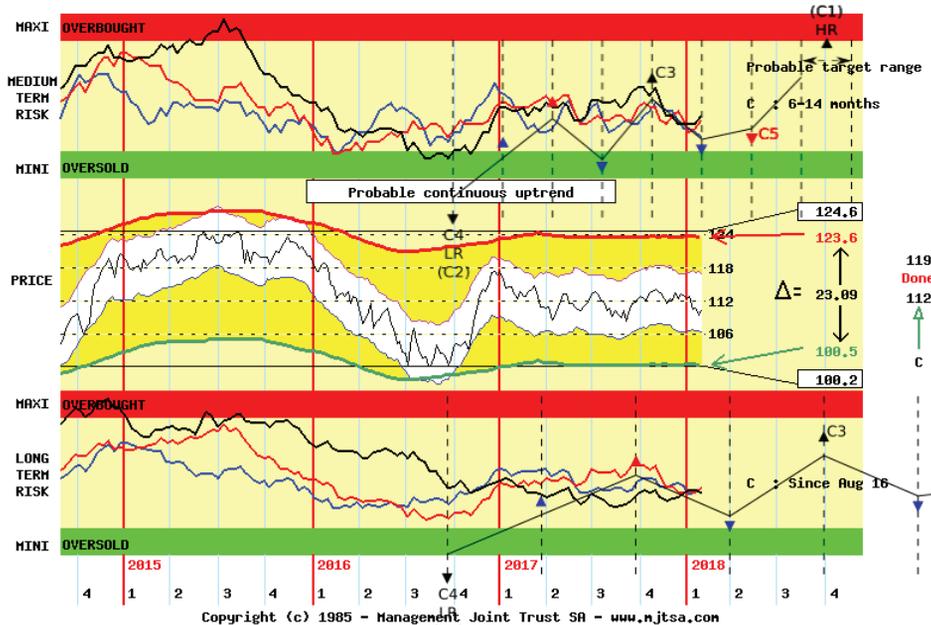


## 52 / Splicing the markets – Could H1 2018 see the return of the Yen carry trade ?

All eyes on EUR/USD at the moment. It's strong break-out is fuelling projections of potentially much higher levels. That said, on our Daily graph (mentioned page 38 of this issue), EUR/USD seems probably extended for now, and may have entered a high level consolidation, which could last over the next 2 to 3 months. The January breakout on EUR/USD was followed by other major Dollar pairs, The Pound, Swiss Franc or the Chinese Yuan, all expect one, the Yen, which hasn't made new highs vs the Dollar, and could even be starting to reverse.

