SWISSQUOTE

WEEKLY MARKET OUTLOOK

7 - 13 September 2015

DISCLAIMER & DISCLOSURES

WEEKLY MARKET OUTLOOK - An Overview

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Economics

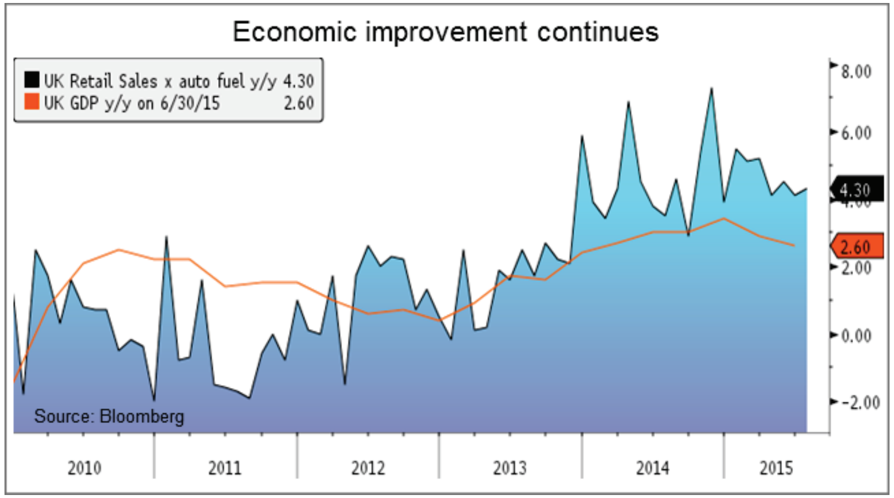
Waiting For GBP Rally

Concern of 1.62 year-end forecast

We have an extremely bullish call on the GBPUSD year-end price (1.62) so yesterday's clear break below the 200d MA was concerning. The direct catalyst was disappointment over the manufacturing PMI index that slipped to 51.5 from 51.9 rather than rising to 52.0 (traders were less concerned over US ISM downside surprise). Therefore positive economic data would help ease our downside concern. However, UK construction PMI was mixed coming in at 57.3, below expectations of 57.5 but above prior read of 57.1 in July. The slight increase was the supported by sentiment and output growth which have decelerated but still stands at elevated levels. Not a huge positive adjustment but perhaps enough to keep GBPUSD consolidating above retracement and key support level at 1.5170.

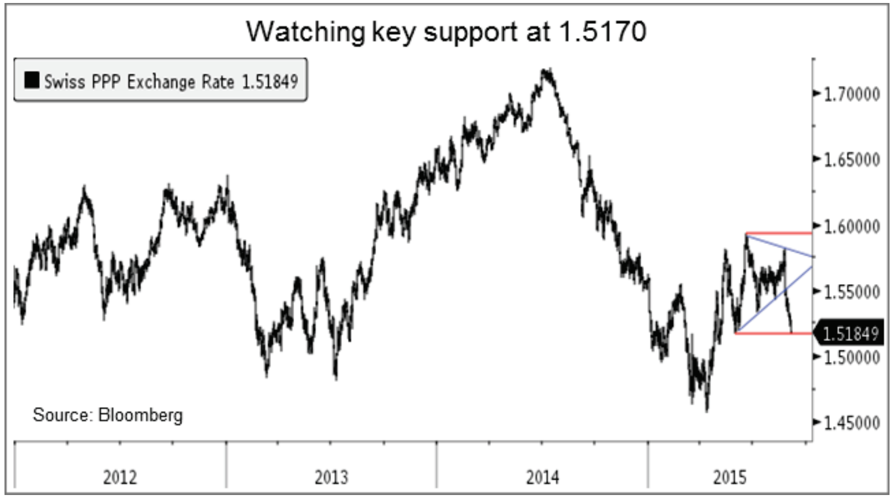
UK economy still strong

Our bullish view remains that the market is underestimated the strength of the UK economy and misjudging the BoE inflation fighting intentions. BoE Governor Caney sounded relatively optimistic at Jackson Hole shrugging off downside risk to the global economy. Noting, China's troubles could "impart further imported disinflationary pressures over the policy horizon," however, "developments in China are unlikely to change the process of rate increases." This suggests that the BoE is likely on a path for rate hikes in early 2016 should the economy remain strong. A higher conviction level regarding the BoEs rate path would give the oversold GBP the kick were are looking for.



