Forex Outlook July 2012

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Introduction

Welcome to July monthly report from Forex Crunch. The month of June featured big events: the Greek elections, the Spanish bailout and the FOMC meeting were the highlights. While pro-bailout parties won in Greece, the situation remains very fragile. The success of the EU Summit and especially the achievements concerning Spain are questionable. And while the Fed refrained from QE3, markets see this option as feasible.

On this background, a new month begins. We will see how the euro-zone muddles along and will get some data about the global slowdown in the second quarter during this month. These topics and more are covered in depth.

Specific currency outlooks follow. Each currency outlook consists of two parts: a fundamental overview and a high time-frame technical analysis. A timetable of key events and some extra additional notes for forex traders end the report.

Following some feedback, there are some small changes in this report. As always, feedback is more than welcome. I'd love to hear your comments at yohay@forexcrunch.com. The plan is to continue with monthly reports.

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Global Themes

Italian Bailout in July?

There is a significant risk that Italy will become the euro-zone's 6th country to receive a bailout.

Italy is the euro-zone's third largest country and a member of the G-7. It also has the world's third largest debt market. The debt-to-GDP ratio in Italy is over 120%. In the second Greek bailout, a goal of 120% debt-to-GDP was the target for 2020. This number was clearly derived from the situation in Italy.

Italy is still trying to hide behind Spain, but its recent efforts in the EU Summit show that Italy's technocrat Prime Minister Mario Monti has a lot to fear.

Monti replaced the controversial Silvio Berlusconi in the fall of 2011. Monti enacted some big reforms, gained market confidence and also managed to enjoy support from political parties and the Italian public.

Yet his policies have hit the Italian economy:

- The economy contracted by 0.8% in Q1, far worse than the average euro-zone rate of 0%.
- Purchasing managers' indicators for Italy during Q2 are pointing to fast contraction in all sectors: manufacturing, services and retail.
- Retail sales fell in the past two months, and both fell below expectations: -0.8% and -1.6%.

This is the price of austerity and the global slowdown. The Italian public is no longer supportive of Monti. Unfortunately also the markets are not supportive. The recent 10 year bond auctions both resulted in yields of over 6% - very unsustainable mixed with fast contraction and a high debt-to-GDP ratio.

Political Instability

Monti still has the backing of the Italian political parties that are in parliament, but they will not support him on further reforms. Markets need to see more pension and labor reforms in order to provide Italy some relief. This isn't happening.

He used this lack of support to squeeze Germany to some concessions in the EU Summit. There were rumors that he threatened to resign if he wouldn't return with any achievements.

And outside of parliament, a new force is rising: Former comedian Beppe Grillo's 5 Start Movement is gaining traction in opinion polls after winning local elections in May. The 5 stars mostly represent anti-establishment and anti-corruption rules. Grillo personally supports an Italian exit of the euro and a default on debt.

The anti-euro sentiment is echoed by some mainstream politicians and threatens the stability of the euro-zone. This sentiment could rise if Italy opts for a bailout.

Problems in Italian Bailout

Like the Italian sovereign, also Italian banks are somewhat hiding behind Spanish banks. The situation there isn't much better; however, Italy's main problem is financing itself (the sovereign) in the markets.

There is a good chance that Italy will receive some kind of help to lower its yields during the month of July. This might be a limited bond-buying program to lower the yields. The EU Summit decided on no seniority for the ESM bailout mechanism over private bondholders.

But that's the end of the good news. Here are the problems:

1. **No seniority also in Italian case**?: The biggest achievement of the EU Summit (which is full of holes) is that the bailout funds will have no seniority over private bondholders, thus not scaring them off. There is doubt that this will apply to Italy in addition to Spain. In addition, the ESM hasn't been ratified by all the euro-zone countries.
2. **Sufficient size**: It is highly doubted that the current bailout mechanisms are sufficient to safeguard Italy, due the size of the economy and the debt.

Placing Italy in a bailout scheme casts an even bigger shadow over the euro-zone.

3. **ESM Not Ratified**: The "permanent" bailout mechanism, ESM, hasn't been ratified by all EU countries. This includes a heated debate in Germany, the paymaster, which faces challenges in the court. The changes in the rules of the ESM also require approval.
4. **Withdraw of Italy from funding**: As the euro-zone's third largest economy, Italy has a significant part in funding bailed out countries. If it requires a bailout, the stack of cards may tumble down. Other countries will have a higher burden and Italy's bailout may be too high.

As we've seen too often, action from the EU is usually greeted by the markets, and results in a rise of risk currencies such as the euro, pound, Aussie, kiwi and loonie against the dollar and the yen.

However, when the markets understand that these moves are half baked, require approval and are subject to conditions, the trend quickly reverses.

Spanish Relative Calm

As discussed in the June outlook, an announcement about a Spanish bailout came during the month. It was later followed by an official request from the euro-zone's fourth largest country. More details are expected in the Eurogroup meeting on July 9th, but this will definitely not be the end of the story.

