SWISSQUOTE

WEEKLY MARKET OUTLOOK

5 - 11 October 2015

DISCLAIMER & DISCLOSURES

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WEEKLY MARKET OUTLOOK - An Overview

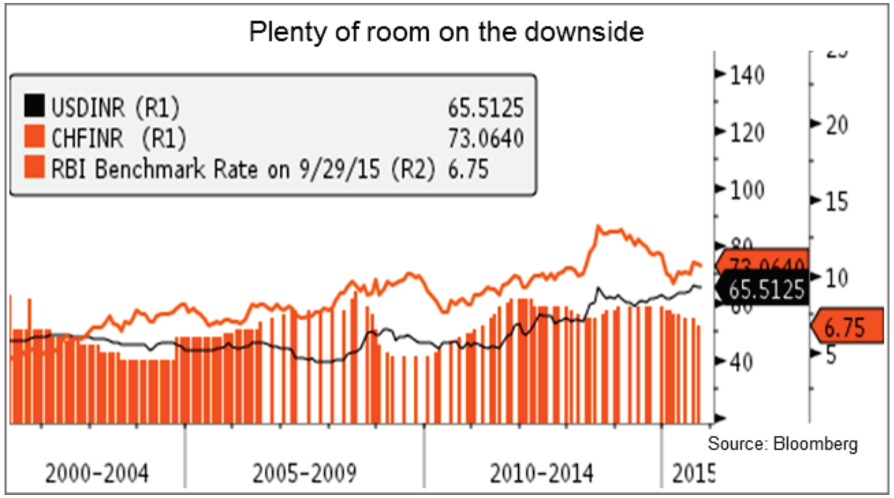
Economics

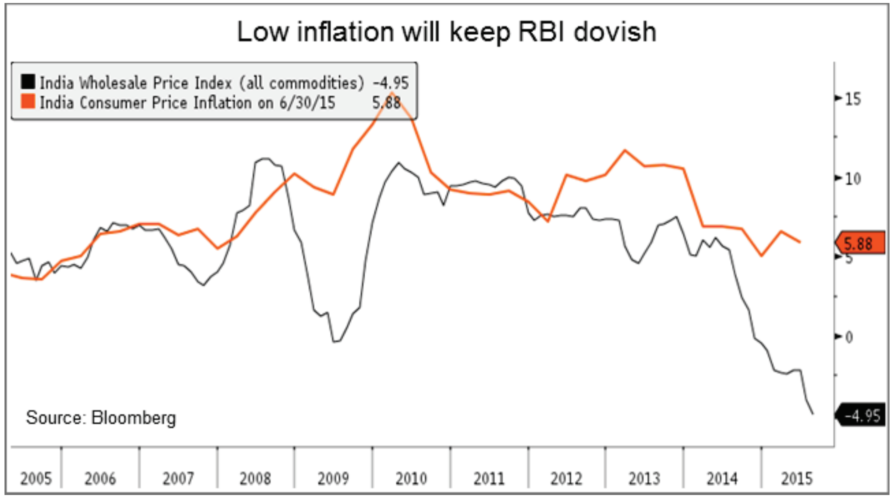
India Cuts Rates But INR Stays Strong

EM recovery rally could start in India

With China providing measure to stabilize domestic situation and US economic data providing supportive growth EM currencies feel less fragile. In an unexpected move, India's central bank (RBI) cut benchmark rates by 50bp to 6.75% (lowest level since May 2011), against an expected 25bp cut. Following the surprise move, the accompanying statement was also dovish, as the commodity driven disinflationary trends endure. Subdued oil and food prices have sent major inflation indices into a tailspin. India's WPI fell to -4.95% for August, while headline CPI mid eased to 5.88% (combined CPI 3.66%), which is currently within the central bank's target band. Yet the downward trajectory is concerning. In addition, Governor Raghuram Rajan indicated that "weakening of global activity," suggests that "monetary policy has to be accommodative to the extent possible." Given the RBI's dovish view on inflation outlook we now anticipate the central bank's easing cycle to extend past 2015. However, part of the logic for the larger rate cut was mounting political pressure. Prime Minister Modi's government has lobbied for lower rates to support slowing growth and to reduce high borrowing costs.

In spite of the negative connotations of today's decision, the Indian outlook remains secure. GDP grew at a solid 7.0% y/y in Q2 2015 (outpacing China), and economic indicators point to further acceleration. Consumer consumption is on the rise and public spending is supporting weakness in foreign investment. Finally, government commitment to reforms, coupled with lower oil prices have improved India's current account and fiscal balances, which should support increasing investor confidence. Despite the active easing bias, we remain positive on the INR. The solid growth outlook should outweigh the lower carry, while the overall sense that policy makers are conducting the correct strategy will improve India's short and long-term outlooks.





