

JULY 14, 2014

# MS FX Daily Trading Recommendations

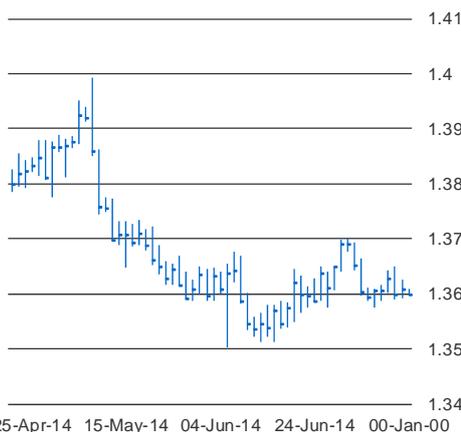
Morgan Stanley Research

**Central banks will be in focus again this week.** We expect Yellen to maintain a dovish tone looking through the CPI “noise”. However, only limited support to the broader risk environment. Indeed, the BoC could take a similar picture to the Fed and remain dovish despite stronger CPI. Hence, we remain long USDCAD and have raised our stop to protect profits. The RBA minutes this week will be important, given the policy emphasis on the AUD. Draghi could also address the recent events in peripheral EMU. We remain short EURUSD.

## Short-Term Trading Recommendations

Currency	Pos	Entry	Target	Stop	Status
EURUSD	Short	1.3600	1.3100	1.3660	Open Pos
USDJPY	Sell	101.60	98.00	102.40	Limit Order
GBPUSD	Long	1.7130	1.7400	1.7080	Open Pos
USDCHF	Long	0.8920	0.9250	0.8850	Open Pos
USDCAD	Long	1.0650	1.1300	1.0690	Open Pos
AUDUSD	Buy	0.9260	0.9600	0.9190	Limit Order

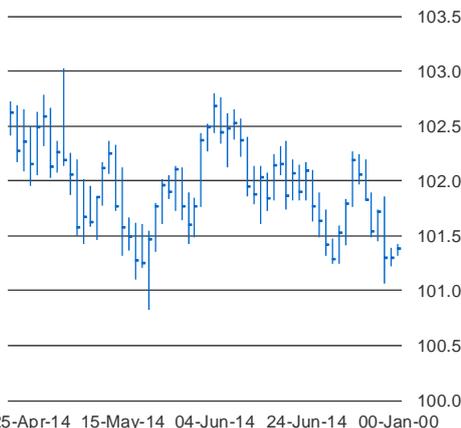
## EURUSD: Draghi's speech watched today



**EURUSD to remain under selling pressure** following the negative news from the eurozone peripheral banking sector and potential new details about the ECB's accommodative policy. If underperformance of the European equity markets continues, led by the financial sector, then that would suggest the EUR will remain under pressure. We look for moves below the near-term low at 1.3505 to open the way towards our 1.31 target. Today we will be watching the ECB's Draghi testifying in the European Parliament where more details about the TLTROs could be revealed.

**Res:** 1.3660 1.3735 1.3775  
**Supp:** 1.3575 1.3505 1.3475

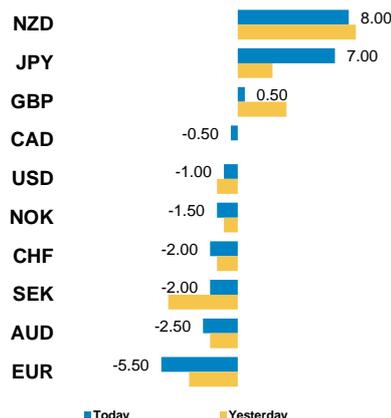
## USDJPY: BoJ set to stay on hold - supports JPY



**We remain bearish on USDJPY in the near term.** USDJPY is now trading below the 50, 100 and 200DMAs, and is set to continue its downtrend, in our view. Having bounced off the bottom end of the trend channel around 101.00, we look for moves below here to give a further bearish signal towards our 98.00 target. Indeed, we expect the JPY to gain support, especially on the crosses as the investment environment becomes more risk-adverse again and the BoJ shows little sign of further policy action at this stage. Industrial production was strong, and the BoJ is expected to remain on hold overnight.

**Res:** 101.85 102.35 102.65  
**Supp:** 101.00 100.60 97.75

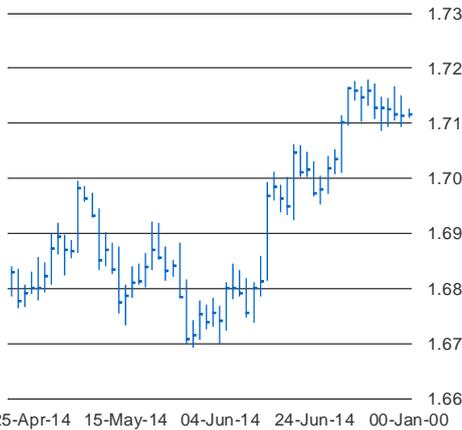
## Morgan Stanley Relative Momentum Indicator (RMI)



Source: Morgan Stanley FX Strategy

Source for all graphs, unless indicated, is Bloomberg.

