SWISSQUOTE

WEEKLY MARKET OUTLOOK

19 - 25 October 2015

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WEEKLY MARKET OUTLOOK - An Overview

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Economics

China: Not In Such A Bad Shape

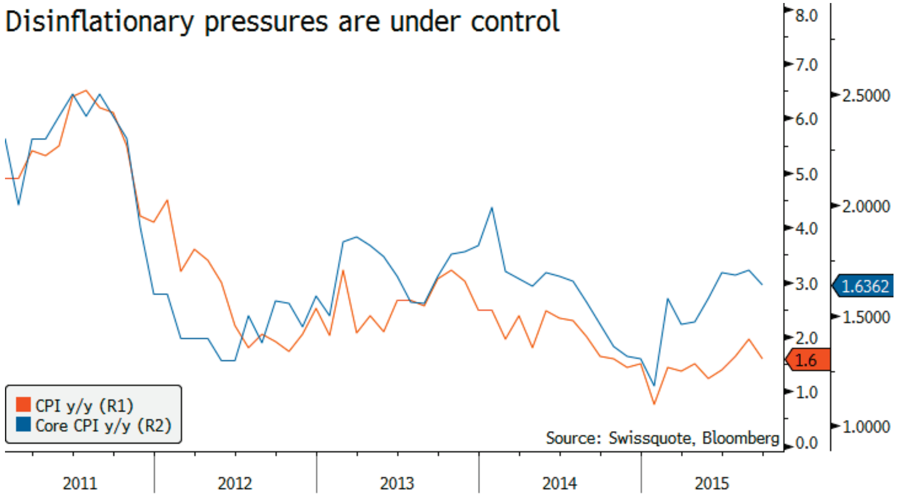
China, not as bad as investors think

There are growing bright spots in the Chinese economy. Pessimists pointed to the housing market as a weak spot that was likely to fold as growth slowed. However, housing prices have in fact-recovered, suggesting that we should also see a pick-up in construction. Early evidence indicates construction PMI bottomed in July. The disappointing import data had some good news in terms of commodities and economic outlook. Imports of oil, copper and soybeans all recorded solid m/m growth. China September auto sales rose by 21.6%m/m, providing the first optimistic reading since March. And finally, margin trading balances rose 3%, potentially providing confidence in equity markets. China 4Q growth should rebound from the weak third quarter due primarily to policy measures, while steady deflationary risks point to more monetary policy easing. CPI inflation came in lower than expected at 1.6% y/y in September, down from 2.0% in August, driven primarily by food prices. CPI, excluding food and energy, has been soft. We anticipate the PBoC to ease further through another cut in the benchmark rate and additional downward adjustments to reserve requirement ratio (RRR).

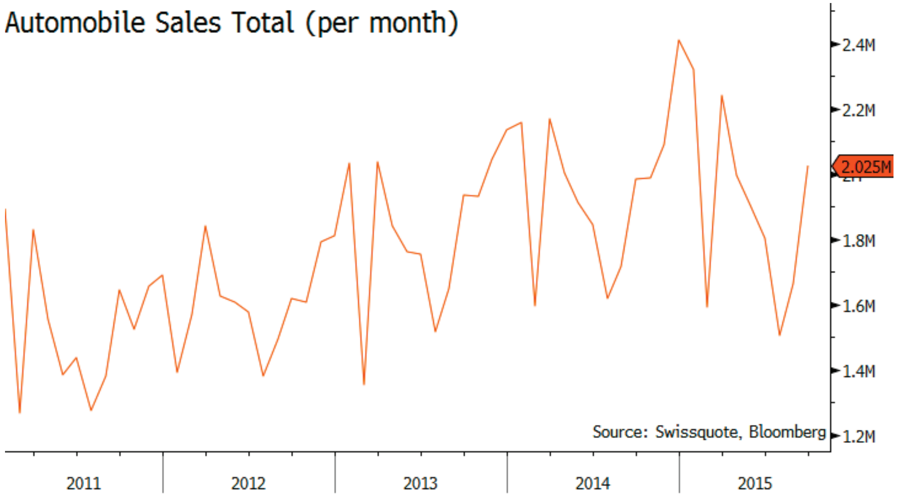
AUD driven by China and Commodity prices

Short-term news that Australia's second largest lender would increase its home loan rates by 20bp. This tightening increases speculation that the RBA will respond with an easing policy next month. As a result, the market has now fully priced in a rate cut for February next year. Looking ahead, AUD should be supported by stability in China and the slow recovery in commodity prices.

