QUARTERLY **MARKET** FORECAST

2017 **Q2**

Contents

Introduction

Did the market just experience a mini-correction? Is this the beginning of something bigger? Why are the headlines making a big issue of a 1% drop in US equities? Shall investors buy on the dips, or better protect themselves from the downside?

These were the top questions I received since the drop at above 1% in US equities. Unfortunately, there are no black or white answers in these uncertain markets.

A 1% fall in equities isn't frightening. In 2016 we experienced 21 days of more than a 1% drop in S&P 500, and the index still managed to gain 5% from January 2016 until the presidential election on 8 November. Most of the gains of 12.4%, since 9 November until the beginning of March, were attributed to Trump trade and improving economic conditions in the US and globally.

However, the price action experienced in the last couple of days indicates that the first phase of Trump trade is over. US equities are currently priced for perfection, and now we should be looking at justifications for the overstretched valuations.

Worrying signs

Equity analysts are revising their earnings growth downward, Donald Trump's approval rating by the latest Gallup Poll sank to 37%, and there are still unanswered questions over whether the new US President will be able to implement the campaign promises that are still circulating in the atmosphere.

So, we need a lot of good news to keep investors buying into the second longest bull market ever, otherwise there is a risk of investors losing patience with a lack of clarity of fiscal promises and overstretched valuations.

01 EURUSD:

Gripped by political uncertainty

The heightened political risk in Europe was a dominant market theme in the first quarter of 2017 which exposed the Euro to downside shocks.

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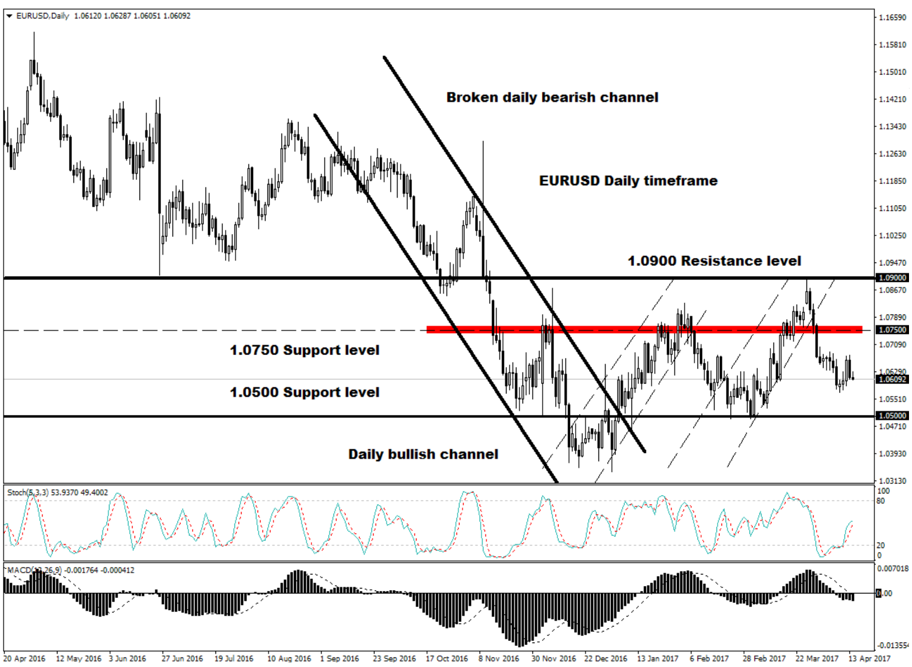

Uncertainty over the upcoming elections in France, Germany, and the Netherlands left investors on edge while the growing threat of Eurosceptic parties destabilizing the unity of the Eurozone weighed heavily on sentiment. With a resurgent Dollar fuelling the speculations of a Eurodollar parity, sentiment towards the euro remained firmly bearish in February. Although the EURUSD staged a recovery towards the end of Q1, sellers prevailed in the end and gains were capped below resistance at 1.09.

While the headline sentiment towards the Euro will more likely than not be dominated by the upcoming elections in France, it is worth pointing out that economic data around Europe is steadily improving. With economic data in Europe displaying consistent signs of improvement, inflation reaching the 2% goal and overall economic growth edging higher, we might begin to hear further noise from the European Central Bank (ECB) about the possibility of a QE taper. This would be seen as bullish for the Euro, and compliment ongoing discussions that the European currency is undervalued for long-term investors.

Focusing on the Greenback, March's "dovish hike" and cautious attitude from the Federal Reserve dealt a heavy blow to the dollar bull rally. The downside was fuelled by protectionism fears and ongoing concerns over Trump's economic policies.

Although the longer term outlook for the Dollar remains bullish amid the encouraging economic outlook for the United States, downside risks remain present especially when factoring the uncertainty revolving around Trump. While investors still remain cautiously optimistic over the proposed tax cuts, and fiscal spending boosting US growth, the threat of the pro-growth policies falling below market expectations could punish the Dollar significantly.

This is worth keeping an eye out for because we have seen, on countless occasions in the past, how fast the EURUSD can bounce higher if investors unwind USD positions.

From a technical standpoint, the EURUSD is under intense selling pressure on the daily charts with sellers breaking below the 1.0750 support. A successful daily close below 1.0750 and selloff towards 1.0700 could mark the end of the bullish trend on the daily charts as the previous higher low is breached. If bears manage to attain a decisive weekly close below 1.0700, then the next relevant support will be based back at 1.0500. Although the daily and weekly charts are turning bearish, the EURUSD remains trapped in a very wide range on the monthly timeframe with 1.1150 acting as a strong resistance. While bulls seem to be gaining ground in the short-to-medium term, the parity dream can still become a reality as long as the EURUSD remains below 1.1500.

In an alternative scenario, bulls could make an appearance if the 1.0900 resistance is conquered. A move back above 1.0900 may open a path towards 1.1100 and 1.1500 respectively.