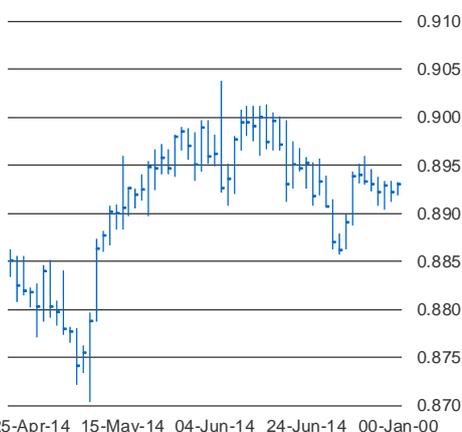
## GBPUSD: Set to resume uptrend



**Res:** 1.7180 1.7445 1.7500  
**Supp:** 1.7085 1.7005 1.6920

**UK data have moderated recently, taking the steam out of recent GBP gains.** However, we maintain our GBP view. The CPI data are likely to show a robust reading tomorrow, along with the labour market data. However, any softness in the wages data could prevent GBP benefitting more fully from the data improvement. There has been some scaling back of GBP long positions from recent extremes, according to the CFTC data. But broader positioning indicators, including our own FX Positioning Tracker, show a more moderate position. Hence, we maintain our long position and look for a re-test of the 1.7180 level.

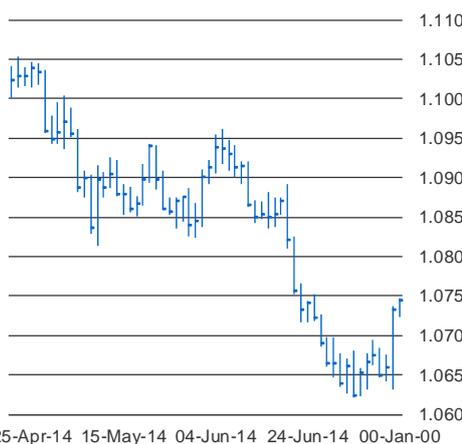
## USDCHF: Expect the uptrend to resume



**Res:** 0.8960 0.9035 0.9160  
**Supp:** 0.8900 0.8855 0.8775

**The USDCHF setback has remained limited, maintaining the bullish trend.** Indeed, the ability to hold above the 0.8900 is a positive signal. We look for renewed USDCHF gains through 0.8930 towards 0.9020, with 0.9250 targeted over the medium term. Yellen's testimonies this week will be important. While we expect a continued dovish stance from Yellen despite the pick-up of inflation, data strength could make it increasingly difficult for the Fed to push back against rising yields. Overall, we continue to expect USDCHF setbacks to remain limited.

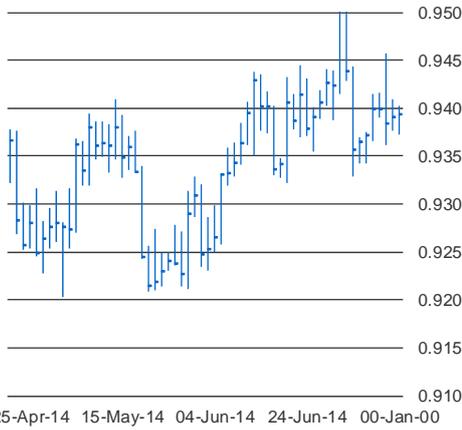
## USDCAD: Raised the stop to 1.0690



**Res:** 1.0750 1.0815 1.0960  
**Supp:** 1.0600 1.0560 1.0415

**USDCAD has built a bottom in the 1.0600 area** and we maintain our medium-term bullish view on USDCAD. Canada reported a net job loss in May, supporting our view that Canada is not nearly as poised to gain from US growth as it did in the past. USDCAD received support from the data so we have raised our stop to 1.0690 to protect profits. A bottom has been built at the 38.2% retracement of the USDCAD rally from September 2012. A move above 1.0750, the upper end of the recent trend channel, is now required to provide a stronger bullish signal.

## AUDUSD: Await larger setback before considering longs



**RBA comments on AUD.** RBA Governor Stevens has reiterated that the AUD remains overvalued and investors are underestimating a material fall in the AUD; however, he also suggested that a sell-off in AUD would come from rise of US interest rates. We would therefore expect AUDUSD to head higher over the medium term, but see some near-term downside risks, which would provide better levels to buy AUDUSD again. The RBA minutes overnight could support the view. A move below the bottom end of the trend channel at 0.9360 would provide a stronger signal that AUDUSD could head towards our 0.9260 entry level.

**Res:** 0.9465 0.9500 0.9540  
**Supp:** 0.9330 0.9300 0.9210

## Resistance/Support Levels

### Resistance

### Support

EURUSD	1.3660	1.3735	1.3775	1.3575	1.3505	1.3475
USDJPY	101.85	102.35	102.65	101.00	100.60	97.75
GBPUSD	1.7180	1.7445	1.7500	1.7085	1.7005	1.6920
USDCHF	0.8960	0.9035	0.9160	0.8900	0.8855	0.8775
USDCAD	1.0750	1.0815	1.0960	1.0600	1.0560	1.0415
AUDUSD	0.9465	0.9500	0.9540	0.9330	0.9300	0.9210