SWISSQUOTE

WEEKLY MARKET OUTLOOK

17 - 23 August 2015

DISCLAIMER & DISCLOSURES

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

WEEKLY MARKET OUTLOOK - An Overview

p3	Economics	China Revaluation Will Not Derail Fed Hike - Peter Rosenstreich
p4	Economics	Japan's PPI At Its Lowest Since 2009 - Yann Quelenn
p5	Economics	Brazil's Inflation: Unanchored Again - Arnaud Masset
p6	Economics	IMF Calls Again For Greece Debt Relief - Yann Quelenn
p7	FX Markets	Swiss Disinflation Dynamics Remain - Peter Rosenstreich
p8	FX Markets	IMM Non-Commercial Positioning - Yann Quelenn
p9	Disclaimer	

Economics

China Revaluation Will Not Derail Fed Hike

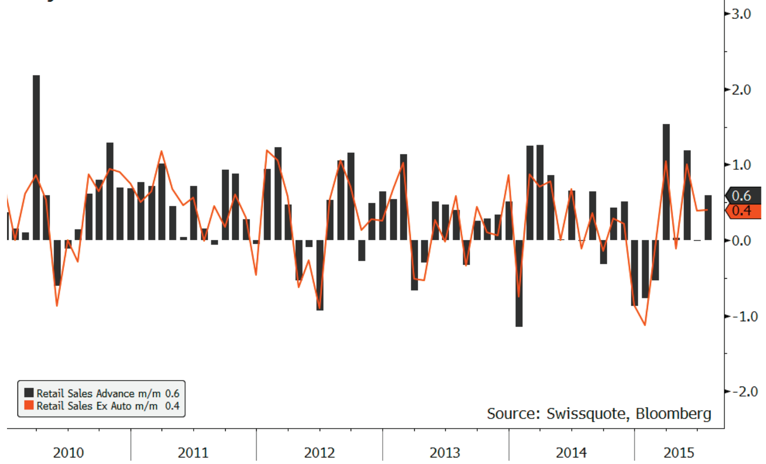
The surprise Yuan devaluation has fueled debate that the Fed will push back the timing of the first interest rate hike. The simple thinking goes that China's decision to weaken the Yuan was predicated on faster-than-expected deceleration of the domestic economy. This slowdown will filter into a further depression in commodity prices, indicating that deflation will be "imported", keeping US inflation low. Also, slowdown in the world's engine for economic growth will hurt all nations. Hence, delay an interest rate rise.

In the past the Fed has indicated that domestic factors mattered more in monetary policy decision. However, short-term financial volatility could result in the Fed reconsiders the September timing (considering the Fed's reaction to the taper tantrum). Fed Fund pricing and other market indicators, including the US yield curve short-end flattening, indicate less then a 50% probability of lift-off in September.

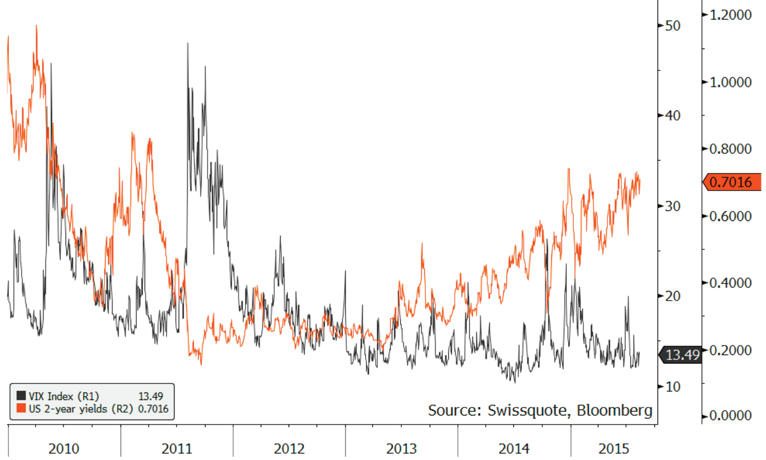
However, global markets are already settling down. S&P 500 remains in its six-month range and the equity market gauge of risk, the VIX, is well below historical norms. USD is off the August high of 98.05. While commodity prices have already priced in Chinese demand weakness. In response China, with its aggressive firepower has moving forward aggressively to stabilize the Yuan and calm markets panic. Interestingly, the fall in US yields might prove to support the Feds quick hike as lower yields could handle a slight rate increase while keeping economic conditions loose.