Disinflationary pressures are under control



Automobile Sales Total (per month)



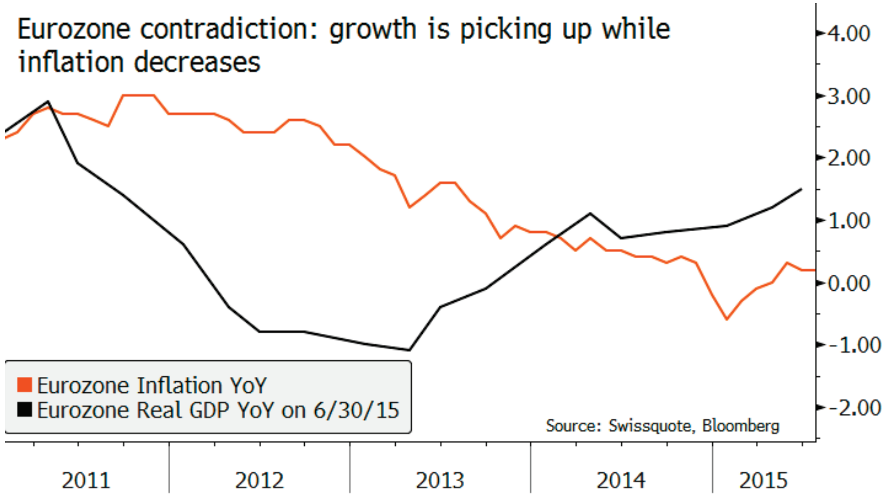
Economics

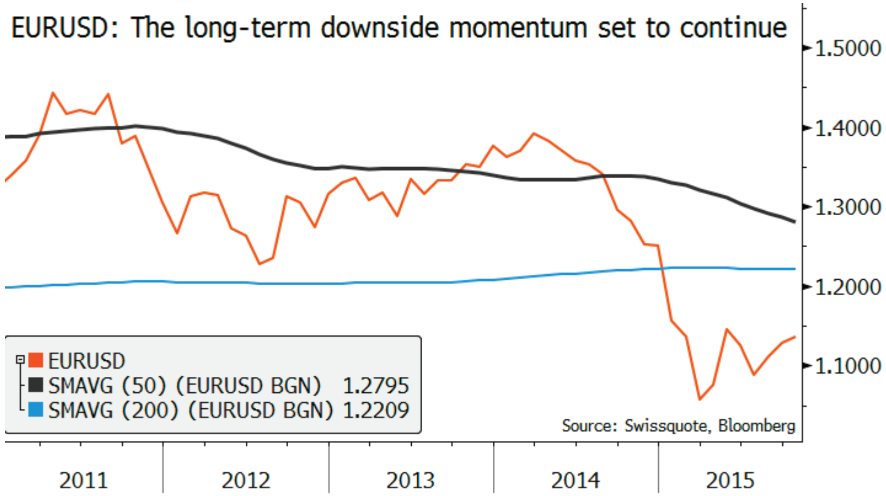
Draghi Sends Mixed Signals

Over the last months, Mario Draghi has dropped a couple of hints suggesting that ECB Quantitative easing may be expanded beyond September 2016, which was the initial end date for the easing program. As a result, we became increasingly dubious about the true efficiency of this monetary policy. Recent Eurozone data does not seem yet very encouraging (industrial production and inflation in particular). Moreover, it is difficult to support a policy that has failed to deliver the desired result in Japan and in the U.S. The latter is still struggling to end its zero interest-rate policy after three different QE programs.

The ECB is trying to reach an inflation target of 2% through its monetary program. If we have to expand the QE beyond September 2016, it only means that we have to even further increase the monetary base than what we intended to do. This definitely shows that even Draghi is concerned about the true efficiency of his program. Therefore, we find it contradictory when Draghi claims that the program is working better than expected and that it will only take longer. If the objectives were realistic, we would not have to inject more money. Draghi is certainly trying to ensure the markets that everything is going well. He is trying to reduce volatility and also to avoid any panic effect that would result if it clearly appears that ECB's monetary policies are not working. The central bank's credibility would be at stake.

