SWISSQUOTE

WEEKLY MARKET OUTLOOK

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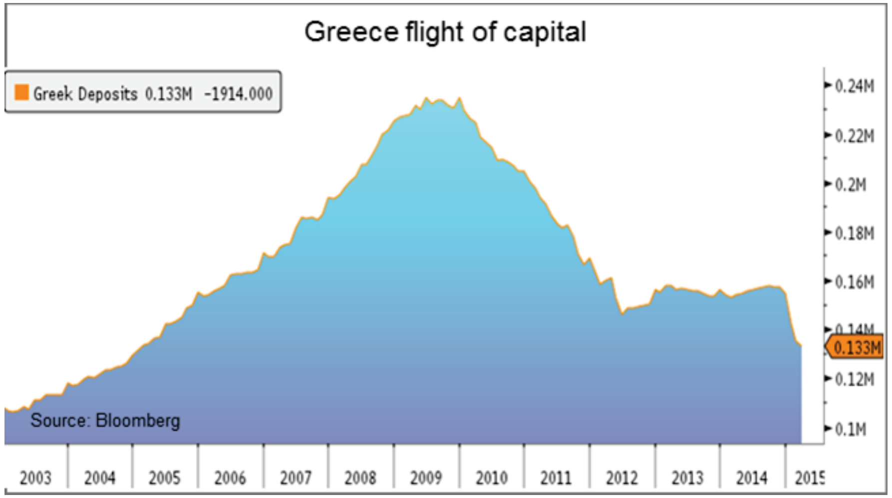
WEEKLY MARKET OUTLOOK - An Overview

Economics

Big Week For Athens And Brussels

For Greece the clock is on the field. With a €763bn debt repayment to the IMF due the 12th May, time is clearly running out for Greece. While Athens has shown a more reconciliatory tone in recent days, Brussels has tightened the noose. Last week, the ECB increased lending to Greek banks to €78.9bn from €76.9bn under the emergency liquidity assistance program (ELA). Without ECB cash, the Greek Central Bank would have no capital to lend to illiquid domestic financial institutions. Greek deposits dropped for the seventh straight month. However, ECB stated that they will review Greece's access to the program after next week's euro-area finance minister meeting. They inauspiciously suggested that failure to make progress at the FM meeting, would have negative consequences on whether the ECB tightens lending requirements or not. This warning amplifies the feeling which emulated from Wednesday's EU central bank governors meeting were a loss of mistrust over Greece's commitment to deliver promised reforms was visibly felt. To creditors, a key aspect of the reform agreement was the cutting of the public sector's workforce. Yet despite then tense talks, on 7th May the Greek parliament passed a bill to rehire 4,000 workers cut during austerity measures. Speculation that Greece is nearly out of money seems to be rooted in fact. Recent delayed payments to pensioners and civil service workers are an indication that cash is tight, although Greek authorities insist that a technical glitch was the actual reason for the delay.

Missing next week's payment to the IMF would not be the end, since Greece would still have the 30 days grace period in which to pay the debt. However, it would set a terrible precedent (6.5bn is due in July). We suspect that there are only two directions at this stage, either negotiate a bailout with creditors or put in place capital controls (bracing for whatever comes next). We remain negative on the EURUSD. The broad based sell-off in EUR area rates have been a function of positive EU economic data (higher inflation outlook) and optimism over an eventual Greece agreement. However, despite recent rise in yields traders will favor higher US rates while protract period of Greek indecision will weigh on Euro sentiment.



