WEEKLY MARKET OUTLOOK

31 August - 6 September 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

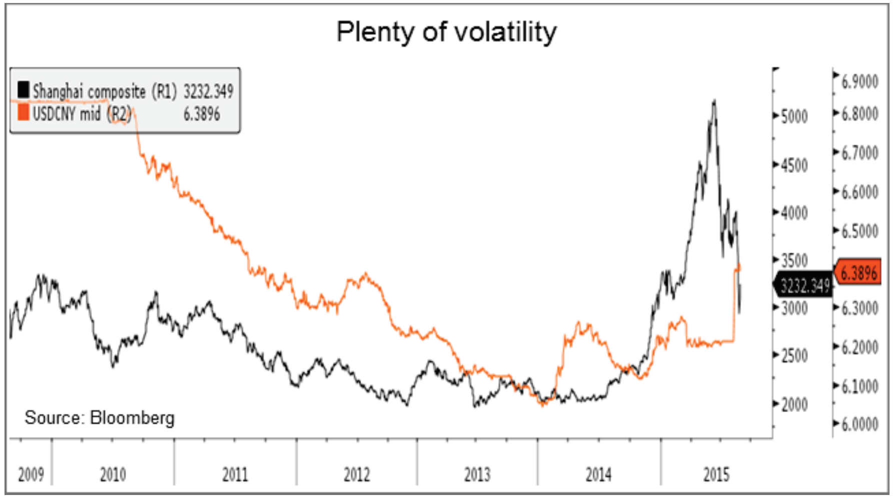
Economics

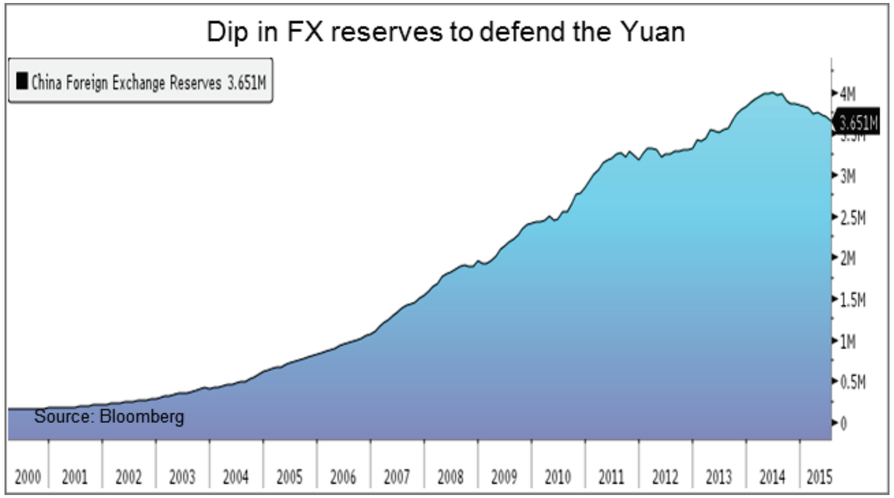
China's Potential Action Could Influence Fed Policy

A series of mis-steps by Chinese authorities in managing financial transactions and refocus on weak economic conditions triggered a massive sell-off in domestic equities, sparking capitulation in global financial markets. As a result, China's officials were forced to abandon their ambitions to be included in the IMF's SDR basket by devaluing the yuan (sparking fears of renewed currency wars). As the situation worsened, China began to take aggressive measures to halt the financial emergency. Alongside of currency intervention, rules on and direct purchases of equities were enacted and the PBoC cut the one-year lending rate 25bp to 4.60% (their fifth action since November) and dropped the RRR 50bp for all banks.

Rumors of China dumping Treasuries

Official actions and shift in investors sentiment has monetarily stopped the selling pressure. But there are increasingly credible rumors that China has been selling its holdings of US treasuries in order to raise the dollars needed to boost the yuan. According to the latest treasury data, China controls $1.48 trillion of U.S. government debt. Interestingly, despite the safe-haven seeking behavior that came over global markets and corresponding fall in developed markets yields, US yields have remained firm. Given the potential transaction sizes involved, the selling of US treasuries could have prevented yields from dropping lower. China has a variety of yuan raising options available, so choosing to sell US treasuries could be questioned. Clearly, elevated US yields would be viewed by the Fed as rationale for waiting to tighten rates, while higher rates in the US would exacerbate capital outflow from China (prompting additional costly FX interventions). We could be witnessing, after years of carefully disguised threats, the first time that China is indirectly influencing US monetary policy.