Economic improvement continues

Source: Bloomberg



Watching key support at 1.5170

Source: Bloomberg

Economics

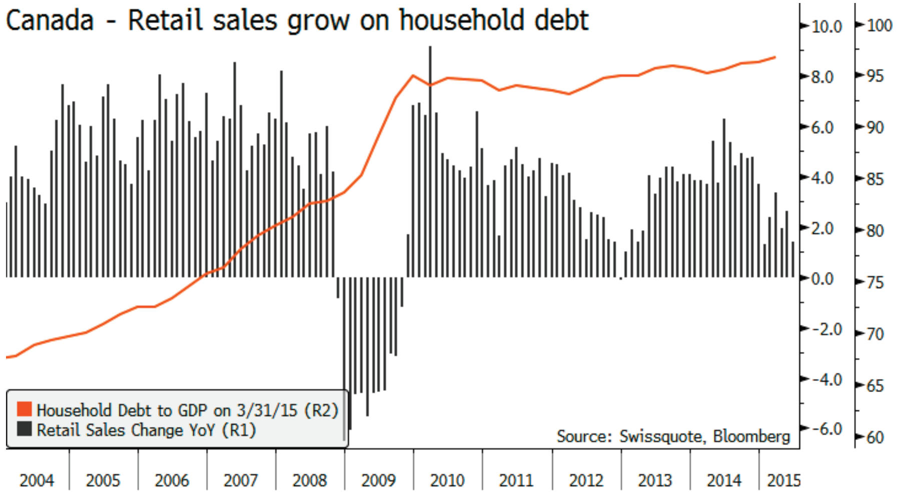
Canada Officially Enters Recession

Low oil prices were expected to have a significant impact on the Canadian GDP figures that have been released last week. The June figure came in at 0.5% month-on-month vs 0.2% expected. In addition the Q2 annualized data printed at -0.5% year-on-year, higher than the -1% y/y estimates. Those data came in negative in spite of the fact it came in higher than expectations. Canada has now entered into a technical recession. In other words, it corresponds to two quarters in a row of economic contraction. The country is definitely suffering from low commodity prices.

Three major issues are causing the Canadian economy to shrink. First of all, business investments are declining for the third quarter in a row and they are absolutely necessary to foster job growth. In addition, the GDP weak read has not to be only fully explained by low commodity prices. Indeed, major Canadian industries have seen their revenues declining. For example, the construction industry has declined by 3.2% since last December. Last but not least, household debt is rising. Even if consumer spending increases, major part is due to the increasing indebtedness.

The USDCAD is trading around its highest level of the year. The recent surge in oil prices will provide a breather to the country for which oil is the major industry. However even if the WTI is now holding above $45 a barrel, it was below $40 less than a week ago. Volatility is just massive at the moment. Hence, a surge might be temporary and we are still looking for evidence of consolidation.

Nonetheless, we think that, despite that Q2 GDP printed lower, the loonie will gain positive traction as any upward move in oil prices strengthens the Canadian currency. In addition, against the backdrop of a future delayed U.S. rate hike, we target the pair to challenge the 1.3000



Source: Swissquote, Bloomberg

FX Markets

USD/BRL Goes Through The Roof

Keep the pace

Two weeks ago data from Brazil were already pretty ugly. The Brazilian economic contraction accelerated during the second quarter as GDP declined 1.9%q/q while in the first quarter GDP fell 0.7%q/q. Unfortunately we didn't get better data last week as July industrial production contracted 8.9%y/y versus -6.3%y/y expected and -2.8% in August.

