SWISSQUOTE

WEEKLY MARKET OUTLOOK

3 August - 9 August 2015

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WEEKLY MARKET OUTLOOK - An Overview

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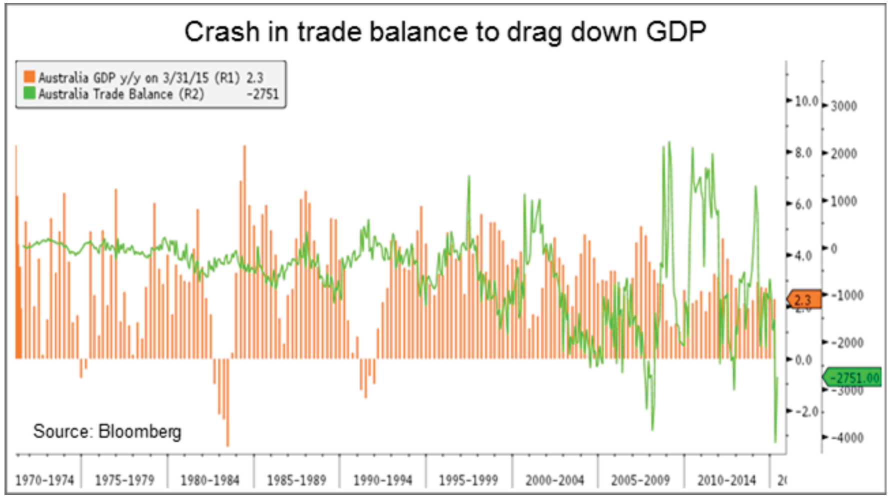
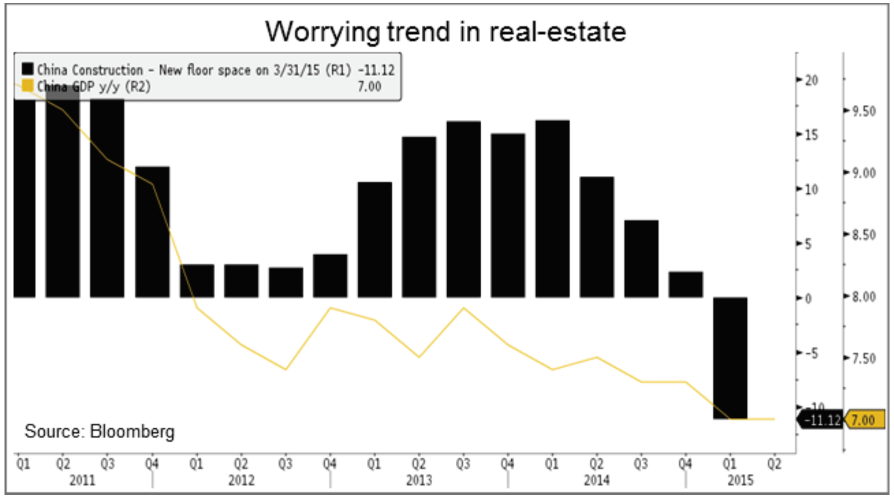
Economics

China Housing And Australia Commodities

The sudden collapse of the China equity market has highlighted the risks of such a massive economic engine --when China sneezes, the whole region of Asia catches a cold. While the initial catalysts for selling stocks were structural in nature, the focus quickly became the weakness of China's growth. Worries over the Chinese economy resumed due to the surprising drop in the July "flash" PMI to a 15-month low and corresponding soft price sub-indices. Incoming data suggests that without significant policy intervention, China will be unable to reach the official 7.0% 2015 GDP target. The spillover effect is that with a humming speculative market and/or stable growth expectations, we should also see the real-estate sector continue to contract. So here comes the cold.

China's massive housing construction is extremely commodity demanding. The two largest inputs copper and iron ore are also Australia's largest commodity exports. The fall in global commodity prices has all but ended CAPEX investment in Australia, making any outlook of an economic upturn unlikely. Due to strong housing prices so far, the RBA has held off signaling additional rate cuts despite economic headwinds. Annualized growth in national house prices accelerated again in June and the RBA has stated that monetary policy must take into account overall financial stability. As commodities have slumped, the RBNZ and BoC have eased their monetary policy with a direct aim of weakening their currency to revive export growth. The RBA has a bit more room since the economic erosion has not been as unforgiving. Markets are now pricing in less than a 50% chance of a rate cut over the next three meetings, however, additional China below trend growth could easily push Australia's economic outlook into the RBAs rate cut red zone. We are bearish AUDUSD and target a challenge to 0.7190 uptrend channel support before a deeper extension of downtrend.