Meanwhile, last weeks economic data indicates that the US economic momentum remains on track. U.S. retail sales rebounded in July up 0.6% indicating the consumer is spending, participating in the recovery. We suspect that China's action will have a limited effect of the Fed decision on policy and expect a September rate hike is firmly on the table.

July Retail Sales rose 0.6% SA



Equity volatility remains at low levels



Economics

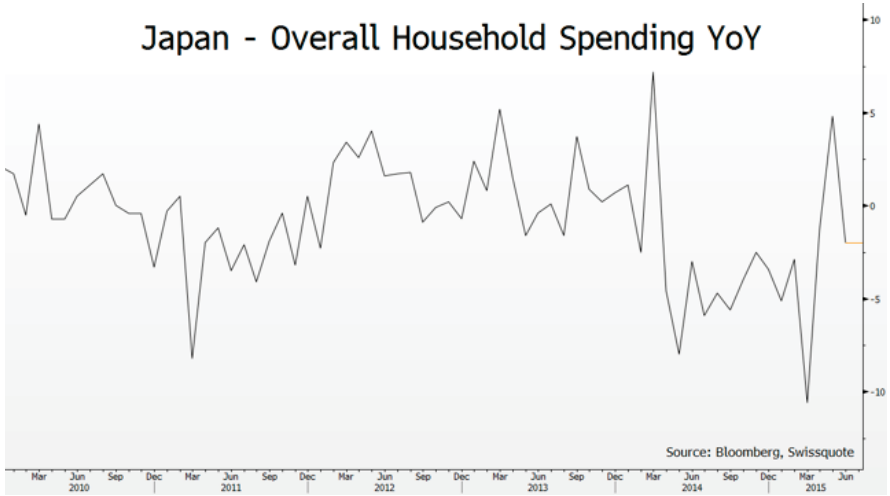
Japan's PPI At Its Lowest Since 2009

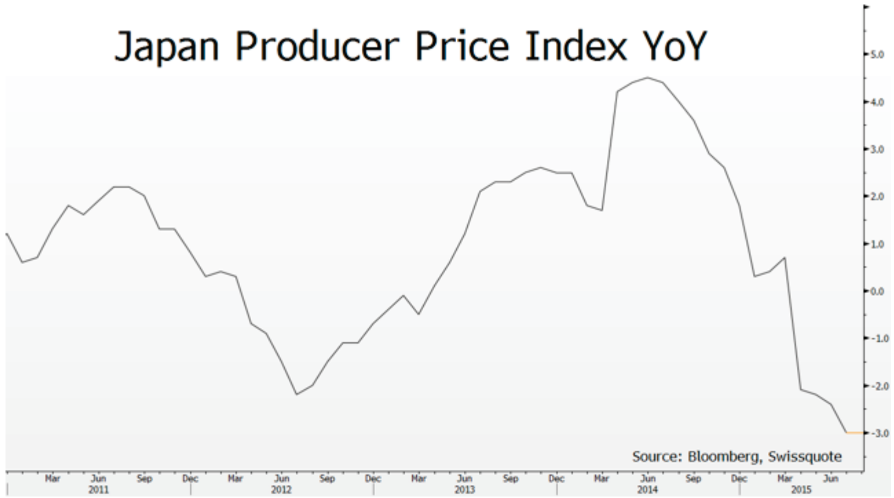
Last week, the Japan's Producer Price Index fell to 3% year-on-year from -2.4% y/y in June, its lowest change since 2009. It also decreases more than the estimates at around -2.9% y/y.

