WEEKLY MARKET OUTLOOK

29 June - 05 July 2015

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WEEKLY MARKET OUTLOOK - An Overview

Economics

Switzerland: An Update

FSO releases population projections

The Swiss Federal Statistical Office (FSO) released its population projections report last week. The paper emphasises Switzerland's well known immigration dependency problematic situation. Switzerland's economic success has been made possible mostly with the help of a historical high immigration rate which brings the Swiss population to be composed of 24.26% of foreigners (as of December 2014), up 3.14% compared to December 2013. However, the continuous flow of immigrants is more than necessary to ensure Switzerland's economic success and to quench the country's thirst for qualified workers.

Nevertheless, the Swiss People's Party's (SVP – right wing) constant call for tighter immigration regulation as well as its anti-European stance is finding support from a part of the Swiss population. And it could therefore put in jeopardy the success of the Swiss economic model. Fortunately, the majority of Swiss citizen voted repeatedly in favour of the current immigration regulation (last one was the Ecopop initiative rejected at 74% last November), showing their concerns with regards to the importance of the economic success.

The FSO forecast that the population should growth by almost 25% to 10.2mn in 2045 according to the reference scenario. Obviously those figures are highly dependent on the socio-economic and political development in Switzerland over the years. Moreover, the Office also anticipates that the active population will likely grow faster, mostly due to the increasing implication of women in the labour market. All in the all, the development of the international relations between Switzerland and its major trade partners (European Union and the United States mostly), the access to the European job market and the need for Switzerland to remain economically open toward Europe will remain key to the Swiss success. Moreover, the strong increase of the permanent population will force Switzerland to adapt and to address future challenges such housing shortage and ageing population among others.

This is a two way street

There is no question that Switzerland's success is highly dependent on its larger neighbours. The facilitated access to European markets and a historically strong euro strongly contributed to its pre-financial crisis expansion. However, it's a two way relationship and despite its high resilience, the Swiss economy is also feeling the heat, while the SNB made every efforts to protect it from the global turmoil.

Helpless SNB

Thomas Jordan, Swiss National Bank's President, gave a speech in Lausanne last week during which he justified the SNB's monetary policy and its decision to unpeg the Swiss franc to the euro earlier this year. He recalled that this move still has negative effects on the Swiss economy and that the biggest loser is the export industry. Nevertheless, the Bank shared its optimism: "The SNB is projecting that momentum in the global economy will pick up again", Jordan said, and the Bank is expecting that no later than this year. The SNB's President reiterated its commitment to remain active on the foreign exchange market to defend the Swiss franc. In our opinion, these are mostly threats as the SNB is reluctant to expand further its balance sheet. Moreover the Bank cannot fight against global trends and is cursed to bear the burden of being a safe-haven currency in a global economic turmoil.