Economics

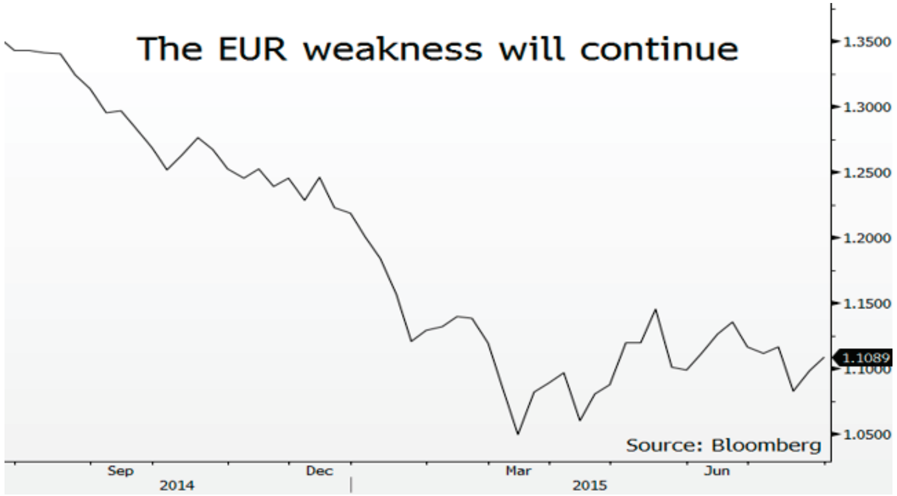
IMF Advises ECB To Expand Its Quantitative Easing

The International Monetary Fund issued last week its annual report on the Eurozone's economy. The tone of this report is somewhat alerting as the institution warns about contagion fears, high unemployment and lack of growth in the Eurozone. Also, it is stated that all the necessary tools must be used and ready to deploy to save banks. Hence, the European banking system should continue to have access to liquidity and sovereign debt markets must be maintained in order. Furthermore, it fosters the ECB to expand its quantitative easing (QE) program beyond September 2016.

In addition, the IMF is pushing the ECB to use the exact same tools used by the United States since 2008 with the results we are now seeing. In other words, the ECB has to face against lack of growth with monetary tools that have proven to be inefficient to create growth and to avoid deflation. This does not the IMF to forecast a Eurozone GDP Growth of 1.5% this year and 1.7% next year. We remain even more skeptical about those forecasts as unemployment in the Eurozone is still high, averaging around 11% and near 25% in Greece and Spain and we anticipate QE will not have the desired effects.

However, we think that European Business confidence as well as start of negotiations for the third Greek Bailout and its uncertainties will provide downside pressure to the pair which is likely to challenge again the 1.1000 level. The last two bailout were two complete failure bringing only Greece to more austerity and a massive debt-to-GDP ratio.

EURUSD price action was mainly driven last week by the US against a backdrop of FOMC meeting where the Fed left rates unchanged. A day later Q2 GDP came in below expectations at 2.3% q/q, nonetheless much better than a quarter before with a revised figure at 0.6% q/q.