Japan's Abenomics are currently failing to stimulate consumer spending in order to enter into the virtuous circle of growth and inflation. Besides, PPI and CPI usually move together and follow the same trend which shows that Japan's monetary policy is still not efficient. In addition, the fiscal arrow of the Abenomics had a single effect: reducing consumer spending. Increasing VAT from 5% to 8% - from an original idea of the IMF - had a spectacular impact. The other VAT increase which was initially set to be in 2016 has been postponed in 2017. We remember that Bank of Japan Governor Kuroda admitted the impact of increasing consumptions taxes had a negative effect on the overall economy directly damaging the household purchasing power.

Therefore, as time goes by, it becomes more and more difficult to see any success in the Abenomics. In particular the country is largely hit by the collapse of commodity prices. Last Friday Kuroda also stated that he would trigger more stimulus if the weak oil prices persist to hold inflation at a very low level. The yen monetary base will increase again. It currently increases at a pace of yen 80 trillion a year. On the other side, as a result of the fragile yen increased the cost of raw materials, big local companies like Panasonic decided to repatriate production back home even if Japanese cannot afford those homemade goods that remain in warehouses which set to be problematic in the mid-term.

We remain bullish on the USDJPY which is still trading at its highest level since 2007. We expect the pair to increase again above 125.





Economics

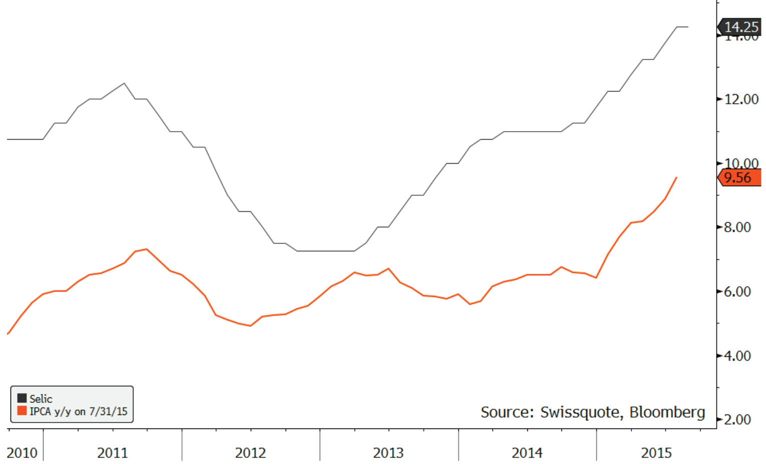
Brazil's Inflation: Unanchored Again

After having changed Brazil's rating outlook from stable to negative last September, Moody's finally downgraded Brazil's government bond rating to Baa3 from Baa2 and changed the outlook to stable from negative. The decision was broadly expected and came on the back of disappointing economic performances, missed primary surplus target and political jitters that leave investors facing a foggy outlook.

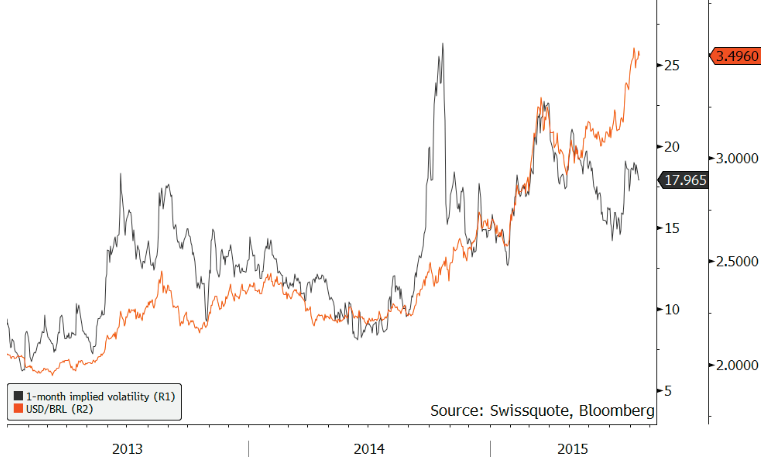
According to the latest weekly economic survey released by the Central Bank of Brazil (BCB) last week, market consensus growth estimate declined from -1.80% to -1.97% for 2015 and from 0.20% to 0.0% for 2016 as bad news keep piling up. More worryingly, inflation expectations for 2016, which had seemed to have finally anchored throughout July, are on the rise again as economists expect IPCA inflation to reach 5.44% in 2016 versus 5.40% the previous week. On the top of it, the ongoing political crisis, which has seen a strengthening political opposition faced by the government, is seriously questioning Rousseff's ability to reduce government spending as promised. As a result, the real reached 3.5696 against the US dollar - a level last seen in March 2003 - down 33% since the beginning of the year.

