preceding survey's 2.0% fall forecast. Nevertheless, manufacturers anticipated a sharp rebound in industrial production during the first month of the second quarter, with forecasts predicting an 8.3% production climb. Analysts state that industrial activity growth is poised to continue in the upcoming months, expanding 1.8% for all of 2017.

Australia

The Australian economy rebounded in the Q4 of 2016 from the surprising Q3 contraction, which, in turn, was induced by temporary factors, such as weather disruptions that affected dwelling and non-dwelling construction activity; and according to the latest data, the economy managed to carry this positive momentum into the Q1 of 2017. Retail sales climbed 0.4% month-over-month in January, following a 0.1% drop posted in December. The January increase was mainly driven by higher sales of food, clothing, footwear and personal accessories. Furthermore, even though business sentiment deteriorated in February, falling to 7 points from January' 10, according to the National Australia Bank, it remained above the long-term average of 6 points and the 0-point threshold. The NAB Business Confidence Index for February suggests that local businesses are optimistic about economic performance and business outlook for the upcoming months. Moreover, the NAB said that the February decline was driven by weaker employment, trading and profitability, while January's surge was a one-time bump. Nevertheless, the NAB reported that the economy would likely improve in the near-term. As to consumer sentiment, it remained virtually unchanged in March, rising 0.1 from the prior month's 99.6 to 99.7, according to the Westpac-Melbourne Institute Survey of Consumer Sentiment. The Index failed to surpass the 100-point level, suggesting that the general outlook remained pessimistic. However, both consumer and business sentiment signalled that consumer spending and business investment contributed significantly to GDP growth during the Q1 of this year.

On the negative side, employment data for February raised concerns about the Australian labour market health. The Australian Bureau of Statistics reported that the unemployment rate climbed unexpectedly to 5.9% from January's 5.7%, as seasonally-adjusted employment fell by 6,400 jobs in February. However, analysts said that the latest employment data did not provide a basis to determine with absolute certainty whether there were significant issues in the labour market.

> *"The RBA sees an improved global backdrop and moderate domestic growth, which is now coupled by an elevated focus on household leverage".*
>
> *- George Tharenou, UBS*

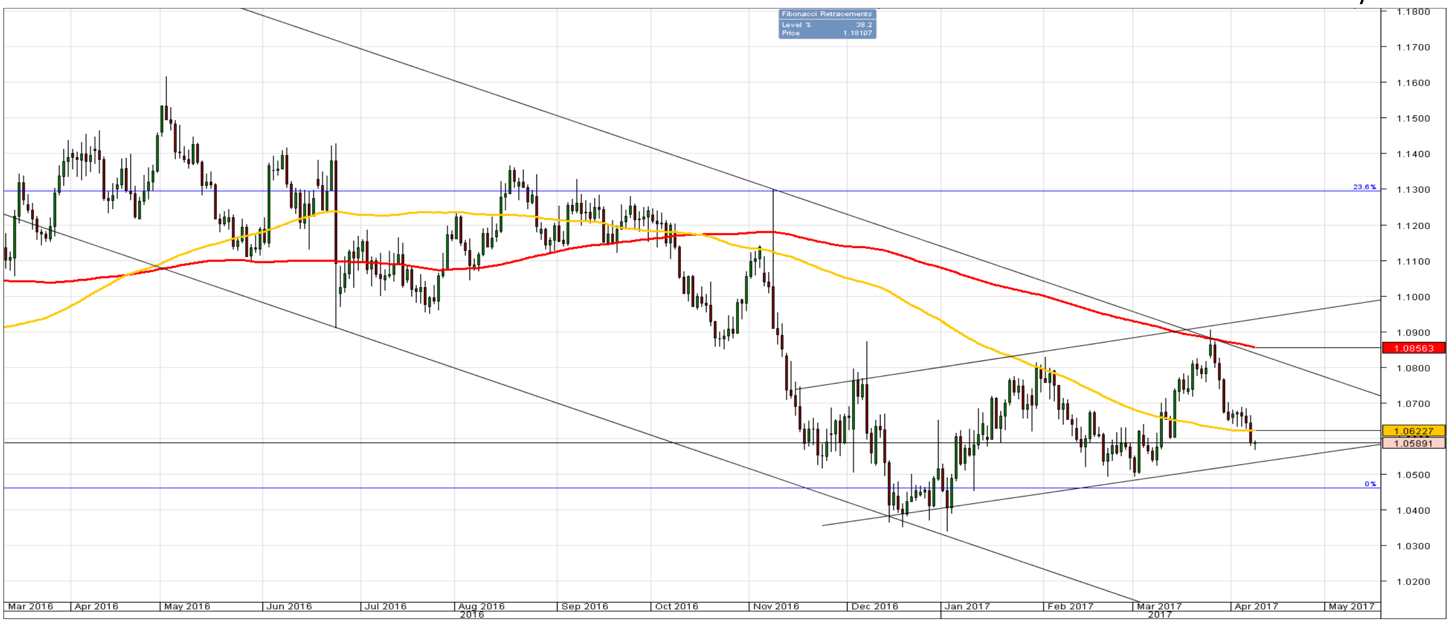
In the meantime, the Reserve Bank of Australia left its monetary policy unchanged at its meeting on April 4. Surging housing prices were one of the primary reasons why the Bank kept its policy on hold. Indeed, in some regions house prices more than doubled since the global financial crisis, prompting fears about the property bubble. Policymakers voted to keep the Cash Rate at the record low of 1.50%, claiming that any significant change to interest rates would be a major headwind to the real estate market and would lead to fragile economic growth. The RBA Governor Philip Lowe urged mortgage lenders to limit lending, as surging property prices continued pushing up the household debt to income ratio. However, policymakers claimed that the recent data was "consistent with ongoing moderate growth". According to market analysts, the RBA will likely remain on hold for the foreseeable future amid subdued inflation growth, soft employment growth, the housing market boom and high degree of uncertainty about the global economy.

Generally, the Australian economy is likely to maintain the past year's performance. Rising commodity prices and a strong rebound in non-mining business investment are expected to support economic growth in the upcoming months; however, falling mining investment will probably continue to be a drag on GDP growth for some time. According to analysts and policymakers, the main downside risks for the economy will come from uncertainties surrounding the US President Donald Trump's trade policy. Overall, the Australian economy is expected to grow 0.7% on a quarterly basis and 2.8% on an annualised basis in the Q2 of 2017.

Technical Analysis

EUR/USD

Daily Chart



100-day SMA 200-day SMA

2017 Q1 Summary

Regarding the first quarter forecast for the EUR/USD, in most aspects it was correct, as the technical forecast outperformed the analysis of fundamentals. The currency exchange rate continued the surge in the ascending channel, and parity became a distant and forgotten forecast by even the ones, who strongly supported it. The fundamental events in the US bombarded the strength of the US Dollar up to such degree that the EUR/USD pair managed to break out of the long term descending channel pattern. However, most recently problems in the EU itself have cause the rate to bounce off from a combined resistance near the 1.09 level, as it was expected in the previous quarterly forecast. The resistance cluster was made up of the 200-day SMA, ascending channel's upper trend line and a newly drawn upper trend line of a large scale descending pattern.

2017 Q2 Outlook

There are two possible scenarios for the common European currency against the US Dollar during the next quarter. It is likely that the fundamental events in the US and EU politics will set the direction in the upcoming months. However, from a technical perspective the two possibilities are dependent on, which of the channel patterns prevails and overcomes the other one. In the first scenario the ascending channel makes another attempt at the upper trend line of the long term descending pattern and breaks it, propelling the rate higher in the range from 1.07 to 1.10. On the other hand the descending channel might provide enough pressure to push the pair lower, and in that case parity might be possible. Market participants should look out for fundamental events occurring while the pair is near the trend lines.

