WEEKLY MARKET OUTLOOK

23 February - 1 March 2015

Swissquote Bank SA | Ch. de la Crétaux 33, CP 319 | CH-1196 Gland | Switzerland
Tel +41 22 999 94 11 | Fax +41 22 999 94 12 | forex.analysis@swissquote.ch | www.swissquote.com/fx

DISCLAIMER & DISCLOSURES

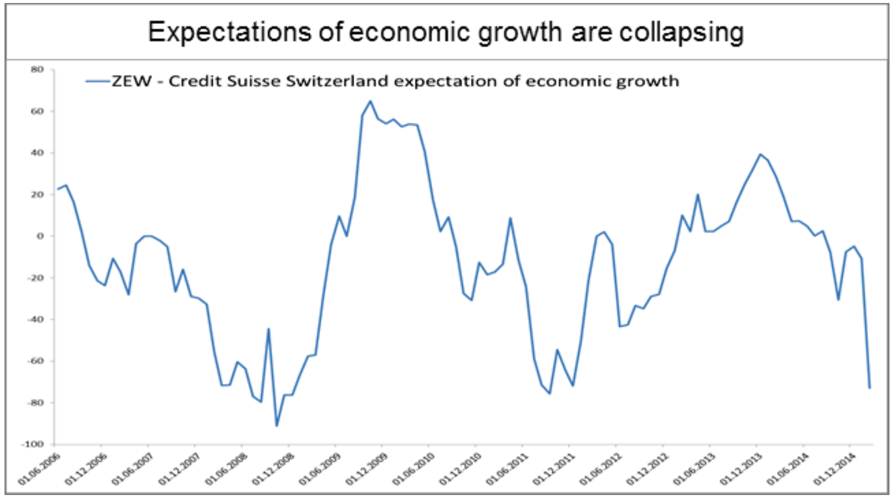
WEEKLY MARKET OUTLOOK - An overview

Economics

Bracing for the Fall Out

In the post EURCHF "floor" Switzerland, investors are cautiously waiting for evidence the financial bombs actual effect. Called a "tsunami" by a key business leader, analysts are bracing for the worst. Most forecast for growth and inflation were immediately revised lower. We anticipated growth rate of 0.6% and inflation to go negative at -0.6% for 2015. Leading indicators such as PMI manufacturing for Jan saw a noteworthy drop to 48.2 from a revised 53.6 while Jan CPI y/y came in at -0.5% from -0.3%. KoF leading indicator fell marginally to 97.0, trending downwards since early 2015, but economists at the KOF Swiss Economic Institute have stated that the Swiss economy would undoubtedly fall into recession with levels below at 1.05 EURCHF. Swiss trade surplus grew to CHF3.43bn in January from CHF 1.51bn in December. Exports rose a seasonally adjusted 2.9 percent month-on-month in January, reversing a 2.9% decline in December. Interestingly, Swiss watch exports rose 3.7%, with broad based international sales. However, the absolutely collapse of ZEW survey expectations should provide a wake-up call. The Jan survey indicated a fall to -73 from -10.8. That is the biggest-ever drop in the index and demonstrations expectations for the economy have deteriorated considerably since Jan.15th SNB decision.

President Jordan clearly expressed the view that CHF remains overvalued. Combined with threat of fx interventions and help from EUR rally, EURCHF is now trading around 1.08. The weaker CHF should have a positive effect in stabilizing economic conditions, especially if the pairs reaches 1.10 as some predict. The sense is that Swiss economy is in a wait-and-see state, hoping that Jordan and markets dynamics can push EURCHF higher.

