MARKET FORECAST
Q2 2016

It's time for a healthy dose of expert market analysis! Read on as our Research Analyst at FXTM, Lukman Otunuga, forecasts what Q2 2016 has in store for the markets.

WRITTEN BY
Lukman Otunuga, Research Analyst at FXTM

Index

EURUSD

EURUSD: The parity dream fades away

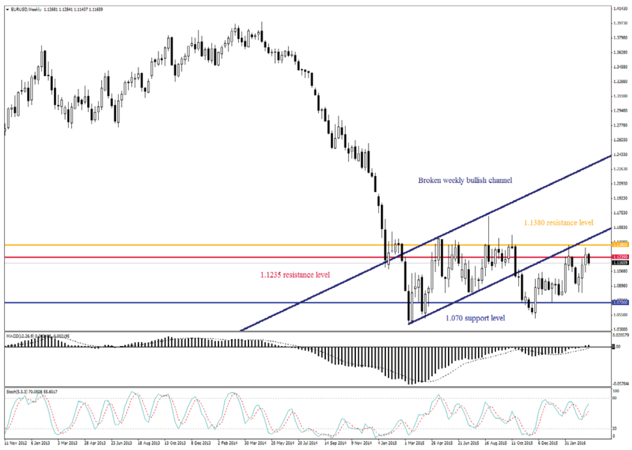
The EURUSD found comfort in a wide range in the early parts of Q1, with ongoing EUR and USD strength keeping the pair in a fierce tug of war. Investors remained on standby as expectations mounted on the European Central Bank, unleashing further stimulus measures while the growing optimism of four possible US rate hikes in 2016 kept the parity dream alive for the EURUSD. Q1 was quite turbulent with data from the Eurozone following a negative trajectory, while elevated fears over the state of the global economy exposed the United States to downside risks. In early February, tepid data from the States renewed fears over a potential economic slowdown, consequently dampening US rate rise expectations. As a result the Dollar lost ground against the Euro with prices surging towards 1.1200.

With Eurozone inflation failing to jumpstart, the ECB took the bold steps in March to unleash aggressive stimulus measures in a bid to boost Eurozone growth. The initial market reaction to the ECB slashing deposit rates, further empowered the Euro bears but when expectations of further rate cuts were diminished, buyers exploited this opportunity, consequently sending the EURUSD back towards the previous 1.120 resistance. If this ECB disappointment was not enough to erase the parity dream for 2016, then the latest developments from a cautious Fed who trimmed rate hike expectations from four to two could provide the inspiration the EURUSD bulls need, to take the currency back towards 1.143. Euro bulls have ended Q1 firmly, and with optimism rapidly fading over the Federal Reserve raising US rates more than twice this year, the EURUSD may be poised for more gains.

As we enter Q2, there is a strong possibility that Dollar weakness will take center stage as US rate hike expectations may rapidly diminish amid the global uncertainty. The European Central Bank may likely slash deposit rates further in Q2, in a bid to boost both borrowing and inflation, but this may have a negative impact as investors see the actions as an act of desperation. This potential catalytic combination of Euro appreciation and Dollar weakness makes the EURUSD fundamentally bullish entering Q2 with the stubborn yearly resistance at 1.150 open for the taking.

EURUSD Daily

EURUSD Weekly



From a technical standpoint, the Euro has displayed bullish tendencies in almost all timeframes with prices cutting through the stubborn 1.120 resistance, before declining back towards the 1.107 support. Although the monthly timeframe has traded in a range for an extended period with 1.138 acting as a gatekeeper, the weekly and daily periods continue to generate higher highs and higher lows, which reinforce the forming bullish outlook on the EURUSD. When using multiple time frame analysis (MTFA), the breakout above 1.120 simply opened the doors to 1.138, which in turn may assist any pending bullish runs on the weekly and daily timeframe.

Lagging indicators, such as the moving averages and MACD, have already started to point to the upside while the three consecutive bullish weekly candles suggest that the 1.1380 resistance may be crumbling. There may be a possibility that previous resistance at 1.1070 becomes a dynamic support, which provides a foundation for prices to trade back towards 1.120 and potentially higher. A solid weekly close above 1.1380 may open a path to the yearly 1.1500 resistance. With Dollar weakness potentially rippling through the currency markets and concerns lingering over the European central bank's inability to revive Eurozone growth that is fueling the EURUSD bulls, the parity dream rapidly fades into the distance.