GBP/USD

Daily Chart

100-day SMA 200-day SMA

2017 Q1 Summary

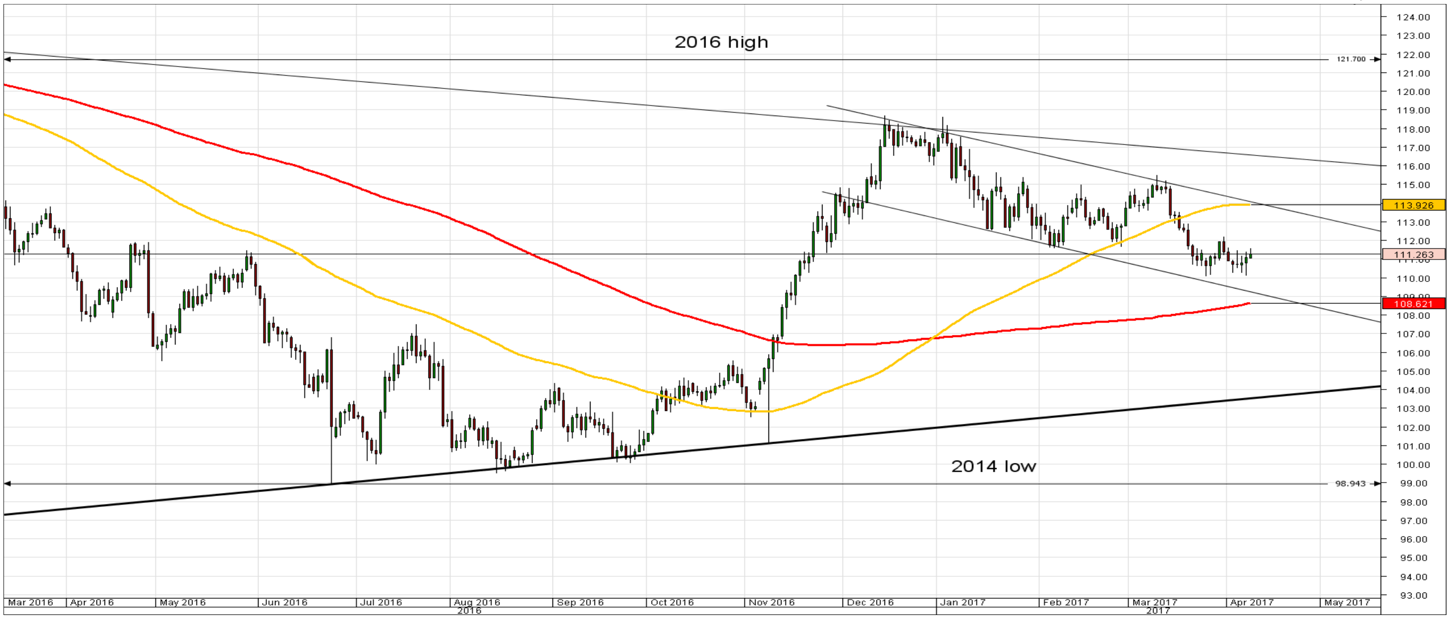
The first quarter of 2017 was relatively good for the British Pound, as it continued to consolidate between the multiyear low and 1.27 major level. The first bearish trend-line was reached by the end of January, as was anticipated; however, the Cable failed to breach this down-trend, which resulted in the pair sliding down through all of February and the first half of March. Nevertheless, the GBP/USD managed to breach this resistance, but the bullish momentum still failed to be ensured.

2017 Q2 Outlook

Technically, with the breach of the nine-month down-trend, the British currency should continue posting more gains against the US Dollar. On the other hand, there are several signs that are confirming the opposite, namely the fact that the down-trend was the upper border of the descending triangle pattern, with its lower boundary being at 1.2150 (not shown on the chart). Descending triangles are usually broken to the downside, thus, risks of the pair reversing polarity persist. Furthermore, the Cable faces a substantial resistance area near the 1.27 mark, represented by the 23.60% Fibo, the 200-day SMA and a psychological resistance line forming the possible consolidation trend's border. A strong impetus is required to penetrate that obstacle, which would allow the Sterling to continue its journey towards the longer term down-trend afterwards. According to the technical indicators, the GBP/USD pair is to suffer more losses, which would lead to a breach of the multi-year low of 1.1919. Such a development is expected to occur by the end of the second quarter, unless the Sterling manages to miraculously find strong support again and take another shot at climbing over the key resistance—the 1.27 handle.

USD/JPY

Daily Chart



100-day SMA 200-day SMA

2017 Q1 Summary

During the first quarter of 2017 the USD/JPY currency pair formed a descending channel pattern. The initial decline began once the pair reconfirmed the two-year down-trend, afterwards finding psychological support at 112.00. Although this area failed to hold the Buck for long, a solid rebound began once the 100-day SMA pierced the channel's trend-line to the upside, paving the way for a short-term recovery. This provided the Greenback with sufficient impetus to reach the channel's supply, thus, allowing the pattern to become fully realised. However, the 100-day SMA failed to provide support for the second time, which resulted in a retest of channel's lower boundary by the end of March.

2017 Q2 Outlook

According to technical indicators, the US Dollar is likely to keep outperforming the Japanese Yen during the first month of Q2. The given rally is not expected to last long, as the 113.50 mark is likely to be the ceiling. From that point on, the Greenback is to encounter a tough supply area, which is to set the American Dollar on a bearish path towards the channel's lower trend-line. Another obstacle is likely to be met on the way, namely the 200-day SMA circa 109.00, which could prevent the Buck from following its course. Nevertheless, successful trade within the pattern's borders could lead to the exchange rate remaining within the given trading range for approximately five more months. Upon reaching the 105.00 handle the US Dollar will be anticipated to rebound and continue finding support at the long-term up-trend. This trend-line is rather solid, as it received a number of confirmations over the last five years. In either case the USD/JPY pair is expected to breach the current descending channel pattern to the upside and make its way to the 2016 high of 121.70.

XAU/USD

Daily Chart

100-day SMA 200-day SMA

2017 Q1 Summary

The yellow metal traded during the last quarter in an ascending channel pattern, which formed itself as a result of the pair bouncing off from the lower trend line of the large scale descending channel pattern. The large scale pattern was only discovered during the last quarter. However, the channel just market a full year of influencing the commodity price. From a fundamental event analysis perspective the surge occurred due to political turbulence in the world, as Donald Trump took office and EU election season began. Most recently the bullion has had problems with reaching the upper trend line of the descending pattern, as the 23.60% Fibonacci retracement level together with the 200-day SMA are standing in the way of the commodity price just above the 1,250 mark.

2017 Q2 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

2017 Q1 Summary

In the first quarter of 2017 the EUR/JPY currency pair decided to follow the bearish scenario's path, meaning that it pierced the rising wedge pattern to the downside. As was expected, no sharp drop under 119.00 occurred, but the 100 and the 200-day SMAs failed to form a tough support area. Nevertheless, the given cross formed another wedge pattern, this time a falling one, which is expected to be a temporary setback in the recently-acquired bullish trend.

2017 Q2 Outlook

In the beginning of April the European single currency continued to weaken against the Japanese Yen, paving its way towards the 200-day SMA. Although a retest of the falling wedge's support line is expected, the 200-day SMA on its own could provide sufficient impetus for a recovery, which would cause the given pair to reach the 121.00 mark and retest the down-trend. However, the 119.50/120.00 area is seen as a potential zone that could also reverse momentum, especially since the growing turmoil over the French presidential election keeps weighing on the Euro. From a broad technical perspective and according to the RSI indicator, the EUR/JPY cross is to rebound either from the 200-day SMA or the 117.00 mark and, ultimately, make its way towards the 121.00 handle before another U-turn could be made. This does not take the political factors into consideration, but those have been having a serious impact on the European currency since the beginning of the year. On the other hand, the BoJ has been working hard to weaken the Japanese currency, which could limit the sharp volatility next month when the elections are over. The base case scenario is a temporary recovery, but with bears taking over as early as in May, prolonging the falling wedge pattern, despite the fact that they usually end with upside breakouts.