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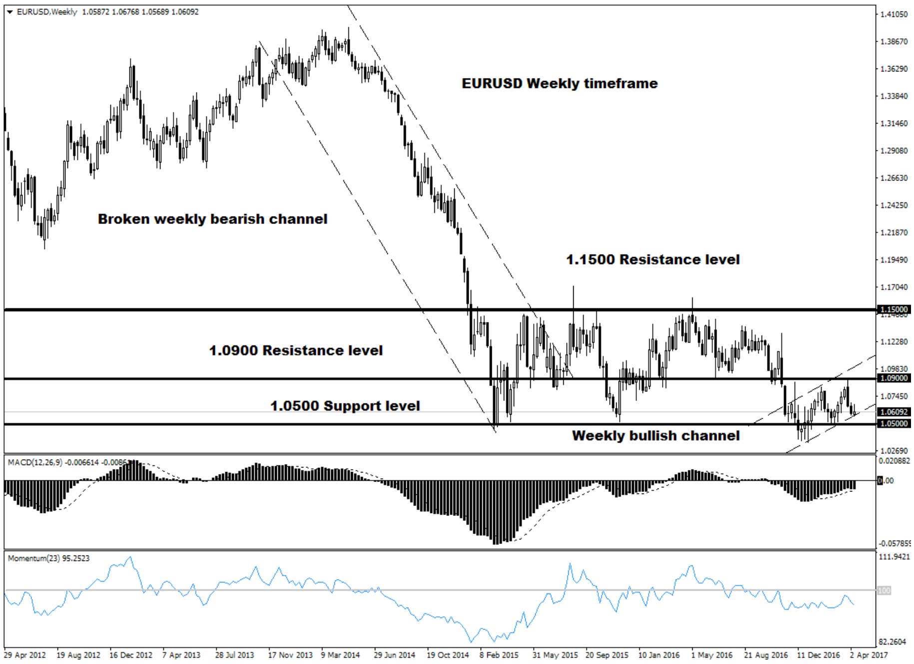

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02

GBPUSD:

Gains limited by Brexit woes

The British Pound found itself pressured on repeated occasions during the first quarter of 2017, as anxiety from the ongoing Brexit developments repelled investor attraction towards the currency.

Uncertainty was a dominant theme when dealing with the Sterling and downside shocks were commonplace as bears exploited the frighteningly low buying sentiment to install heavy rounds of selling. Although the Sterling/Dollar has started to stage somewhat of a rebound near the end of Q1, this has nothing to do with a change of sentiment towards the Pound but was more due to persistent Dollar weakness.

The bias towards Sterling remains firmly bearish with any upside seen as a platform for sellers to attack prices lower.

With Article 50 finally triggered and official negotiation talks with the European Union scheduled to start in June, the Sterling could be in store for a messy rollercoaster

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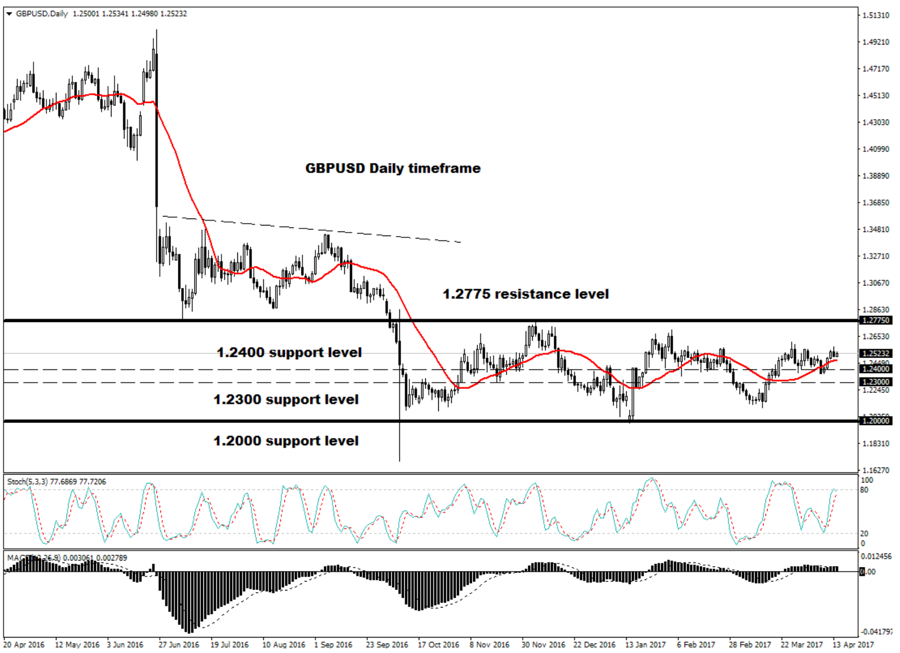

ride. Concerns have heightened over complications arising in the negotiation process while the lingering fears of a hard Brexit continue to weigh heavily on sentiment. The recent Scottish referendum shocker in March has compounded to the Brexit woes, with the growing threat of another potential Scottish independence vote in the future creating further uncertainty.

On the macro front, there are still underlying concerns over how the EU referendum outcome will impact the UK economy. Although the unemployment rate in the UK has fallen to its lowest level since 1975, there is anxiety over how a decline in average earnings and higher inflation might impact the UK's consumer-fuelled economic growth. With the current inflation level of 2.3% threatening to outpace average earnings, this will be something to monitor moving forward.

As we enter the second quarter of the trading year, the GBPUSD may be in store for some serious punishment if Brexit negotiations between UK Prime Minister Theresa May and her EU counterparts take a turn for the worse. It is expected that Brexit negotiations will attract headline attention, which means that it's possible that other economic data releases will see a muted reaction with macro fundamentals becoming secondary to the Brexit negotiations.

All in all, traders have been exploiting technical bounces higher in the GBPUSD for some time in order to send prices back lower, and this appears to be the mindset that investors will continue to use in Q2 for the Cable.