Given the political instability, which will likely result in an increase in government's spending, together with rising inflation expectations, we think that the BCB will have no choice but to increase interest again. We therefore expect the central bank to increase the Selic rate by 25bps to 14.50% at its next meeting on September 2 in attempt to finally anchor inflation expectations.

BCB struggles to curb inflation



High USD/BRL volatility discourages carry traders



Economics

IMF Calls Again For Greece Debt Relief

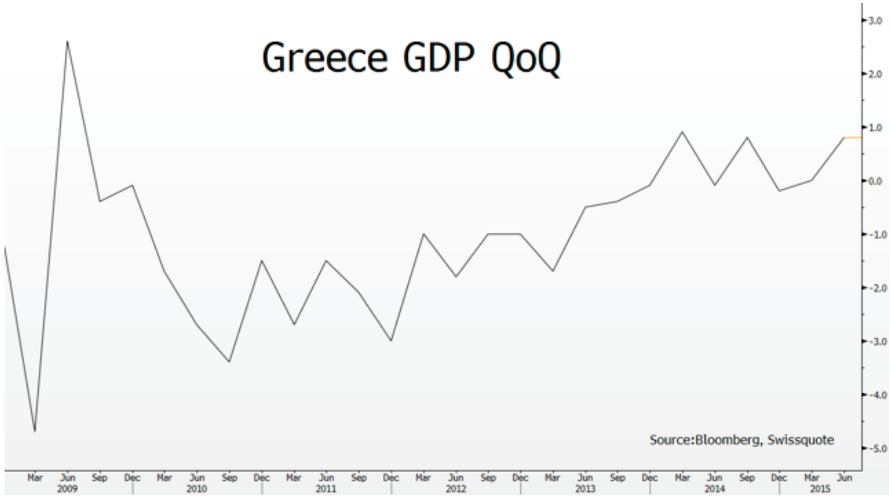
Last week, the IMF's Greece mission Chief Delia Velculescu stated that the Greek debt must become sustainable. She asked Greece's European partners to come up with a decision on a possible debt relief as she implies that the current debt can never be reimbursed.

We are now moving forward on the Greek case. Three years ago at the second bailout deal, the debt had been fully restructured. Yet, the debt-to-GDP ratio has increased in order to reach, nowadays, a massive 180%. Reimbursing only the interests on such a debt also implies being capable to generate a decent amount of growth which is clearly not the case at the moment. Indeed, in order to be able to service its debt, Greece must run a primary surplus (an excess of revenue over spending other than interest) of 0.5% in 2016. However, the interest on its debt is in average above 2.5%. Therefore, below this average, the Greek debt-to-GDP ratio can only go one direction from here and that is straight up.

It is also worth saying that even Germany is not succeeding in generating the growth that is currently asked to Greece. German's GDP came in last Friday at 1.8% year-on-year. Hence, the Greek saga is definitely not over but we may still wonder on Eurozone future that seems darker and darker. Nobel Prize Paul Krugman says that only the major economies in a monetary union are benefiting from the union while the others are struggling to be competitive as the currency is too strong for their local economy. The impossibility for any European countries to debase its own currency is the key. Austerity policies are now the normal policies for most countries and Germany is clearly the leader of this Eurozone.