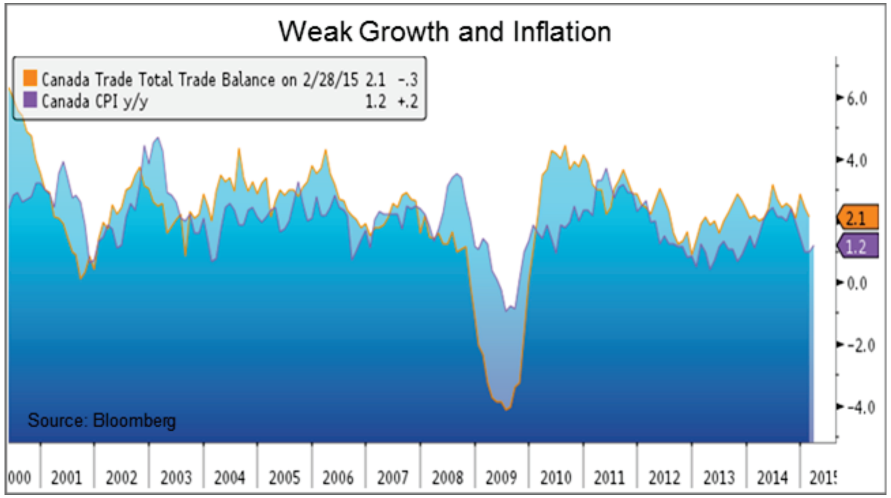
FX Markets

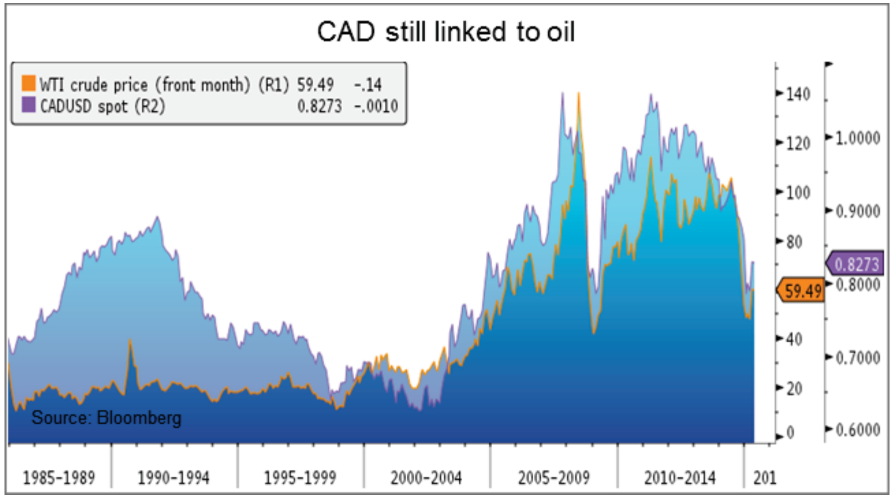
Canada Growth Forecast Too Optimistic

The unemployment rate unexpectedly held steady at 6.8% in March, while employment fell -19.7k (downside risk) against 28.7k increase last month. The fall in employment was driven by further cuts in the oil industry. Overall the Canadian economy continues to suffer from lower oil prices and slowdown in the US. Q1 GDP printed flat at 0.0% saved from contracting by solid retails and financial services which were able to offset energy sector weakness. Despite the economic deceleration and vivid headwinds, Bank of Canada Governor Stephen Poloz insists that economic recovery is right around the corner, as the shock from oil price collapse diminishes.

The optimistic outlook helps to rationalize the central bank's decision to keep the key overnight lending rate unchanged at 0.75% in April. The minutes also indicate that the risks of an additional rate cut this year have minimized. Yet, Mr. Poloz's forecasting has been less than stellar, plus persistently low crude prices and slowdown in the US has been deeper than most had expected, suggesting that growth and disinflation will continues to plague Canada. The central bank's expectation of 1.9% growth for 2015 feels aggressive. The sharp housing correction in Toronto and Vancouver could unexpectedly cut into growth, alongside more obvious risks such as drop in investments. Interestingly, while the weak CAD helps exports, it also hampers imports of critical machinery and equipment, which is needed for new investments.

USDCAD remains in a bearish range between 1.2061 and 1.2165 with crude prices languishing. A bearish break of 1.1945 support area would trigger an extension of selling pressure targeting the 1.1800 handle. We remain bearish on the CAD verse the USD on soft economic data and dovish central banks. A strong challenge to 1.2300/50 resistance would be the need to negative current bearish trend and build solid support base.