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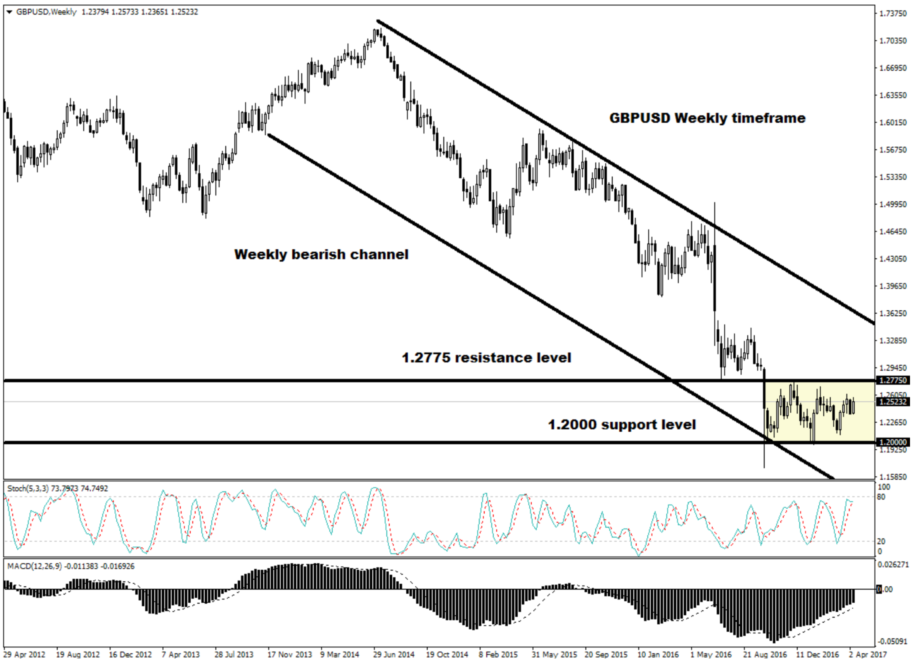

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With regards to the technical foreign exchange outlook, the GBPUSD remains trapped in a very wide range on the daily charts with 1.2775 acting as a stubborn resistance while 1.2000 remains a solid support. Although Dollar weakness has allowed prices to display the qualities of a technical bullish trend on the daily timeframe, gains may remain capped below 1.2550. Lagging indicators such as the 200 simple moving averages, MACD and Stochastics all suggest that Sterling remains pressured.

Zooming out onto the weekly timeframe, the GBPUSD remains bearish with sellers in firm control below 1.2775. A weekly breakdown and close back below 1.2300 may offer enough encouragement for sellers to send the GBPUSD lower towards 1.2000. For the long-term bearish trend to continue on the monthly charts, bears need a clean break below 1.2000 with the next relevant support at 1.1900.

03

USDJPY:

Yen bolstered by risk aversion

The ongoing tug of war between the Greenback and Japanese Yen has trapped the USDJPY within a 300-pip range during the first quarter of 2017. A passive monetary stance from the Bank of Japan allowed the bulk of the movements seen on the USDJPY to be driven by risk aversion and the Dollar.

As Q1 slowly comes to an end, the renewed fears of protectionism, Trump jitters, and market disappointment over the Federal Reserve's less-than-hawkish stance on US rate hikes have simultaneously weakened the Greenback while boosting demand for the Japanese Yen. With investors on high alert for an imminent technical break, the recent breach below a key support may be the first signs of further downside moving forward.

Focusing on Japan's economic fundamentals, the outlook is turning encouraging especially after the final quarter growth for 2016 hit 1.2% following an upward revision. The steady rise in business spending and

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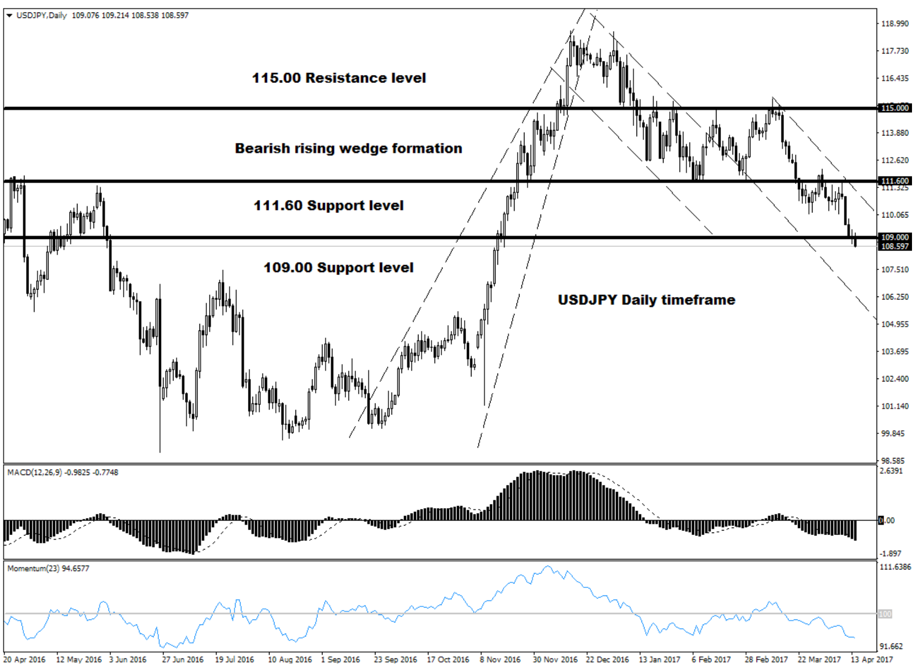

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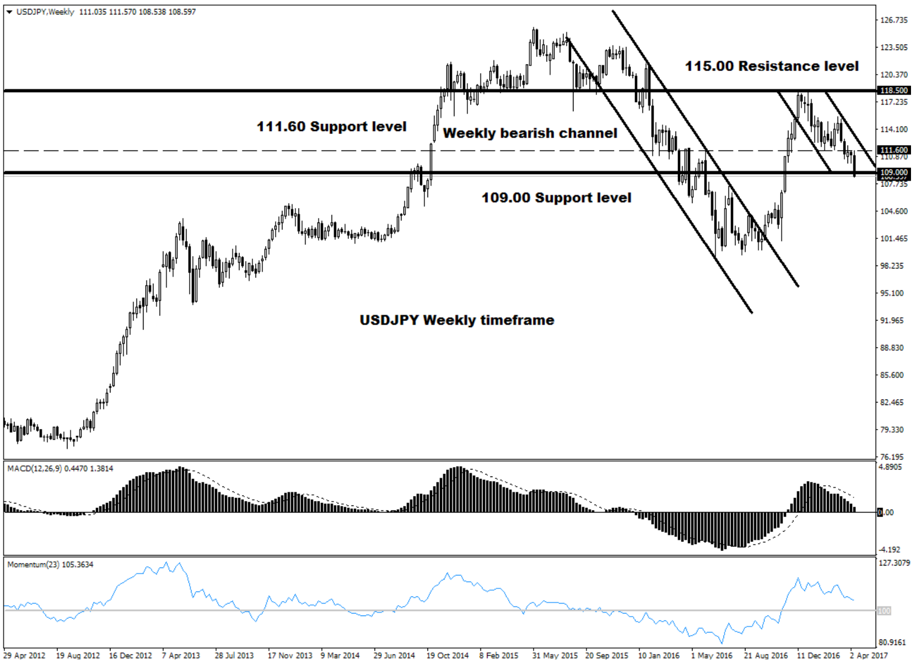