The EUR-complex strengthened on Draghi's comments. Expectations for the single currency are improving. Nonetheless, we remain bearish on the EURUSD, which we consider overvalued. The pair is currently trading above 1.1350, and we will be carefully watching out for some possible euro weakness, which would lead the pair to head back towards the 1.1200 level.





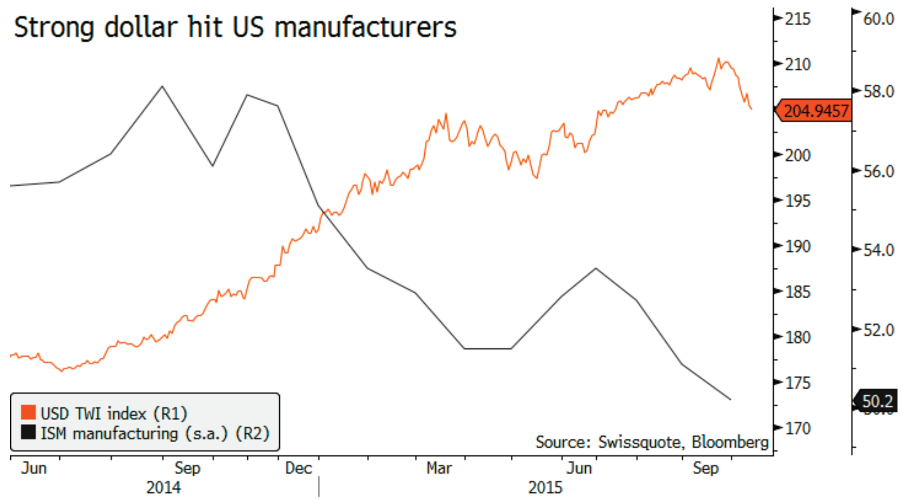
Economics

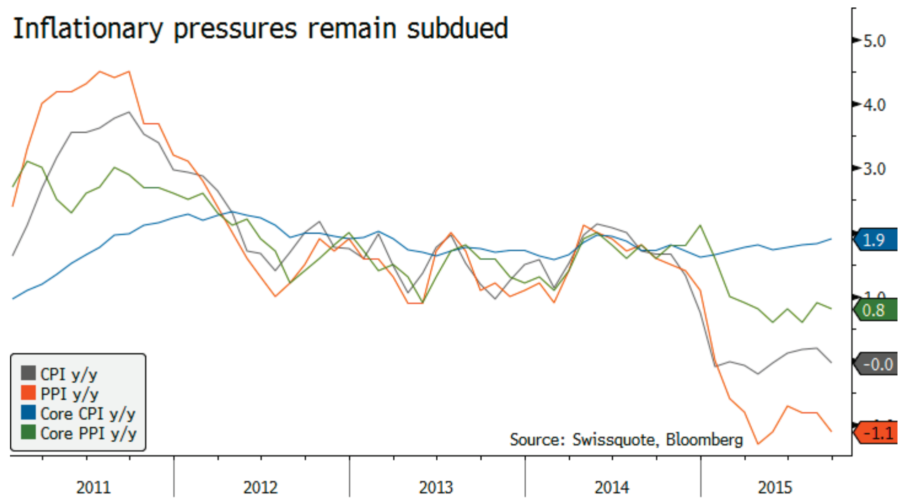
Low Inflationary Environment Will Likely Persist

Latest news from the US confirmed that the economy is expanding at a (very) moderate pace as the industrial sector is being badly hit by the strong dollar and weaker external demand. Half of the 12 districts qualified the growth as "modest" while 3 of them characterized it as "moderate". Wage growth remained subdued in most districts. On the inflation front, the last PPI figures did not reassure market participants while CPI surprised marginally to the upside. Producer price index contracted -1.1%y/y, well below market expectations of -0.8%. The core gauge also came short of expectations, printing at 0.8%y/y versus 1.2% expected. Consumer prices remained flat in September while the core gauge came in better-than-expected at 1.9%y/y versus 1.8% median forecast.

