SWISSQUOTE

WEEKLY MARKET OUTLOOK

27 July - 2 August 2015

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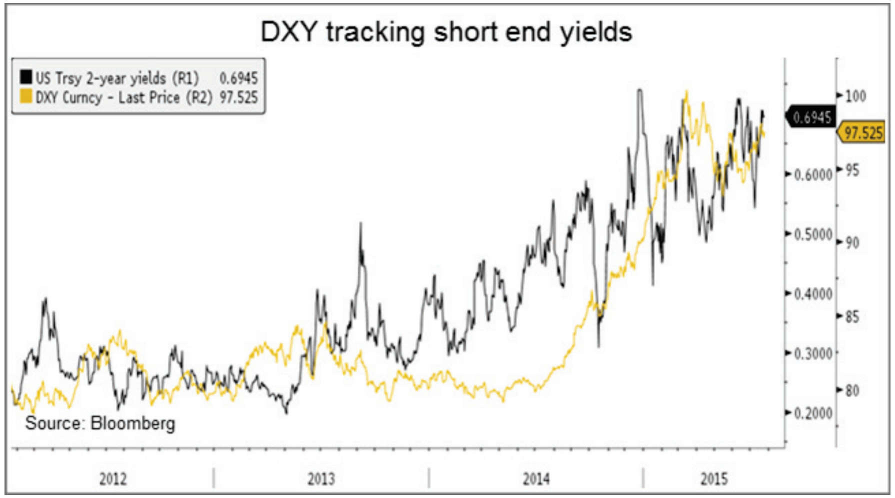
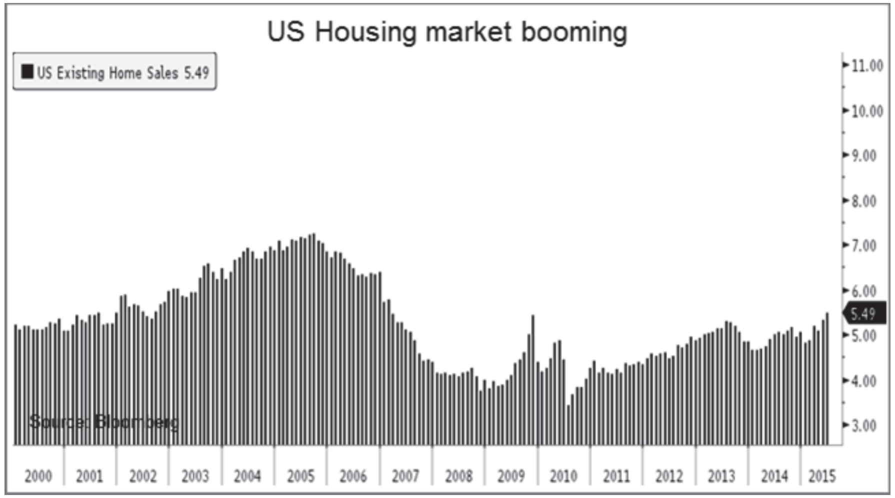
WEEKLY MARKET OUTLOOK - An Overview

Economics

Data Supports Fed Rate Hike In September





Next week's FOMC meeting will not include any economic projections or change in policy yet the Fed is clearly shifting toward raising interest rates. Acceleration in the US housing markets is just another signal that the US economic backdrop is healthy and ready to withstand the Fed's slow tightening cycle. Last weeks, existing home sales increased 3.2% m/m (0.9% expected read) to an annualized pace of 5.49 million, the fastest pace since February 2007. Encouragingly it was first-time buyers which were a big part of the upside surprise. This read follows a string of solid housing numbers. In addition, the Feds latest beige book reported momentum in real-estate activity in most of its 12 districts. For the Fed, this is an indication that the positive macroeconomic story, specifically the vigor of the US consumer (questioned after recent soft retail sales), in on-track. As a reaction US 2-year Treasury yields climbed above 70bp as markets pull the Feds "lift off" closer.

The strong residential housing data should equate to a stronger Q2 GDP read. Incoming data has offset the weaker than expected private sector consumption data lead by retails sales. This week's advance estimate of Q2 US real GDP should quicken to 2.9% q/q. Further building a strong case for a hike in September, recent CPI inflation reports showed that June core CPI rose to 1.8% from 1.7% in May (inching closer to 2.0% Fed threshold). Overall, US remains the closest to normalization of policy and policy divergence should further benefit the USD. In addition, within the Fed's unpredictable tightening cycle (delayed additional hikes and heavily data-dependent), FX volatility should return to a more normalized levels.