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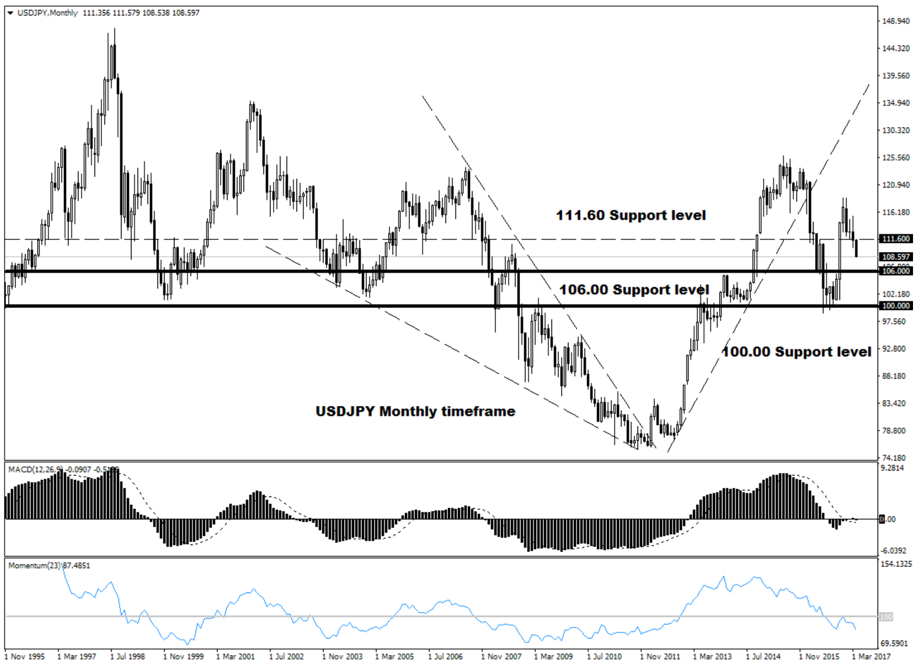

jump in investment may become key attributes that boost confidence towards Japan's long-term recovery. With markets expecting the central bank to implement fiscal and monetary policies in 2017 to elevate growth further, sentiment may turn bullish towards the Yen.

Focusing outside of Japan, much attention will be directed towards the Dollar which will continue to play a key role in terms of where the USDJPY trades over the quarter. The Greenback has recently been on the back foot, with sellers exploiting the renewed Trump uncertainties and protectionism fears to attack prices lower. If the Federal Reserve continues to maintain a dovish stance on rate hike timings, and Trump is unable to provide clarity over his economic reforms, patience in the USD could wear thin.

A vulnerable Dollar and an increase in market uncertainty is a combination investors look for when it comes to pricing in further downside shocks for the USDJPY. Risk aversion is seen as the catalyst to support Yen demand.

Traders must remain diligent when observing the technical picture on the USDJPY, as the current breakdown below 111.60 on the daily charts could be the start of something greater. It must be kept in mind that for three whole months the 111.600 support has defended with this current breakdown, exposing the USDJPY to additional selling pressure. With the technicals starting to turn bearish and prices trading below the daily 20 simple moving averages, the next relevant level of interest is at 109.00.

On the weekly timeframe, a weekly bearish channel is in creation with the downside momentum carving a path towards 109.00 and 107.00 respectively. A rise of risk aversion and persistent Dollar weakness may inspire sellers to utilize the pending break below 109.00 to drag the USDJPY lower towards 106.00.

04

AUDUSD:

Australia avoids technical recession

The Australian economy staged an incredible economic rebound in the final quarter of 2016, with growth rising to 1.1% from the painful slump recorded in the July – September period. With the nation maintaining a 25-year winning streak of consecutive quarters without a recession and overall GDP hitting a stable 2.4% in 2016, the economic outlook to the naked eye looks quite encouraging.

What might also support buying demand for the Australian Dollar is that the currency still represents one of the highest yields for the developing markets, while Australia as a whole could also benefit from being one of the developed markets not to witness the recent swing towards the anti-establishment that has caught attention across the United Kingdom, Europe and the United States.

Another supportive factor for the Australian Dollar is that recent indications from China suggest that the economy has landed on solid footing following concerns over recent years around its economic slowdown. With China widely known as Australia's main

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trading partner, and also an importer of the commodities that help contribute to its mining sector, a stronger economic outlook in China could have a similar impact in Australia. If China's economy continues to stabilize in the longer term and demand rises for Australia's commodities, the Australian Dollar may find additional support.

Focusing on the technical foreign exchange outlook of the AUDUSD, the pair has benefited from unexpected bullish momentum throughout Q1. While there have been signs of an improving economic outlook, technical traders might now be thinking that a pullback is on the cards for the Aussie. 0.7750 is seen as a major barrier for additional buying pressure, and this will need to be surpassed for the AUDUSD to climb towards 0.80. This means that traders might find the Aussie under selling pressure around these levels, and it's important to note that when the AUDUSD does fall down the charts, it can do so rather quickly.

On the weekly timeframe, traders can monitor how 0.7750 once again appears as a major line of resistance in the AUDUSD. Despite the outlook seemingly supported on the daily and weekly charts, the AUDUSD remains bearish on the monthly timeframe with the same 0.7900 level acting as a critical resistance. If prices fail to breach 0.7900 after several tests of 0.7750, then the bearish flag technical formation may open a path lower back towards 0.7000 in the longer term.

All in all, it will require a solid monthly close above 0.7900 to represent the end of the bearish monthly trend that is technically required for the AUDUSD to return to levels not seen since mid-2015.