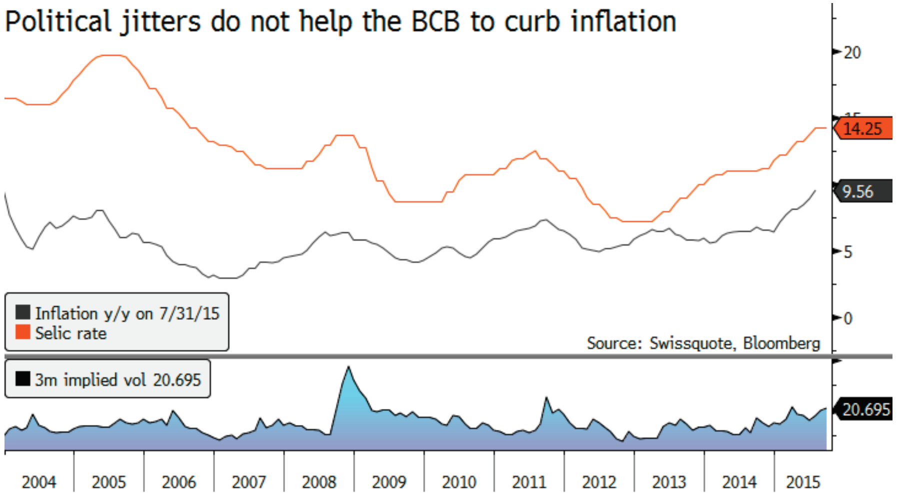
BCB's policy unchanged

Last Thursday the BCB decided to leave the Selic unchanged at 14.25% as inflation expectations start to anchor around 5.50% for 2016. Even though the BCB's target of 4.5% will be missed in 2016, the market still believes that the Central Bank is committed to bring inflation toward this level.

Political uncertainty hurts the BRL

In our opinion the Central bank has done its job so far and any additional increase of the Selic rate will rather have a higher marginal cost for the economy in terms of growth and unemployment level than a positive overall effect. Now it is the turn of the politicians to do their job and to get the country back on track. The congress has to find new sources of revenue and cut expenses to address the fiscal deficit. This situation is not sustainable over the long term and the more it lasts, the bigger the damages to the economy. Lingering political jitters are eroding investors' confidence and weigh heavily on the real. USD/BRL has risen more than 40% since the beginning of the year as it reached 3.81 last Wednesday - the highest level since December 2002 - and we see no reason for the real to continue depreciating.

Political jitters do not help the BCB to curb inflation



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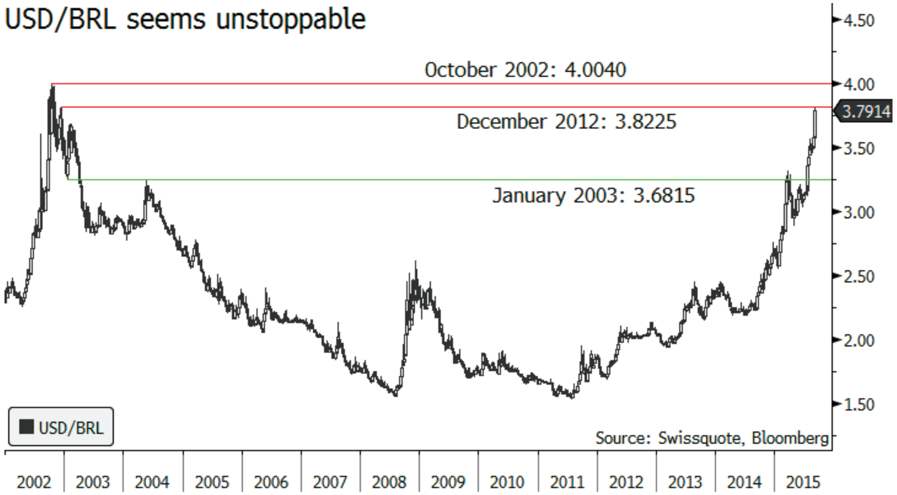
USD/BRL seems unstoppable



