SWISSQUOTE

WEEKLY MARKET OUTLOOK

20 - 26 July 2015

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

WEEKLY MARKET OUTLOOK - An Overview

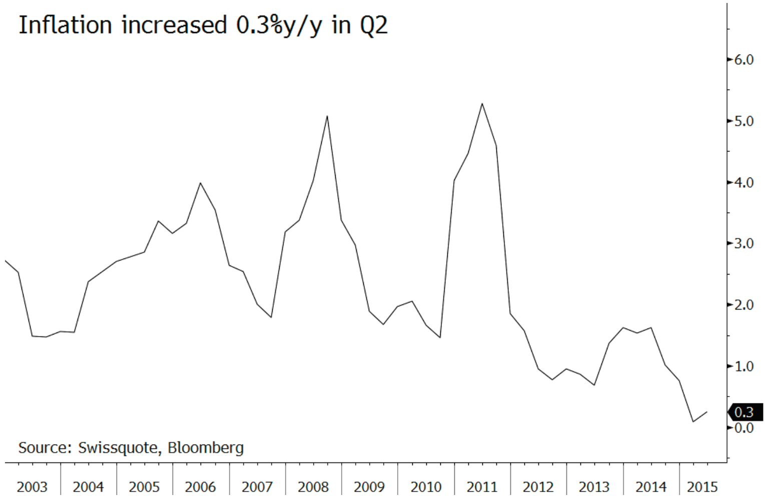
Economics

RBNZ To Cut Rates

The odds of further monetary easing from the Reserve Bank of New Zealand had increased considerably as weak underlying inflation gives Governor Wheeler room to support further the Kiwi economy. Headline CPI jumped 0.3% in Q2 after having fell to 0.1% in Q1. It could be seen as a sign of improvement as headline inflation is moving closer to the target range band - according the RBNZ, annual CPI inflation is projected to be within the 1% to 3% inflation target band in early 2016. However, without an increase of 8.8% in petrol prices, inflation was flat for the second quarter. Moreover, the recent deal between Iran and western powers about Iran's nuclear program will add more pressure on crude oil prices as market is expected to experience a glut and it would therefore drag inflation back to zero in the third quarter. In addition, it worth mentioning that Whole Milk Powder (WMP) prices dropped more than 13% at the Fonterra auction last week to the lowest level since July 2009 as global demand collapses.

We expect Governor Wheeler to continue providing support to New Zealand's economy by cutting the official cash rate at this week meeting. However, we anticipate a rate cut of only 25bps as we suspect that the RBNZ doesn't want to feed to much the housing bubble, especially in Auckland. We therefore believe that the RBNZ will continue cutting rates after the summer, waiting for the latest changes to LVR policy to start kicking in.

NZD/USD dropped more than 8% over the month of June as it keeps breaking supports, one after another. We remain bearish on the NZD and we expect further depreciation of the Kiwi versus the Aussie and the greenback.



Economics

Greek Parliament Approves Austerity Measures

Very early last Thursday and after a 4-hour deep and intense debate, Greek parliament has adopted austerity measures with a large majority. 229 members out of 300 voted for those reforms. This is a pre-requisite for the bailout plan of at least €86 billion that is still under negotiations. Greek PM Alexis Tsipras, which led the discussions with Greek creditors since he was elected in 2009 was opposed to the tough austerity measures.

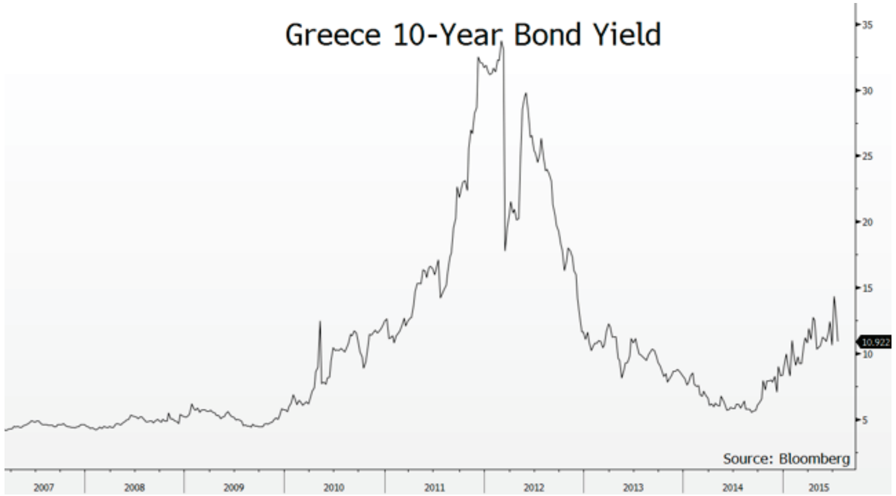
Even if austerity measures have been voted, Wolfgang Schauble, the German finance minister said that the deal obtained with Greece is not such a good idea. Schauble even declared that "many Germans would still prefer a Grexit".