AUD/USD

Daily Chart

100-day SMA 200-day SMA

2017 Q1 Summary

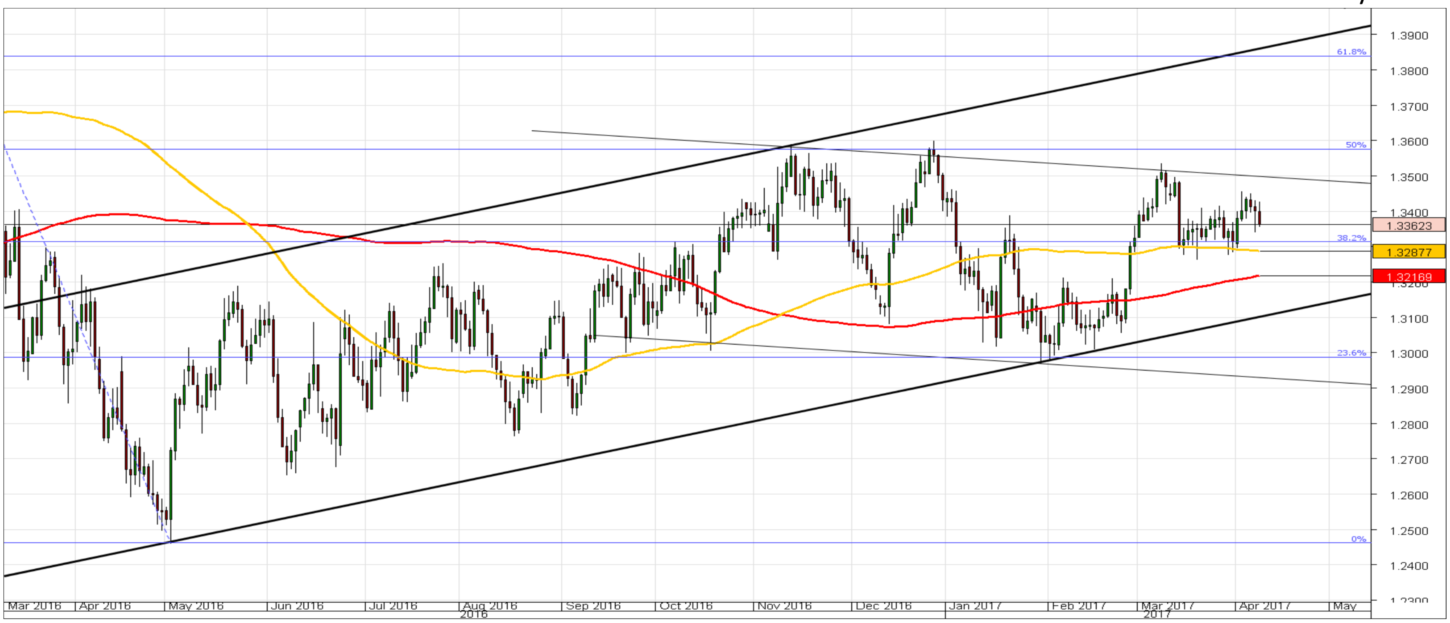
Since bulls took over the market in the beginning of January 2017, the Aussie Dollar has been easily outperforming the US counterpart, even ignoring the resistance cluster around 0.75. Ultimately, the AUD/USD currency pair reached the two-year down-trend; this is where things got complicated. The bullish momentum acquired in the beginning of the year turned out to be insufficient to exit the bearish trend, which resulted in a slide back down to 0.75. However, the 100 and the 200-day SMAs are reluctant to allow the Aussie to drop lower. The main target in case of a positive scenario was the 2016 high 0.7836, but down-trend prevented the exchange rate from reaching that goal.

2017 Q2 Outlook

The beginning of the second quarter of 2017 started with a breach of the rising wedge pattern, proving that the two-year down-trend (just above 0.77) is too strong to be pierced right now. The Australian Dollar would require a strong boost in order to be able to appreciate beyond 0.7750, and there are few things that could provide the commodity currency with such strength. First of all, an increase in oil prices, but given the latest agreement of OPEC members and several non-members to cut black gold production, a significant increase in prices is unlikely. The second factor is more probable—US President Donald Trump's political promises, one in particular—the tax reform. A failure to deliver on his promises is expected to weaken the US Dollar, allowing the Australian counterpart to take the upper hand and leave its bearish trend behind completely. Some technical indicators suggest the AUD/USD pair is to keep weakening, while others retain neutral signals. As a result, the Antipodean currency is likely to trade sideways in April, possibly even retest the down-trend, as it might be the upper border of its consolidation period, while the 0.74 major level the lower one. The 0.73 mark is also open for exposure, but a plunge further is doubtful, at least in the first month of Q2.

USD/CAD

Daily Chart



100-day SMA 200-day SMA

2017 Q1 Summary

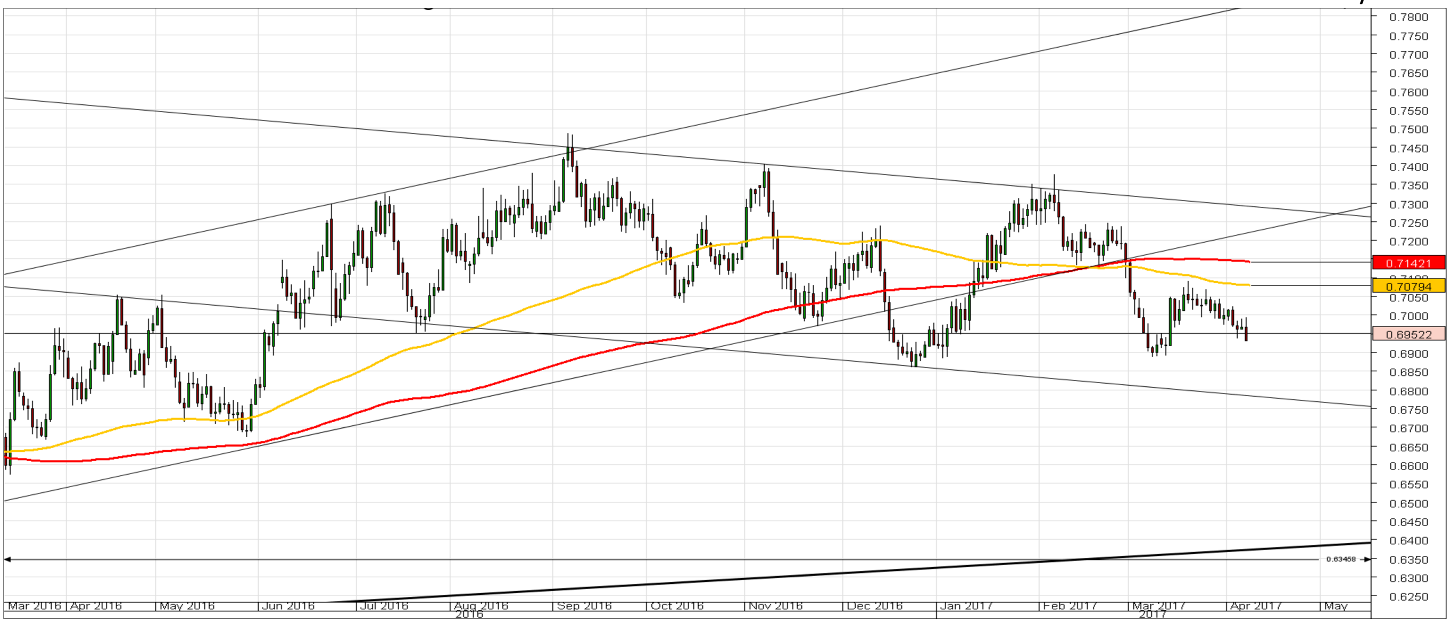
During the last quarter initially the Greenback continued to surge against the Loonie as forecasted, until the currency exchange rate encountered at the 1.3575 level the resistance of the 50.00% Fibonacci retracement level, which can be measured by connecting the 2016 low and high levels. After two tries to break the resistance the rate formed a new medium term descending channel pattern, which lead the pair in a retreat to the 23.60% Fibonacci retracement level at 1.2987. The result of all these moves was the recent discovery of a larger scale channel up pattern. The previously active ascending channel was just a representation of the pair's surge in the borders of the dominant pattern.

2017 Q2 Outlook

Due to the fact that the currency pair has already reached and rebounded against the lower trend line of the dominant ascending channel a break of the medium scale descending pattern is expected. The channel down pattern's upper trend line has held the line and pushed the rate into the 38.20% Fibonacci retracement level, which is located at the 1.3312 level. Although, the 100 and 200-day SMAs are set to provide support to the currency pair, which are likely together push the pair through the resistance of the channel and break the medium term pattern. However, in that case the rate would face the resistance of the 50.00% Fibonacci retracement level once more. Due to the previously observed strength of that retracement level, it is unlikely assumed that the pair will break above it until support by the large scale channel is provided.

NZD/USD

Daily Chart



100-day SMA 200-day SMA

2017 Q1 Summary

The New Zealand Dollar against the US Dollar is a pair, which did not move in accordance with the previous technical forecast. The reason for that was the fact that after the currency pair rebounded against the lower trend line of the ascending channel pattern the New Zealand's central bankers began to get involved. Initially it was in the form of various clues around the information space that the monetary policy regulators would like to see the rate lower. However, at the start of February it was fully confirmed, as it was announced that the Reserve Bank of New Zealand wants the rate near the 0.69 mark. From a technical perspective these events can be mapped as a breaking of a long term ascending channel and the establishment of a same scale descending channel.

2017 Q2 Outlook

If the currently active descending channel remains in force, by the end of the second quarter the New Zealand Dollar will trade against the Greenback in the range from 0.67 to 0.72. In this range is also located the target of the New Zealand's monetary policy makers. However, it is possible that the decline of the pair will increase its momentum, as the currency exchange rate faces the resistance of the 100 and 200-day SMAs, which are, respectively, located near the 0.7075 and 0.7150 levels. Traders are advised to see, whether these SMAs manage to keep the rate lower. In such case the possible range of the currency exchange rate can be easily adjusted to 0.67 to 0.70.