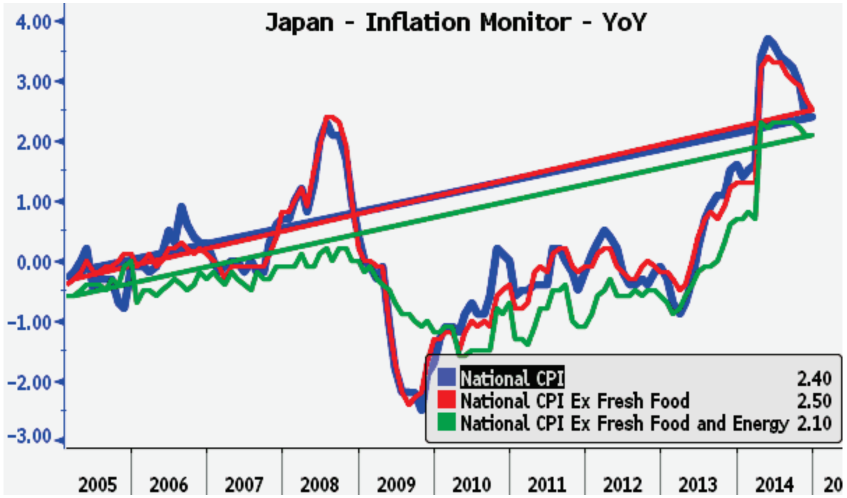


FX Markets

Japan will ease again

The result of last week's Bank of Japans monetary policy meeting was unsurprisingly unchanged. With the continued expansion of the monetary policy based at an annual pace of ¥80trn. On the growth, the view of the economy was mixed with a slight upgrade due to exports and production and downgrade due to private consumptions. Overall the economy "has continued its moderate recovery trend." On the price assessment the BoJ provided a downward revision of core CPI ex-April VAT to around 0.5% from 0.5-1.0%. This far distant form the BoJ target of 2%. The move reflects the actual trend in CPI and "reflects the decline in energy prices." Yet, while the BoJ expects a cooling of CPI inflation, deep and prolong disinflation and potentially deflation is not expected.

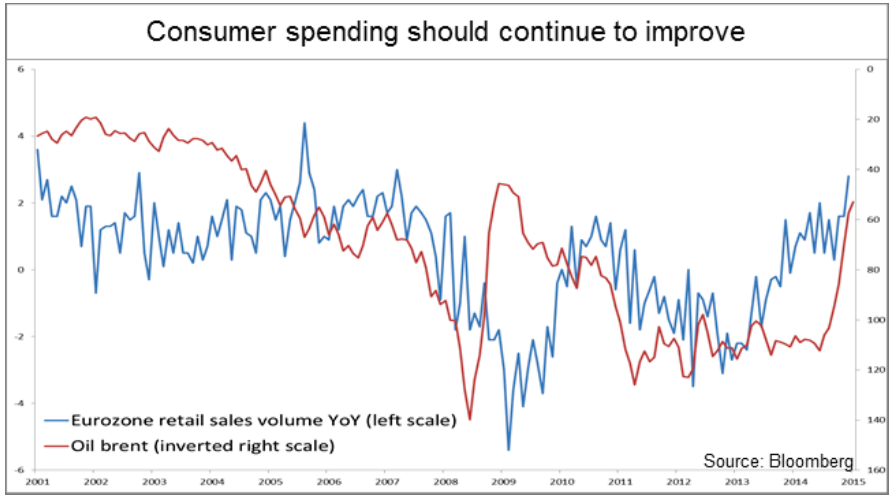
Its clears that the significant decline in crude prices should impact on prices yet unexpected fall in private consumption has already become a major issue. The good news is that Japan has escaped recession the bad news is the consumer are not participating. According to 4Q GDP data, real private consumption rose a feeble 0.3% q/q against -5.1% prior read. Price declines have been broad-based in non-energy related areas. Forward expectations that Abenomics will be successful is critical in sustaining Japanese growth. Should inflation falter at this stage the whole experiment is jeopardised. We anticipate that at the summer semi-annual Outlook the BoJ will be forces to further reduce their forecast, setting the stage of additional easing in the fall. We anticipate further JPY weakness as inflation data softens. With USDJPY breaching 121.85 resistance as the Fed move closer to start hiking interest rates further widening the US / JP yield spread.



Stock Markets

Monetary policies expect to inflate stock markets prices

Recent rounds of monetary stimuli favour price increase in stocks
Thanks to structural disinflationary pressures like the ageing population, the debt-deleveraging and improving technologies, the inflationary effects on CPI measures are likely to be subdued. However, prices inflation is likely to affect stock markets. As it can be seen by the recent rise in the Euro Stoxx 50, the stock market has not waited for the actual first monthly ECB liquidity injection to improve. Even if QE will not resolve the lower long-term growth potential, which necessitates structural reforms, it can magnify the economic improvements already visible before 22 January. In that respect, the strong consumer confidence, also lifted by the decline in oil prices, is likely to lead to further solid domestic demand, favouring further positive surprise in the European growth this year. Given the gloomy outlook on the Eurozone at the beginning of the year and a fiscal policy that should marginally be loosened in 2015, we suspect that the rise in the European equity market is not over.



Broad-based stock markets rally
From a technical standpoint, the main source of concern in the stock market in 2014 was the inability of smaller stocks to confirm the strength displayed by large caps. Looking at the German market, the impressive performance of the DAX mid-cap index (MDAX) and the SDAX composed of smaller caps indicate a broad-based rally. The same conclusion applies in the US, as the S&P Midcap 400 and the S&P Smallcap 600 are confirming the recent new highs in the S&P500. As a result, the recent market strength is healthy as it is backed by a broad majority of stocks. However, the more accommodative monetary policy in the Eurozone makes the European stock market more attractive than the US one.