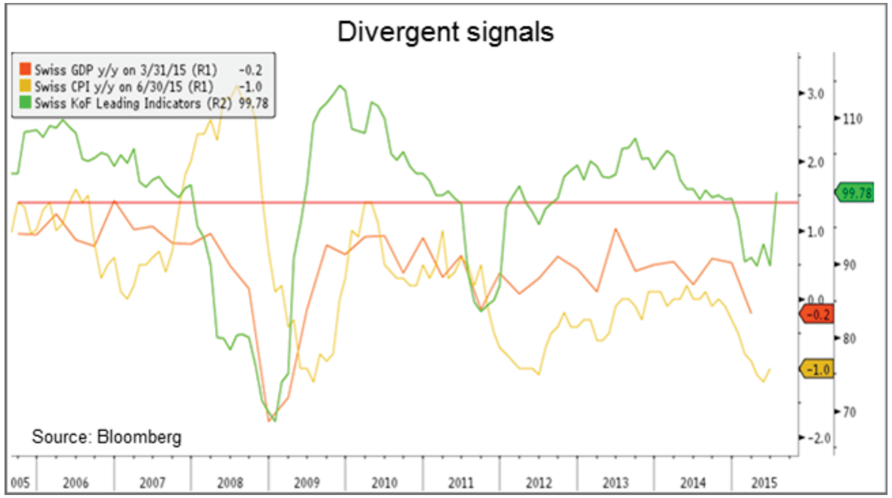


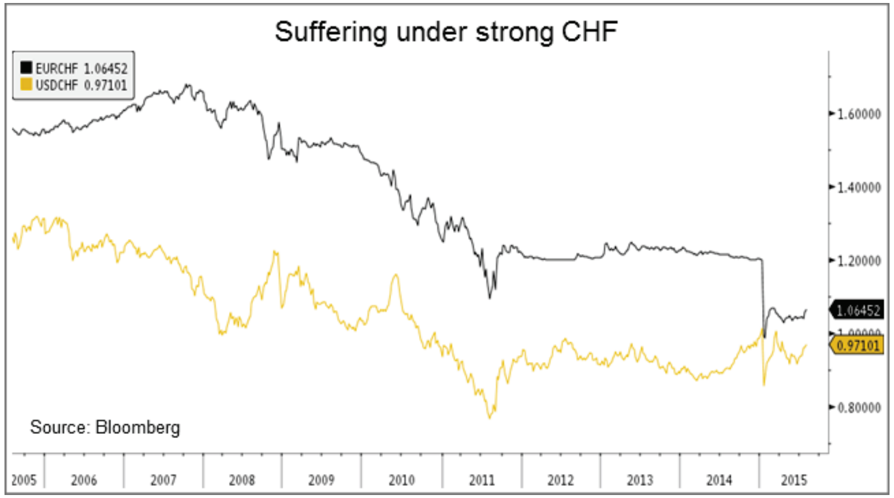
FX Markets

Sell CHF On Weak Swiss Economy

In a surprise read, the Swiss KOF Leading Economic Barometer rose by 10 points to 99.8 points in July 2015 (from revised 89.8 in June). In addition the statement sounded upbeat on the outlook for the Swiss economy. In regards to the SNB decision to remove the EURCHF minimum exchange rate the statement said, "the strong Swiss franc continues to place a burden on the Swiss economy, however, the first shockwave after the abandon of the minimum price is clearly losing its power." Yet, the statement did admitted that its limited reach could have influenced the strong result. Yet the overall meaning, according to KOF, was that the Swiss economy should begin to normalize.

We remain skeptical that today's KOF release is a reliable reflection of Swiss growth prospects. Recent correlation between KoF and GDP has broken down (KoF failing to measure the sharp decline in GDP growth). The shift in behavior is due to the strong CHF will be a long run episode not deciphered in a month or quarter. The SNB's recent intervention in EURCHF was likely a response to the stronger negative influence on the economy due to the exchange rate shock. Swiss quarterly GDP contacted -0.2% as exports fell sharply. Headline inflation fell 1.0% following an alarming deflationary trend in 2014 and 2015. Import and export prices contracted -6.10 y/y well below forecast of -3.4 y/y. The stronger CHF was the core driver behind the sharp decline of exports by -2.2%. Finally PMI manufacturing has improved slightly to 50, yet indications have been made that the enhancement has come on the back of labor reductions to offset exchange rate strength. Drop in Swiss retails sales (May-1.8%) is just a small indication that consumers are changing their behavior to the detriment of the Swiss economy. Money growth remains at levels not seen since the financial crisis, indicating that despite everything, the SNB measures reflect weak lending growth. We remain negative on the CHF and see the USDCHF as the "purest" play for the monetary policy divergence story developing. USDCHF further recovery above the 200MA indicates an extension of bullish trends targeting 0.9855 key resistance.





Economics

Japan Retail Sales Collapse Again

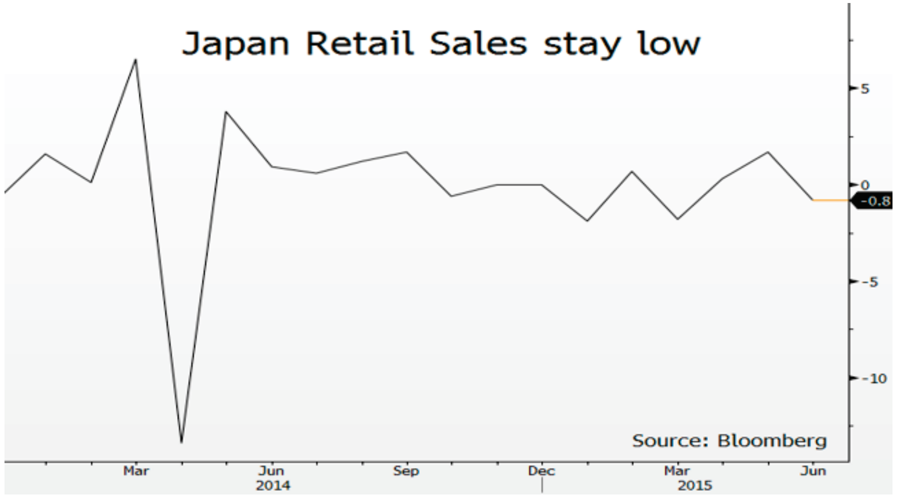
Japan June retail sales came in last week at a disappointing -0.8% m/m well below the May figure that printed at 1.7% m/m. There is now a growing concern about the efficiency of PM Shinzo Abe' policies. He is currently failing to end up a period of twenty years of deflation for which he has been elected.

