SWISSQUOTE

WEEKLY MARKET OUTLOOK

10 August - 16 August 2015

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WEEKLY MARKET OUTLOOK - An Overview

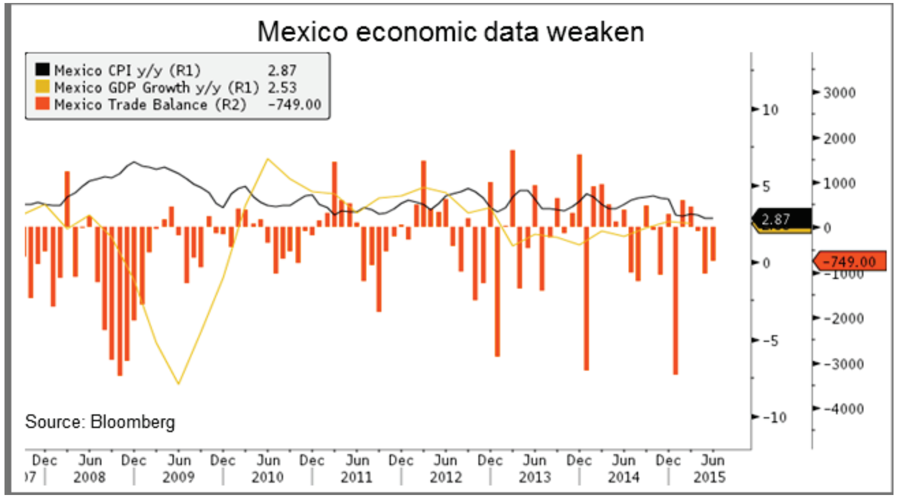
Economics

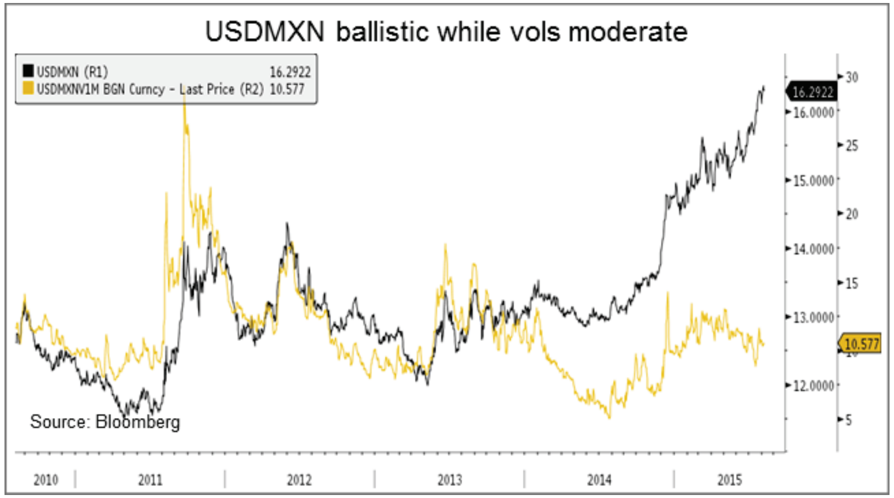
Mexico's Central Bank Intervenes

USDMXN traded to 16.40 triggering a reaction from the Mexican central bank. In defense of a disorderly MXN weakness Banxico auctioned $200mn after the peso lost 1.0%. It's estimated that since late 2014, the central bank sold $6.7bn to smooth the pesos depreciation. In addition, Mexico's Foreign Exchange Commission (FEC) increased its FX market intervention program from $52 million to $200 million. The frequency remains daily but the threshold lowered to 1.0% from 1.5% prior. While Mexico has adequate foreign reserves of $191bn, given the current size of FX intervention, they will be unable to stop the selling pressure.

With the collapse of crude prices, the economic data in Mexico has deteriorated. Soft commodity prices have hurt the government's budget and investments in energy sector have yet to materialize. A bright spot remains exports which benefits due to its proximity to the USA. Inflation pressures remain subdued with headline coming in at a manageable 2.87% (below 3.0% target). With the risk to inflation balanced, Banxico sees no reason to tighten policy; pushing the Governing Board to kept its policy rate at 3.0%. The accompanying statement acknowledged the MXN weakness but assigned blame to broad USD strength. However, we believe Banxico is apprehensive about asymmetric reaction in the peso.