Economics

US housing market likely to deliver positive surprises

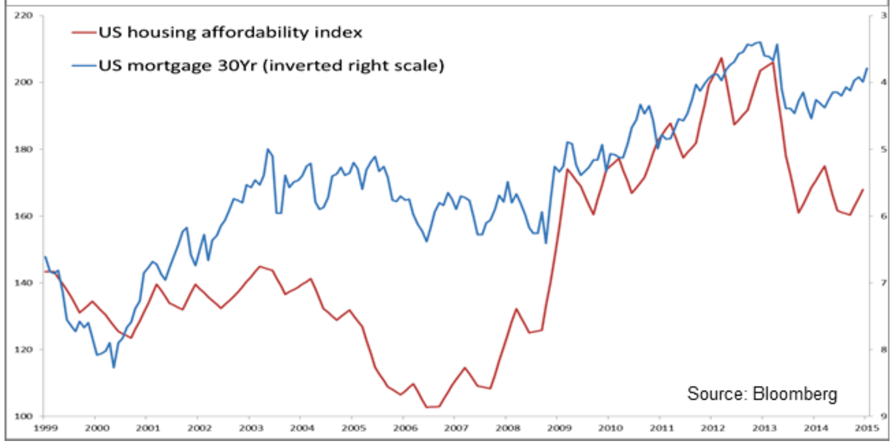
Housing market set to improve

As the timing of the first rate hike from the Fed remains uncertain, it is worth looking at one of the key US economic barometer: the housing market. A key factor of the housing market, mortgage rates, has been dragged down by the declining US yields. A consequence of these low mortgage rates is that the access to property is improved (which should be reflected by a rise in the housing affordability index) and lead to an increase in mortgage applications. Furthermore, even if the upcoming Fed's hike could lead to an increase in mortgage rates, the global low yields should limit this impact.
Another positive factor that could boost the demand for houses should come from household formation. Usually, household formation tends to growth at the same rate as adult population. Nevertheless, with the quick rise in unemployment around 2006, the proportion of shared household has almost doubled (from 6% to 11% in 2010) and remained close to these high levels in 2014. However, the significant improvements in the US labour market should reduce the proportion of shared locations and create a potential significant demand for buying or renting a house.

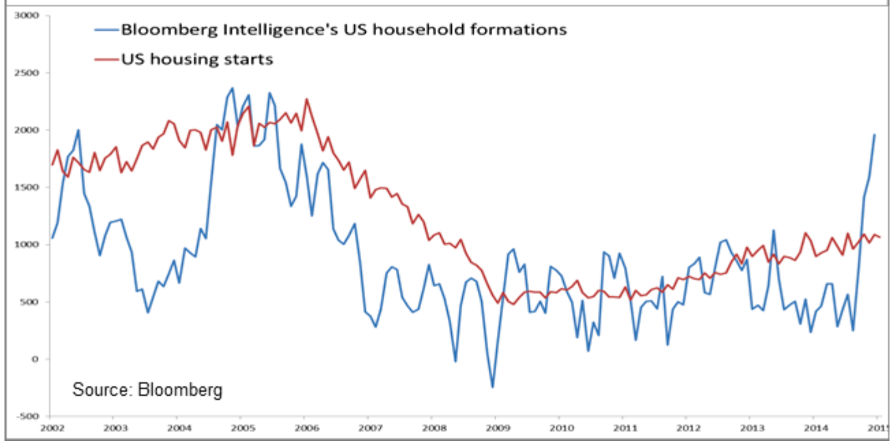
However the recovery could be choppy

The fact that the January US housing data were weaker-than-expected suggests howver that this recovery could be choppy. However, it should also be noted that the adverse weather in the Midwest and Northeast had a negative impact, as housing starts were the weakest in these regions. The fact that the weather hasn't improved in February does not bode well for the February release. However, it remains a transitory effect and the improving house affordability coupled with a historical high number of shared locations suggest that there is a vast pool of demand for property. As a result, we suspect that US housing is likely to surprise to the upside and comfort the Fed in its tightening path.