Source: Swissquote, Bloomberg

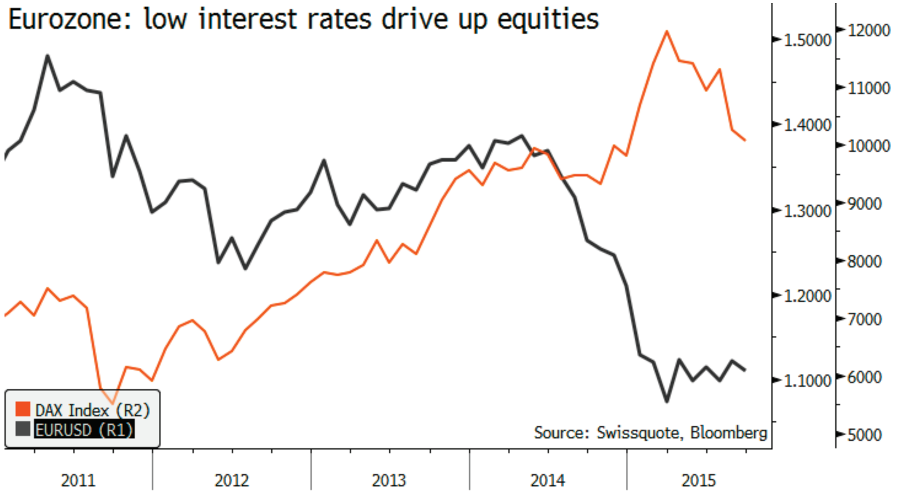
Economics

Mario Draghi Is Willing To Expand Quantitative Easing

Last week, the European Central Bank has maintained unchanged its main interest rate at 0.05%. At the following conference, ECB president Mario Draghi mentioned that new risks have emerged such as lower commodity prices and a stronger euro. Hence, growth and inflation forecasts have been revised down on the next two years. Indeed, the Eurozone growth is forecast to reach 1.4% in 2015 down from 1.5%. In 2016, it is expected to reach 1.7%, lowered from 1.9%. Draghi also added that the inflation could turn negative in the coming months. In other words, the Eurozone may enter a "temporary" deflation period. As a result, the EUR-Complex has fallen last week and the euro is now trading around 1.1140 dollar.

We also consider that the most important information given at this conference was the possible extension of the ECB bond-buying programme. It is now obvious that the Quantitative Easing is seen as the ultimate tool for Europe to return to the path of recovery and sustainable growth. Nonetheless, either in the United States or in Japan, where this monetary policy has been widely used, it appears that the results are still unclear. We consider that the only positive effect has been, for the time being, to maintain equities at high levels. Last Thursday, equity markets welcomed the possible QE extension. The DAX index closed at 1.51%.

On a medium-term basis, we remain bearish on the EUR-complex as we think that Quantitative Easing will only create a fake sentiment of money flooding in the market which will keep on driving up equities, at least for a while. The impossibility for any country to debase its currency is in our opinion the major issue. The pace of the Eurozone economy is set by the strongest economy, Germany. For the other European countries, the only way to follow this pace is to increase austerity policies. Hence, the debt-to-GDP ratio for Greece has exploded and is over 180%. On the other side, Germany seems the only country that is still able to control its debt,