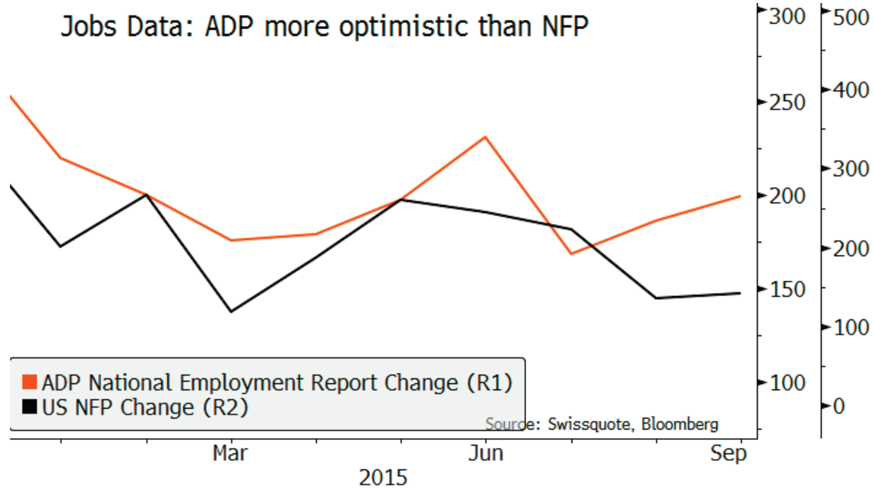
Economics

Weak Jobs Data Prevent The Fed To Hike Rates This Year

Growth in the construction and service sectors has not finally driven Nonfarm Payroll data higher for September. The jobs data showed a very weak read at 142K versus consensus at +201k jobs. Even worse, August's data has been revised down to 136k from +173k. A few days ago, ADP jobs data printed above expectations which, one more time, missed spectacularly to predict NFPs. As a result, we think that the Fed is still waiting for more supportive data to raise rates. A strong read would have given officials some relief. It's been a while since the Fed has dropped hints about the timing of the rate hike. It's starting to become difficult to trust the central bank.

It is, however, true that markets are still pricing in a rate hike later this year. The likelihood for October is low. Calculations are showing a 16% probability for this month. Yet, traders are still hoping that December will finally end the zero interest-rate policy. The odds are slightly below 50%. On our side, we still believe that a rate hike before year-end is not on the cards and we have always maintained this position even when the market was against us in June. The fundamentals remain just far too weak and the debt too large.

Meanwhile, Fed officials repeat that inflation is the key deciding factor for a change to the monetary policy. We will be closely watching today's wages data. An upside move would put pressure on inflation and push the Fed to move rates higher. Nonetheless, we remain bearish on the EURUSD as possible expansion of the ECB QE pushes the pair downside. In addition, the dollar is driven higher as there are still important US recovery expectations despite increased selling pressures on the dollar as the Fed continues to delay its first rate hike. This is not the case for the single currency for which a rate hike is not foreseen before 2018.



Economics

CHF Remain Strong As Risk-Off Sentiment Builds

Swiss data surprises to the downside

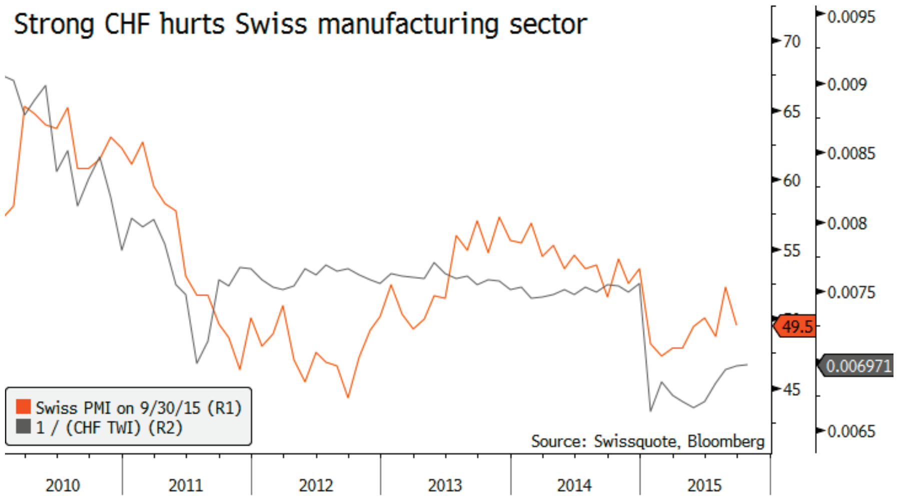
Manufacturing sectors are contracting across the planet and Switzerland can no longer be considered an exception. According to the latest data, Swiss purchasing mangers' index surprised to the downside in September, printing at 49.5, less than the median forecast of 51.8 and previous month read of 52.2. For the first time since March, the output (s.a.) contracted to 49.1 in September from 62.4 in August.