The bailout currently focuses on the troubled banking sector. However, Spanish yields show that not only the banks are in trouble. Also the sovereign is paying ever rising prices for recycling its debt. This was seen in long term auctions as well as short term ones.

According to the fresh decisions in the EU Summit, the European bailout mechanisms will be able to directly buy bonds and recapitalize banks. Similar to a potential bailout of Italy, there are quite a few issues that may complicate the situation, even though Spain tried to provide some clarifications to the initial bailout announcement that was full of holes.

With Italy in bigger trouble and after Spain already "secured" a bailout, the focus could drift away from the country during the month. During this summer month, Spain enjoys a better economic environment thanks to tourism. This is seasonal, but has a greater impact since the Arab Spring began – more tourists flock into Spain and avoid visiting North Africa.

Also he political change in France changed is in Spain's favor, as the atmosphere in Europe, and this certainly helps France's southern neighbor.

However, problems remain on the table.

1. **Sum still not clarified**: An initial assessment discussed a maximum sum of 61 billion euros for the banks in the most adverse scenario. However, this assessment falls short in the eyes of many experts that see at least 150 billion euros needed by Spanish banks. **Another assessment of Spain's needs is scheduled for July 31st, and this will probably be higher**.
2. **Backlash against bank recapitalization**: With the banks being in the center, the option to fund them directly is very appealing to the markets. However, it is not appealing to the public. In Spain, the public recently received an announcement about more austerity steps by the government. In Germany, the idea of funding foreign banks from taxpayers' money will not go down very well.
3. **ESM Ratification**: As with the potential Italian bailout, the deployment of this mechanism requires a ratification in all euro-zone countries, and the process is slow.
4. **Spain will not contribute to itself**: Like with Italy, the shift of Spain from the contributor side of the bailouts to the receiving side weighs on other countries.

Greece Missing Targets

After the pro-bailout New Democracy party won the elections in Greece, the country got some relief. A new government was formed, and the new Prime Minister Antonis Samaras skipped the EU Summit (due to medical issues). This kept Greece away from the spotlight.

In the good news department, a rise in hotel reservations was recorded immediately after the elections, providing Greece some much needed foreign cash. This came after an early plunge in tourism, and doesn't necessarily close the gap.

Nevertheless, the problems are far from over. Opposition leader Alexis Tsipras has time to build his camp until the next elections, which may come sooner than later.

Greece's problems are far from over and also in July, Greece may jump to the headlines and impact global markets.

- **Recession**: Greece's economy continues squeezing, and this is a depression. Fresh assessments discuss a squeeze of 9% (annually) in the economy during Q3 2012. In the best case scenario, Greece will have a negative growth rate of 6% in 2012, much higher than the official budget rate of 4.7%. It will probably be deeper.
- **Damage done**: During the period of uncertainty, foreign companies left Greece. They will not return fast. Also the rise in tourism is relative, the bigger picture of Greek tourism remains gloomy.
- **Long list of demands**: Given the deteriorating situation, the new government made a long list of concessions from the EU. The rather encouraging result in the EU Summit gives hope for Greece. So, German opposition to concessions might soften, but it will probably be limited, triggering the next crisis when the next tranche of aid is needed.

Negative headlines about Greece's economy will likely be seen during July, but the bigger problems may come when the EU / ECB / IMF troika visits Greece. This has been delayed due to the elections and then the medical issues of the PM.

When the troika arrives in Greece and fully understands that Greece hasn't made enough progress on reforms, the next crisis will begin.

While the next round isn't expected in July, a Greek euro exit still seems inevitable, as targets are missed over and over again.

US Economy – One Bright Spot and Many Grey Ones

During the second quarter of 2012, most US indicators disappointed. The relative strength seen in the first quarter faded away during Q2.

Towards the end of July, we will get a first assessment of the economy's performance in Q2, and growth will likely be significantly lower than the 1.9% growth rate for Q1, which wasn't too high either.

With that said, having growth in Q2 is better than other countries. However jobs are becoming a concern once again.

Job growth and economy at stall speed

- **Weekly claims are higher**: During the month of June, we saw claims rising. It was interesting to see that the initial numbers were usually revised to the upside, making a better first impression. Looking at the bigger picture of the 4 week moving average, it has risen to around 386K. Earlier in the year, the average was around 360K. A level of under 400K is considered the be necessary to keep unemployment from rising. The figure could reach 400K during July.
- **Non-Farm Payrolls disappoint**: After a strong start to the year, with over 200K of jobs gains, the pace fell. The most recent job report was very bad, with only +69K and downwards revisions. Upwards revisions were seen earlier in the year. The jobs report for June will probably be similar enough jobs to keep the unemployment rate rising too much (from the current 8.3%) but not enough for the US to be the global locomotive
- **Consumers are wary**: The headwinds from Europe don't necessary have a direct impact on the economy. On the contrary: lower oil prices leave more money in the pockets of Americans. Nevertheless, the scary headlines certainly dampen the mood and offset the lower costs at the pump. Consumer confidence indicators have fallen from highs, retail sales fell short of expectations and also durable goods orders were mixed, at best. In a consumer based economy, less consumption is felt in jobs as well.