Economics

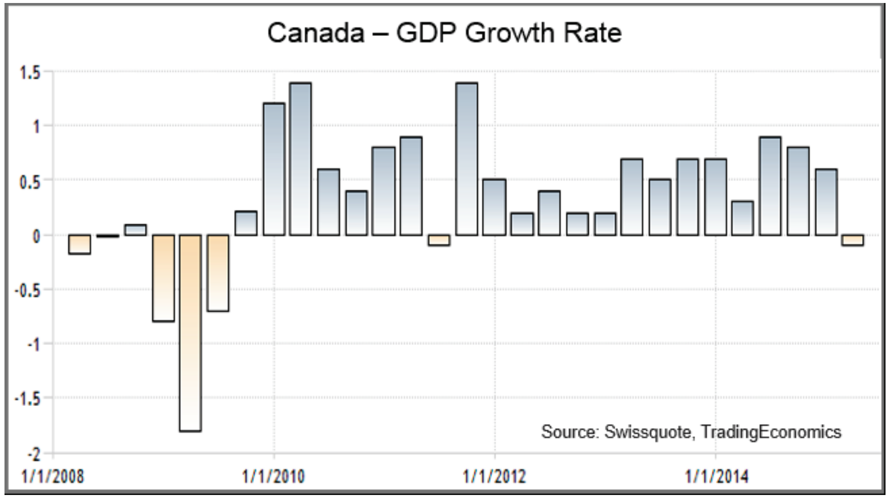
Canada Struggles With Low-Oil Prices

Last week, Canadian retails sales m/m came in at a disappointing -0.1% well below the expectations at 0.7%. Only the car industry drove the sales higher. Earlier that day, the CPI y/y came in at 0.9% amid unemployment rate holds steady at 6.8%. Overall the Canadian economy continues to deteriorate from lower oil prices and the slowdown in the US economy. The oil production forecast by 2030 has sharply decrease by 1.1 million barrel a day from last year 6.4 million barrel a day to 5.3 million barrel a day estimated the Canadian Association of Petroleum Producers.

Q1 GDP printed lower than expected at -0.2%, the first drop in nearly four years, and came in quasi flat because of strong retails sales during the first quarter of the year. We now expect Q2 GDP to decrease even further as retails sales contracted. In addition, the energy sector weakness continues and will add downside pressure to the nation's revenue. Overall, energy-related investments have dampened.

Central bank's Governor Poloz also admitted that high property prices and debt levels are very important risk to the economy. Indeed, Canadian house prices reach record high with an increase of 4.6% year-on-year. This is the result of very loose monetary policy that drove mortgage rates at record low and therefore boosted the demand for housing. This year, the debt has increased by $81 billion to reach $1.82 trillion. This actually threatens the central bank's policy to maintain rate at a very low level. We are very skeptical about the growth forecast of 1.9% for this year. By the way OECD slashed those forecasts by predicting a growth at 1.5% for 2015. It is going to take time for Canada to fully recover, at least to adapt its economy to low oil prices.

Over the medium-term, we remain bearish on the CAD verse the USD on soft economic data and dovish central banks. The pair has gained two figures last and we think that the upside momentum will last.



Economics

Europe On The Edge

FX and equity markets started last week with a lot of optimism and were convinced that, whatever happens, it couldn't be that bad for Europe and that an agreement was almost a sure thing. However, traders remained cautious and avoided to build substantial long USD positions while waiting for strong economic data from the US (the other hot topic) to resume the long awaited dollar rally. In the meantime, Greek talks remained the main driver of FX and equity markets and the least we can say is that markets do not feel confident anymore about a positive resolution.

Optimism fades away

In Brussels, last week-end's optimism had been overshadowed by recent development. Indeed, last week's multiple late-night talks failed consistently to unlock the current situation as both parties stick to their position. Markets are getting impatient to focus again on fundamentals but the Greek negotiations are drawing all the attention, forcing equity bulls and dollar enthusiasts to stay on the sidelines. We even wonder if Greek officials maintain the status quo on purpose to increase the pressure on EU negotiators in an attempt to obtain better terms. In any case, the deadline is approaching fast as the IMF's payment is due shortly after the weekend, on Tuesday. We believe that the odds of a Grexit have increased substantially as point of view of both parties seem irreconcilable. Writing on Friday, we expect the weekend's negotiation to be extremely tense as pressure is strongly rising and we would be surprised to see EUR/USD gapping on Friday's opening.

After having dropped sharply on Tuesday, EUR/USD moved sideways during the rest of the week, slightly below the 1.1220 resistance (Fib 61.8% on May debasement). A break of the 1.1143 support would leave the road wide open toward 1.1067, then 1.0819.

Economics

German's Business Confidence Drops

German's business confidence, which consists in a survey of around 7'000 firms, came in lower for the second month in a row. The index declined to 107.4 in May from 108.5 a month earlier. As long as there is no clear issue on the Greek talks, uncertainties are weighing on the German Economy. Greece has to pay € 1.6 million to the IMF. Meanwhile, German's unemployment has printed to 8-month low in May.