Economics

Chinese Stock Markets: Temporary Correction

Chinese equities have skyrocketed since mid-2014 with the Shanghai Composite up more than 109% from 2,010.53 in June 2014 to 4,209.91 last Friday. This honourable performance comes despite further signs that the economy is losing steam. Chinese GDP expanded only 7%y/y in the first quarter, down from 7.3% in Q4 2014. Moreover, the April HSBC Manufacturing PMI came in below expectation at 48.9 while analysts were looking for 49.4. The PBoC and the government are aware that recent equity gains are backed by no fundamental, except the perspective of a more accommodative monetary policy stance from the PoBC. Therefore, the government tries to control the equity rally by tightening rules on margin lending as the bubble is fueled by thousands of Chinese investors who open an account every day.

Expect further monetary easing

On the other hand, policy makers are aiming to soften the impacts of a contained economic expansion on the job market and overall financial stability by easing monetary policy further. The People's Bank of China lowered the 1-year lending rate by 25bps to 5.35% on February 28th and decreased the requirement ratio (RRR) by 100bps to 18.50% on April 19th. We expect that the PBoC continue to work together with regulators to control the effects of a more accommodative monetary policy on the stock market. Additional measures in the form of 50bp cut in the bench market rate and further use of liquidity facilities will help corporates yet spillover into the broader economy is less assured.

That said we anticipate, growth to return and CNY to remain stable. On the equity side, the Shanghai Composite was down more than 5.80% during the last week. We think it is a temporary correction and equity prices will start to surge again as we expect the Chinese economy will start picking up by Q3.

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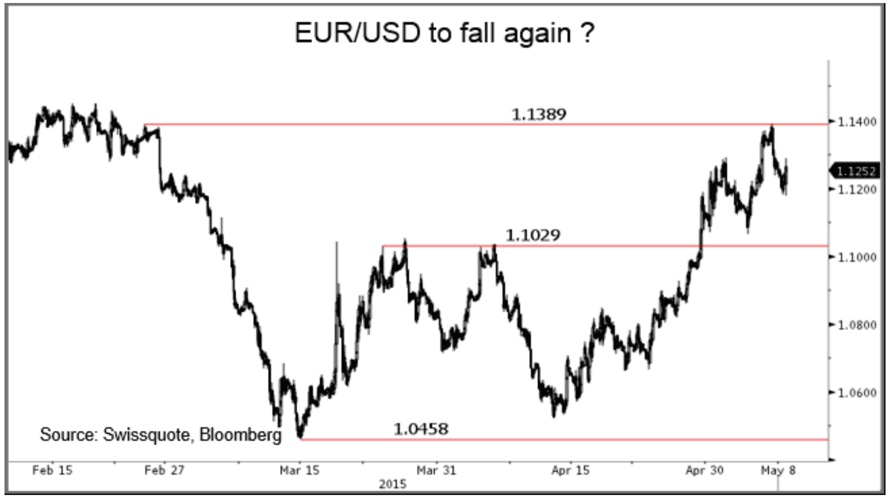
EUR/USD Strength Won't Last



In its last statement the Federal Reserves reiterated its confidence in the US economy, adding that the recent slowdown was due to temporary factor. According to recent data, it would appear that those temporary factors may last longer than expected. April ADP private payroll report released last week indicates that private-sector companies added only 169k jobs last month (consensus 200k). In addition, the report reinforces concerns about US manufacturing industry - the sector erased 10k jobs – after the slump in industrial production in March (-0.6%m/m verse 0.1% expected). Nonfarm payrolls came in below expectations at 223k verse 228k consensus, prior read revised down to 85k from 126k (!).

The mix of encouraging economic improvements in Europe and disappointing US data has forced investors to reassess the level of EUR/USD. The euro is up more than 8% since its low of March 13th. Back in June 2014, a euro was worth 1.3990 dollar, the following months the single currency lost 25% as the Fed has ended QE and traders started to price in the next rate hike betting that the US economy will continue to expand at the same pace. It didn't happen.