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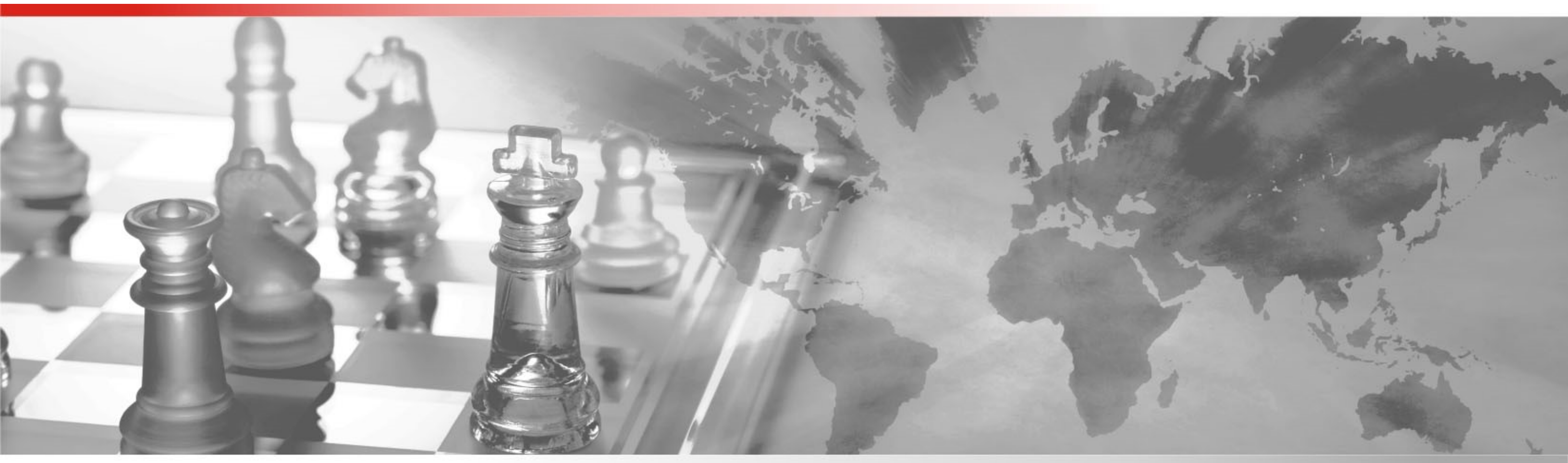


Expert Commentary

Pound Sterling

Adam Cole
Global Head of FX Strategy
RBC Capital Markets
UK

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

At RBC, we think that at the moment the risks are that the Sterling will trade lower over the course of the second quarter this year to eventually settle at the low of around 1.15 against the US Dollar, being mainly driven by a combination of disappointing economic news and rising political risks across the globe.

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

In my opinion, the main headwinds for the Pound throughout the next quarter would be the triggering of the Article 50 and the public debates on the terms on which the United Kingdom will leave the EU, which I suppose is going to be a very difficult process. What I mean by "a very difficult process" is differences between how the economy evolves relative to expectations, which we have seen steadily rising in recent months.

> *At RBC, we think that at the moment the risks are that the Sterling will trade lower over the course of the second quarter*
>
> *- Adam Cole*

What are your forecasts for EUR/GBP and GBP/USD for the Q2 of 2017?

Our current forecast for the GBP/USD currency pair stands at 1.15 by the end of the observed period. In the meantime, we do not expect EUR/GBP to differ that much from the current level, therefore we have left our quarter-end forecast at around 0.86.

> *Our current forecast for the GBP/USD currency pair stands at 1.15 by the end of the observed period.*
>
> *- Adam Cole*

Japanese Yen

The Federal Reserve is expected to raise interest rates at a quicker-than-expected pace this year, while the BoJ is set to maintain a very accommodative monetary policy stance. In your opinion, should the BoJ modify its strategy along with other major central banks?

To my mind, it is highly unlikely that the Bank of Japan will join other central banks and modify its strategy this year. I would suggest that they are not ready to do that yet.

Alvin Tan
FX Strategist
Societe Generale
UK

Experts suggest the Japanese economy is heavily dependent on free trade agreements, while rising global protectionism may hamper economic recovery. Do you share this point of view or not? Why?

I do share this idea, because, clearly, Japan continues to run with a persistent current account surplus, therefore, growth is not that much dependent on external demand.

> *I think that one of the major factors that might influence the performance of the Yen is bond yield and policy differentials between the US and Japan.*
>
> *- Alvin Tan*

In your point of view, what factors may affect the performance of the Yen?

I think that one of the major factors that might influence the performance of the Yen is bond yield and policy differentials between the US and Japan. At the moment, we are expecting two more Fed rate hikes, which will make the US economy outperform other major economies.

> *At the moment, we are expecting two more Fed rate hikes, which will make the US economy outperform other major economies.*
>
> *- Alvin Tan*

Japanese Yen

Furthermore, with the BoJ's policy of pegging the 10-year Japanese bond yields at 0%, it means that the US bond yields can continue their uptrend, which should be able to drive USD/JPY higher. Nevertheless, the Yen is considered to be a safe haven currency at the times of great financial stress, which can ultimately lead to higher demand for the Yen, meaning the currency has a room to strengthen.

What are your forecasts for EUR/JPY currency pair for the end of 2017?

We are expecting that the EUR/JPY pair will be able to move higher mainly on the back of our bullish take on the EUR/USD currency pair for the second half of the next year as a result of ECB's tightening. In terms of our actual forecast, we see EUR/JPY hovering around 136 by the end of this year.

Talking about USD/JPY, we anticipate the pair rising above 120 by the end of this year.

Alvin Tan
FX Strategist
Societe Generale
UK

Overall, out of these three major currencies (the US Dollar, the Yen and the Euro), we are expecting the Japanese Yen to be the best performer for the second half of this year.

> ***We are expecting that the EUR/JPY pair will be able to move higher mainly on the back of our bullish take on the EUR/USD currency pair for the second half of the next year.***
>
> ***- Alvin Tan***

US Dollar

Douglas C Bohrtwick
Head of FX Strategy
Chapdelaine & Co
USA

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

I think that we will see a continuation of weakness in the value of the Greenback. What I see is that the current Trump administration has a negative Dollar policy, which is obviously different from the prior administration's stance. At the moment, the United States are looking forward to being more competitive on the world's arena when it comes down to the price of labour and the price of manufacturing goods. I believe that they would do that by weakening the US Dollar against the Euro, against the Yen and against the other currencies.

What will be the major drivers for US Dollar throughout the same period?

The key driver for the US Dollar is going to be the US interest and expanding trade and reduction of the trade deficit that is high at the moment. It will be targeting the countries that have trade surpluses, including Germany, South Korea, Japan and China.

The key driver for the US Dollar is going to be the US interest and expanding trade and reduction of the trade deficit that is high at the moment.

- Douglas C Bohrtwick

What are your forecasts for EUR/USD, GBP/USD and USD/JPY for the Q2 of 2017?

My current forecast for EUR/USD stands at 1.15 by the end of the second quarter this year, while the USD/JPY currency pair I expect to see trading at 105 for the same period. In the meantime, GBP/USD fundamentals look differently due to the ongoing uncertainty surrounding Brexit, though I do believe that it will probably finish the quarter at around 1.28.

Euro

Richard Falkenhall
Trading Strategist
SEB
Sweden

How do you evaluate the performance of the Euro during Q2 of 2017 and what will be the major drivers for EUR throughout the same period?

It is hard to say how the Euro is going to perform against the US Dollar because very much of what happens to the Euro will depend on the ECB monetary policy going forward. In case we start to see the ECB moving towards normalisation of the policy rates, which is still very uncertain right now, I think, the Euro could be well supported and will eventually outperform other currencies, maybe not that extensively, but at least a little bit in the second half of this year.

It is hard to say how the Euro is going to perform against the US Dollar because very much of what happens to the Euro will depend on the ECB monetary policy going forward.

- Richard Falkenhall

What are your forecasts for EUR/USD, EUR/GBP and EUR/JPY for the Q2 of 2017?

If we take the EUR/USD currency pair, we expect it to trade at around the current level of 1.06 by the end of the second quarter, while we see the EUR/GBP and EUR/JPY pairs finishing the Q2 at 0.88 and 124 respectively.

If we take the EUR/USD currency pair, we expect it to trade at around the current level of 1.06 by the end of the second quarter

- Richard Falkenhall

Swiss Franc

Esther Maria Reichelt
FX Strategist
Commerzbank
Germany

How do you evaluate the performance of the Franc during the Q2 of 2017?

We expect a continued appreciation of the Swiss Franc throughout the second quarter, though the extent to which the CHF could surge depends on the Swiss National Bank's willingness to accept a stronger currency.

> ***Safe haven demand for the Franc will be a substantial driver, as important elections in the Euro zone are coming up.***
>
> ***- Esther Maria Reichelt***

What will be the major drivers for CHF throughout the Q2 of 2017?

Due to the Swiss National Bank's continued FX interventions, there still is build-up appreciation pressure that sooner or later will have to be released. Safe haven demand for the Franc will be a substantial driver, as important elections in the Euro zone are coming up.

What are your forecasts for EUR/CHF for the Q2 of 2017?

Our quarter-end forecast at this point stands at 1.05 for the EUR/CHF currency pair.