Furthermore, Alexis Tsipras is now seen as a Traitor as he decided to sign in a proposal that he did not believe following the "No" at the 5th of July Referendum. He argued that he faced a dilemma, Grexit or Sign. He preferred to sign. Indeed, exit from the euro and switching back to the drachma would result in a massive devaluation. Last but not least, a Greek default would cut off trust from other countries and it would take decades to get it back. New Greek Finance Minister, Euclid Tsakalotos, even stated "There was no alternative".

We also think that it was very difficult for Syriza to act otherwise. Yet, all those tough austerity measures may be counterproductive. Increasing VAT to 23% from 13% will consume a lot of the GDP. The last year's Japan example shows it when sales tax hike went from 5% to 8%. As a result, we anticipate that Greece will have difficulties to honour the austerity measures it has voted and we are likely to face the same situation within the next few years.

Now, the banks stay closed bailout negotiations continues. In the meantime Greece still owes €1.6 billion to the IMF and a payment of €3.6 billion must be paid to the ECB. Nonetheless, this payment should not be an issue and will likely be part of a bailout plan.

EURUSD has decreased sharply last week Greek Parliament votes as traders do not believe in the Greek ability to apply the fresh austerity measures voted by the parliament. The pair is currently holding below 1.0900.

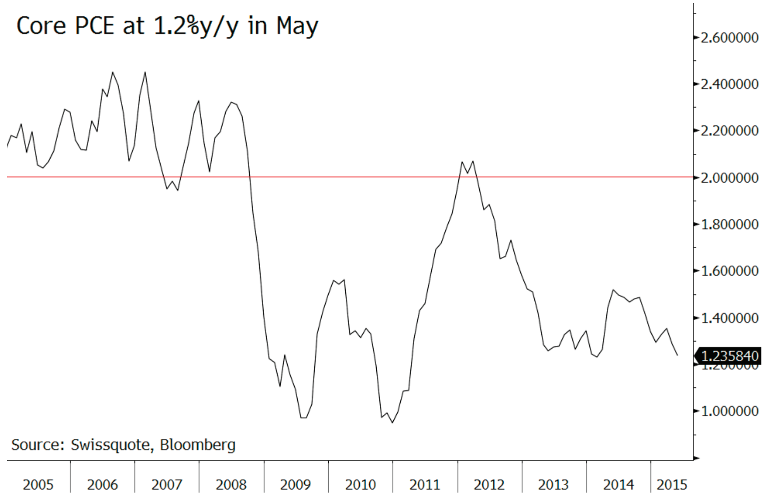


Economics

Markets To Focus On US Data

After the Bundestag voted in favour of Greek bailout last Friday, market participants will likely shift focus toward the US and the timing of the next rate hike. June consumer prices were due for publication last Friday. The price paid by consumers for a market basket of consumer goods and services rose by 0.1% year-over-year or 0.3% compared to May, matching expectations. When we look at the measure excluding volatile components of foods and energy prices, inflation rose 1.8%y/y in June versus 1.7% prior reading, also matching median forecast. Therefore, headline CPI is getting really close to Fed's inflation target rate of 2%, increasing confidence of investors in the beginning of the tightening cycle in September. However, the Fed's favourite measure of inflation is still far from the 2% inflation target. Personal consumption expenditure (PCE) grew 0.2%y/y in May while core PCE deflator printed at 1.2%y/y for the same period. All in all, the small uptick in inflation levels for the month of June provided a weak support for a September rate hike and markets need stronger evidence of a recovery in the US economy. The next three weeks will be crucial as a few key economic indicators are due for publication. First estimate of GDP for the second quarter is due on July 30, June PCE deflator figures will be published on August 3 while July's NFP will be released on August 7.

EUR/USD didn't react much to the latest news and is stuck above the 1.0850 threshold as traders await fresh data from the US. Greece is set to stay within the European Union - for now - and according to the price action of EUR crosses, traders do not value this move as positive for the Eurozone. Indeed, over the last 5 days, the single currency dropped 3.14% against the pound sterling, 2.77% against the greenback and 1.86% against the Aussie.