### USD/JPY

#### Weekly graph or the perspective over the next 2 to 4 quarters

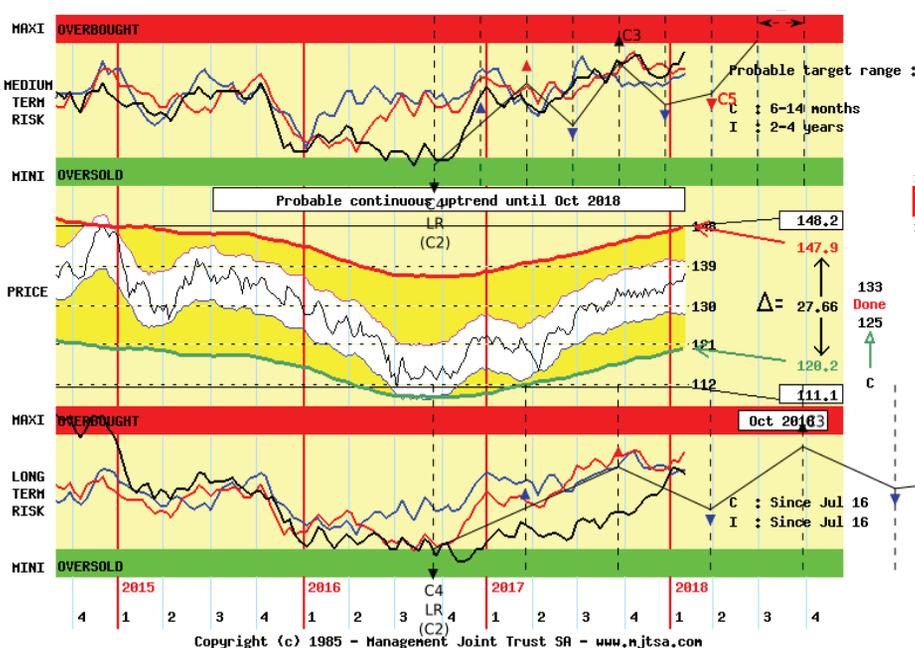


2017 has been a dull year for USD/JPY. Following its strong move up in Q4 2016, it spent the year retracing in a tight range, mostly between 114 and 108. Yet, it never managed to break down, and on both our oscillator series (lower and upper rectangles), we would still consider its price action as an uptrend, although weak. **Following its recent retracement since November, USD/JPY may be getting ready to resume up**, sometime from now on our medium term oscillators (upper rectangles), or at

the latest from late Q1 on our long term oscillators (lower rectangle). **The C Corrective potential up** (right-hand scale) **we still envisage is towards 119 in first instance.**

### EUR/JPY

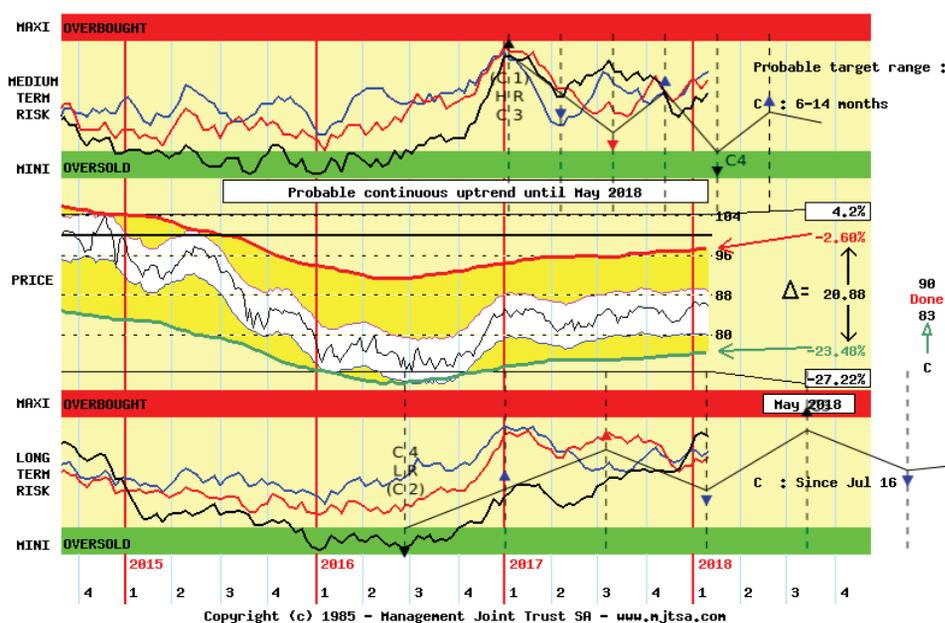
#### Weekly graph or the perspective over the next 2 to 4 quarters



EUR/JPY is traditionally a gauge of the Risk-on/Risk-off relationship and for now on both our oscillator series (lower and upper rectangles), it is still heading higher. Indirectly, this may confirm our view, expressed elsewhere in this issue, that "Volmageddon" is now probably behind us, and that global financial Armageddon is still probably some time away (perhaps later this year). Here too, **EUR/JPY is in the process of re-accelerating up**, from last December on our medium term oscillators (upper rectangle), and from late Q1 on our long

term oscillators (lower rectangle). **The price potential, we could expect over the next 6 to 9 months is important, towards our I Impulsive targets up** (right-hand scale) **in the high 140s, possibly even in the high 150s.**