At the same time, August real retail sales contracted 0.3%m/m (-2.5% in nominal terms), compared to an upwardly revised increase of 0.1%m/m in the previous month, as volatile components such as food, beverage, tobacco and fuel continue to weigh on the index. When excluding fuel, retail sales grew 0.6% (-1.6% in nominal terms).

Despite the recent depreciation of the Swiss franc to EUR/CHF 1.10, the CHF is still widely seen as overvalued. And looking at the data above suggest that the Swiss economy needs more than a slight depreciation to recover its cruising speed. However, as Swiss National Bank's Vice Chairman Zurbrügg put it during the KOF forecast conference last Thursday in Zürich, the Swiss economy is used to dealing with a strong CHF and is even able to manage such tough period relatively well - as long as it does not last forever. What really hurts the Swiss economy is unusual high levels of uncertainty in the global economy and the least we can say is that the global economic environment was disrupted in August and September. With more stable economic conditions around the globe, we should see an improvement in the economic outlook for Switzerland, which would also allow the CHF to weaken further again most currencies. The big question is how long do we have to wait ? We are optimist regarding the economic outlook for Switzerland and we expect some improvement by the end of the year.

CHF gains as risk-off sentiment persists

The Swiss franc has been appreciating recently, driven by a global risk-off sentiment. The highly volatile environment and uncertainties about growth outlook have push traders toward safe-haven assets. Unfortunately, the last job reports from the US did not help to improve the situation as a rate hike in 2015 is not guaranteed anymore. We therefore expect that the Swiss franc will remain strong over the next few weeks as uncertainties surrounding the timing of the lift-off by Fed's continue to build up.

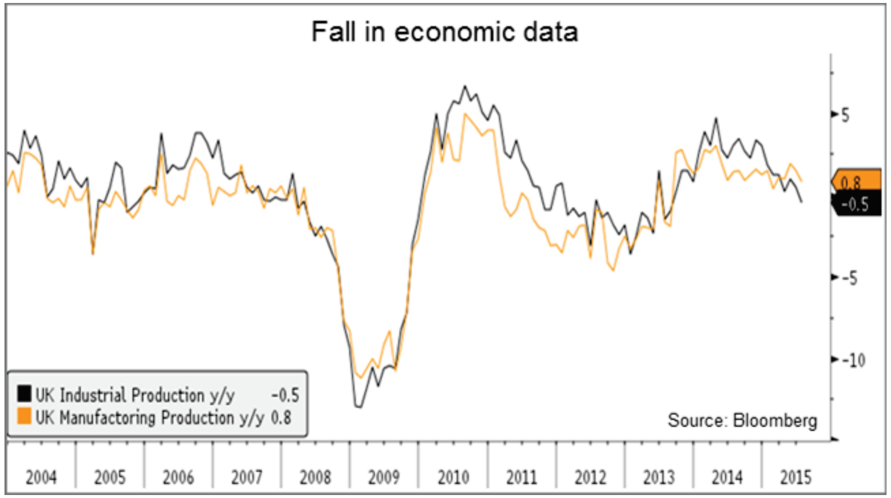


Economics | Weakness In The UK

Expectations for BoE hike gets pushed back

The shine has clearly faded from the UK economy, indicating further downside in GBPUSD. Despite hopes and predictions of lower trade exposure to Asia's economic slowdown, and against the backstop of a strong global service sector, the UK economy is displaying signs of slowdown. GDP Q2 final estimates were revised lower to 2.4% from 2.6% yoy with the quarter on quarter read unchanged at 0.7%. Expectations for a BoE rate hike have now been pushed to November 2016. While the data remains marginally buoyant, primarily due to housing market fortitude, forward expectations have decreased meaningfully. Yesterday's, mortgage approvals surged to 71.0k, following an upwardly revised read of 69.0k in July (highest level since Jan 2014) and Nationwide House prices increased by 3.8% yoy as inventory concerns increase. Yet consumer confidence slipped to 3 from 7 and tomorrow's manufacturing PMI is expected to fall to 51.3 from 51.5 with risk skewed to the downside.