Economics

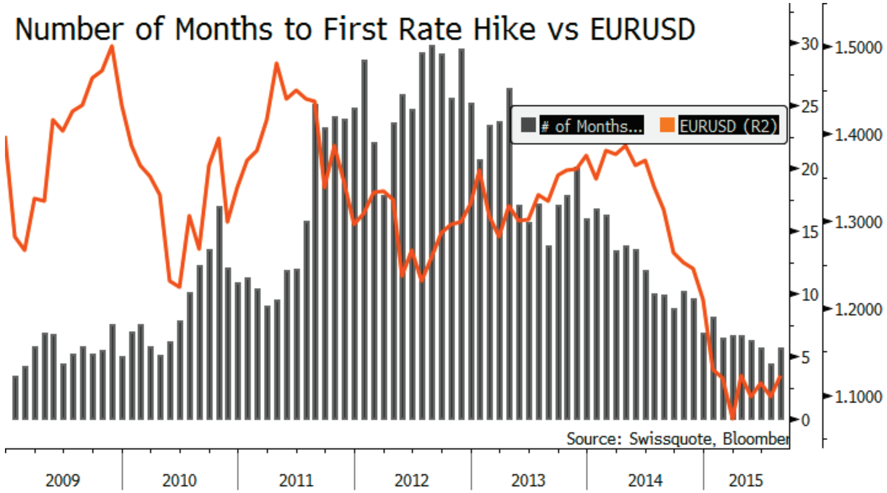
U.S.: Fed Is Not Going To Raise Rates In September

The Federal Reserve Bank of Atlanta President Dennis Lockhart spoke last week to the 2015 Public Pension Funding Forum. Traders expected some hints from the Fed's member about a possible rate hike in September. Lockhart only mentioned that the global market outlook, and more specifically the strong dollar, the yuan devaluation and the falling oil prices are making difficult to predict the pace of the growth. In other words, he was saying that raising rates was not possible under those market conditions.

Hence, Dennis Lockhart refused to confirm that he would favour a September lift-off. On our side, we remain negative about a September rate hike as we are still thinking that U.S. data are still not fully supporting a change in the monetary policy. In addition stock markets are collapsing and therefore prevent any rate hike at the moment. Indeed, it threatens the Fed's objective of financial stability and full employment.

The ongoing situation confirms our view that no rate hike will happen in September. Stocks markets are still overpriced. For the U.S., it is the result of the ZIRP (zero interest rate policy) which flooded money into the stock market in expectations for the investor to get higher returns. The efficiency of quantitative easing has also to be questioned. It can be seen as a leverage of the zero-interest rate policy. And talks about the next quantitative easing kicks in. This is something that we have to think as long as it becomes clearer that there is no clear U.S. recovery.

EURUSD reached 1.1700 last week and we think that we will see again those levels. Nonetheless, the Eurozone is still struggling to enter into a sustainable recovery and the surge in EURUSD is likely to be temporary.