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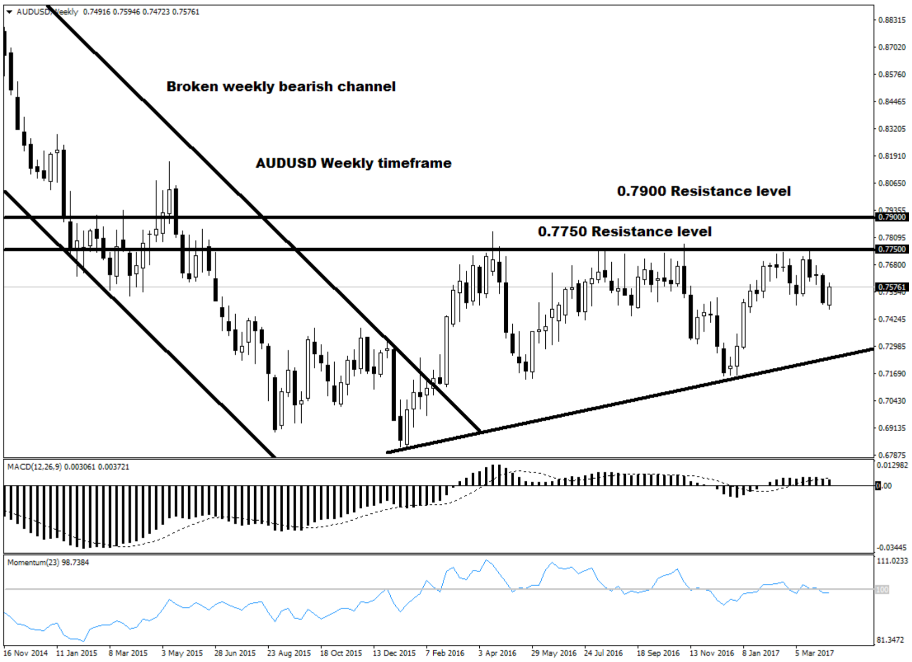

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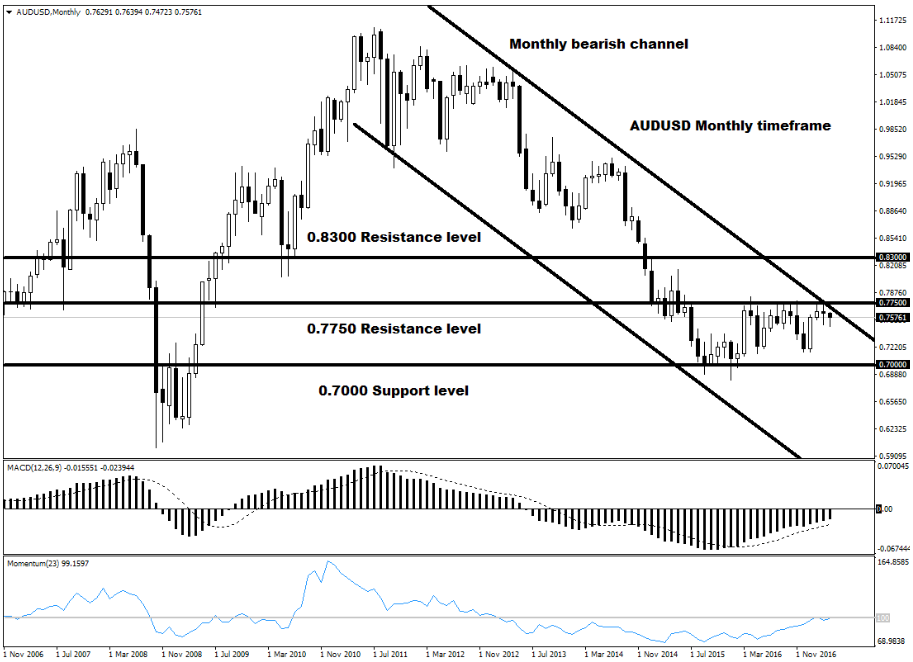

05
GOLD:
Elevated by uncertainty

Gold has found itself back in fashion at the start of the trading year with the metal being used as a close ally for investors during uncertain times. The metal has already gained around $140 so far in 2017 and it is starting to appear like it is just a matter of time before Gold attempts a run for $1300.

The combination of different factors supporting demand for Gold has become overpowering and in favour of buyers with factors encouraging demand including geo-political risks, uncertainty over Donald Trump being able to implement his campaign promises, suspicions around over-stretched equity market valuations, and upcoming elections around Europe causing concern following the unexpected outcome of the EU Referendum in the United Kingdom.

As we head into the second quarter of 2017, it does appear like the trajectory for the metal remains tilted to the upside. With renewed concerns over protectionism and Brexit unknowns all compounding to the messy mix, Gold should remain

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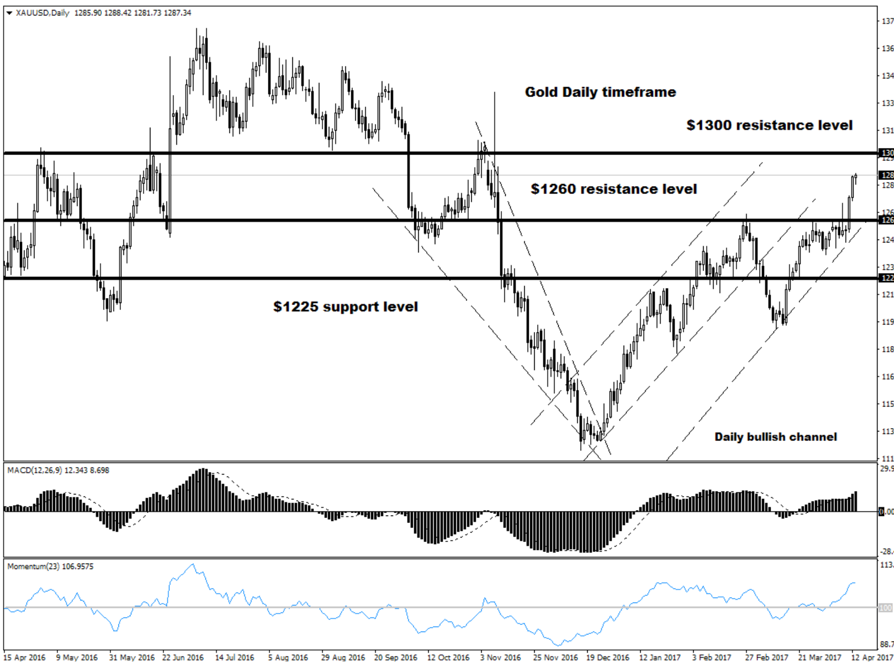