EURUSD Monthly

GBPUSD

GBPUSD: Brexit fears intensify selling pressures

The GBPUSD entered 2016 under immense pressure, with the British Pound in general suffering from a complete lack of investor attraction. The combination of repeated pushed back UK interest rate expectations, prolonged weakness in headline inflation and ongoing signs of economic momentum slowing down, when combined with confirmation of a historic EU referendum for June, spelt aggressive losses for the Pound. We previously thought that it was possible that the GBPUSD could fall to 1.40 during Q1, but losses accelerated even further to a near seven-year low of 1.38 by the end of February.

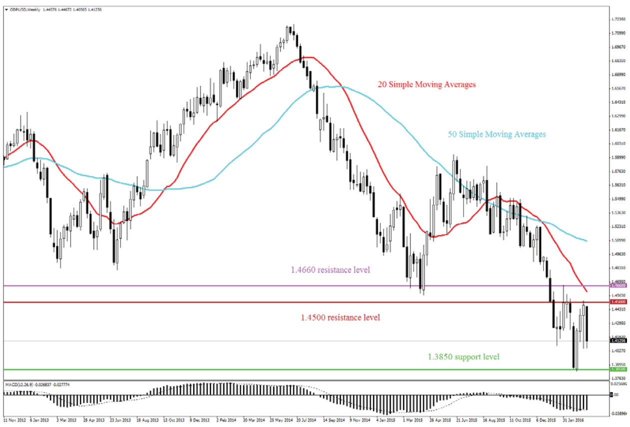
With that being said, many were left stunned at the pace of recovery in the Pound, as Q1 came to a conclusion with the GBPUSD managing to recover losses and finding itself back at 1.45. The major reason for the recovery in the Pound as Q1 came to a conclusion was due to USD weakness, and pushed back US interest rate expectations, with the recovery in the GBPUSD having little to do with improved sentiment towards the British Pound.

As we now enter Q2, there is a strong possibility that market volatility may intensify in favour of the bears, as the EU referendum looms closer - this should provide opportunities for bearish investors to attack the currency pair. We personally feel that any recovery in the GBPUSD can be seen as a relief rally, before another steeper decline down the charts. We now see the area around 1.45 as a critical psychological level for the GBPUSD and if we do not manage to close trading above this level on the weekly timeframe, investors are still likely to enter pullback opportunities to drive the currency pair lower.

In regards to the technicals, the GBPUSD is under immense pressure and heavily bearish on all the major timeframes. There have been consistently lower lows and lower highs on the monthly timeframe, while the third weekly candle of March shows a potential bearish engulfment. The resistance at 1.4500 will be seen as a critical psychological level for now and we would need to conclude above this level for a further recovery in the currency pair from a technical perspective.

GBPUSD Daily

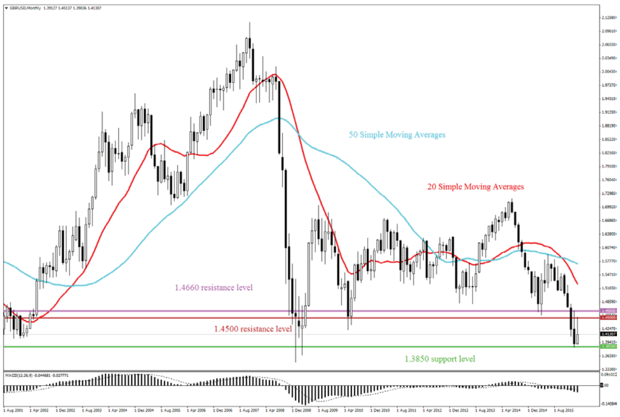
GBPUSD Weekly



As long as we fail to close above 1.45 on a weekly basis, the gates will likely open once again for another decline in the GBPUSD, in the medium term.

Technical lagging indicators such as the moving averages on the daily, weekly and monthly timeframes all suggest that the GBPUSD is still bearish, while the MACD also traces deep into the downside. On the daily timeframe, the GBPUSD is now respecting a bearish channel and a breakdown below 1.41 will likely open the path towards 1.40 and potentially lower. The candlesticks are also trading below the daily 20 SMA while the negative view is also complimented by the MACD crossing to the downside. We personally also believe that a breakdown below 1.41 would be a critical technical move that could act as the catalyst to encourage another greater decline towards the milestone lows around 1.38 as MTFA (Multi-Time Frame Analysis) currency suggests.

