Deutsche Bank

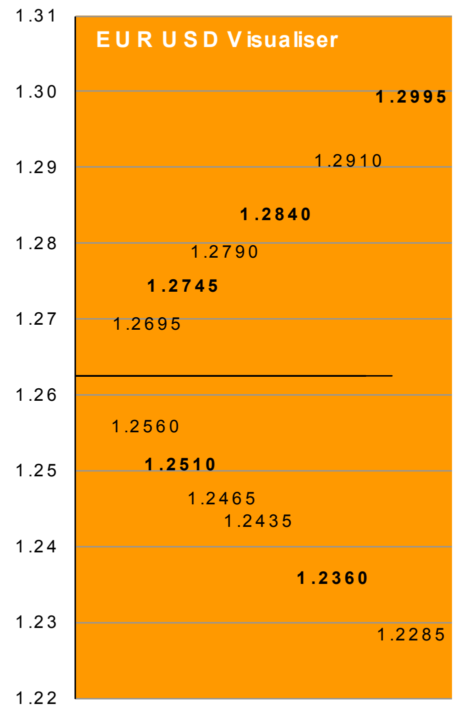
Daily Forex Outlook

This EU summit does not fit the mould

2nd July 2012

EUR USD (1.2625) After a weekend of reflection following the EU summit, it is being claimed by many prominent commentators that Germany's Chancellor managed to keep the overall liabilities for her country unchanged. For example, although the pan-European rescue vehicles now have the extra task of injecting equity into Spanish banks, their lending capacities remain limited. So although the summit was arguably a breakthrough in as far as the leaders signalled flexibility in terms of direct bank recapitalisation, or even the ambitious banking union concept, market participants seem to keen force it into the same mould of all the previous EU summits, i.e., beware of post-meeting 'risk-on' rallies, as the devil is always in the detail.

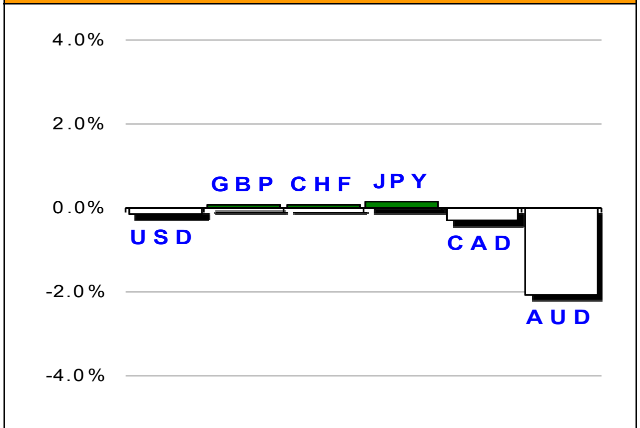
Recently, post-EU summit rallies in the euro have been short-lived. This time, however, there is a major difference. We suspect that medium- and longer-term investors have actually sold their euro engagements, in the meantime, and no longer see the recovery as a chance to sell. This means the momentum the euro gained from last week's downside *false break* may well propel it beyond the consolidation zone to the upside. We reckon that the euro should be able to overtake **1.2745** the upper border and have the potential to climb to **1.2840**, the key level for further strength. To the downside, we peg initial support at **1.2510**. Below the latter the euro will lose its momentum.



Market Bias Index™

Most of the biases have retreated to their fair value levels except the overvaluation bias in the AUD.

Base currency: **EUR** 08:00 CET



Source: Cognitrend

Base currency: **USD** 08:00 CET

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The Cognitrend Market Bias Index seeks to measure the extent of the perceived over-/under-valuation of the given base currency against other major currencies. This is important for estimating the behaviour of the losers as this is also the inverse of the price change that must be recorded for their breakeven to be reached. The greater the loss, the greater will be the bias. To exploit it, one should favour a base currency position when the bias is positive and vice versa.