> ***Our quarter-end forecast at this point stands at 1.05 for the EUR/CHF currency pair.***
>
> ***- Esther Maria Reichelt***

Canadian Dollar

Colin Cieszynski
Senior Market Analyst
CMC Markets
Canada

How do you evaluate the performance of the Loonie during the second quarter of 2017 and what will be the major drivers for CAD throughout the same period?

I think what we are going to see is that the Loonie is going to be impacted by two major drivers in the second quarter this year. The first factor would be continuing swings in the oil price, to which the Canadian Dollar is very sensitive. The other major driver would be developments on the trade front, particularly with the US. At this point, the question is what kind of changes is the President Trump going to push through, what is going to happen to the NAFTA and how that will impact their trading relationships with Canada. If the United States does not take a harder line on Canada as they do on other countries, that could be positive for the Loonie. However, recently, the Bank of Canada said they stood ready to cut interest rates, if Trump's trade policies derail the economy, though at this point it looks quite unlikely to happen.

If the United States does not take a harder line on Canada as they do on other countries, that could be positive for the Loonie.

- Colin Cieszynski

Meanwhile, the Canadian Dollar has been trading pretty much flat over the last four months, ranging between 1.32-1.36. With USD/CAD currently sitting just above the middle of that range, I believe we would probably see it continuing to swing back and forth unless we get either a significant move in the oil price or any significant news related to trade.

At this point, the question is what kind of changes is the President Trump going to push through, what is going to happen to the NAFTA and how that will impact their trading relationships with Canada.

- Colin Cieszynski

Canadian Dollar

Colin Cieszynski
Senior Market Analyst
CMC Markets
Canada

What are your forecasts for USD/CAD, AUD/CAD and EUR/CAD for the Q2 of 2017?

My current forecast for the USD/CAD currency pair stands at 1.33 by the end of the second quarter.

Talking about AUD/CAD, I suppose that the Canadian Dollar could outperform its Australian counterpart in the coming quarter, though it depends on what will happen to the oil price; nevertheless, I think it will hold up relatively well at around 1.03. Going forward, we could also see a comeback to the par or even a range of 0.96 to 1.04.

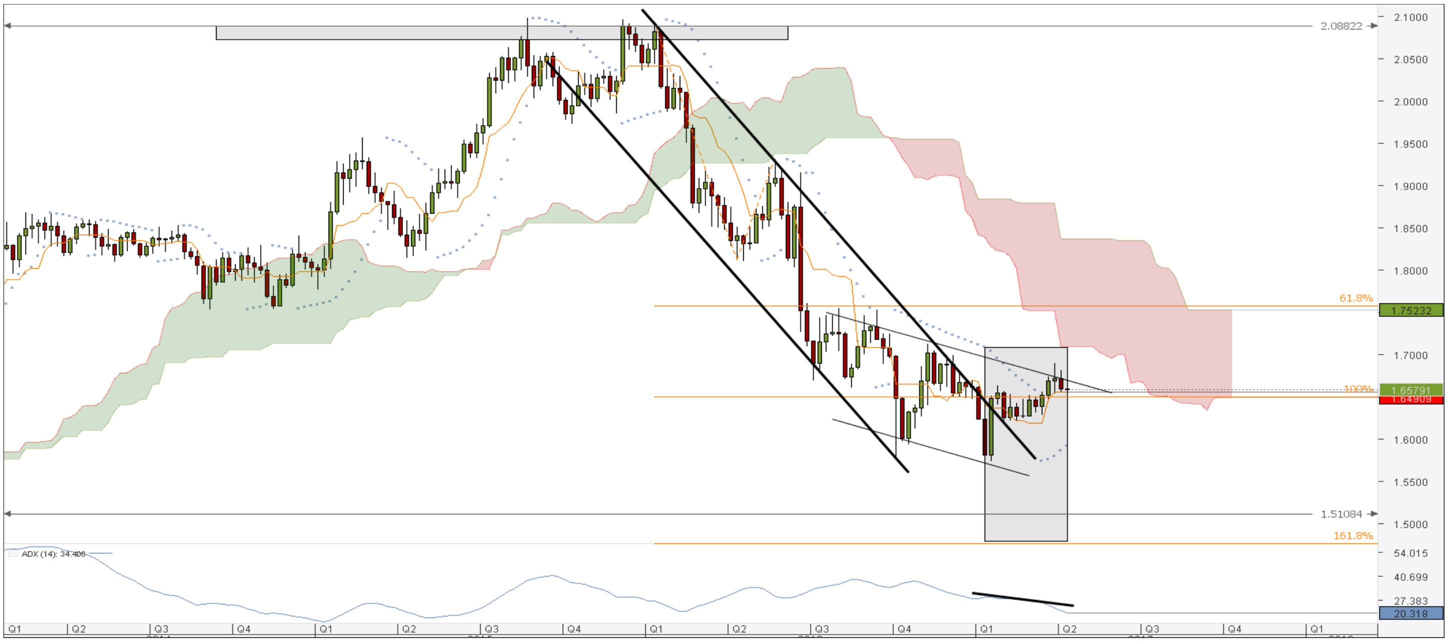
As concerns the Euro, I suggest we could see it do a little bit better against the Canadian Dollar in the Q2. My quarter-end forecast for the EUR/CAD currency pair sits closer to the 1.48 level.

> *My quarter-end forecast for the EUR/CAD currency pair sits closer to the 1.48 level.*
>
> *- Colin Cieszynski*

Trade Pattern Ideas

GBP/CAD

Weekly Chart



GBP/CAD

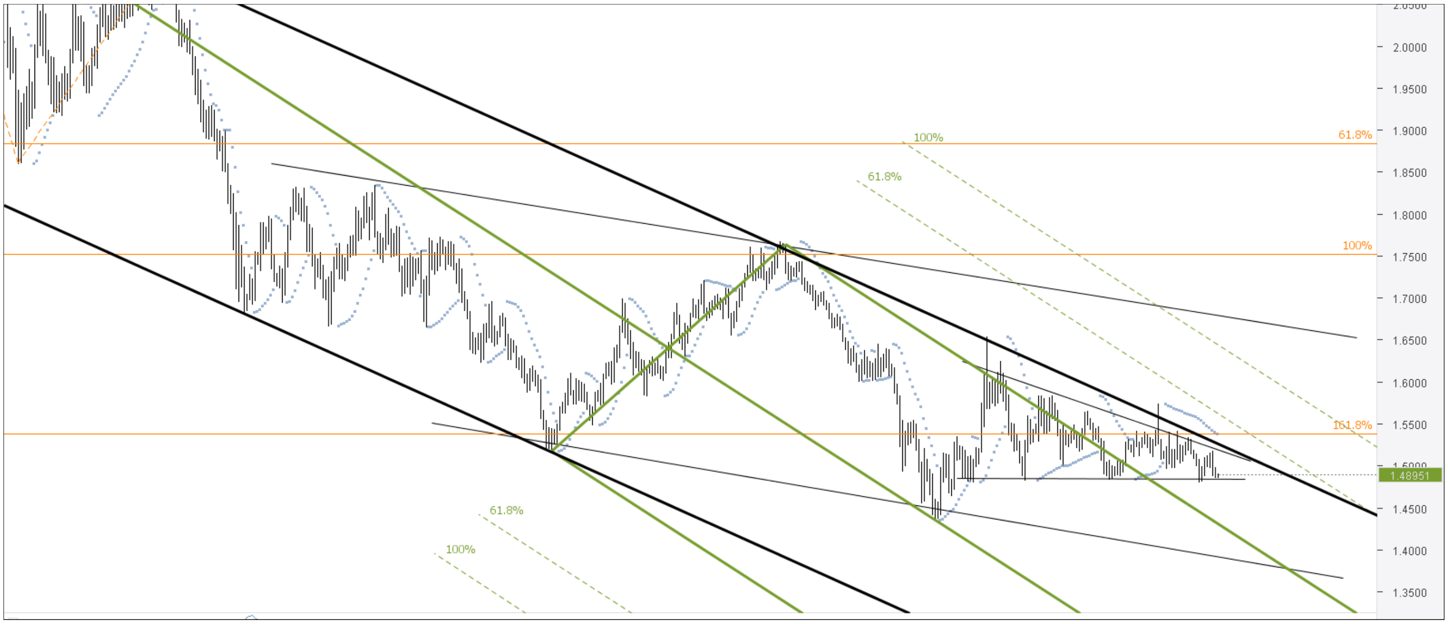
Channel Down

A change of slope is the most likely implication from the current development, rather than a switch of market characteristics.