However the unemployment rate holds above 6.4%, which is nonetheless the lowest level since the fall of the Berlin Wall. Furthermore, It is also worth adding that the Bundesbank, Germany's Central Bank, increased its 2015 GDP forecast to 1.7% from 1% despite a disappointing Q1 GDP that printed at 0.3% q/q. Germany's officials persist in being optimist as they expect growth to be driven by domestic and foreign demand.

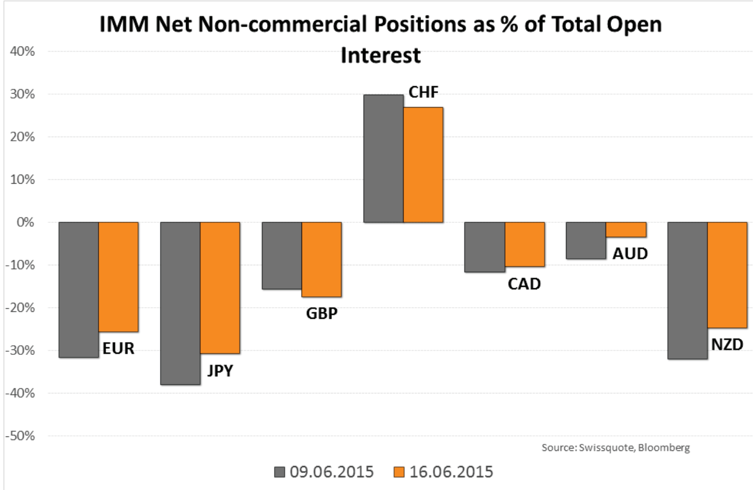
We anticipate a better Q2 GDP as others indicators as retail sales and output are rising. Yet, we also remain cautious as Germany is Greece's biggest creditor. Even Angela Merkel said she cannot give any guarantee that an agreement between Greece and its creditors will come up. Consequently, it is now time to assess how massive will be the Greek default on the German economy. Another important point is that German 10 year-bond yields have risen from 0.07% to 0.84%. This move was totally unexpected and we attribute this move to the concerns about Greece that pushed bond yields to climb. In addition, before this unexpected spike, German 10 year-bonds reached an all-time low of 0.05%, fostered by the start of the Quantitative Easing.

EUR/USD is very volatile these past days. Price action is mainly driven by the Greece repayment. Any news stating that no agreement has been reached will increase downside risk.

FX Market | IMM Non-Commercial Positioning

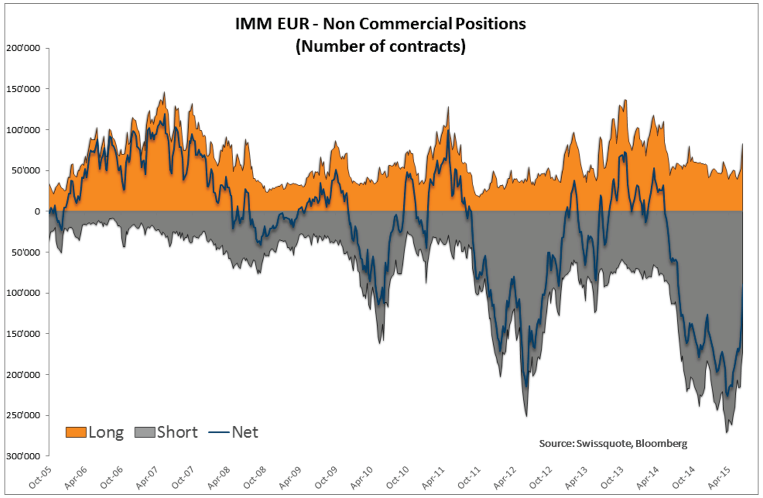
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

The IMM data covers investors' positions for the week ending 19 June 2015.



Greek agreement expected

We think that Greek bailout negotiations are likely to end this week and therefore will give downside momentum to the EUR-complex. We clearly saw that markets reloaded long EUR positions. For the time being, EUR/USD price action is driven by EUR. In addition, we still have time to assess the likelihood of a first U.S. rate hike in September. Markets expect also more positive data before reloading significant long USD positions.



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