- **PMIs slide**: Purchasing managers' indices are also getting close to the balance between growth and contraction – close to 50 points. They have been relatively high for quite some time. PMIs are forward looking indicators. The Philly Fed Index, which is one of the earliest numbers available, is negative.

The trend, or actually the lack of it, will likely continue throughout the month of July with more signs that the economy is muddling along.

Housing Bottom seems real

The only really positive sector is housing. This housing bubble brought the US economy down, and it is now safer to say that housing has bottomed out. If this trend continues in July, it could support the US dollar.

The recent figures show that the sector is still suffering from a high foreclose rates that weighs on existing homes, but new ones are being built.

- **Prices**: Case Schiller's house price index showed a third consecutive rise in house prices, with the recent rise of 0.7% exceeding expectations.
- **New Home Sales** rose to 369K in May, a two year high.
- **Building permits** rose to the highest level since 2008, reaching an annual rate of 780K
- **Housing starts** rose to 744K in April, the highest since October 2008. They later slid in May to 708K, but these levels are significantly above the post-crisis levels of around 600K.
- **Pending home sales** leaped by 5.9% in May (although this is a volatile figure).
- **Existing Home Sales** stood on a level of 4.55 million in May, very similar to the levels seen in April. This is not a new high, and probably reflects the stress in foreclosures.

These cautiously positive figures will likely continue during July, and may be enough to prevent another decision to loosen monetary policy by the Fed. The Fed has more reasons to wait.

QE3: More Expectations and More Disappointments?

In the last FOMC meeting held in June, [the Fed announced an extension of "Operation Twist"] by $267 billion. The idea is to sell short term bonds and buy long term ones, thus lowering long term yields and encouraging investment.

There is lots of room to doubt if this is effective: low borrowing costs aren't really encouraging banks to lend and aren't boosting the economy. Long term yields are already very low, and there's not much room left on the downside.

Nevertheless, the Fed gets to show it is doing something without changing the size of its balance sheet, thus not printing more dollars. Some analysts saw it as a stepping stone towards the real thing: QE3 – a further expansion of the balance sheet that will devalue the dollar and start a stock market rally.

However, this seems more like a substitute to QE3, and we can expect another disappointment. At the end of July, the Federal Reserve will begin its two day meeting, with the result of this meeting announced on August 1st.

So why will the Fed refrain from action?

1. **The Fed doesn't make changes too often**: most meetings end in reiterating the previous statement with a small change of tone about the economy. After the recent decision to extend Operation Twist, the chances are high that no action will be taken.
2. **Diminishing Returns**: The Fed's non-conventional programs are of a diminishing scale: QE1 was huge, QE2 was significant, Operation Twist 1 was already smaller and OT2 was even smaller. Also the effect of more QE has "diminishing returns" according to Bernanke. As aforementioned, yields are already so low, that the diminishing returns are easy to see.
3. **Housing is climbing**: Housing is one of the concerns on the Fed's agenda. With a rise in prices and in activity, there is no reason to act (see details above).
4. **Deflation is not a threat**: The goal of QE2 was to avert deflation – a situation where prices fall, consumers are discouraged to buy, they further

fall, etc. While prices rises are more moderate than earlier, and this was noted by some Fed members, the US is still too far from deflation.

5. **Politics**: Three months before the US elections, every move by the Fed will be closely watched. Republicans have criticized the Fed too often for the QE programs. Bernanke will not hesitate to act if a huge disaster appears, but unless there's a wholesale collapse, he has no reason to grab attention.

It's hard to see any change coming from the Fed at this time. Even if the initial estimation for Q2 GDP is terrible, the Fed will likely wait. Also the conditional pledge to leave interest rates unchanged until late 2014 will likely remain unchanged. It's just too far off in the future.

The Flows are a-Changin'

Forex traders are usually divided along the lines of technical and fundamental analysis, and some mix. However, it's important to note the flows in the markets, especially as they change.

The global slowdown has its effect on currencies, via large countries whose currencies aren't traded widely.

- **China**: The world's No. 2 economy is still growing at a fast pace, especially in comparison to the sluggish West. However, it is experiencing a slowdown that is probably stronger than the official numbers suggest. Chinese authorities have a tendency to smooth numbers: lower growth figures in good times and raise them in bad times. The recent rate cut indicates that things aren't that good there. Also electricity usage and the divergence between the official manufacturing PMI that still shows growth and the unofficial one that shows contraction is worrying. On this background, China is probably moving to the US dollar and away from other currencies that it diversified into earlier.
- **Oil producing Arab nations**: When oil prices are higher, the extra oil revenue (denominated in dollars) is diversified into other currencies, such as the euro. The recent dive in oil prices means less Middle Eastern dollars are converted into other currencies.