Regardless of the channel-bound guidance GBP/CAD received over the last one-and-a-half years, the pair failed to repeat the recent slip towards 1.5108 – the ultimate low that came into play May 2010. A break above the upper trend-line of the pattern confirmed the trend to be broken, but was not sufficient to make bulls confident just yet. While several patterns, including the channel and a small-scale wedge suggest that green-zone strategies should win over markets soon, a bearish ADX divergence begs to differ, as does an unconfirmed descending channel. There is also a lack of any kind of reversal signals, but there is potential to gain some in case 1.6694 breaks to the upside. That might happen if the pair remains squeezed above 1.6494, the 100% Fibonacci Expansion, but even that might not be enough to severely tighten the large red Ichimoku cloud that dawns upon any short-term bullishness. The proximity to the upper Bollinger Band does, however, point towards overbought territory, meaning that a sudden soar would be capped at 1.6932 and could lead to immediate downside pressures in case it is overstepped. A change of slope is the most likely implication from the current development, rather than a switch of market characteristics. With SMAs lying way above and showing a similar picture as the Ichimoku cloud, we will look for much more prominent confirmations in order to truly say that bulls are up for a profitable quarter.

EUR/SGD

Weekly Chart



EUR/SGD

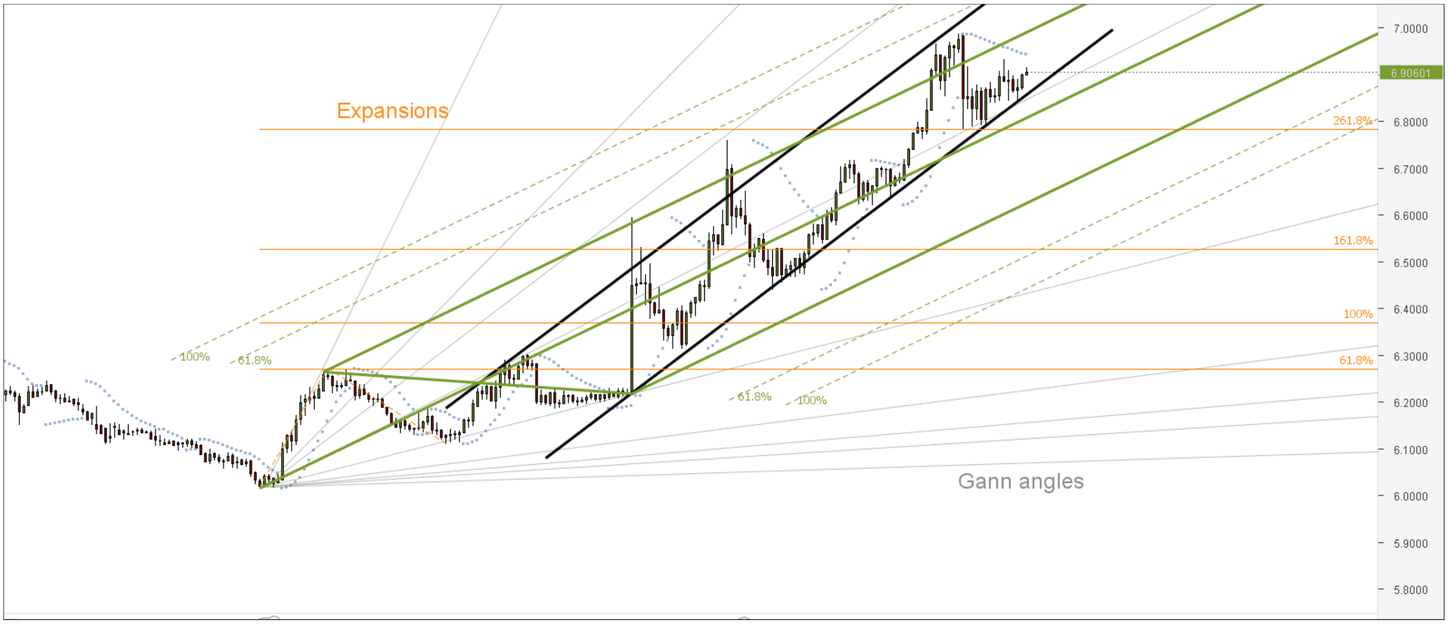
Channel Down

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.

The Euro has been underperforming against the Singapore Dollar for more than ten years already—but the pair might be beginning to give out bullish signals as the upper bound of the prominent channel down pattern starts to gain attractiveness. With the latest low failing to sustain amplitude, a falling wedge has emerged, and is strengthening the reversal scenario despite the small-scale descending triangle pattern. A break above the upper trend-line of the senior pattern could serve additionally as an up-wave to confirm a newly-formed downward channel with lesser steepness, setting the upper boundary as the next target outside of the prevailing pattern. In case the pair bounces off 1.6429, we will look for it to target the broken senior trend-line around 1.4314. There is a strong cluster right outside the large-scale pattern at 1.5375, consisting of various time-frame SMAs, an expansion and a pitchfork parallel, and it should show its presence if demand starts to pressure. The expansion also approximates a pullback area that has not been respected, giving more reason to believe that the trend is being broken. In addition, it can be observed that the pair had already showed similar conditions in 2011, when the correction-turned-slip was followed by a strong rally. The ADX shows that the trend has diminished and the pitchfork has been exited to the upside. To sum up - while there is no confirmation of the reversal in any form just yet, EUR/SGD shows strong potential for a turnover in market characteristics as the correction diminishes.

USD/CNH

Weekly Chart



USD/CNH

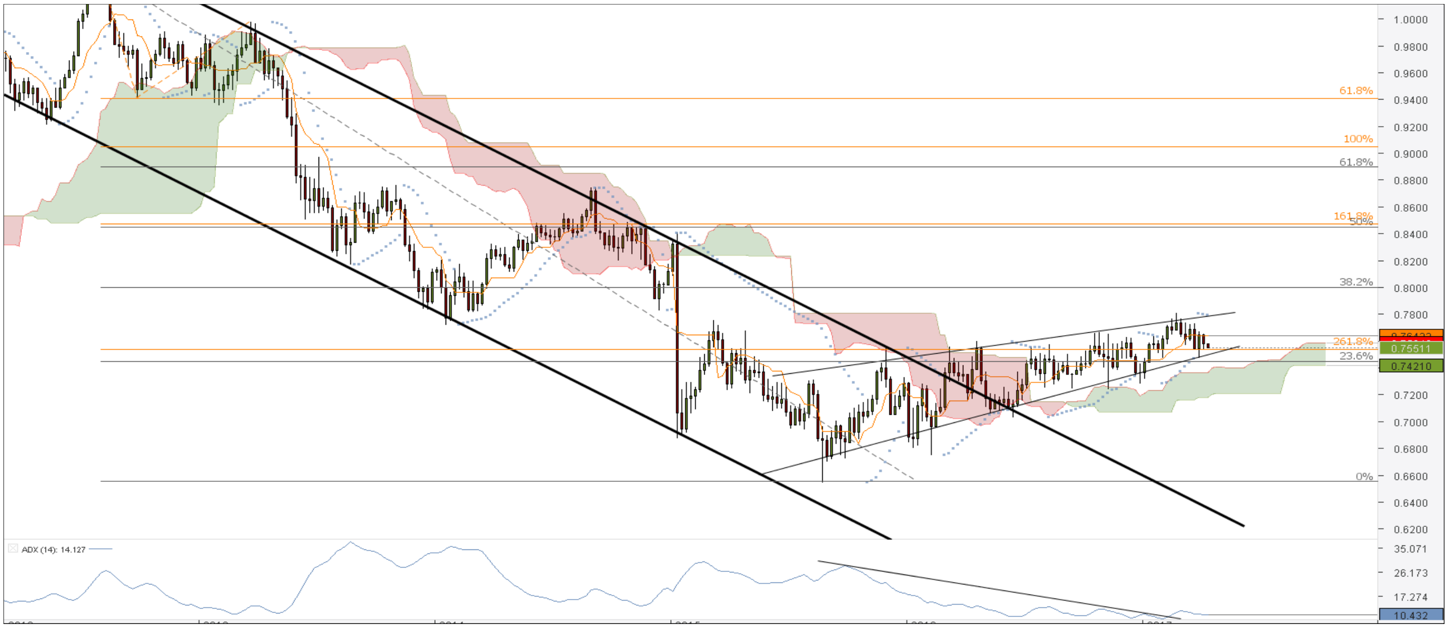
Channel Down

While the channel might change slope with a break below the bottom trend-line in order to take on a more healthy position inside of the pitchfork, there are several factors to consider when it comes to satisfying demand below.