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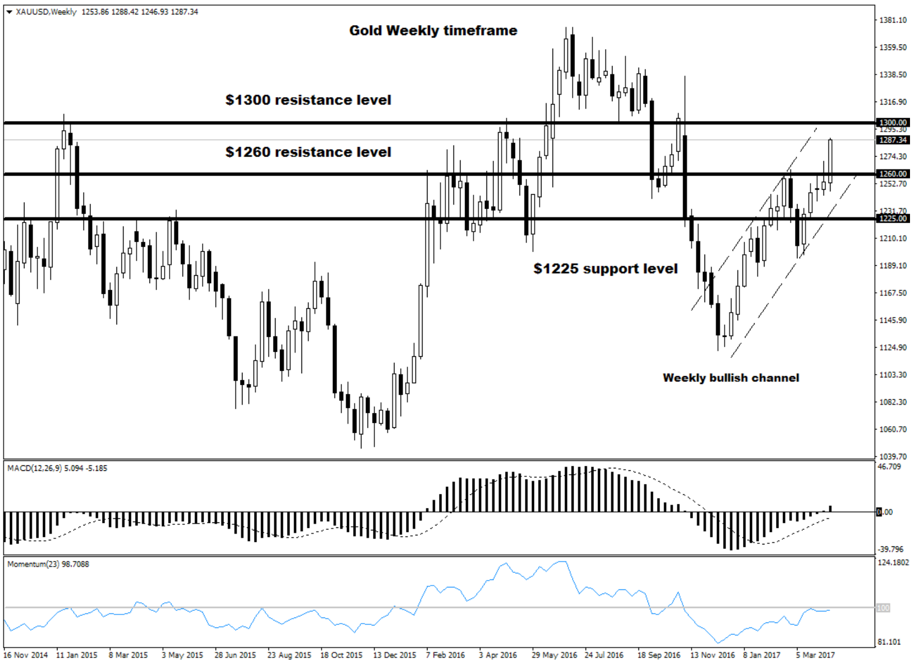

supported moving forward. The metal is expected to conclude the quarter as a winner, especially when factoring how concerns over President Trump's ability to quickly push through with pro-growth policies have helped reduce appetite for assets considered risky.

Another factor supporting the resurgence in Gold has been the heightened political risks on both sides of the Atlantic. No one expected President Trump to commission US airstrikes in Syria, and this unexpected development has encouraged investors to price in further risk premium. Speaking about President Trump, it must be kept in mind that the optimism over Trump boosting US growth via fiscal spending was the driver behind this risk-on rally and any noticeable complications should elevate the yellow metal further.

What might at times harm demand for Gold is the knowledge that the metal remains extremely sensitive to US rate hike expectations. The Federal Reserve has however adopted a cautious stance which may reduce some downside risks while maximizing upside gains. A "dovish hike" in March quelled expectations of the Fed raising US interest rates on four occasions in 2017. With the Greenback on the back foot as a result of the caution being shown from the Federal Reserve, protectionism fears and renewed Trump jitters somewhat denting investor attraction, Gold should remain supported

Taking a look at the technical picture, all of the charts show that Gold bulls are back in town with the monthly timeframe suggesting a potential breakout above $1260 will lead to a test around $1300. Prices are gaining momentum on the monthly charts with the

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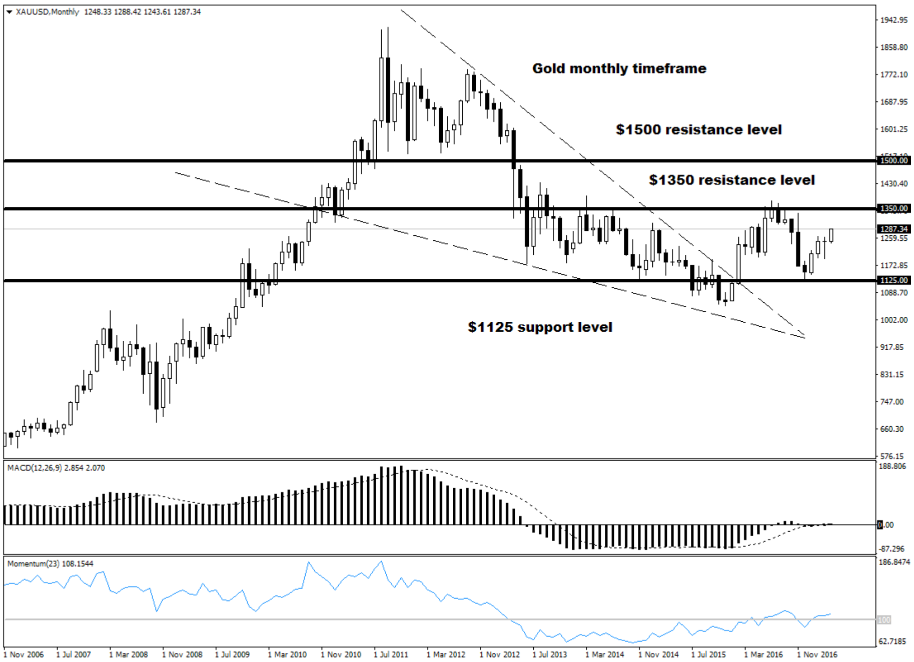

first decisive breakout above $1260 opening a path higher towards $1300. The weekly charts have staged a remarkable rebound from $1125 with the break above the 20 weekly simple moving averages suggesting further upside in the medium to longer term.

When utilizing multiple timeframe analysis, the forming three white soldier's formation on the weekly charts suggests a pending break above $1260 on the daily timeframe. With the Dollar on a slippery decline and risk aversion set to heighten amidst the uncertainty in the coming weeks, bulls could aim beyond $1300 and possibly even towards $1350 thereafter.

06
WTI:
Oversupply woes return with a vengeance

Oil markets have maintained their explosive levels of volatility throughout the first quarter of 2017 with prices shifting in either direction, the main catalyst still being the ongoing oversupply in the markets. Truth be told, oversupply is still the name of the game when it comes to oil and pressure is likely going to be intense when we begin Q2 for both OPEC and Non-OPEC members to extend their previous agreement to reduce production of the commodity.

One factor behind why these producing nations find themselves under the spotlight to extend their supply cut is because the correlation of higher oil prices and a consistent build up in US inventories has emerged once again.

The main story around oil that grabbed the headlines for the most part of Q1 was how the resurgence of US Shale simply counteracted all efforts made by OPEC to stabilize the oil markets. Although most investors remain cautiously optimistic over OPEC extending the supply cut agreement by another six months in a bid to reduce the global glut, questions have been asked if such a move will have any real impact when it comes to the longer-term price action.