Source: Swissquote, Bloomberg

FX Markets

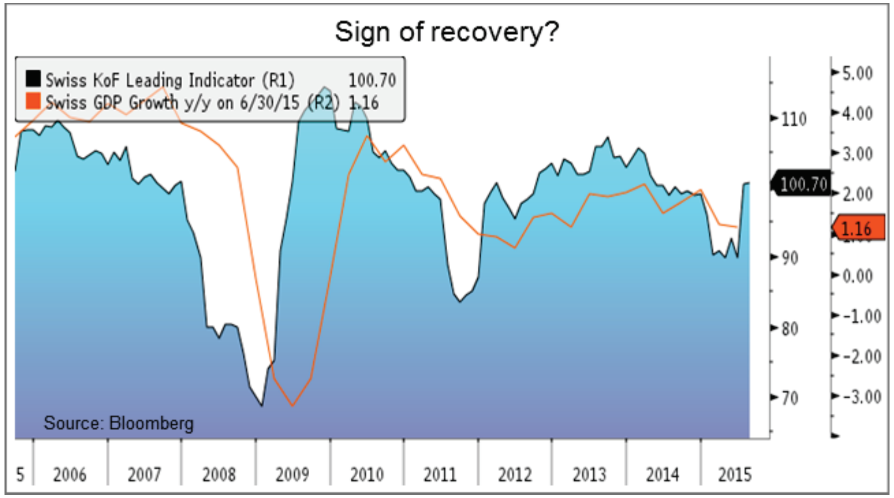
CHF To Remain Weak

Deflation fears

Swiss inflation fell deeper into negative territory fueling stronger concerns over the persistent threat of deflation. the Swiss Federal Statistics Office reported consumer price inflation declined by -1.4% from -1.3% y/y and slight improvement in the monthly number -0.2% from -0.6%. However, the marginal improvement in the monthly read will provide little respite for the SNB. August consumer prices show weakness in all major categories with exception of Food and non-alcoholic beverages

CHF to fuel carry trades

In a surprise read, Swiss KoF August leading Indicator barometer rose to 100.7 from 100.4 (100.3 expected read). However, for the past 5-years KoF leading indicator has been volatile and not a solid indication of Swiss GDP growth. Therefore due to other incoming economic indicators, we remain negative on the Swiss economic outlook and with that bearish on the CHF. Swiss growth and inflation outlook is weak and the SNB will keep policy loose, encourage traders to utilize the CHF as a funding currency for carry trades. Renewed weakness in the CHF after a spell of strengthen due to safe-haven buying, will be of some comfort to the SNB. As well as the overall negative sentiment. However rather than just leave the CHF fate to the markets, SNB President Jordan reiterated that the SNB is primed to intervene in FX markets if necessary and cautioned that the deposit rate could be cut further if required (currently -0.75%). Over the weekend, Jordan stated that "we'll have to live a certain time with negative rates". While some apprehension exist over the reliability of SNB comments after the abrupt abandonment of the EURCHF "floor", markets are slowly rebuilding a new "SNB put" position.



Sign of recovery?

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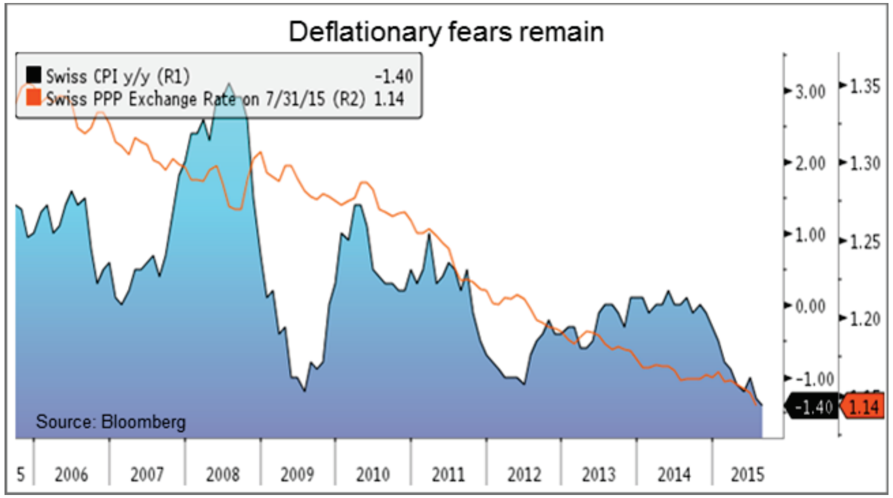