On the other side, we have India: the huge country is experiencing a slowdown as well, and this heavily impact the Indian rupee, which fell against the dollar. A rising external debt and a weaker currency used for imports (of oil alongside other goods) is becoming less favorable for India now. They could sell dollars in an effort to strengthen the rupee.

However, the impact of China and oil producing Arab nations is much stronger than India's at the moment.

Unless global growth picks up soon and oil prices rise, we could see this change in flows having an impact on currencies.

Currency Outlooks

This section consists of a fundamental country specific outlook and a high time frame technical analysis for each currency against the US dollar. The situation in the US has already been discussed, so the first part concerning the US dollar is only technical, referring to the US Dollar Index. Also for Europe, see the in-depth fundamental coverage for more.

- All the charts are weekly charts.
- A description on the lines follows each section.
- For shorter term outlooks, please follow the weekly outlooks on Forex Crunch, linked in every section.
- If you prefer to view the charts on a web page, just click on the image.

US Dollar Index – Staying in Uptrend Channel

The US Dollar Index continued trading in a wide uptrend channel since the middle of 2011. It made a pullback during June but returned to the higher range.

Lines

89.62 is the post financial crisis high and is the final frontier on top. 88.70 is another peak, seen in May 2010, when the Greece received the first bailout.

86.87 is a minor line, serving twice as resistance in the early stages of the crisis. 85 is a round number that provided some support when the index was trading at a high level during 2010.

83.50 was the peak of an upwards move in the middle of 2010, before QE2 became reality and is now closer. 81.80 served as support in 2010 and as resistance in early 2012 and now switches to support.

81.12 provided support in June 2012 and also had a minor role as resistance in the past. Above the round number of 80, 80.23 is another important support line that was tackled twice in the spring of 2012, serving as the top border of a tighter range.

The bottom border of this range is 78.59, which was a cushion in April and also in January. 77.50 is the next big support line. It worked as both support and resistance in 2009.

76 capped the long range trading of the pair in 2011 and is strong support. 73.50 was the bottom border of that range.

For the major market movers, see the Forex Weekly Outlook.

Euro – Economic Contagion to Germany

Many still see the euro as the heir of the old Deutschmark despite the currency union and despite the fact that the debt crisis in countries other than Germany weigh on the value of the currency.

The euro-zone's trade balance can justify this stance: Germany's surplus pushes the whole region to a surplus. Germany's output and employment levels are indeed at highs, but there are worrying signs that this might not last too long.

- **Low PMIs**: these forward looking indicators are falling, with manufacturing pointing to fast contraction.
- **Business confidence is falling**: After a few positive months, both of Germany's important think-tanks, ZEW and IFO pointed a depressing picture for the future.
- **Retail sales disappoint**: Month after month, consumers fall short of economists' expectations.
- **Global demand is falling**: Germany enjoyed a lot of demand from Asia and especially China. This is slowing down. Also the troubles in other European countries are beginning to weigh on Germany.

All in all, the euro continues to rock mostly on the debt crisis. Nevertheless, if the German figures continue disappointing in July (this seems likely), we could see the flows coming out of Germany and the euro.

The impressive 0.5% growth in Q1 saved the whole euro-zone from an official recession. It seems that Germany's output squeezed in Q2 and will drag the zone down rather than up.

Regarding the debt crisis and Germany, it's important to note that Germany has so far provided loans to troubled countries through the euro-wide EFSF mechanism. It hasn't taken a loss so far. Admitting that some money will not be paid back will certainly help. However, taking a loss is a political challenge in Germany, and would also weigh on the euro as investors would see it as less safe.

EUR/USD Technical Outlook

The pair made a nice correction but was too far from the really critical line of 1.30. The very wide channel that begins in 2008 is trending down, and the pair now leans to the bottom of it. Uptrend support which accompanied the pair since mid-2010 was also broken to the downside.

More importantly, the pair continues trading in the steep downtrend channel that began in late 2011 and was formed at the beginning of 2012. This channel is highlighted in the graph.

Lines

The 2011 peak of 1.4940 is a significant line as well on the upside. 1.4282 was the peak of the surge in November 2010.

The swing low of 1.3838 seen in mid-2010 was also of important at the beginning of 2010 as a cap and as a separator back in 2008. 1.34 is the top border of the sideways range and remains strong despite a temporary breach early in the year.

The round number of 1.30 is not only a psychological line but also strong resistance. It was strong support and its break triggered a big fall. 1.2587 is now minor resistance after the break. It provided support during 2010.