Embedded in the USDMXN, one-direction sell-off is a concerning trend. The flight from peso has been driven by outlook for Fed hike in September. Banxico is worried the impending Fed tightening could further weaken the MXN and in turn generate inflation pressures through the currency pass-through, potentially destabilizing moderate inflation expectations. To combat this scenario, Banxico stands ready to raise rates. We expect the first hike of 25bp in December but it could be move forward if the USDMXN continues to go ballistic and auctions have limited impact.





Economics

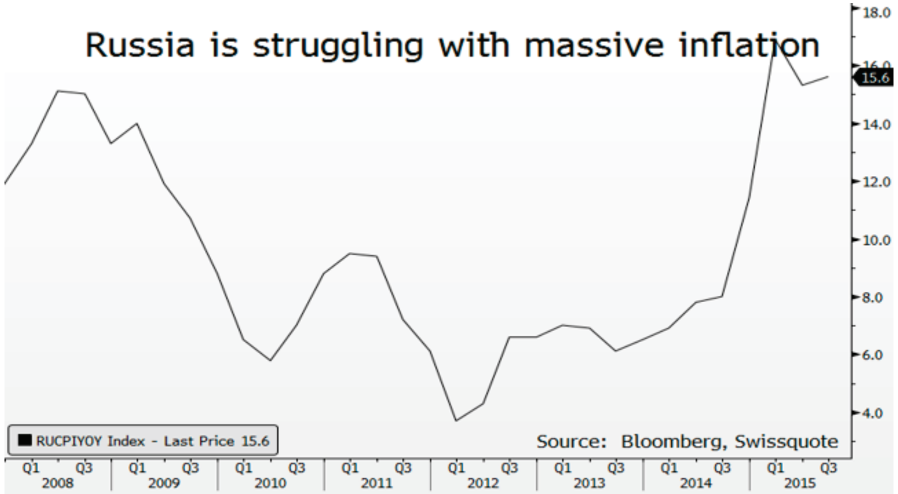
Russia‘s Inflation Is Still Too Big

Last week has been released the Consumer Price Index for Russia. This data represents a major concern for the Central Bank of Russia as it has prevented a larger downside change for the key rate which has moved, as we expected, to 11% from 11.50% amid negative growth that printed at -2.2% year-on-year for the first quarter. Furthermore, the ruble is trading very low, and as we are still thinking, a monetary policy must absolutely be cautious as there still is a massive downside risk for the ruble coupled with a major inflation risk.

The Consumer Price Index has printed lower than expectations at 0.8 m/m but it is still higher than the June Print at 0.2% m/m. The CPI is often interpreted as a monetary policy outcome. However, any key rate's move takes at least a few months before being truly reflected in the economy. As a result, what really matters is the trend and unfortunately it has shown a clear upside momentum for the past two years. Nonetheless, the inflation increases at a much slower pace which makes us think that the CBR is succeeding with its current monetary policy.

In its last week meeting, the Central Bank of Russia reiterated its inflation forecast for June 2016. The CPI is targeted to reach 7% before going lower to 4% in 2017. We think that those forecasts seem too optimistic as long as there is no sustainable growth trend. For the time being, easing rates has only supported high inflation. Nonetheless, we remain confident as there is still room for the CBR to act.

The USDRUB is set to increase again as long as the data are not fully supporting a pick-up in growth. We target a pair above 65 ruble within the next few weeks.



Economics

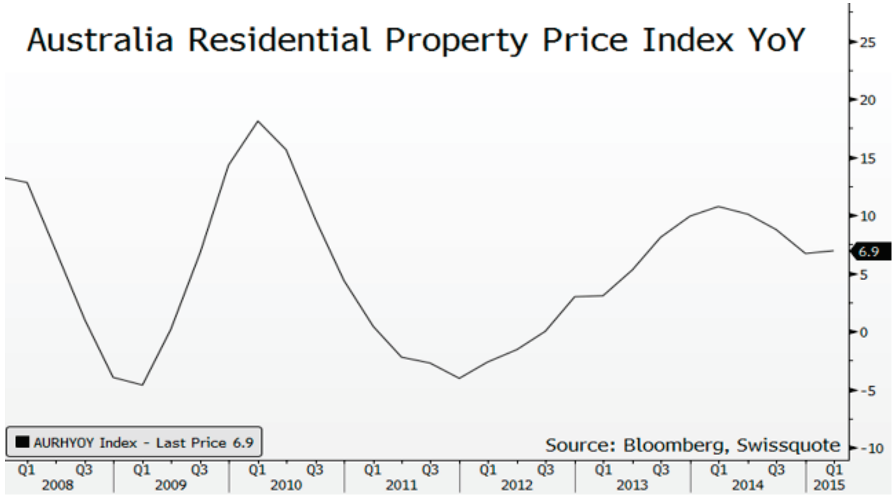
Unemployment Rises In Australia

Australian labour market data has been released last week. Unemployment rate has increased from 6.0% to 6.3% for July, beating expectations at 6.1%. June Figure has been revised down to 6.1% m/m. In addition, the change of part-time contracts has increased sharply to 26.1k. However, this data remains very volatile and we prefer focusing on unemployment rate as seasonality is important on part-time jobs which may not fully reflect the true state of the labour market.