USD/CNH has been soaring since 2014 when it abandoned the low at 6.0166 and went on to form an ascending channel pattern. It appears that the pair has not a cloud in sight and it might even be the case - at least after a correction. The cross has now launched an attack at the psychological 7.0000 level where the upper trend-line of the pattern lies. Pressures from the channel top boundary, a falsely broken pitchfork to the upside, as well as from the aforementioned resistance have been successful in causing a small dip, but not in violating the channel which would lead the rate to stick to the pitchfork median line. While the channel might change slope with a break below the bottom trend-line in order to take on a more healthy position inside of the pitchfork, there are several factors to consider when it comes to satisfying demand below. A strong cluster consisting of a Gann angle, Fibonacci expansion and the median line are most likely to cut downside potential right then and there – around 6.7828, lowest. Furthermore, the level will come into play only in case of a prominent correction, but is likely to not even be targeted because of supply around 6.8303, the middle of the cluster where the pitchfork median could set the new slope into action. The ADX, however, shows some real trouble for the directional movement, displaying a 17.48 reading after the latest wave up, which suggests that the prevailing trend has been broken. The signal is consistent with our scenario of reduced steepness, for now denying any reversal potential, but not eliminating such a possibility if appropriate signals are sent while on the correction. afterwards.

AUD/CHF

Monthly Chart



AUD/CHF

Channel Down

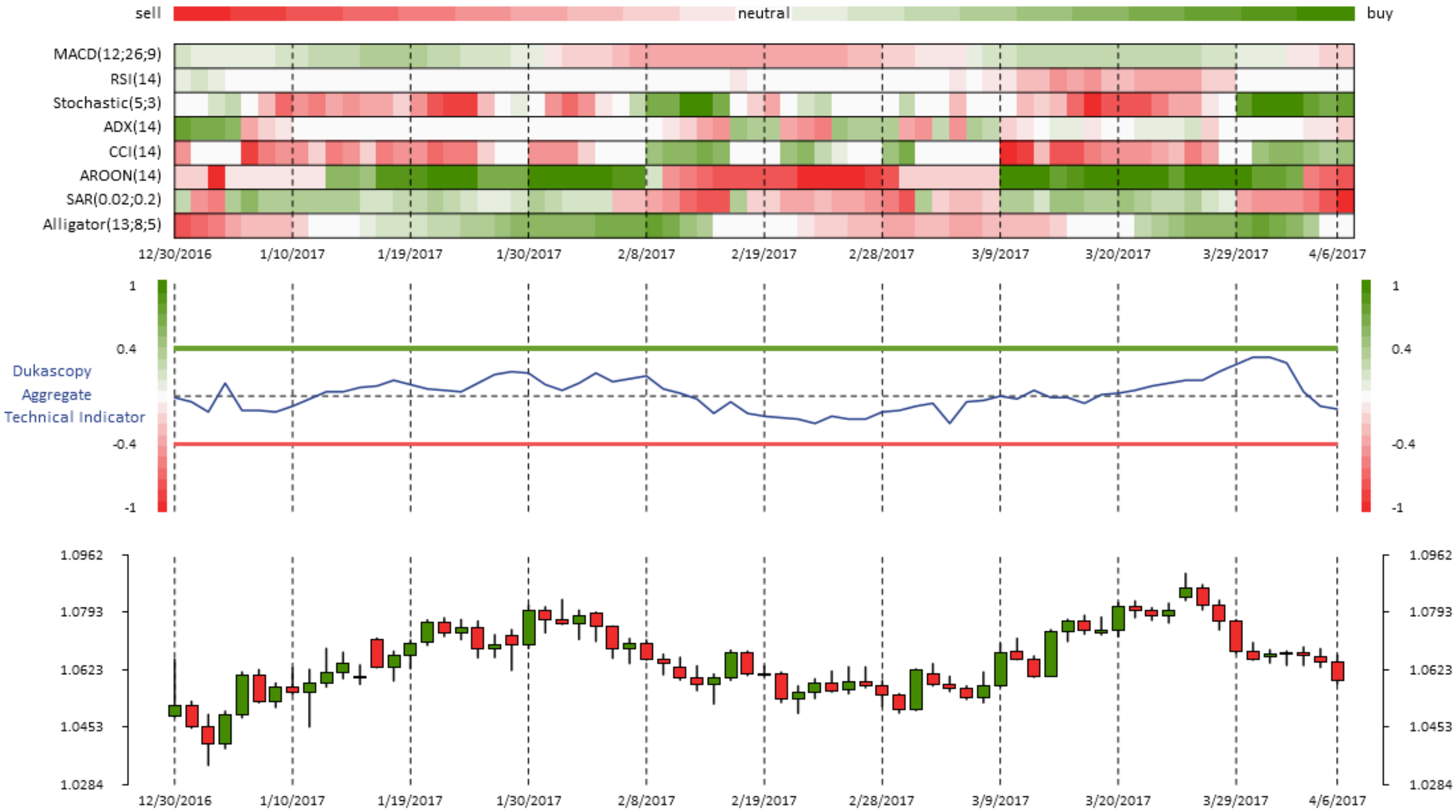
The Ichimoku cloud, while green, is not wide enough to provide a demand cushion above the broken channel trend-line, meaning that despite the cluster of supports lying just below, flattish tests of the area are likely to lead to at least some bearish characteristics, even if in the short term.

After tests of 103.44, AUD/CHF took a solid plunge to lose 37% on the weekly scale, but now appears to be reversing and has already recovered part of the losses. The pair established a rising wedge and broke the channel down pattern which was guiding it south, meaning that there might be some clouds in sight for bulls. The Ichimoku cloud, while green, is not wide enough to provide a demand cushion above the broken channel trend-line, meaning that despite the cluster of supports lying just below, flattish tests of the area are likely to lead to at least some bearish characteristics, even if in the short term. A strong bearish signal additionally stems from the prominent falling divergence between the ADX and the current price, along with the pitchfork (not depicted) which has been exited to the downside. It might, however, be the case that the pair has been trying to establish another – tighter - channel instead of the more volatile previous pattern. We will therefore have to watch the patterns closely in order to see where markets sway, keeping in mind that the current setting speaks in favour of upcoming downward pressures. The daily chart tells us that there is not enough momentum accumulated to break below the wedge pattern just yet, but a strong junior channel is leading the cross towards the bottom of the pattern. In case the junior pattern breaks in a motion consistent with a sticky bottom boundary, we will stand strongly in favour of a downturn.