The first post crisis bottom at 1.2330 is no in focus. Despite being an old line, it is of importance. 1.2150 played an important role in May 2010 as a clear separator. It also worked as resistance back in 2006.

Below 1.20, the 1.1876 bottom seen in 2010 is a very strong line. The next line is symbolic: 1.17. This the launch price of the euro in 1999. It is closely followed by 1.1670, which was a trough in the middle of the 2000s.

Even lower, important lines are the round numbers, as these levels were visited a long time ago.

For more on the euro, see the **EUR/USD Weekly Outlook**.

British Pound – QE Versus European Flows

The UK economy isn't doing so well but not all forces are against the poud.

- An official recession was confirmed after a second quarter of contraction in Q1. Q2 doesn't seem to be much better.
- Unemployment refuses to fall, and the weaker demand from Europe hurts the economy.
- **Lower inflation**: The good news for Brits is that inflation is finally down, but this isn't good news for the value of the pound, as it paves the road for more quantitative easing.

- **European flows**: While lower demand from the continent is bad for the economy, the debt crisis sends money into British bonds and also into property in London. Prices in the British capital are too close to pre-crisis highs and bubble could emerge there.
- **Olympic games**: London 2012 begins on July 27th. Expenditure will probably rise towards the games and during them, boosting the economy and consumer confidence. This is a positive factor.

On the background of a weakening economy, the Bank of England is expected to launch more QE. This decision was very close in June's meeting. A majority in the MPC voted against the will of Governor Mervyn King – a rare event.

It's important to note that the effect of British QE on the value of the pound has been somewhat short-lived in the past.

The ongoing recession and more QE will likely weigh on the pound, while the Olympic games and European flows could help the currency.

GBP/USD Technical Outlook

Pound/dollar tends to trade in ranges, and after the big falls, it managed to stabilize in range once again, after challenging the 1.5780 line.

1.7440 was a stepping stone on the way down during the peak of the crisis. 1.7042 is the post crisis peak reached during 2009 and never sought since. It is right above the round number of 1.70.

Below, 1.6750 was the peak of 2011 and also had a similar role during 2009. 1.63 was a peak in 2010 and later worked as a pivotal line. The failure to break above this level ignited the fall.

The round number of 1.60 also had a significant role in the past, but it is weaker now. The trough of 1.5780 was of high importance in 2011 and also in 2009. It proved its strength as resistance in June 2012.

Quite close by, 1.56 had an important role as a support line in 2012, and it now works as a pivotal line in the current range. The double bottom of 1.5270 seen at the end of 2011 and the beginning of 2012 is the lowest points since 2010 and remains strong.

Below the round number of 1.50, we find 1.48, which provided an important cushion at the beginning of 2010. The bottom of 2010 at 1.4227 is significant on a big downfall. Last but least, we find the post crisis low of 1.3514.

For more on the pound, see the **GBP/USD Weekly Outlook**.

Japanese Yen – Chopping its Way Up

The value of the yen continues to mostly be a factor of risk: when European headlines are bad, the yen gains across the board and is the No. 1 safe haven currency.

However, Japan is far from being "safe".

- **Debt**: The huge debt mountain is still there and there's always a danger that it could erupt one day. This day currently seems far, but the threat exists.

- **Stalling exports**: Japan saw a drop in manufacturing production during June, for the first time in 2012. This is a result of stalling exports.
- **Energy**: One of the factors that weighed against the yen was the change in energy policy. Around one year after the horrific earthquake, tsunami and nuclear disaster at Fukishima, Japan closed down all the nuclear reactors. This was a big change in flows, as Japan found itself importing coal and oil for energy. This hurt the seemingly eternal trade balance surplus. And now, Japan is gradually beginning to re-open them, despite protests. If this process gains traction, we could see a stronger yen.
- **Stimulus fades away**: A lot of money was put into the economy after the disaster, and this helped the economy. However, the economy finds it hard to stand on its own, and after an OK first half, the second half of 2012 doesn't look too good.
- **Sales tax and potential political crisis**: The Japanese government is pushing a hike in the sales tax. The hike is due only in 2014 and could encourage consumer spending before the hike comes into effect. However, the heated political debate could force the government to resign
- **Reaction to US Indicators**: In the shorter term, USD/JPY reacts in the most "logical" way to US indicators: the pair rises on positive indicators and falls on bad ones. This isn't always the behavior seen in other pairs. Another Fed decision that doesn't include QE3 could boost the pair.

All in all, the pair continues having long term potential to rise, but this may be slow, and more trouble in Europe can keep it low.

USD/JPY Technical Outlook

Dollar/yen bottomed out and began rising once again in the month of June. The break above the round 80 line wasn't confirmed, but this line stays important.

Lines

85.50 was the peak in 2011 after the coordinated intervention. 84.20 is the peak reached and challenged in March 2012.