Finally, lingering concerns of a "Brexit" have advanced in recent weeks due to Europe's confusing policy towards the refugee crisis and the Labor Party's confirmation of their non-commitment to staying in the EU. Elsewhere, BoE governor Carney has provided little clarification on the here and now but rather is more focused on tomorrow's issues. Instead of focusing on monetary policy strategy, the governor discussed the financial market's relationship to climate change. Obviously this did little to stem the GBP sell-off. While distant rate hike expectations could provide room for a mid-term bounce in the near term, bearish pressure should remain. For GBPUSD, the trader's breach of September's 1.5170 low indicates an extension of current weakness. GBPUSD traders should remain bearish, standing ready for a test of the 1.5086 support (Fibo 61.8% retracement).



FX Markets

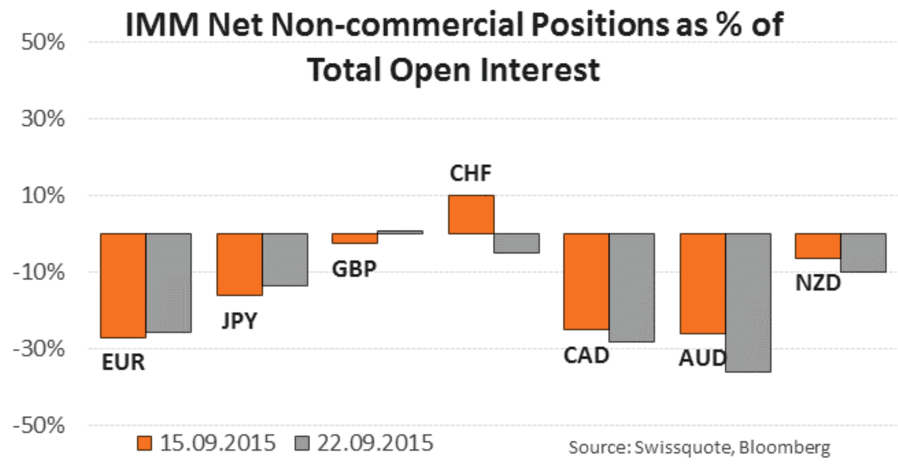
IMM Non-Commercial Positioning

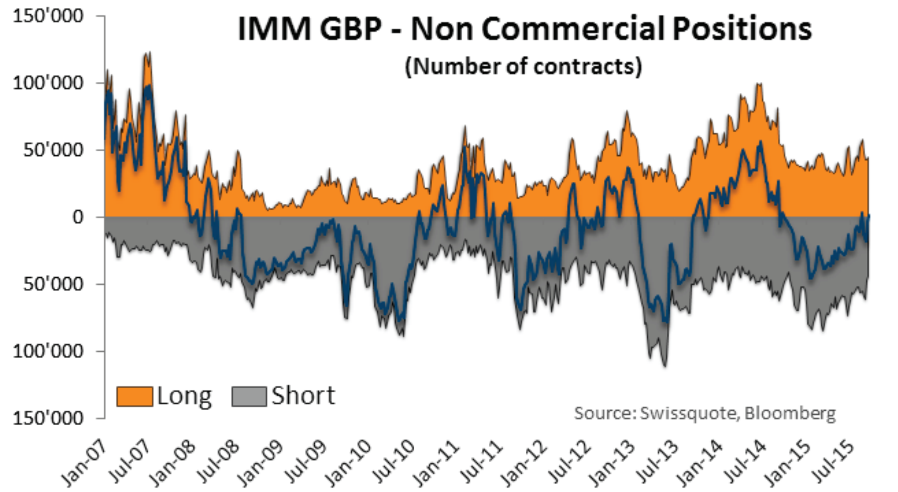
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

The IMM data covers investors' positions for the week ending September 22th 2015.

Swiss franc net position has reversed one more time to short last week. It seems that the market is still on hold, switching from the safe haven to the global uncertainties that are also weighing on the Swiss economy. Short EUR and JPY positions are also decreasing as odds for a first Fed rate hike occurring this year hike are constantly decreasing. 2016 represents now more than a decent outcome for the end of the zero interest-rate policy..

On the other side, short CAD and AUD are increasing. The Canadian and Australian economy are struggling from the lingering low commodity prices. The decline is set to continue as Australia is likely to cut rates next week.





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