Aggregate Technical Indicator

EUR/USD

Daily chart



GBP/USD

Daily chart

USD/JPY

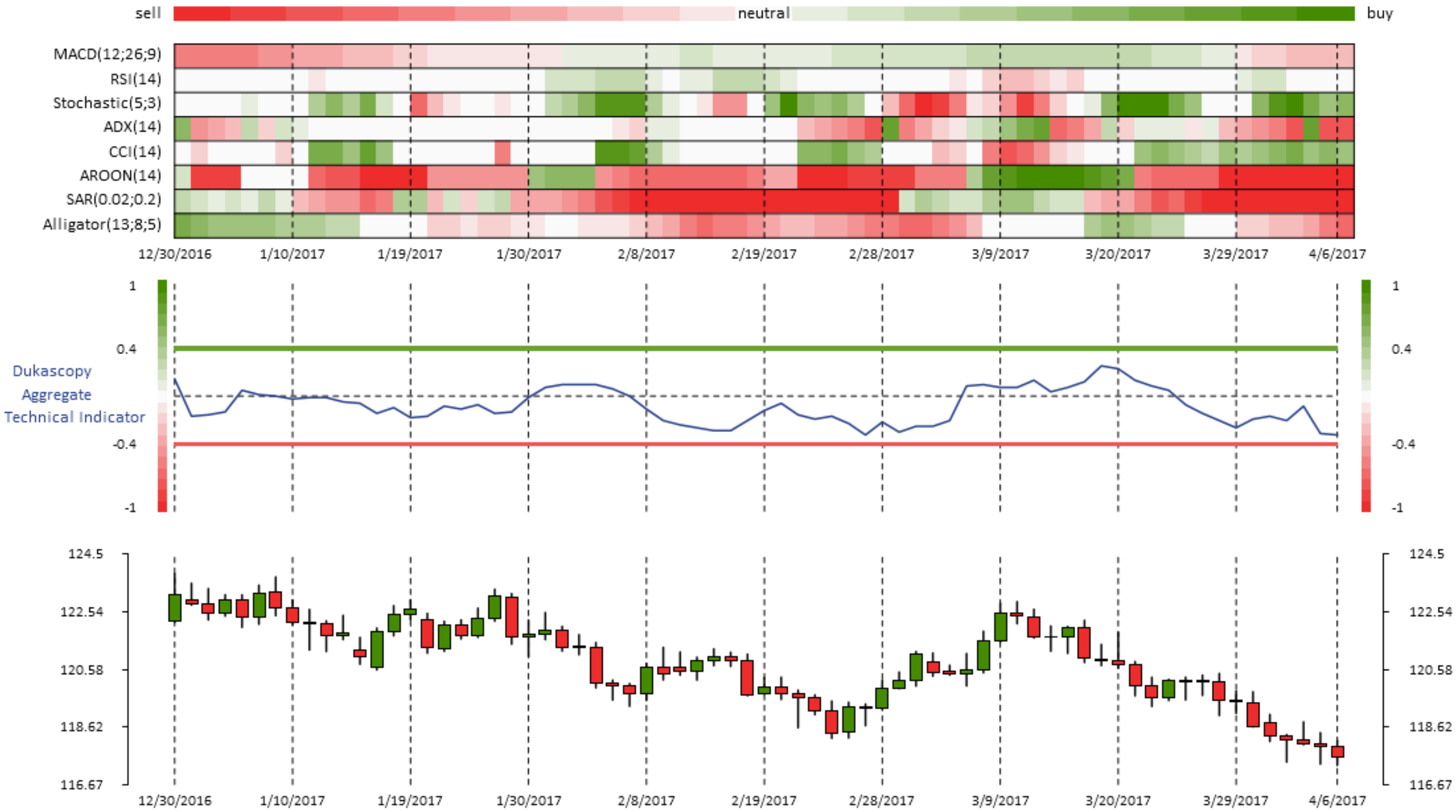
Daily chart

USD/CHF

Daily chart

EUR/JPY

Daily chart

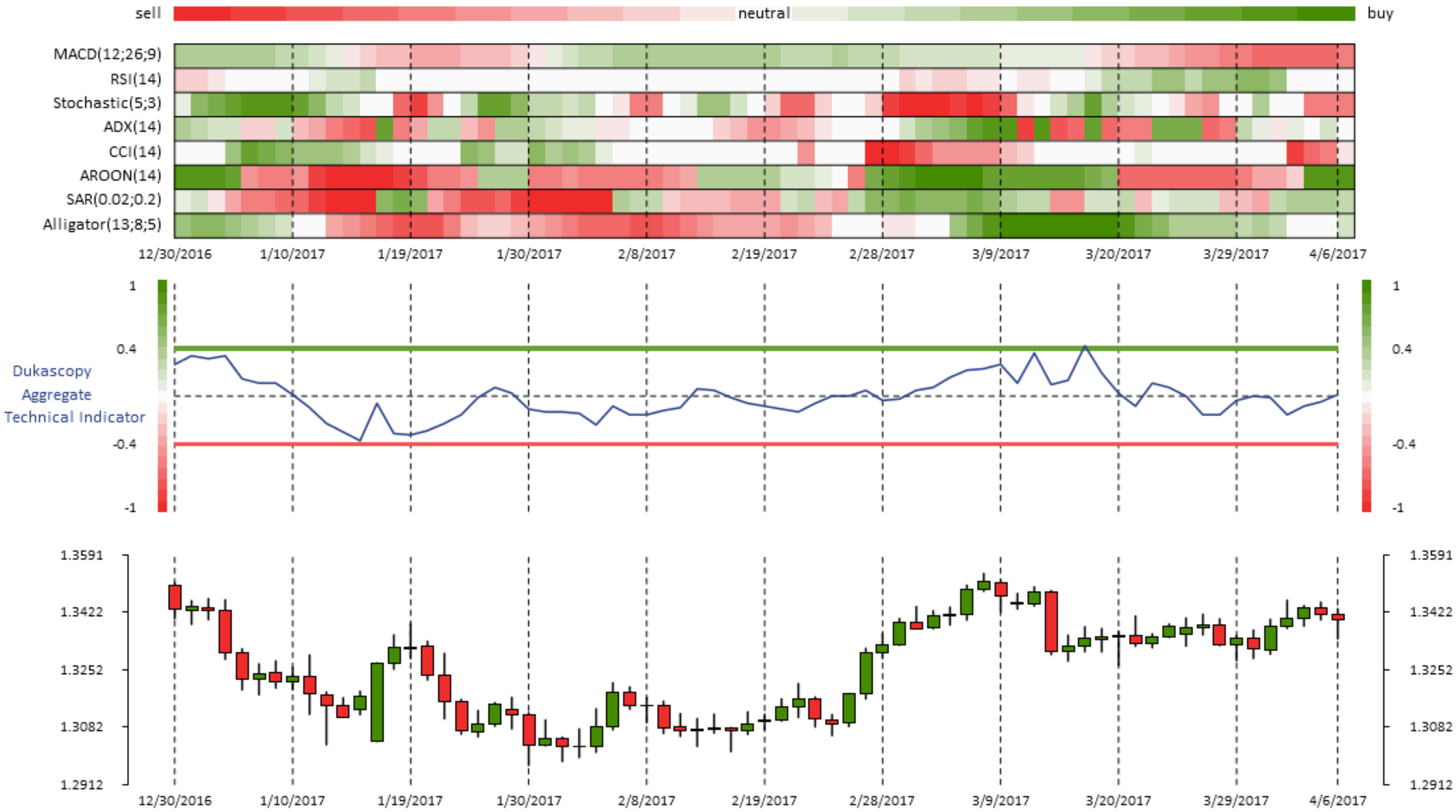


AUD/USD

Daily chart

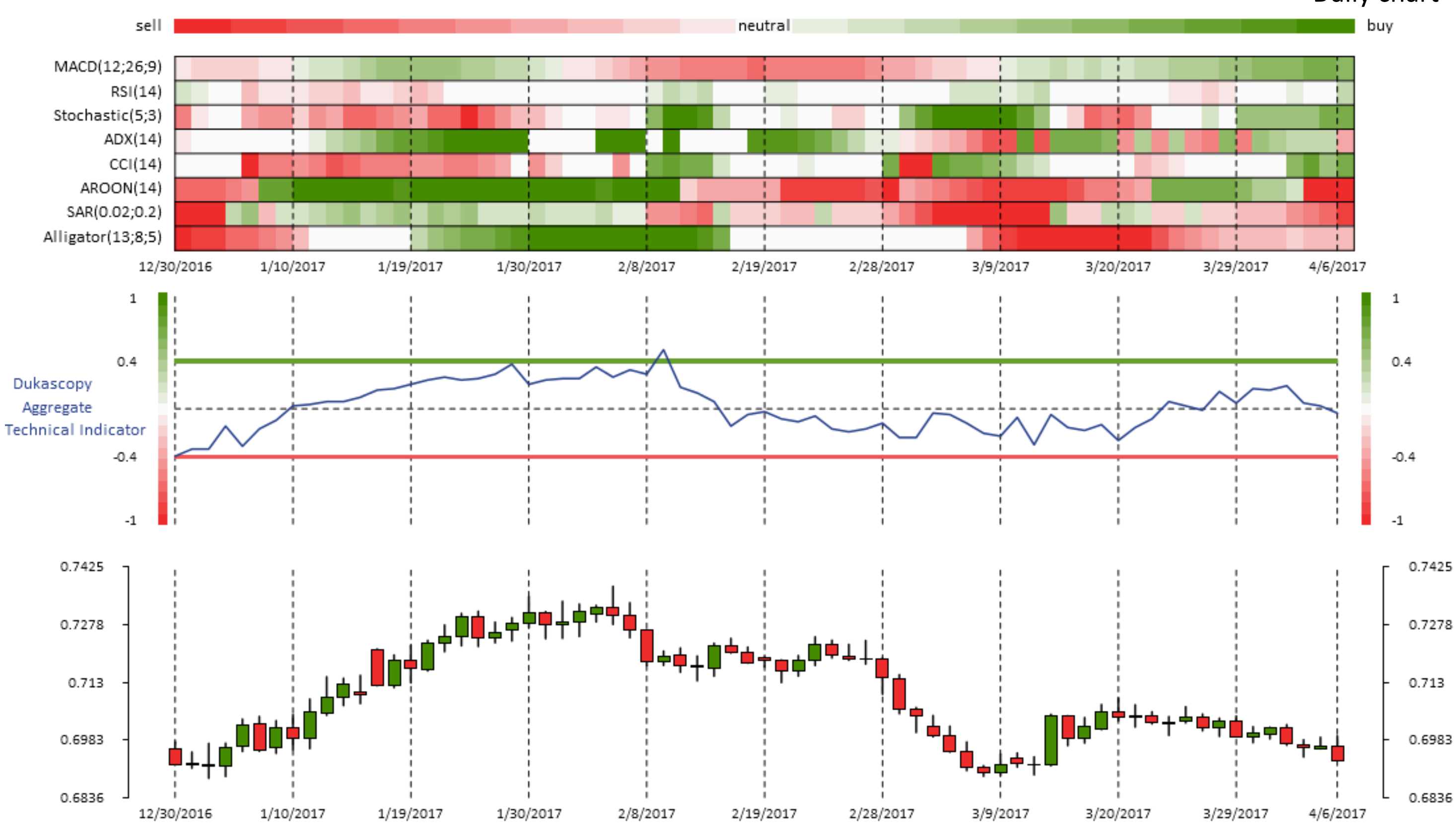
USD/CAD

Daily chart



NZD/USD

Daily chart



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DUKASCOPY
Swiss Forex Bank & Marketplace

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