Yet, we are still concerned about Australia as its economy is slowing. There are huge concerns about the real estate market that is bubbling. Indeed prices have risen in July at 18.4% y/y in Sydney while Melbourne had an even stronger increase with a rise of 6.1% for the last three months. Hence, the Reserve Bank of Australia is struggling to adjust its monetary policy as lowering rate will fuel the real estate bubble.

For the time being, the inflation has risen 0.7% q/q for Q2 and printed at 1.5% year-on-year. Data were finally very supportive for maintaining the cash rate target at 2% early this month even if inflation is still holding below the target band range of 2%-3%. Besides, we think that rates will remain unchanged at the next RBA's meeting the 1st of September

Therefore we remain bearish on the Australian Dollar which is at its lowest level against the greenback since 6 years. Low commodity prices should also hit more largely Australia and add downside inflation pressure. The Q2 GDP that will be released in September is already under pressure. Also, China's economic downturn starts to have an impact on the Aussie's economy. Consequently, we think that the AUDUSD will challenge the 0.7000 level within the next few months.



FX Markets

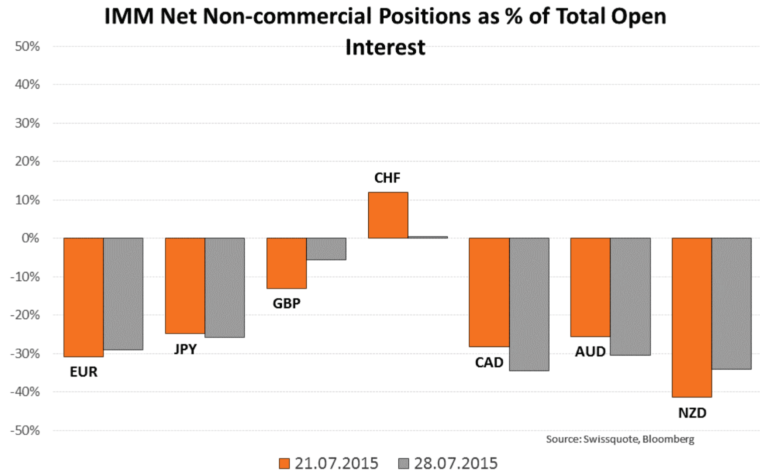
IMM Non-Commercial Positioning

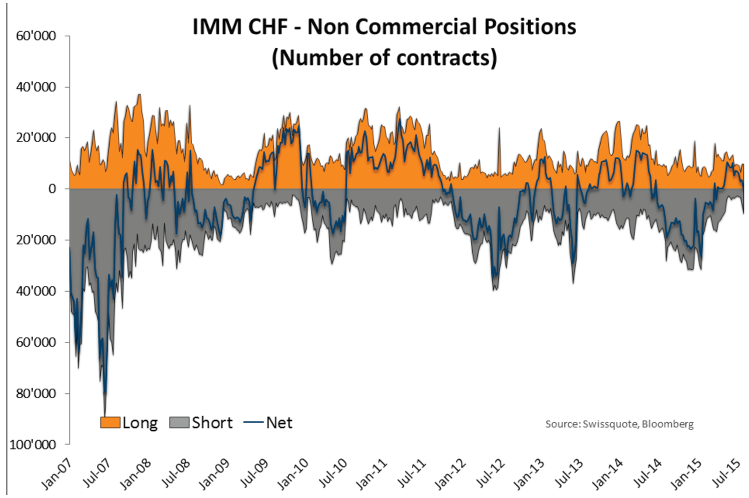
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

The IMM data covers investors' positions for the week ending July 28 2015.

The Swiss Franc net long positioning has decreased. Indeed, the long positions was mainly taken during the Greek negotiations and now that a deal has started, the long position has been reduced. However the CHF is still the only currency in which the absolute positioning is long.

In addition, investors reduces their bearish EUR exposure for the first time in three weeks. We think that it is not only due to new Greek negotiations but also due to the repricing of the first Fed rate hike timing which, for the time being, remains very uncertain.





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