The Federal Reserve is going through a difficult time. For over a year, the central bank prepared the market for a rate hike and at the very last minute the economic machine seized up as the global economy lost momentum. The greenback surged more than 20% on a trade-weighted basis as market participants started to price in the upcoming lift-off. The situation is quite different right know, the strong dollar hurts the export sector, holding back the entire economy.

We believe that a weaker dollar is needed before starting to see any improvement on the entire economy which would translate into renewed inflation pressures. We therefore expect that the greenback will continue to depreciate as the market is definitely pricing out a rate hike in 2015. The few remaining job and inflation reports of 2015 will be key in determining the timing of the lift-off in 2016. Given the current market conditions and the US economic machine, our best guess is for March 2016. In the meantime, we expect the dollar to remain under pressure and to react sharply to upcoming economic data.





Economics

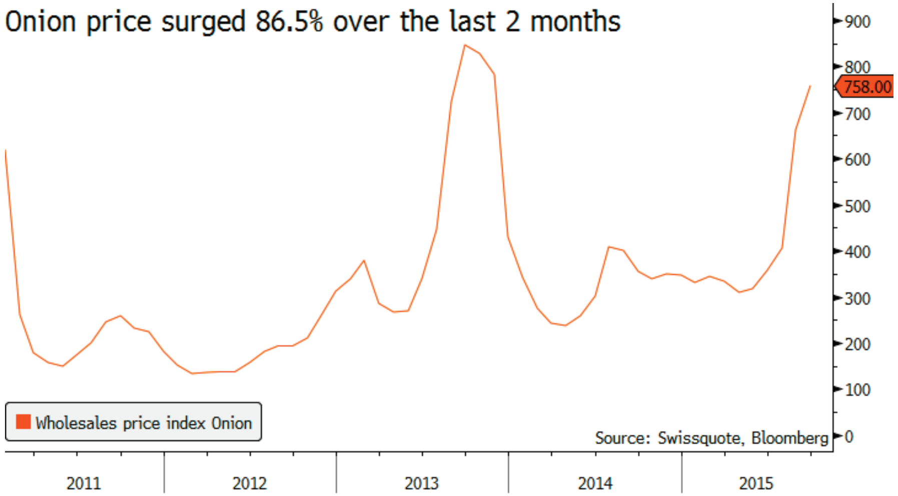
India's Onion Problem

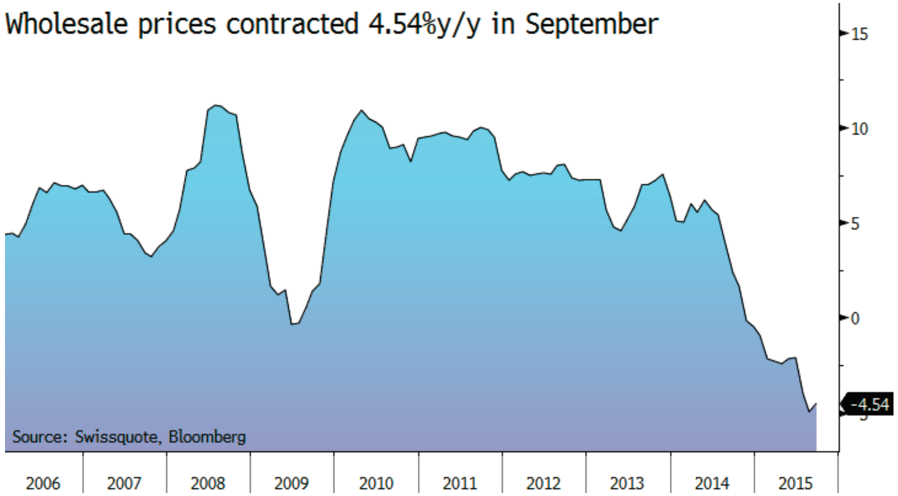
Wholesale prices contracted further

Data release today indicates that India Wholesale prices decelerated by -4.54% y/y vs. -4.42% expected and -4.95% read in August. The slight uptick replicated the acceleration in consumer price inflation reported earlier in the week. CPI inflation climbed 4.41% y/y following upwardly revised 3.74% in August. Food price inflation increased aggressively by 3.88% from 2.20% prior read. While price pressures on food remain broadly contained onion prices continue to rise. Despite government efforts to dampen pressure through significant imports and raids on onion hoarders, trend of rate of inflation for onions rallied 113.70% in September (Wholesale price onion index increased to 758.0 from 662.8).