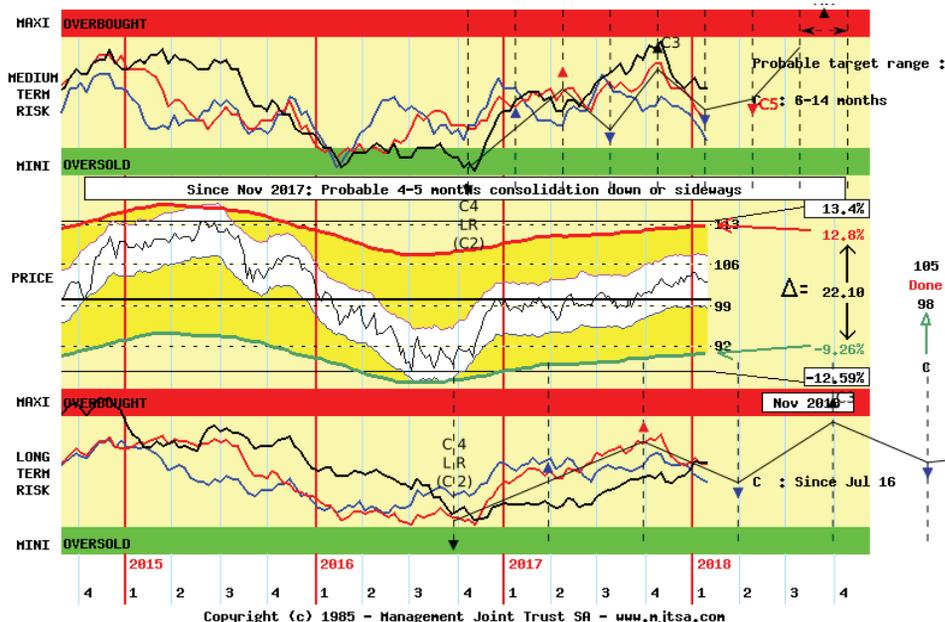
## Commodity currencies vs Yen Weekly graph or the perspective over the next 2 to 4 quarters



**W**e would also expect some re-acceleration of Commodity currencies vs the Yen (the Commodity currency basket is equal weighted between the Rand, the Real, the Rubble, the Australian, New Zealand and Canadian Dollars, the Chilean Peso and the Norwegian Krone). Indeed, if as we expect, Commodities accelerate up again in Q2, their currencies should follow. Historically, this would be a great set-up for the usual Yen carry trade, with Yen funding (rates are still low in Japan) allowing

for investments in Commodities and their related currencies. On our medium oscillators (upper rectangle), a bit more patience may be required towards March. This could be due to the consolidation period we expect on Commodities during Q1. Yet, on our long term oscillators (upper rectangle), the sequence is potentially already accelerating up again, possibly towards late Q2 or the Summer. C Corrective targets up (right-hand scale) are almost reached. Above these, **there may be a further 10% potential for Commodity currencies vs the Yen.**

## Asian Emerging Markets currencies (including the Chinese Yuan) vs Yen Weekly graph or the perspective over the next 2 to 4 quarters



**V**s Asian Growth currencies (an equal weighted basket containing the Chinese Yuan, the South Korean Won, the Indian Rupee and the Taiwan Dollar), **the Yen also seems weak as it moves into H1 2018.** On both our oscillator series (lower and upper rectangles), Asian Growth currencies should resume their uptrend vs the Yen, between now and late Q1, possibly until the Summer, and potentially even the Fall. Our C Corrective targets up have almost been reached (right-hand scale). If they were to be taken

out, **Asian Currencies may have more than 10% additional upside potential vs the Yen towards the summer**

### Concluding remarks

**D**uring the January Dollar sell-off, the Yen was the only Major currency not to have made new highs vs the Dollar. Just recently, during the brisk Equity market sell-off we have seen (or may still be seeing), it has also held above support and previous lows. We take this as a sign of medium term weakness for the Yen, and indeed, when we compare most currencies vs the Yen, these look strong from mid/late Q1 into the Summer. These dynamics could fit quite well with our commodity acceleration scenario in Q2, as the Yen has traditionally been the main funding currency of such trends.