Deflationary fears remain

Source: Bloomberg

FX Markets

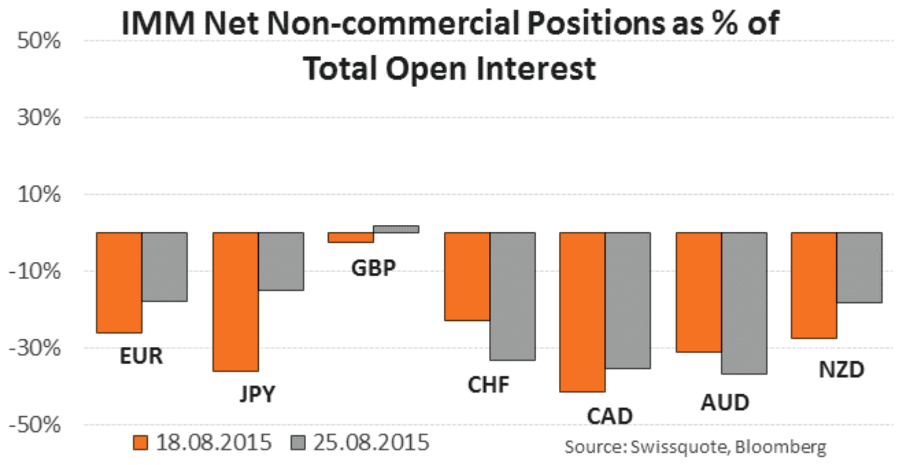
IMM Non-Commercial Positioning

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.

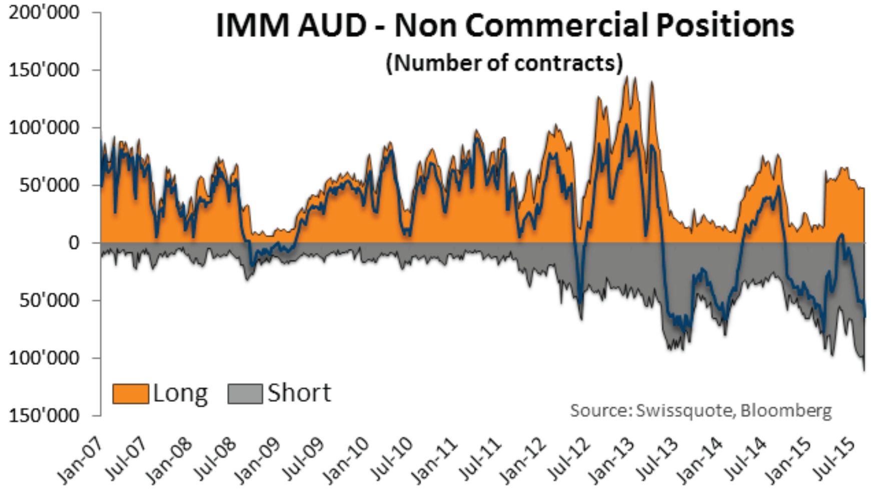
The IMM data covers investors' positions for the week ending August 25 2015.

Short AUD positions have continued to increase massively over the summer, bringing AUD/USD to level last seen in April 2009. Even though the market did not expect any rate hike from the Reserve Bank of Australia, turmoil in China and global growth concerns pushed the AUD lower, increasing considerably short positioning.

A sharp change in position has occurred in JPY: net short JPY positions have moved from 35% to 15% as risk-off sentiment took over dollar bulls. However, we expect net short yen positioning to have increased over the following week as recent data from Japan came on the soft side.



Source: Swissquote, Bloomberg



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