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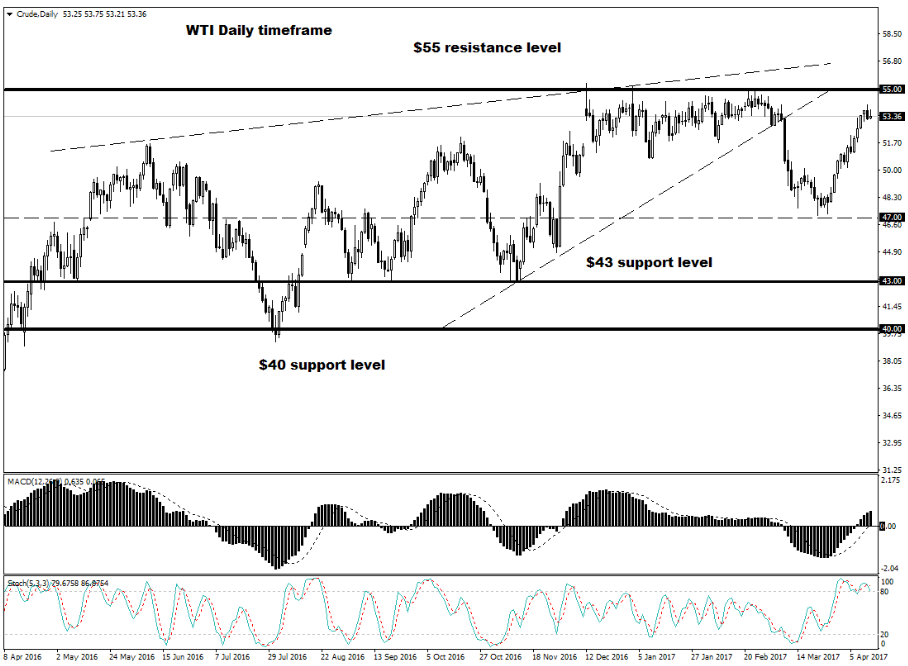

Those who are willing to cut their own supply to achieve price stability in the markets also need to be careful to not be caught between a game of cat and mouse with over-producers. Something else to consider when factoring in the limited probability of a resurgence in the price of oil is that the current agreement between those OPEC and Non-OPEC members who are willing to cut production is not legally binding.

There is also the question that remains unanswered over in the United States, with this being what impact can President Trump have on the oil markets? President Trump had spoken on occasions in the past before his election victory around an intention to boost the US fossil fuel industry and the intention to create industry jobs by opening more areas for drillers. Trump has already issued a permit to energy company TransCanada to build the Keystone XL pipeline, leading to further speculation over a number of other oil projects that were put on hold in the past being resurrected under his presidency.

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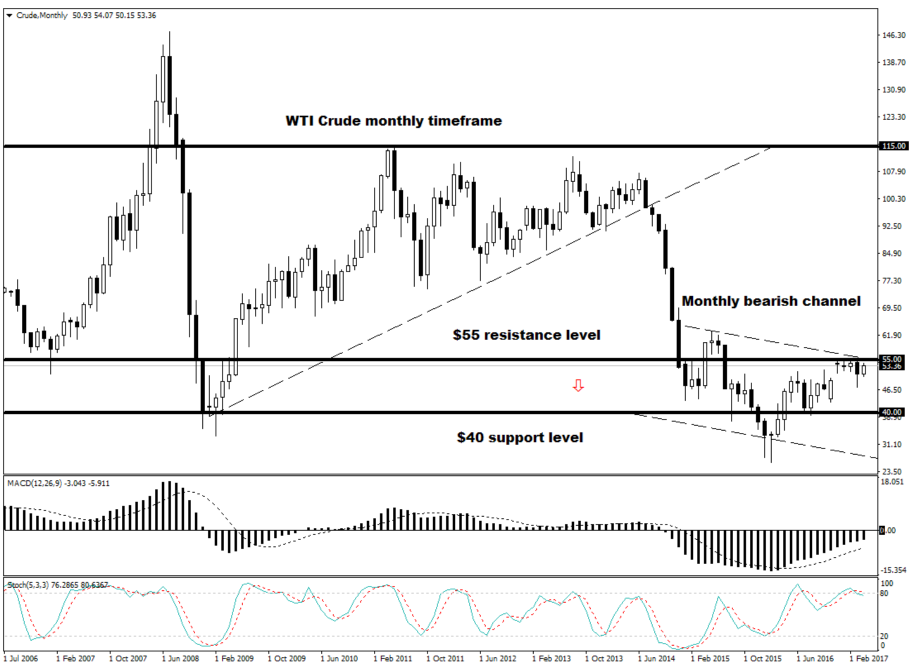

While OPEC's efforts to cut production still remain somewhat relevant, Donald Trump's pro-drilling rhetoric and deregulations may continue to negatively impact oil markets.

With the bias towards Oil still tipped towards the favour of the downside, bears are likely to continue using technical bounces as a platform to install renewed rounds of selling. Overall the fundamentals do still look overwhelmingly bearish as it currently stands.

In regards to the technical outlook, WTI Crude on the monthly chart has failed to break above $55 and this will continue to act as a key technical barrier when it comes to pricing in a higher move for Oil. There have been consistently lower lows and lower highs on the weekly timeframe while lagging indicators such as the MACD is in favour of further downside.

Daily technical traders will pay very close attention to how prices respect the psychological $50 which should transform into a dynamic resistance for further downside. The sharp breakdown of the daily ascending wedge formation would reinforce the bearish outlook on the daily charts if prices manage to break back below $50, which could lead to another re-test of $47.

COULD BREXIT NEGOTIATIONS LIFT THE EURGBP?

Written by Jameel Ahmad, VP of Market Research at FXTM

As we head into the second quarter of the new trading year, there are expectations that the EURGBP is in line to continue its upward momentum that it has encountered since the EU Referendum outcome last June. My personal opinion is that the Euro is heavily oversold and I would also be supporting the campaign for a higher EURGBP if it wasn't for the impending political risks around Europe. It's important for investors to bear in mind that we are only weeks away from the French elections and while the chances of far-right candidate Marine Le Pen being declared victorious have weakened of late, recent history does show that an underdog can't be counted against following what has transpired with the EU Referendum and US Election outcome over the past year.