Economics

China Reveals Its Gold Reserves

Last Monday, gold price crashes at 5-year low below $1100 an ounce. Main reasons was that the People's Bank of China wants the yuan to be in the SDR basket of the IMF. A country needs official reserves to participate in this system, mostly gold or foreign exchange currencies. Hence it was very important for China to provide evidence about the yuan stability. For that, it revealed its gold reserves for the first time in the past 6 years. In April 2009, Chinese Gold reserves were 1,054 tons. At the end of June, reserves are about 1,658 tons while markets expected more a figure around 3'000 metric tons. Consequently it triggered stop losses and Hedge Funds cleared their positions.

Last month, Bank of China became the first Chinese bank to be part of the group of lenders that set global gold prices. China's strategy is to move the Gold main market from London. China is definitely competing against the hegemony of the US dollar. At the moment, Chinese foreign exchange reserves is currently at $3.69 trillion for Q2. Fear about China backing its currency with gold seems far as their gold reserve account around 1% of their money supply. We think that China's currency is not ready to be a perfect substitute of the US dollar as there is still not a decent bond market to invest in.

Gold is now worrying everyone that possess the asset as prices are taking a sharp dive. US dollar is strong and an increase of the US interest rates are expected by the end of year. Also, low oil prices have a downside effect on inflation that is affecting gold which is seen as an inflation protection. Gold is likely to target price below $1000 an ounce.

Economics

RBNZ On The Move

RBNZ lowered benchmark rate

Unsurprisingly, the Reserve Bank of New Zealand cut interest rates for the second time in 6 weeks after having raised them in early 2014. The central bank cut its official cash rate by 25bps to 3%. However what was surprising was the relative dovish tone of the statement as the more hawkish wording from the previous statement has been removed. However, Governor Wheeler retained an easing bias as he said in the statement that "further depreciation is necessary given the weakness in export commodity prices". Since November 2014, the New Zealand dollar lost more than 25% of its value against the US dollar.

Over the previous week, the Kiwi appreciated as much as 3% against the greenback on concerns that the currency was already oversold and the tone of the statement not hawkish enough. However, we think that the recent sharp NZD appreciation will prove short-lived as the economic outlook remains gloomy in New Zealand. According to Governor Wheeled, "the growth outlook is now softer than at the time of the June Statement" as he added that the Kiwi economy is now growing at an annual rate of around 2.5%, compared to 3% a month earlier. On the top of it, inflation is far below the 1% to 3% target range and since the RBNZ expects annual CPI to be close to the mid-point in early 2016, the only way to reach such level is to have a NZD substantially weaker. We therefore anticipate the RBNZ to continue easing its monetary policy by lowering interest rates to 2.5% by the end of the year.

At the moment, NZD/USD is having a hard time breaking the 0.65 support level and will need fresh boost to break that level to the downside. Only a few economic data are due this week. Nevertheless, traders will hang on Governor Wheeler's wording during the press conference he will hold on Monday

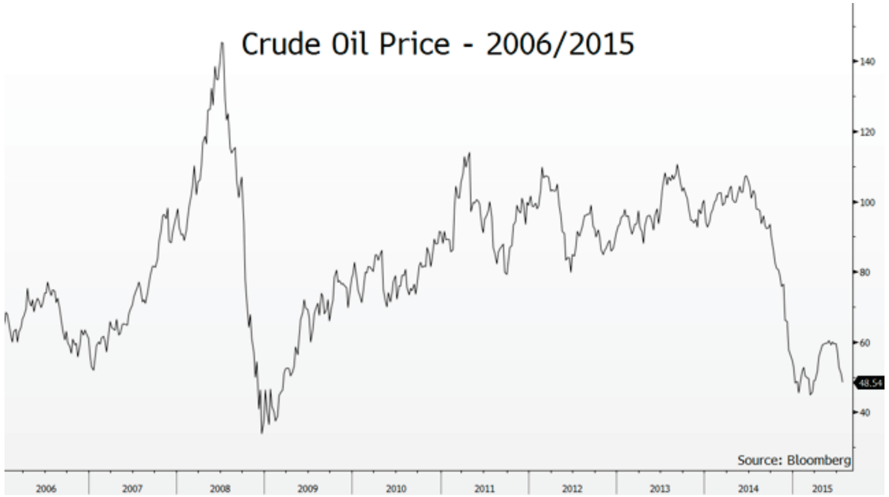
NZD/USD takes a breather around 0.6561 support

Source: Swissquote, Bloomberg

Economics

Oil Collapses Below $50 A Barrel

Last week, WTI crude oil price collapsed below $50 a barrel, a level unseen since April 6 which is getting closer from its lowest level this year at $42.03 a barrel on 18th of March.