82.87 was the line where the BOJ intervened in September 2010 and it played a role afterwards as well. It is currently a minor resistance line. The 80.60 line is becoming more notable on the weekly chars, just above the round number of 80. It served in both directions during 2012.

The round number of 80 was strongly guarded for some time and remains of psychological importance. The break below is significant. 78.30 is an important hurdle in the shorter term. 76 was a previous all-time low and is now support in the range.

The round number of 75, in uncharted territory might test the patience of the BOJ and the low of 75.57. A failure to guard this line has a potential of throwing the pair towards 70.

For more on the yen, see the **USD/JPY Weekly Outlook**.

Swiss Franc – Will the Levee Break?

The worsening situation in European pushed money to the safety of the Swiss franc, despite the fierce intervention from the SNB, which wants a weaker currency. The floor of 1.20 under EUR/CHF turned into an effective peg, as the SNB just prints more francs to buy more euros.

The Swiss authorities would probably prefer an even weaker franc, as deflation continues to bite, and exports are less attractive. This seems impossible at the moment.

A movement in the other direction has higher chances. How long can the Swiss National Bank buy euros? It might diversify its holdings to other currencies, introduces some kind of capital controls (that has a price as well) or might just give up.

Many traders are betting that they will be able to break the SNB. Up to now, they had no success. A Greek euro-exit or an event of the same magnitude could challenge the Swiss authorities and could accelerate the fall of the euro against other currencies.

There are higher chances that this will not happen in July, with the current peg continuing for another month. Yet it's important to note that the burden on the SNB is rising.

USD/CHF Technical Outlook

Recently, trading USD/CHF was almost 100% to trading EUR/USD. Nevertheless, the lines are still relevant.

Lines

1.17 was an important and stubborn peak in 2010 and remains an important cap above. 1.11 worked as support at the end of 2007 and also a cap in 2009 and 2010.

1.09 capped the pair during 2010 and provided support beforehand. 1.0435 was support in 2010 and an area of struggle.

Just above parity, 1.0066 was an important attempt to recover, and the beginning of the downfall. 0.9783 was a double top and provides strong resistance.

The round number of 0.95 worked as support and has psychological importance as well. It is now pivotal. 0.9315 worked recently as resistance and as support beforehand.

0.89, very close by is another significant support line that proved its strength early in the year and also back in 2011. 0.8567 is worth mentioning on the downside. It served as support on the way down and then switched to resistance.

Further below, 0.8330 was a strong line of support. 0.7820 is the final frontier before the big plunge to the all-time low at 0.7066.

For more on the Swiss franc, see the **USD/CHF Weekly Outlook**.

Canadian Dollar – Oil Not a Problem

The Canadian economy continues to be relatively strong, and this is reflected in the value of the loonie, which gradually rose.

The big drop in the price of oil during July had a relatively minimal effect on the C$. However, every headline from Europe moves the currency, like all risk currencies.

- **Employment is rising**: In recent months, Canada's work force has been on the rise, even if it slowed a bit in May, the situation is far better than in the US.
- **Economy is growing**: Canada's economy continued growing also in April, the first month of Q2, by 0.3%. This is about the time that the US slowdown began. So, Canada continues doing relatively well.
- **Toronto housing bubble**: The Canadian authorities began recognizing that the rise in house prices is not healthy, and singled out Toronto. The bubble is probably not limited to Toronto and could endanger the whole economy. However, at least there's awareness.
- **US demand**: Despite enjoying a healthy economy so far, the slowdown in the US could weigh on Canada and its dollar as well. Currently, the slowdown in the US isn't that bad, but if things get worse, this is an important factor to watch.

All in all, Canada remains strong and USD/CAD parity could be challenged again. A lot depends on the upcoming job report in Canada, and much less on the price of oil.

USD/CAD Technical Outlook

USD/CAD made a move higher but didn't reach high resistance, and eventually dropped.

Lines

1.1130 is an old line dating from 2009. It is still high. 1.0850 capped the pair in 2009 and 2010 and remains of high importance.

1.0677 also worked as strong resistance for many days, and was tackled again in Q3 2011. The round number of 1.05 is now a top in the range and can be challenged in the near future.

The round number of 1.03 was a battle line, and it seems that the pair overcame it. Above USD/CAD Parity, the 1.0050 was a much more significant cap on the upside.

0.98 is an important cushion on the downside, where the pair bottomed out. 0.9667 is a pivotal line on the way down, after working as support.

0.9406 was the lowest post crisis level, and is the ultimate support line.

For more on the Canadian dollar, see the **USD/CAD Weekly Outlook**.

Australian Dollar – The Struggle With Parity Continues

The Australian dollar certainly enjoyed the pro-risk environment and reconquered parity. This reflects the global mood and not the situation in Australia.