USD JPY (79.75) BoJ's June Tankan survey revealed that large Japanese companies are more optimistic about business conditions than expected. In the current fiscal year, they plan to increase capital spending by 6.2 percent, much more than 3.6 percent expected by economists. Spurred by domestic demand the firms also expect their sales to increase. As this data indicates that the economic recovery is proceeding steadily, it has decreased the pressure on BoJ to ease in the next week's meeting. The yen reacted modestly to the survey. After the initial slide it recovered around 40 points. Critical levels however remained untouched. The dollar is in stable position and, while it holds above the **79.00** threshold, has the potential to recover to **80.05** and **81.00.** Below that threshold, the next support is at **78.10**.

EUR JPY (100.70) As long as the cross remains above **98.30**, it has the potential to rise to **102.90**. Support is also now at **99.40/50**.

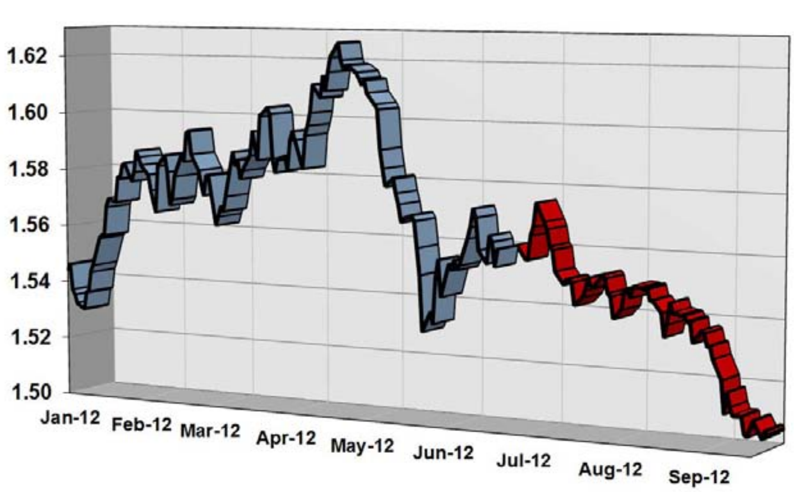
GBP USD (1.5660) Nearly the entirety of Friday's cable movement depended on the dollar. Sterling seems unaffected to the return in risk appetite that represents returning confidence in the eurozone. Our question is, if this trend is extrapolated and this really is the beginning of the end of the eurozone crisis, what will happen when investors re-focus on the UK economy? While the weakness of the UK economy has been associated with the crisis on its doorstep, the availability of even more crisis-struck neighbours has made the UK appear safer by comparison. However, when scrutiny is no longer spared because the worse-off European nations start to heal, we suspect investors may not like what they see in the UK. Therefore, despite Friday's recovery, we still see cable occupying a neutral range between **1.5465** and **1.5730**.

AUD USD (1.0225) The AUD is in stable territory and now has the potential to climb to **1.0305/1.0410**. Meanwhile the new, improved support is now at **1.0120**. This stability will be maintained as long as the A$ trades above parity.

All price levels mentioned in this report require a 10-pip break to be invalidated

	USD CHF	USD CAD	NZD USD	EUR CHF	EUR GBP	EUR SEK	EUR NOK
Supply	0.9675	1.0365	0.8160	1.2190	0.8230	8.9000	7.6600
	0.9590	1.0250	0.8070	1.2070	0.8140	8.8300	7.5950
Demand	0.9450	1.0150	0.7945	1.2000	0.8010	8.7500	7.5100
	0.9350	1.0050	0.7880	1.1700	0.7935	8.7000	7.4500

Pattern Recognition Forecast Model



GBP USD
Goodness-of-fit* = 85%
(Best results above 90%)

** Closest representation of the last six months of activity in the historical database. The price forecast is the actual historical outcome adjusted for volatility.*

The objective of this model is to explore the possible future developments by basing a forecast on past movements in a purely mechanical way. The outcomes are therefore unrelated to the analysis otherwise contained in this document.

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Risks to Foreign Exchange Transactions

Foreign exchange transactions carry risk and may not be appropriate for all clients. Participants in foreign exchange transactions may incur risks arising from several factors, including the following: 1) foreign exchange rates can be volatile and are subject to large fluctuations, 2) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and bond markets and changes in interest rates and 3) currencies may be subject to devaluation or government imposed exchange controls which could negatively affect the value of the currency. Clients are encouraged to make their own informed investment and/or trading decisions. Past performance is not necessarily indicative of future results.