On the long-term, we are still dollar bulls and we expect the US economy to accelerate significantly in Q3, pushing the greenback higher. Despite the weak growth other data indicates strong activity. However, US data will be closely monitored in the coming weeks and traders will be eager to buy dollar as soon as a good news will be released. We believe that EUR/USD correction is coming to an end and that the euro will need a real bad news from the US to break the strong 1.1389 resistance. If the single currency loses momentum, a support lies at 1.1029 (previous resistance, now support) and 1.0458 further.

Economics

Norway Feels The Heat

The economy continues to weaken

As expected the Norges Bank decided to remain on hold by not lowering the 1.25% sight deposit rate at the last MPC. We assume that policymakers' officials are gaining time for gathering more data, especially the GDP figures for Q1 on May 20. The Norwegian growth rate outlook for the next quarter has been revised down and as the economy continues to weaken, there is much likelihood for a cut rate by June. Let's recall that the current inflation level is 2%

Today, the biggest economy threat for Norway is the over-exposure to oil prices. For over a year, the crude oil price has sharply decreased going from more than $110 a barrel to $42.03 at the lowest. This has damped the Nordic Economic growth and conducted the Norwegian Central bank to adopt a dovish stance. Governor Olsen declared that, as long as the Brent will stay below $70 a barrel, the Norwegian economy will be at stake. In the same time the greenback hit highest level since 2002.

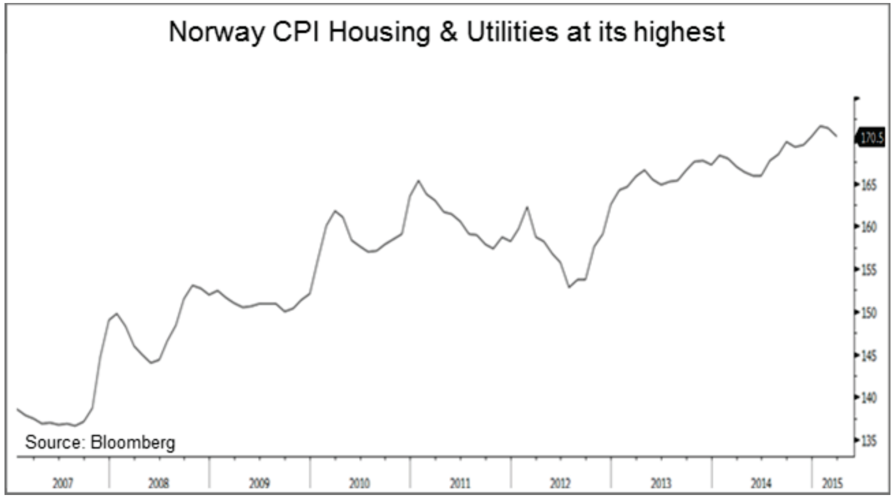
The housing bubble on the spotlight.

The current Norwegian debt is very high and keeps on rising as well as the home prices. The Norway house price index is right now at 179, a new record high -100 being the price level in 2005. The property prices increased tripled since the mid-1990s. The housing bubble threatens the economic growth. We have to keep in mind that the house prices are rising at a higher rate than projected in December. The underlying issue is the current Norwegian retail debt. Banks continue to lend with few restrictions thereby underpinning the bubble. The Norway Consumer Credit is also at the highest, 2'755 Billion of NOK. In other words, Norwegians owe their creditors about twice their disposable income. “This level is unsustainable" Olsen said.

Norges Bank and its contradictory policy

The recent upsurge in oil prices may prevent the central bank to lower its overnight deposit rate as it pushes inflationary pressures and consequently causes the house prices to persist. The real question is are we here in front of a loose-loose scenario with the negative outlook of falling crude prices and on the other way a massive house bubble?

The USDNOK is now in a clear declining trend since March. However, we think that a reversal in the trend is more than likely. A decline in the NOK will push the pair towards the resistance at 7.5593.



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