German's finance minister Wolfgang Schauble is still on a favourable position for a "Grexit". He considers that debt relief and Eurozone are "incompatible". Schauble surely thinks that the Grexit will have a minimal impact and that it would be a worthwhile investment as Germany would not have to refinance the Greek debt. Recent polls still show that the majority of Greek people does not want to leave the Eurozone as it is commonly admitted that the euro can only be a chance for them. We consider it will only lead Greek people to live under austerity policies for a very long time.

The EURUSD is pushing higher on diminishing odds of a US September rate hike. In addition, the Greek bail-out provides some buying pressure to the pair. We anticipate that this will only be temporary as new US rate expectations will come back. On the short-term, resistance at 1.1278 is at stake.



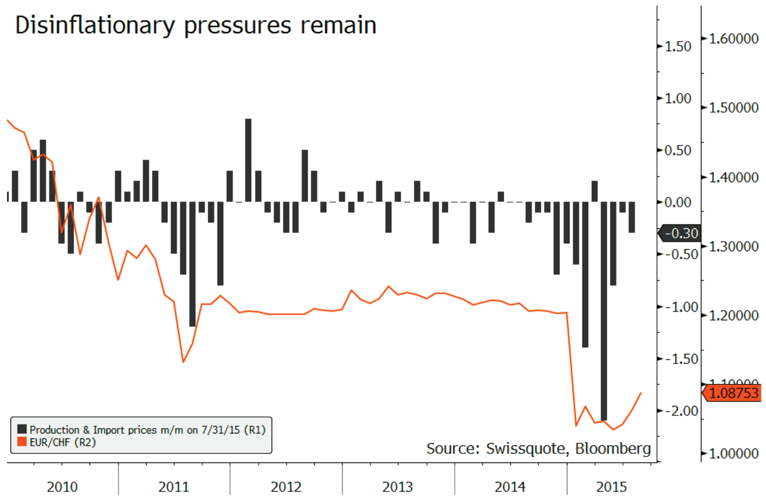
FX Markets

Swiss Disinflation Dynamics Remain

What was not really a big shock Swiss Producer & Import price index fell according to the Swiss Federal Statistical Office. The Producer and Import prices index m/m fell by -0.3% to 91.3, y/y collapsed to -6.4% against -6.3% expected read. Producer prices index for domestically produced goods slid -0.2% and import price index declined -0.3%. The read clearly indicates that deflationary dynamics remain entrenched in Switzerland and last month's subdued read was likely a one-off. The FSO press release stated that the fall came from a decline in "petrol and petroleum products as well as for watches and electronic components and circuit boards". Given the macro backdrop energy prices are unlikely to increase in the near further while fall in exports is due to lack of CHF competitiveness.

The data indicate that the SNB will have to remain vigilance as disinflation pressure materialize. CHF should further depreciate against EUR and USD as markets anticipate further economic weakness and increased probably of SNB easing monetary policy further (less likely direct FX intervention). With EURCHF organically trading above post-SNB action February highs, the need for the central bank to intervene in FX prices has diminished considerably. However, SNB vice-president Fitz Zurbruegg repeated the SNB's commitment to modest intervention should the conditions warrant. Traders will continue to see the SNB's hand in every unruly EURCHF movements and scour sight deports for evidence of activity. Therefore, indirectly providing downward pressure on CHF. In addition, there is growing evidence that foreign inflows due to risk aversions (heavy in the 1H 2014-2015) are starting to unwind.

Finally, considering the divergence of central bank's monetary policy we anticipate that the CHF will be one of the worst G10 performers in the final months of 2015. Selling CHF remains one of the "purest" play for monetary policy divergent theme.