Economics

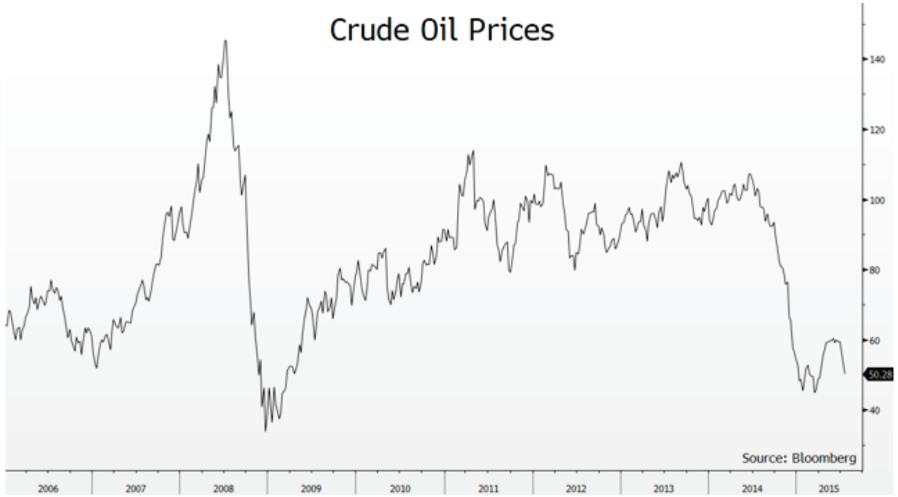
The US And Iran Reached A Deal

A nuclear deal has been reached last Tuesday at Vienna. Negotiations were tense over the past two weeks as most of the discussions were about preventing Iran to get a nuclear weapon in exchange of lifting economic sanctions from United Nations. Another important point of those negotiations is that Iranian officials were reluctant to allow US experts to visit Iranian military sites. Rumours said that this specific point has not been included into the final agreement and that US inspectors have been banned from Iranian sites.

Also, Iran's nuclear deal pushed downside pressure to oil as Iran announced on many occasions that it will oversupply the market as soon as sanctions are eased. Crude oil prices have, besides, lost more than 20% in a month going from $61.82 to $50.58 a barrel. Meanwhile, OPEC is decided not to lower its production until, at least, its next meeting in December that will be held in Vienna. This is likely to impact massively the US economy as it is a massive oil producer. WTI is now targeting 50$ which would be a 3-month low.

This nuclear deal shows that the United States are ready to pressure their own oil industry as it will provide them more controls on the Middle-East area. By the way, later last week, US President Barack Obama has offered to increase military aid to Israel.

The impact of Iran's return had a limited impact on oil prices as we think that Iran's extra volumes had been priced in last week. Current low oil prices only benefits to the OPEC which fights to defend its market share and challenge the US shale oil production. At current price, shale oil production is set to decline sharply toward zero.



FX Markets

IMM Non-Commercial Positioning

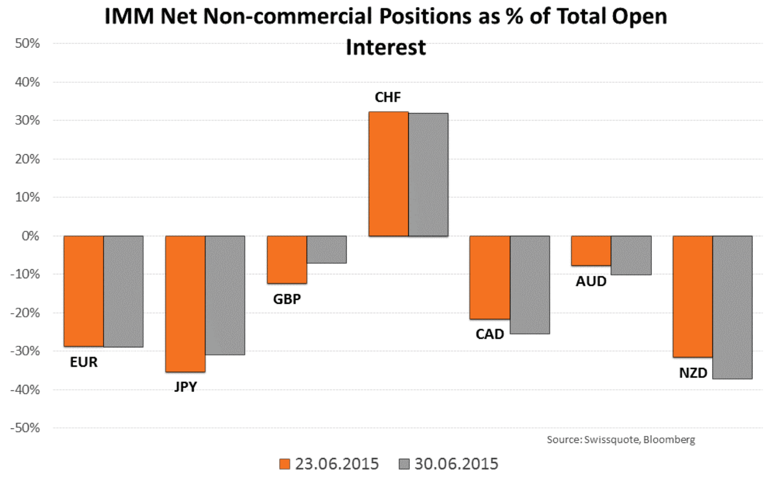
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

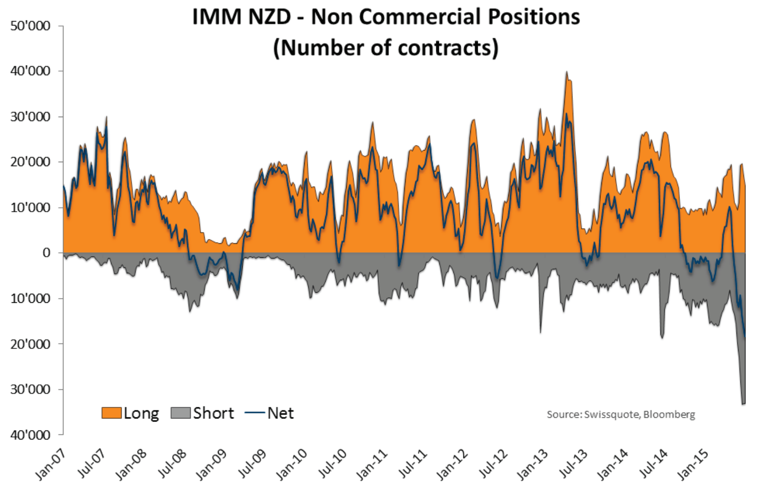
The IMM data covers investors' positions for the week ending 30 June 2015.

The NZD net short positioning has continued to increase considerably over the last few weeks. The trend is expected to gain momentum as the Reserve Bank of New Zealand will likely cut the official cash rate by 25bps at its next meeting.

Net short positioning in GBP has decreased substantially since the beginning of the year as the UK economy is gaining momentum and the BoE is ready to increase interest rates.

As expected, net short positioning in JPY decreased over the previous weeks while positioning in EUR stabilised as markets await the outcome of the Greek crisis.





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