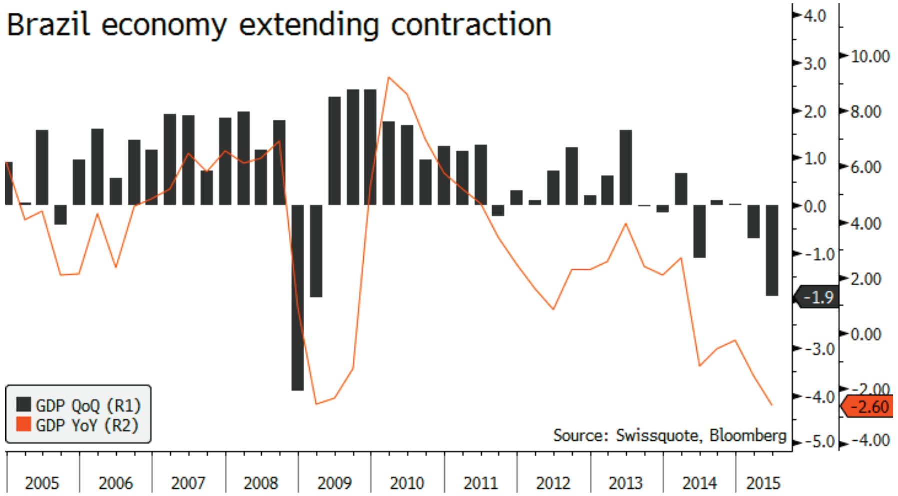


Economics

Brazil Faces Deeper Recession

Bad news keep pilling up for Brazil. Latest data indicate that the economy contracted at a faster pace than anticipated. During the second quarter of 2015, gross national product contracted 1.9%q/q versus -1.7% median forecast or -2.6% versus -2.1% on a year-over-year basis. Moreover, first-quarter figure was revised downward to -0.7%q/q from -0.2%. Data through Q2 show that investment are not bottoming out as it contracted 8.1%q/q. A weak Brazilian real is also severely impacting imports as its contracted 8.8%q/q while also positively impacted exports as it grew 3.4% over the same period.. Consumer spendings fell 2.1%y/y and government spending rose 0.7%q/q.

The economy is heading for a more sever contraction and the current political gridlock together with high interest rates will maintain the pressure on investment, eventually postponing a potential recovery.



Central government budget balance on the soft side

The central government's primary fiscal result for July came in on the soft side last Thursday with a deficit of BRL 7.2bn versus 6.8bn median forecast and 8.2bn in June as President Rousseff's government struggles to pass austerity measures aiming at cutting government's expenses.

Thus, in spite of a rebounding Brazilian real and a recovering stock market, both driven by renewed interest in risky assets, fundamentals remain roughly unchanged for Brazil. Even worse, mounting evidence of a faltering Chinese economy - China is the Brazil's biggest trading partner as roughly 20% of its exports go to China - are clouding the country's economic outlook. Even though we expect USD/BRL to trade lower by the end of the year, in the short-term the real should remain weak as long as the threat of a credit-rating downgrade persists.

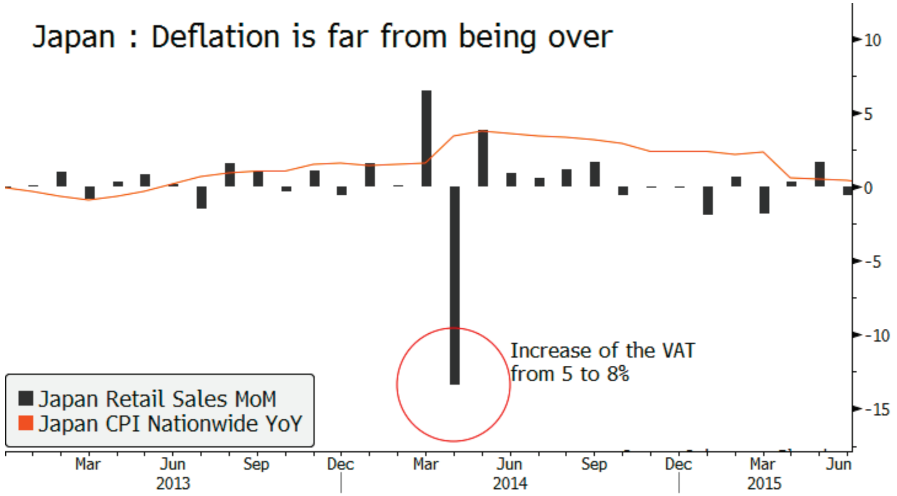
Economics

BoJ Maintains Its Inflation Target

Against all odds, Japan's PPI Services came in above expectations at 0.6% year-on-year for July. The move is very light and this indicator is not closely watched by market participants. However, as most economic indicators out of Japan, that one delivered a mixed message. Japan is still struggling to enter into a sustainable growth trend, in spite of massive quantitative and qualitative easing program from the BoJ.