GBPUSD Monthly



AUDUSD

AUDUSD: Exceeds bullish expectations

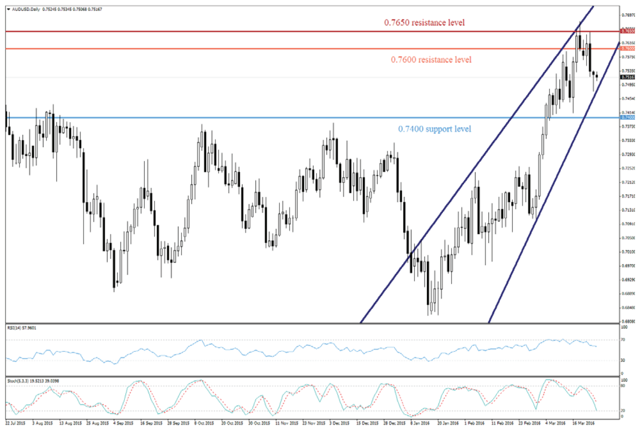
The unexpected gains in the AUDUSD started to mount in the middle of Q1 when the Aussie sprung above 0.71, breaking away from the clear downtrend since the breach from the major support in 2015. There are expectations that the currency pair's appreciation will continue into Q2, with the speed of the gains potentially increasing deep into 2016.

One of the reasons for this is that the Aussie is positively correlated with Gold, which has entered a bull market and experienced an incredible bullish run in Q1. Another reason for the Aussie appreciation was the current expectations for the Reserve Bank of Australia to maintain a stable interest environment with rates at 2%, as GDP stabilizes into Q2. Australia has held solid ground in Q1 despite holding a direct trading relationship with China which exposed the economy to major downside risks.

As we enter into Q2 the AUDUSD may be expected to appreciate further with 0.80 looking like a live possibility as ongoing Dollar weakness ensures that the currency pair remains buoyed while the appreciation in the commodity markets is a positive for the mining sector. This pair may be turning fundamentally bullish and more gains may be expected, as the unexpected relationship of risk aversion which boosts appetite for the safe-haven Gold empowers Australia's economy and the Aussie bulls.

The AUDUSD has experienced an incredible bull run which has broken the weekly bearish channel and currently tests the monthly bear channel. The daily timeframe is bullish as there have been consistently higher highs and higher lows, while the stochastics suggest that there is still more upwards momentum left. As of now the 0.7600 has provided some headwinds for bulls to progress towards 0.7850, but as along as prices can keep above 0.7400, then bulls will have no problem conquering this stubborn resistance. Multiple time frame analysis (MTFA) suggests that prices may use the previous 0.7400 resistance as a dynamic support on the daily timeframe, which should encourage a breakout above the defensive 0.7600.

AUDUSD Daily



AUDUSD Weekly

Once bulls find comfort above 0.7600, this should provide a ticket to venture towards 0.8100 and if the level is breached then the AUDUSD officially turns bullish on the monthly timeframe because a previous lower high was conquered.

AUDUSD Monthly

Disclaimer: The content in this article comprises personal opinions and ideas and should not be construed as containing personal and/or other investment advice and/or an offer of and/or solicitation for any transactions in financial instruments and/or a guarantee and/or prediction of future performance. FXTM, its affiliates, agents, directors, officers or employees do not guarantee the accuracy, validity, timeliness or completeness of any information or data made available and assume no liability as to any loss arising from any investment based on the same.

Risk Warning: There is a high level of risk involved with trading leveraged products such as forex and CFDs. You should not risk more than you can afford to lose, it is possible that you may lose more than your initial investment. You should not trade unless you fully understand the true extent of your exposure to the risk of loss. When trading, you must always take into consideration your level of experience. If the risks involved seem unclear to you, please seek independent financial advice.

