

QUARTERLY **MARKET** FORECAST

Q3 2018



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EURUSD:

Pressured by monetary policy divergence

Written by Lukman Otunuga, Research Analyst at FXTM

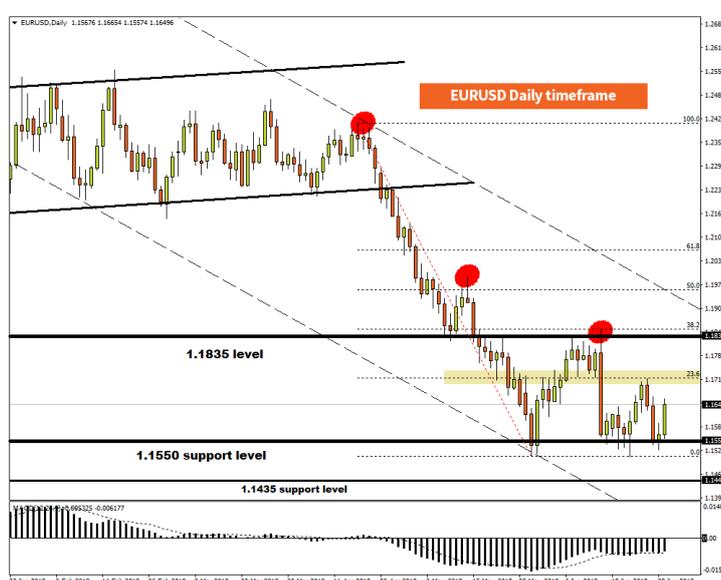
The past few trading months have certainly not been kind to the Euro, as political risk in Europe, soft domestic economic data and external factors weighed on the currency.



Euro weakness became a dominant market theme during the second trading quarter after political uncertainty in Italy and Spain reignited fears of instability in the Eurozone. Although European political risks eventually subsided, losses remained intense thanks to a broadly stronger Dollar across the FX markets. Any surviving optimism over a possible Euro rebound was squashed thanks to the European Central Bank's dovish guidance on interest rates. While the ECB announced that it will end its QE program by year-end, its hesitance to remove the zero-interest rate policy (ZIRP) until after summer 2019 simply widened the monetary policy divergence with the Federal Reserve.

On the other side of the Atlantic, the Dollar reigned supreme amid the bullish sentiment towards the US economy. The improving economic landscape in the United States coupled with rising inflationary

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GOLD:

Struggles to maintain safe-haven allure

Written by Lukman Otunuga, Research Analyst at FXTM

The story defining Gold's rough and rocky depreciation during Q2 **revolved around a broadly stronger Dollar and mounting expectations of higher US interest rates.**



Conflicting fundamental themes observed in the early parts of Q2 initially trapped prices within a range, with the metal hunting for a directional catalyst to make the next big move. One would have expected the combination of escalating global trade tensions and heightened political risk in Europe to heavily support the safe-haven metal. However, markets witnessed the complete opposite, as Gold's trajectory remained negative despite growing risk aversion. It must be kept in mind that historically, the precious metal has benefited from the flight to safety amid uncertainty, but this has not been the case in recent months.

Price action continues to suggest Gold remains extremely sensitive to the negative correlation against the Dollar.

As we head into the third quarter of 2018, investors will most likely continue monitoring to see whether Gold is able to regain its safe-haven allure. While expectations of

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