Last Thursday, Bank of Japan's Governor Kuroda has spoken in New York about Japan's Inflation target. It turns out that Kuroda is still confident that the 2% inflation target may be reached by the end of 2016 with the current level of monetary stimulus. It still seems to us that this target is too optimistic due to lingering low oil prices. However Kuroda mentioned that the Japanese central bank stands ready to change its inflation target if needed. The BoJ is also thinking to increase quantitative easing as it is clear that the ongoing policies are not having the results one could expect. Indeed, the stimulus were purely massive and there is no positive results at the moment. By the way, Q2 GDP printed at a too low -1.6% year-on-year. The country is hardly out of the deflation period and there is, for the time being, no sustainable sign of recovery

In addition, the BoJ is fighting against a strengthening yen as a Fed lift-off fades away. A strengthening currency will open up new discussions for additional monetary easing and even worse, it will threaten the "Abenomics" growth plan. Nonetheless we consider that the "Abenomics" only destroyed consumer spending. And without consumer spending, no growth may occur. We keep on thinking that in a near future the inflation target will be lowered and the central bank will be obliged to create more stimulus through the usual quantitative easing.



FX Markets

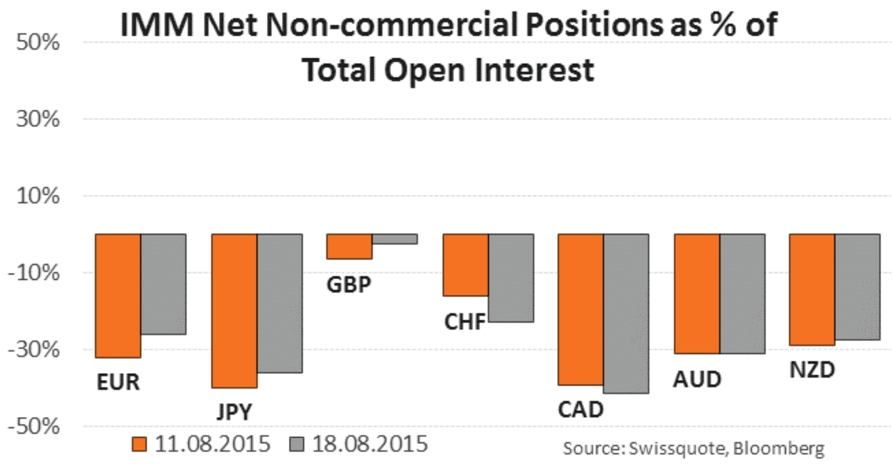
IMM Non-Commercial Positioning

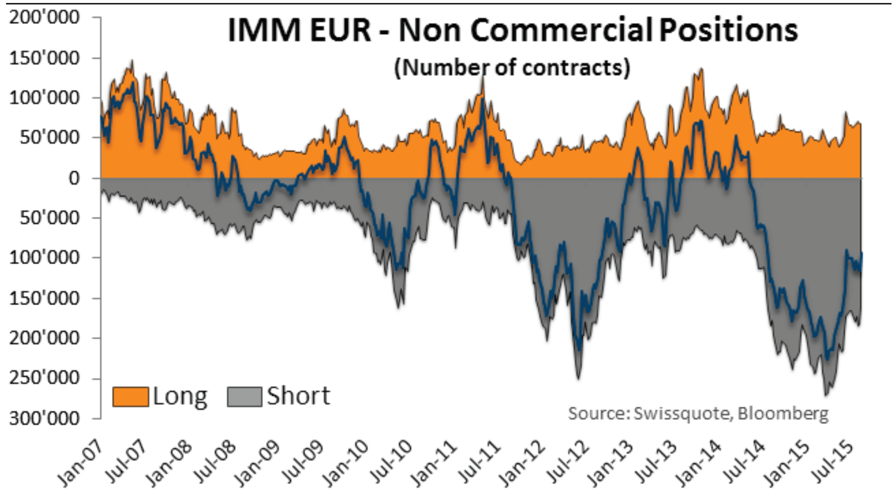
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

The IMM data covers investors' positions for the week ending August 18 2015.

Short EUR positions have decreased substantially and continue to do so as traders price in a delay of a first lift-off since 2006 from the Federal Reserve. The probabilities of a rate hike in September fell below 30% compared to 36% a week ago. Short positions have also decreases substantially in JPY and GBP for the same reasons.

On the other hand, short positions in AUD and NZD have remained stable as China weighs on commodity prices. Short positions in CAD continue to build as crude oil price was heading below $40 a barrel.





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.