USDJPY

USDJPY: Risk aversion empowers USDJPY bears

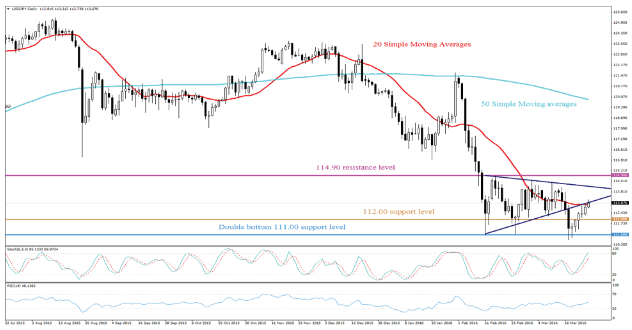
We are heavily bullish on the Japanese Yen as Q2 commences and this has nothing to do with an improved sentiment towards the Japanese economy, which is currently in a bout with deflation. Risk aversion continues to be the main driving force which has boosted appetite for the safe-haven Japanese Yen in Q1 and with growing fears that global growth may continue to decelerate in Q2, JPY bulls should receive further encouragement to drag the USDJPY to levels not seen since September 2014, below 110.00.

The Japanese economy faced heavy punishment in Q1 from the appreciating Yen, which reduced their export competitiveness while mounting fears over the state of the global economy exposed Japan to further downside risks. In late January, when the pressure became unbearable, the Bank of Japan implemented negative rates in a desperate attempt to devalue the JPY, but the markets reacted inversely with the Yen appreciating across the board. Japan has found itself in a painful situation, where potential central bank intervention and growing risk aversion provide the foundation needed for the Yen to appreciate and consequently exacerbating their inflationary woes.

As Q2 commences, the Yen may be expected to appreciate further, with growing financial instability boosting risk aversion and consequently encouraging investors to flock to safe-haven assets. The Bank of Japan has made it clear that more negative rates may be enforced in the future, in a bid to revive its ailing economy and such may simply boost the Yen further. The USDJPY is fundamentally bearish and with dwindling expectations over the Fed raising US rates more than two times in 2016 added to the mix, the USDJPY may be poised to decline further for most parts of Q2.

From a technical standpoint, a brief look on any of the charts shows that the USDJPY is currently respecting a negative trajectory, which is a seller's dream. The daily chart is heavily bearish and the current correction may offer an opportunity for sellers to send prices back down towards the 112.00 support.

USDJPY Daily



USDJPY Weekly

There have been consistently lower lows while both the weekly and monthly bullish channels have been breached. A breakdown below the double bottom 111.00 may open a path to levels not seen since 2013, at 100.00.

This is a bears market and bulls should find it quite difficult to make a comeback against the overwhelming bearish momentum. Investors should keep in mind that the unstable global economic environment has renewed a wave of risk aversion which will inevitably strengthen the safe-haven Japanese Yen, and consequently keep the USDJPY depressed.

USDJPY Monthly

GOLD

Gold: Regains safe haven allure

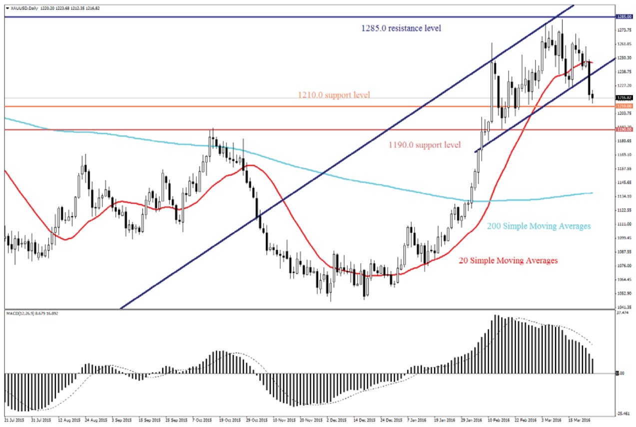
Gold sunk into 2016 under extreme pressure from the heightened expectations of four possible US rate rises, while an appreciating Dollar encouraged bearish investors to attack at any opportunity. The metal experienced a sharp change of polarity as Q1 commenced, following the heightened concerns over the state of the global economy, which boosted its safe-haven allure. Gold bulls received further encouragement from the incessant declines in oil prices, which dampened confidence towards the global economy and consequently encouraged investors to flee away from riskier assets.

The main factor that kept Gold depressed for the most part of 2015 was the elevated expectations over the Fed raising US interest rates, but with expectations rapidly fading in Q1 the shackles which restrained Gold bulls were cut, consequently giving way to a surge in prices. In reality, the intention of the Federal Reserve has been one of the key factors behind Gold trading, and with it becoming increasingly clear that US rates may not be increased anytime soon, Gold could be poised to have one of its best years in a decade.