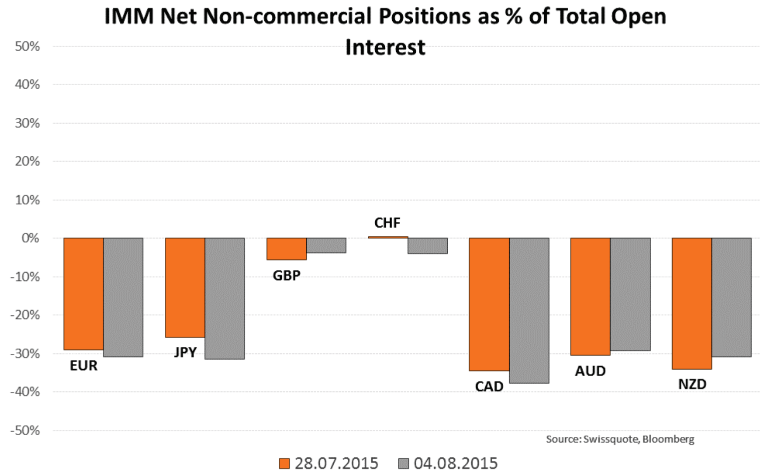
FX Markets | IMM Non-Commercial Positioning

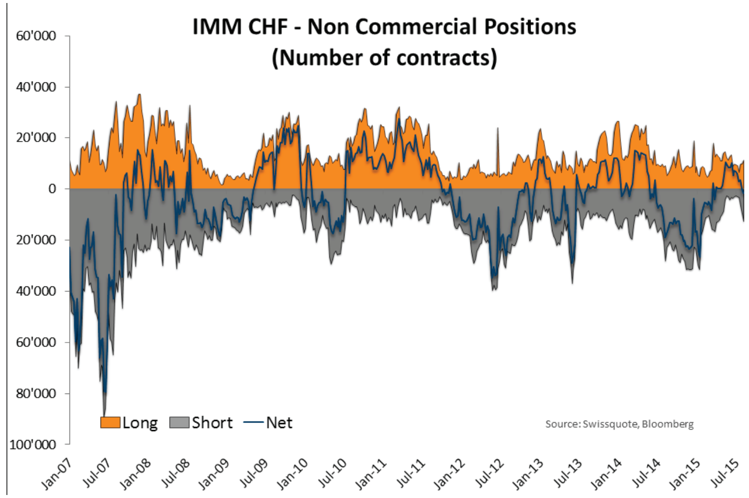
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

The IMM data covers investors' positions for the week ending August 4 2015.

The Swiss Franc net long positioning has decreased again this week. The CHF is not any more the only currency in which the absolute positioning is long. Indeed, the long positions was mainly taken during the Greek negotiations and now that a deal has started, the long position has been reduced. In addition, uncertainties about the Swiss economy is growing.

Investors have also increased their bearish EUR exposure as IMF dropped hints that the Greek debt is not sustainable. It is also worth adding that speculations around a September Fed rate hike are still important which put downside pressure to the EUR/USD.





DISCLAIMER

While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Swissquote Bank and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions, or regarding the accuracy, completeness or reliability of the information contained herein. This document does not constitute a recommendation to sell and/or buy any financial products and is not to be considered as a solicitation and/or an offer to enter into any transaction. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or in any other kind of investments.

Although every investment involves some degree of risk, the risk of loss trading off-exchange forex contracts can be substantial. Therefore if you are considering trading in this market, you should be aware of the risks associated with this product so you can make an informed decision prior to investing. The material presented here is not to be construed as trading advice or strategy. Swissquote Bank makes a strong effort to use reliable, expansive information, but we make no representation that it is accurate or complete. In addition, we have no obligation to notify you when opinions or data in this material change. Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other instruments.

This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. It is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning Swissquote Bank, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. Swissquote Bank does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are for information purpose only and are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Swissquote Bank as a result of using different assumptions and criteria. Swissquote Bank shall not be bound or liable for any transaction, result, gain or loss, based on this report, in whole or in part.

Research will initiate, update and cease coverage solely at the discretion of Swissquote Bank Strategy Desk. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. Swissquote Bank is under no obligation to update or keep current the information contained herein and not liable for any result, gain or loss, based on this information, in whole or in part.

Swissquote Bank specifically prohibits the redistribution of this material in whole or in part without the written permission of Swissquote Bank and Swissquote Bank accepts no liability whatsoever for the actions of third parties in this respect.