Indeed, deflation has been occurring for the last twenty years and Shinzo Abe is still trying to stimulate the economy through its Abenomics policy which consists in monetary and fiscal stimulus and structural reforms. It has not provided the desired effects and earlier this month the Bank of Japan has cut its GDP growth forecast to 1.7& from 2.0% as well as the core inflation target for 2015 went to 0.7% from 0.8%. Besides, last week Japan's CPI grew 0.4% y/y in June but remains below the 0.5% increase in May.

One of the major key for growth is to provide confidence in the economy and for the time being Shinzo Abe has been unable to trigger a virtuous circle. Consumer spending remains low despite massive quantitative easing that is flooding the economy with cheap money. Household spending decline 2% year-on-year in June. We are sceptical about the true success of those magical arrows.

Furthermore, last year sales tax hike (advised by the IMF) went from 5% to 8% and simply destroyed consumer spending and therefore retail sales. Ironically, giving confidence to Japanese people while punishing their purchasing power was all but a strategic move leading to sustainable growth.

We remain highly bullish on the USDJPY as it becomes clearer that Abenomics look like more and more of a huge failure. However, Shinzo Abe is convinced that Japan needs even more quantitative easing. We decently target the year-high at 125.86.



FX Markets

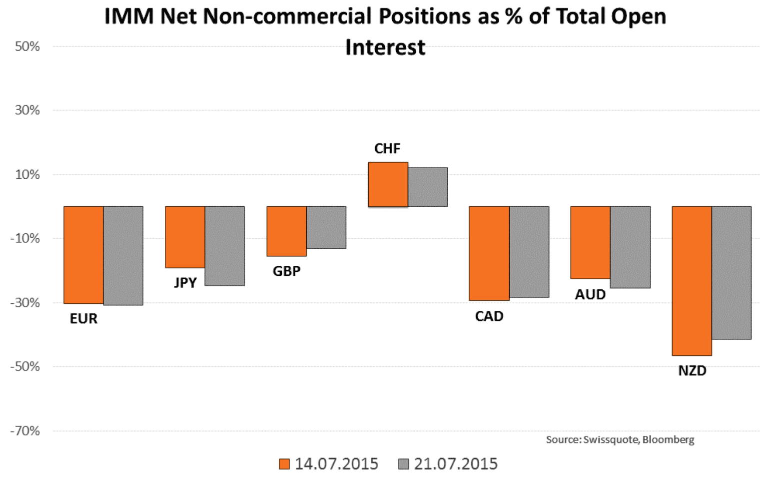
IMM Non-Commercial Positioning

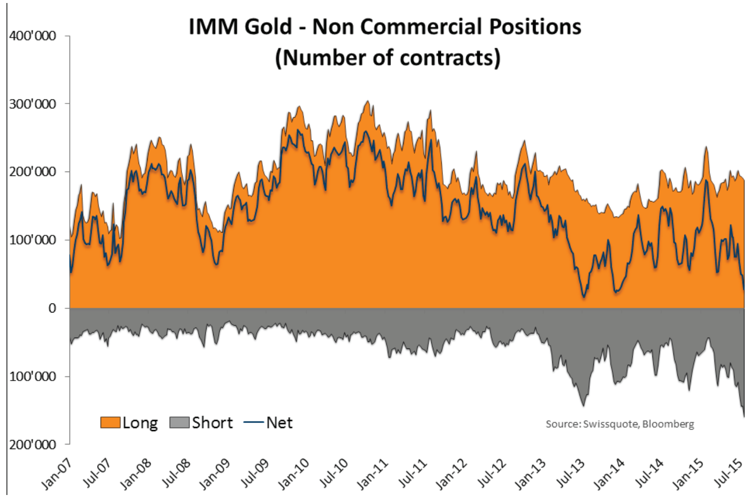
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

The IMM data covers investors' positions for the week ending July 21 2015.

The gold net short positioning had increased ahead of the People's Bank of China's disclosure of its gold reserves. In addition, according to the CFTC data and for the first time since records began, hedge funds are net short gold futures. Gold has also suffered from the future Fed rate hike, that will push higher the cost of owning physical gold.

Similarly, the JPY net short positioning had increased as most economic data have disappointed. In particular, retail sales, which are the key for a future sustainable growth, are still too weak. The Bank of Japan will likely have to continue its quantitative easing until 2017 when the second sales tax hike will take place.





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