What many believe will act as a catalyst for a stronger EURGBP is the ongoing Brexit uncertainty and UK Prime Minister Theresa May finally invoking Article 50. Truth be told, these are headline risks but much of the Sterling risk premium has been priced in for now and it does not appear as if Theresa May is in any real hurry to begin formal negotiations with the European Union. If Theresa May provides clues to the markets that she is willing to utilise the full flexibility of the two-year timeframe for negotiations with her EU counterparts, this should lead to investors scaling back long expectations on the EURGBP.

In regards to the technical outlook, we can see that this has been a choppy trading environment for the pair in recent months and the EURGBP has been largely ranging between 0.84 and 0.88 throughout the past quarter. The pair really needs to manage to close above 0.88 on a weekly basis to support those encouraged by a long-term higher bias in the EURGBP, otherwise there is a risk of investors continuing to utilise sell-on rally opportunities.

I will personally be keeping a closer eye on whether the EURGBP appears at risk to closing below 0.84 on a weekly basis, because this would provide a strong signal to the markets that there is a threat of a possible correction after the EURGBP drifted higher in the aftermath of the EU Referendum.

USDCNH: COULD THE CHINESE YUAN BE SET FOR A RECOVERY?

Written by Jameel Ahmad, VP of Market Research at FXTM

The Chinese Yuan is expected to commence the second quarter of 2017 under renewed momentum, despite ongoing concerns around previous threats from US President Trump over China being an FX manipulator that has seen the currency hit historic lows in the aftermath of the US Election. 7 is seen to be the psychological target for investors, but traders must be careful about the potential of the PBoC intervening in the FX markets when the USDCNH appears to be at risk to rising above 6.90, since the PBoC are expected to readily stand as the wall of defence to prevent the Yuan from reaching further lows.

From a macro perspective there is a basis to suggest that the Yuan could be undervalued at these levels, although it does need to be pointed out that the USD remains strong against all of its currency partners. It will benefit the Yuan relationship against a basket case of different currencies if the Yuan is also weighted weaker in line with a strong USD across the currency markets. Investors should also pay attention to whether US President Donald Trump is able to shed light on his campaign promises around introducing protectionist trade policies, because at the moment this is still lacking clarity and could prevent the Yuan from further selling pressure.

What would potentially provide a reversal in fortunes when it comes to the direction of the Chinese Yuan would be if the USD enters a prolonged period of weakness across the currency markets. This has been teased on a few occasions since the Trump inauguration, however the USD has regained its momentum following periods of pressure and traders remain vigilant towards a potential clean close below 100 on the Dollar index on either a weekly or monthly basis, providing the platform for the emerging markets to at least temporarily recover some of their lost shine.

In reference to the technical outlook, the USDCNH is attempting to range after experiencing a sudden spell of buying pressure late last year. While the pair is likely to continue consolidating around the higher 6.80's, traders who would prefer for the Yuan to regain some of its momentum would find encouragement if the USDCNH is able to conclude trading below 6.85 on a weekly basis.

This would provide a potential signal for the markets to become slightly more bullish on the Chinese Yuan, however the USDCNH will need to close below 6.70 for the currency to attempt a recovery of the losses it has encountered since the first quarter of 2016.

For more information, please visit: [ForexTime]

BIOS

JAMEEL AHMAD

VP of Corporate Development & Market Research at FXTM

Jameel Ahmad is the Vice President of Corporate Development and Market Research at FXTM. Since joining the company in May 2014, Jameel has played a key role in building the international profile of the company.

He currently leads the implementation of FXTM's internal and external communications strategy, as well as the development of the company's market research team.

Specializing in financial market developments with a particular emphasis on global currencies, commodities and emerging markets, he is frequently quoted in a variety of leading global media outlets including the Financial Times, Wall Street Journal, Reuters, Yahoo, MarketWatch, NASDAQ, Sky News, and the New York Times.

After graduating with a BA (Hons) degree in Business Studies with Accountancy & Finance from the University of the West of England, Jameel received the prestigious Iacocca scholarship to represent the United Kingdom at a leadership and cultural training program in the United States at Lehigh University, Pennsylvania. Following this, Jameel was selected to act as a delegate for the United Kingdom at the Education without Borders conference in the United Arab Emirates. Most recently, he completed an executive education course in Unconventional Monetary Policy at the Barcelona Graduate School of Economics.

LUKMAN OTUNUGA

Research Analyst at FXTM

Lukman Otunuga is a research analyst at FXTM. A keen follower of macroeconomic events, with a strong professional and academic background in finance, Lukman is well versed in the various factors affecting the currency and commodity markets.

Lukman provides in-depth analysis on the global currency and commodity markets and is often quoted by leading international media outlets such as: MarketWatch, CNBC, NASDAQ, Reuters, AFP, The Guardian and Yahoo. His area of specialist expertise is the Nigerian currency and economy.

Prior to joining FXTM, Lukman spent two years as a research analyst with international currency broker FXCM, where he focused on technical and fundamental analysis of the global currency, commodity and stock markets. Lukman was also responsible for leading educational seminars for international and local high net worth individuals, and has published a series of educational articles on forex trading with City A.M.

Lukman holds a BSc (hons) degree in Economics from the University of Essex, UK and an MSc in Finance from London School of Business and Finance, where he studied corporate finance, mergers & acquisitions and the role of international financial institutions.

HUSSEIN AL SAYED

Chief Market Strategist at FXTM

Hussein Al Sayed is the Chief Market Strategist for the Gulf and Middle East region at FXTM, and host of for the popular evening business show on CNBC Arabia, Bursat Al Alam.

As an ambassador for the FXTM brand, he represents the face and voice of FXTM within the MENA and GCC region, and is frequently quoted in leading media outlets such as Forbes Middle East, AFP, The Telegraph and MarketWatch. Through his role as business news anchor for CNBC Arabia, he covers the most important business and market news to help viewers make investment decisions. Covering all major headlines from Asian to US markets, including analysis on Equities, Commodities, Fixed Income, and Currencies, he has interviewed many influential industry leaders and decision makers in the Arab and international business world.

Prior to his current role, Hussein spent many years working in the finance sector as a dealer, trader and analyst in equities, credit and foreign exchange markets. As a highly experienced financial analyst with an in-depth understanding of the GCC region, Hussein provides valuable insight into the latest local and international market news and macroeconomic trends.

Hussein holds a BA degree in Banking and Finance from the Lebanese International University and is experienced in both technical and fundamental analysis.

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IT'S FOREX TIME