As we enter Q2, this yellow metal may be expecting further gains, with prices punching back above $1283 as risk aversion encourages anxious investors to seek the safe-haven safety of Gold. Naturally as expectations fade of the Fed raising US rates, the Dollar should weaken and this provides a foundation for buyers to install another round of buying more during most of Q2. The Fed futures display a very low possibility of the Federal Reserve taking any action in this new quarter and such should offer further encouragement for bullish investors to pile onto the longs.

Looking at the technicals, Gold has enjoyed an extended bull run taking prices to the $1285 resistance before sellers sent the precious metal back towards the $1210 support. This precious metal remains bullish and the ongoing global woes which have heightened risk aversion, should provide a foundation for bullish investors to send prices back to the $1285 highs.

Gold Daily

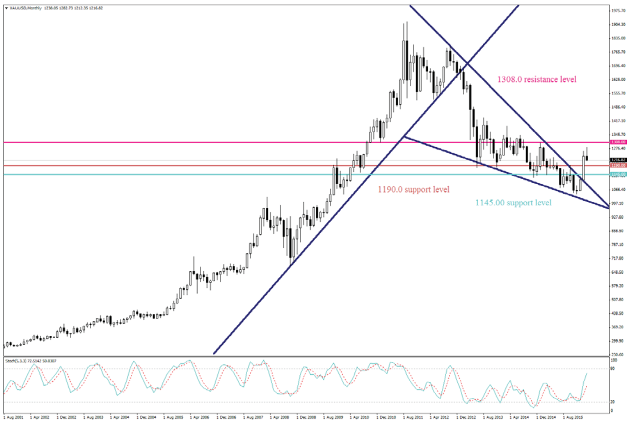


Gold Weekly

Although the daily timeframe is starting to look somewhat bearish, bulls remain in firm control on both the weekly and monthly, as long as $1190 defends well.

A weekly close above $1285 could provide the momentum needed for bulls to challenge $1308 and if this level is breached then the sky may be the limit for this yellow metal. One of the main reasons of the recent decline in Gold was the inflated expectations of a US rate rise in April, despite the unstable financial landscape. When the expectations diminish and the Dollar starts to weaken, Gold bulls may return in full force with $1285 as the first goal.

Gold Monthly



WTI OIL

WTI Oil: Oversupply concerns leave prices depressed

WTI Oil fell victim to an unrelenting selloff for the most part of Q1, as concerns over the excessive oversupply of oil in the heavily saturated markets encouraged bearish investors to attack prices. The value of this commodity has depreciated over 80% from its peak and with no visible slowdown in selling momentum amid the oversupply woes, more losses may be expected as Q2 commences. It was the dangerous combination of an overwhelming oversupply and faltering demand that encouraged this dramatic selloff, which saw prices decline to the painful 13 year lows of $26 in February.

With Oil, it's the solid fundamentals of an unrelenting oversupply that continue to haunt investor attraction, consequently sabotaging any real recovery in value. Despite this, OPEC has exploited the explosive levels of volatility in Q1 to manufacture speculative boosts in oil prices that ultimately acted as relief rallies for deeper declines to come. The ongoing talks over possible production freezes that offered WTI bulls a lifeline may be wearing off as Iran remains on a quest to pump at least 4mbpd into a market that is already 2mbpd oversupplied. There is an upcoming OPEC meeting in April which may trigger another heavy selloff if no real solution is agreed to quell the excessive oversupply.

Oil may be poised to decline further as we enter Q2, with lingering fears over slowing global growth reigniting concerns that demand may be waning while oversupply woes ensure that prices will remain depressed. Crude stock piles are still building up and despite these low prices, producers continue to cope with US shale showing heavy resilience. A major decline is pending with the commodity potentially sinking back towards $25, a level which may shake the global markets and force the cartel to actually cooperate with a legitimate supply cut.

In regards to the technicals, WTI is strikingly bearish and this may remain the case as long as the concerns over the excessive oversupply of oil continue to haunt investor attraction.

Despite the extended relief rally, the strong resistance at 41.40 quelled any further bullish advances and provided bears the foundation to send prices back towards the $35 support.

WTI Oil Daily

WTI Oil Weekly

Bears remain clearly in control on the monthly as there have been consistently lower lows and lower highs while the weekly reinforces the strong resistance at $41.40. Momentum could start to pick up once the daily bullish channel is breached and for this to happen prices need to close below $38. Weekly lagging indicators such as the MACD which point to the downside and moving averages suggest that oil still has the potential to sink back to $26 but the first steps may be a break below $38.

WTI Oil Monthly