Crude oil price is mainly driven lower by an excessive supply. OPEC is fighting to keep its market share and is currently maintaining a high production level to challenge the US oil shale industry. Nowadays, the production reached 31.7 million barrels per day which is the highest level in three years. In addition it is difficult for this industry to make benefit below $70 a barrel. Besides. around $50 a barrel, it becomes difficult for US oil producers to survive. US drilling rigs, that reached a 22- year high in 2008 at 2'031, is totalling 857 for last week, declined by 6 from the previous week's count.

Furthermore, the nuclear agreement reached last week with Iran had an impact on crude oil prices. Indeed, Iran is decided to also regain market share and will oversupply the market regardless the price as its current reserves are massive, about 150 billion barrels. Nonetheless, no Iran's exports are expected before next year and traders have already priced in the market its excess reserves. Hence, it is also worth saying that the United States are ready to sacrifice, for the time being, their oil shale industry in exchange of a better control of the middle-east area. As long as the dollar is used in international exchange, the US is able to control its massive debt. Therefore we think that the Iran huge reserves seem secondary for the US.

The oil market is oversupplied and this is not likely to stop. Even Saudi Arabia announced a June production record last week. We anticipate the WTI to target its year-low of around $42 a barrel. At this level, it seems nonetheless a good option to start reloading oil futures.

FX Markets

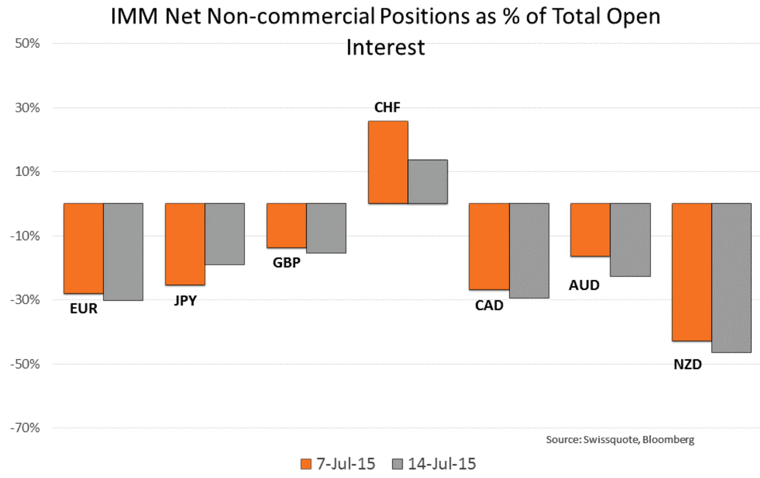
IMM Non-Commercial Positioning

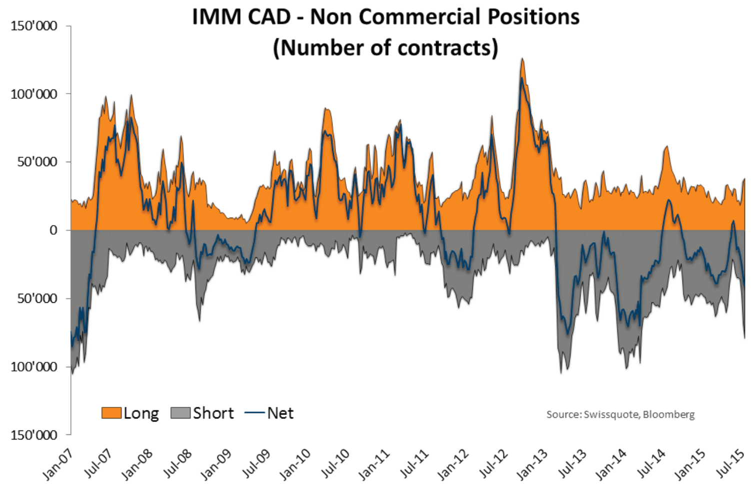
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

The IMM data covers investors' positions for the week ending July 14 2015.

The CAD net short positioning had increased ahead of the Bank of Canada's decision to lower the overnight lending rate by 25bps to 0.50% on July 15. It was the second rate cut by the BoC this year as the economy is severely damage by persistent low crude oil prices. We expect non-commercial positioning to continue to increase during the following week as the monetary policy divergence between the Fed and the BoC is expected to widen.

Similarly, the NZD net short positioning had accelerated as market participants were anticipating that the Reserve Bank of New Zealand was about to cut rate. The RBNZ lowered its official cash rate by 25bps to 3% on July 22. Governor Wheeler left the door open for further rate cut. We expect short positioning to continue to increase.





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