- **Chinese weakness**: Australia is still heavily reliant on the mining industry. More signs of weakness from China including the recent Chinese rate cut, play against the Aussie.
- **Relatively resilient job market**: After a few disappointments, the recent jobs report from Australia was positive ,reflecting some stabilization in the economy. Housing and retail sales are the main points of weakness.
- **Rate movements**: The RBA will probably pause in rate cuts unless Europe unravels. The prospects of more cuts are much lower. If Glenn Stevens and his colleagues do surprise with another cut, it will be a big disappointment.

AUD/USD might refocus on domestic issues during July and let go of Europe, at least partially, but if European headlines continue dominating the global news, Australian matters will be pushed to the sidelines, and the Aussie will continue moving according to the risk on/risk off mood swings.

AUD/USD Technical Outlook

The Aussie made a stylish comeback, and reconquered parity. Will this last?

Lines

The float-era high of 1.1080 is the ultimate line high in the sky. It wasn't a swing high but rather a significant hurdle. 1.0850 was a double top at the beginning of the year and is now resistance on strong upside moves.

1.0480 provided support during 2011 and is now serious resistance. 1.0230 proved to be a critical separator, working as support earlier in the year and now working as resistance.

AUD/USD Parity is an important psychological line, although not so strong. 0.96 provided an important cushion in September 2011 and also in June 2012.

0.94 is an important trough and also the cap of a long term range that lasted in 2009-2010. The round number of 0.90 will is of psychological importance.

0.8578 was the bottom border of the aforementioned long term range and a very distinct line. The last line in the bottom is the 2010 low of 0.8066.

For more on the Aussie, see the **AUD/USD Weekly Outlook**.

New Zealand Dollar – Things are Looking Better

The surprisingly strong growth of the economy in Q1 is a very positive change in the favor of the kiwi, even if the figure was released relatively late.

The economy in this country is much more stable than currency movements show. NZD/USD has been a roller coaster pair during long periods. However, the economy has a strong base: food exports. External demand remains strong.

The RBNZ is very conscious of currency movements and certainly dislikes the strength of the currency. This will not lead to an intervention, but might trigger a rate cut in the future. We are not there yet, and the current strength of the economy raises the chances for a rate hike rather than a rate cut.

Like the Aussie, the kiwi will likely stabilize and somewhat refocus on Chinese and internal matters rather than European ones, but Europe has a tendency of staying in the limelight, and NZD is the riskiest of risk currencies, for good and for bad.

NZD/USD Technical Outlook

The kiwi had another rocky month, and this time it ended in its favor..

Lines

The float-era high of 0.8842 is the ultimate resistance line. 0.8470 was the peak in 2012 and remains key resistance.

0.8242 capped the pair on the way up and remains important within the range trading. 0.8060 proved to be of high importance, working as support early in the year and afterwards switching to resistance.

Under 0.80, the next round number of 0.79 is now pivotal. 0.7670 capped the pair on recovery attempts and also worked as resistance in 2009.

0.7450 was a stubborn bottom in May 2012 and was also a swing low in the fall of 2011. 0.7350 is significant on the downside. The pair got close to this line during Q4.

The round number of 0.71 was a swing low in 2011 and a break lower would be a bearish signal. Under the round number of 0.70, the next line of support is 0.6815, which worked as such in early 2010.

0.6560 is the low of 2010 is another significant line. Historic support appears at 0.62. For more on the kiwi, see the **NZD/USD Weekly Outlook**.

Relative Strength Index

June Revisited

Contrary to the predictions in May, predictions this time were quite off the mark – quite a mirror. Let's see what currencies did in June:

The EU Summit that ended in the morning of June 29th rocked the markets in a positive manner for risk currencies and in a bad one for the dollar. This was an extension of the general trend.

1. **NZD** – NZD/USD rose by 6.6%.
2. **AUD** – AUD/USD rose by 5.2%
3. **CHF** – USD/CHF fell by 2.5%
4. **EUR** – EUR/USD rose 2.5%

5. **GBP** – GBP/USD rose by 2%.
6. **CAD** – USD/CAD fell by 1.7%.
7. **USD**
8. **JPY** – USD/JPY rose 1.5%

This was the speculation from the month of June:

1. **USD** – Assuming no QE3, that some expect after the weak NFP. A surprising introduction of QE3 No QE3 was introduced, but the improvement in the European mood certainly hurt the dollar across the board.
2. **JPY** – The yen is still attractive, but the flows will find limits – Flows found their limits, and the better mood hurt the yen.
3. **CAD** – After the loonie managed to weather the drop in oil prices, it can still stay relatively strong – the loonie moved slowly.
4. **NZD** – The worst performing currency in May might enjoy relative stability. This depends on GDP and no rate cut. – more than relative stability – NZD was the best.
5. **AUD** – The Aussie has more room for falls, especially with a rate cut. – the Aussie underperformed the kiwi, but won against all the rest.
6. **GBP** – the proximity to Europe and more QE weigh on the pound – the pound indeed lagged behind some of the others.
7. **CHF** – The effective peg to the euro means that the franc will trade in tandem with the euro. The SNB maintained it quite well, and it isn't likely to break soon. – the peg continued, with CHF in lockstep with EUR.
8. **EUR** – Assuming that even coordinated action won't do wonders, the euro will suffer badly from the deepening crisis and also a euro exit. – No coordinated action was seen, but the EU Summit hopes changed the picture.