US mortgage should support an improving housing affordability



Household formation is improving



FX Markets

Net short JPY positions continue to be unwound

The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

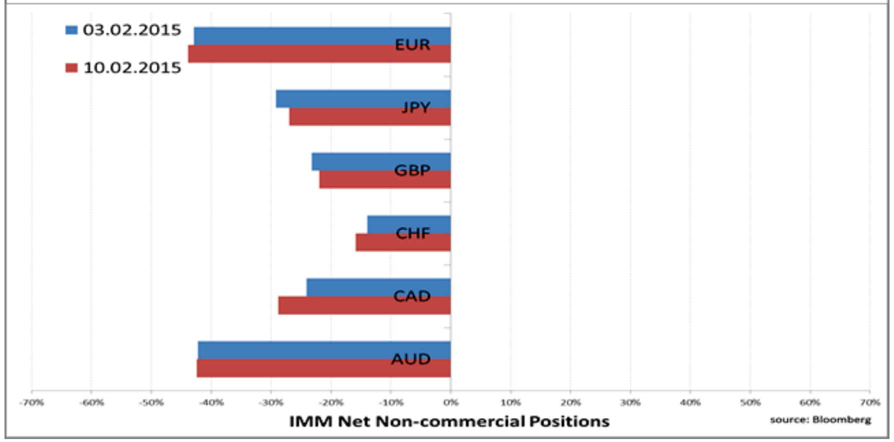
The IMM data covers investors' positions for the week ending 10 February 2015.

Net JPY short positions have further been unwound, reaching the least bearish level since November 2012. As we suspect that the BoJ will remain on the sidelines during the first half of the year, we see further scope for short JPY unwinding. However, given the ongoing diversification out of yen from Japanese pension funds and the start of the tightening cycle in the US, attractive entry points for a long USD/JPY position is likely to emerge in the next few months.

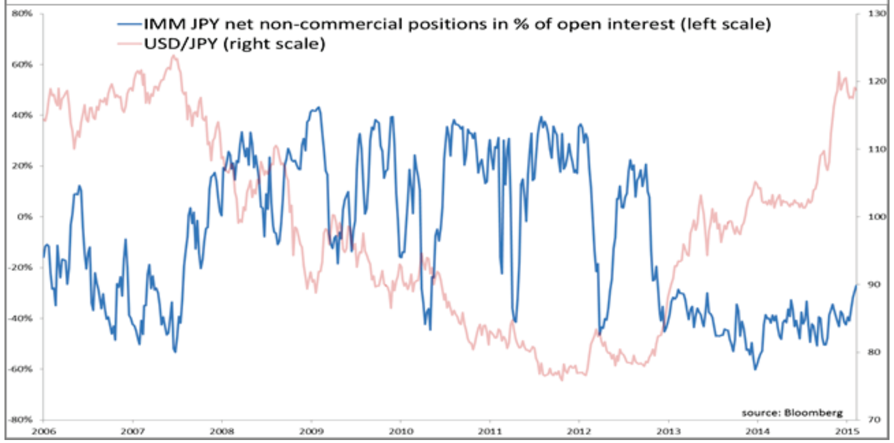
The reduction in short GBP positions coupled with a rather hawkish BoE's quarterly inflation report favour further GBP appreciation. However, the looming UK general elections suggest that this strength will likely be temporary in nature.

The elevated net short positions in AUD favour a short-term rebound in AUD/USD. The potential base formation in AUD/USD confirm this outlook.

Small reduction in short GBP and JPY positions



Net short JPY positions at highest levels since the end of 2012



DISCLAIMER

While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Swissquote Bank and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions, or regarding the accuracy, completeness or reliability of the information contained herein. This document does not constitute a recommendation to sell and/or buy any financial products and is not to be considered as a solicitation and/or an offer to enter into any transaction. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or in any other kind of investments.

Although every investment involves some degree of risk, the risk of loss trading off-exchange forex contracts can be substantial. Therefore if you are considering trading in this market, you should be aware of the risks associated with this product so you can make an informed decision prior to investing. The material presented here is not to be construed as trading advice or strategy. Swissquote Bank makes a strong effort to use reliable, expansive information, but we make no representation that it is accurate or complete. In addition, we have no obligation to notify you when opinions or data in this material change. Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other instruments.

This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. It is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning Swissquote Bank, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. Swissquote Bank does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are for information purpose only and are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Swissquote Bank as a result of using different assumptions and criteria. Swissquote Bank shall not be bound or liable for any transaction, result, gain or loss, based on this report, in whole or in part.

Research will initiate, update and cease coverage solely at the discretion of Swissquote Bank Strategy Desk. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. Swissquote Bank is under no obligation to update or keep current the information contained herein and not liable for any result, gain or loss, based on this information, in whole or in part.

Swissquote Bank specifically prohibits the redistribution of this material in whole or in part without the written permission of Swissquote Bank and Swissquote Bank accepts no liability whatsoever for the actions of third parties in this respect.