July Predictions

It's important to stress that this outlook is not a trade recommendation, but just commentary. This will be revisited in the next monthly outlook.

There's a big debate about the EU Summit. The rally was strong and lasted longer than previous ones. However, immediate solutions are not in abundance. The following predictions are based on expectations that the gloom will somewhat return, and that the summit was NOT a game changer. This didn't work out in June, but could be seen in July.

1. **CAD** – The economy is relatively strong and proved it can absorb shocks in oil.
2. **USD** – can reverse some of the losses, assuming that trouble in the euro-zone will return.
3. **GBP** – the Olympic games and safety from Europe can help the pound edge higher in the list.
4. **JPY** – the ultimate safe haven currency has some flaws, and could suffer from an intervention.
5. **AUD** – this risk currency will fall if Europe deteriorates.
6. **NZD** – the same as with the Aussie, just that NZD has more to lose after the big gains.
7. **CHF** – the effective peg to the euro will probably remain.
8. **EUR** – The European debt crisis is far from over, and the strong close of June means there's more room to fall.

So, shorting EUR/USD is the preferred trade? This yielded 877 pips in May, and the trend isn't over yet, unless, as aforementioned, magical central bank coordination does wonders. It can do wonders to stabilize the situation, but not necessarily the value of the euro.

Key Events

Here are the key events that are set to impact currencies all over the world, larger than the scope of any individual country.

- July 3rd : Australian rate decision. Another cut?
- July 5th: Spanish bond auction.
- July 5th: UK Rate Decision – More QE seems certain.

- July 5th: Euro-zone rate decision – Will Draghi finally cut?
- July 6th: US Non-Farm Payrolls
- July 9th: Eurogroup meeting that is expected to detail the Spanish bailout.
- July 11th: FOMC Meeting Minutes – More clarity on QE3 is expected.
- July 12th: Italian T-bill auction.
- July 13th : Chinese Q2 GDP – they publish it early.
- Spanish T-bill auction
- July 17th: Canadian rate decision.
- July 19th: Spanish 10 year bond auction.
- July 23rd: British Q2 GDP.
- July 27th: Italian 10 year bond auction.
- July 27th: US Q2 GDP.
- July 31st: Conclusion of the second phase of Spain's bank sector review.
- July 31st: Canadian GDP.
- August 1st: US Rate Decision: Another no QE3 decision?

Sources for this report:

- Forex Factory Calendar
- FX Street Calendar (available on Forex Crunch).

Additional Notes for Forex Traders

Here are some additional notes for forex trading during this quarter.

Volume is Dropping

As we are entering the summer in the northern hemisphere, trading volumes are beginning to drop. This is seen in long hours of hardly any movement, and some wild jumps that don't last long. This is still not the peak of the summer, so there are enough hours with healthy liquidity and trading. Nevertheless, it's important to be aware of this.

Trade with care! High leverage and wide stops can be disastrous to your trading account. When volatility is higher, reduce position sizes and minimize your risk. Don't gamble.

There are still some traders who widen their stop loss points when the trade is open. Having success with such a move can lead to more dangerous actions later on and is only more dangerous. So stop moving your stops!

Choosing a More Predictable Pair

Some pairs follow the rules of technical analysis in a better way, while others are quite unpredictable. This depends a lot on your trading system and on your style and these patterns change all the time. Nevertheless, here is an updated list of the **5 Most Predictable Currency Pairs – Q3 2012**.

Resources

General Articles

- **5 Points on When to Go Pro** – Successful at forex trading and considering of doing it full time? There are a few steps on the way.
- **How to Choose a Forex Broker** – There are quite a few tools you can use before making this important decision.
- **How About Investing in Forex?** – Foreign exchange doesn't necessarily have to involve active trading, but can be
- **Risk Factor Explained** – A deeper explanation about why the dollar falls on good figures and vice versa and under what conditions this will end.
- **Trading in Range or Catching Breakouts?** – What is your style? And what to look out for.

Recommended Sites:

- **TradingNrg** – For all you need to know about gold, oil and other commodities.
- **BO Crunch** – All you need to know about trading binary options.
- **ForexStreet.Net** – A great forex social site where you can interact with others.

- **Forex Live** – For the fastest updates on the web.

That's it! As I've mentioned at the beginning, I welcome feedback, comments, suggestions, complaints and anything you wish to tell me about this report. Please send any feedback to yohay@forexcrunch.com.

Happy forex trading!