Onion prices on the rise

Currently the price surge is viewed as a function of poor market structure and perishable nature of the item which makes them ideal of price manipulation. However, onion is a critical part of Indian society and further price increase will produce a backlash in government and RBI. Policymakers will be vigilant over the recent increases in key food prices and inflation expectations we suspect that the RBI is comfortable with its existing strategy. With minimal risk from its "front loaded" 50bp rate cut last month and expectation CPI path to undershoot RBI forecast, the markets are contemplating further easing in 2016. However, with food prices to remain sticky and growth robust (Industrial production printed at a solid 6.4% vs. 4.8% exp) our base scenario is that the RBI holds policy interest rates steady at 6.75%. In the current environment, INR is an attractive currency for risk and yield seeking traders.





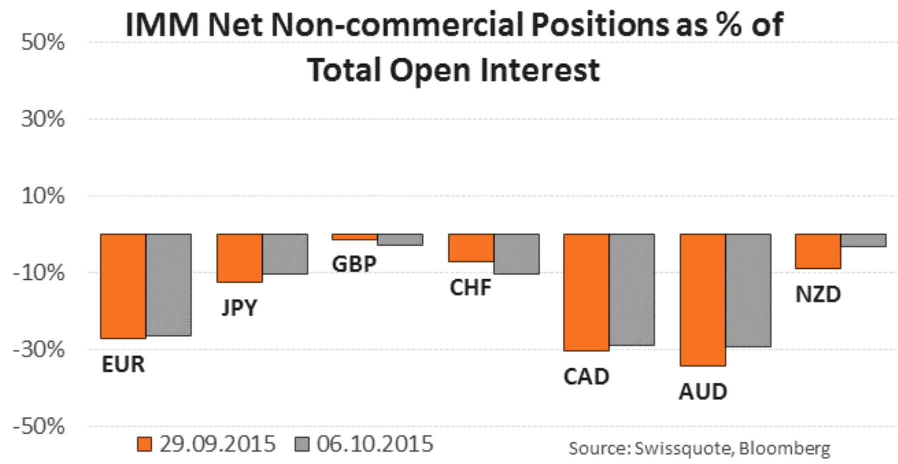
FX Markets

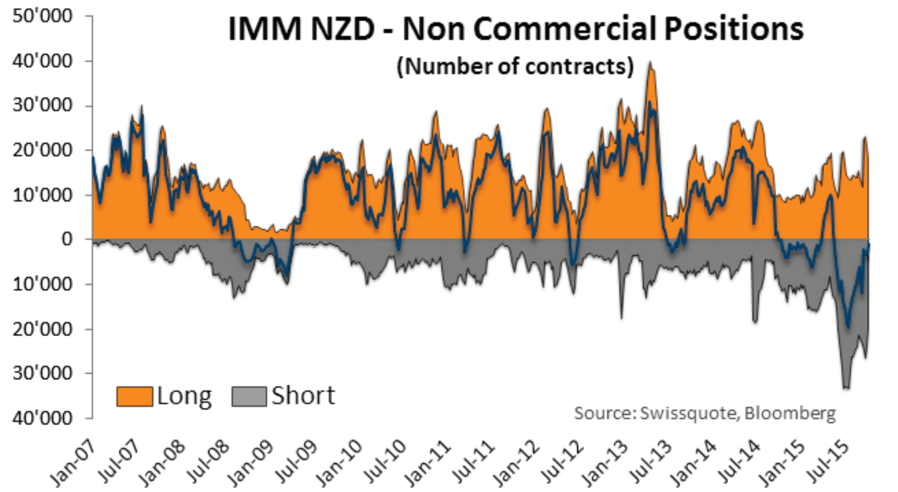
IMM Non-Commercial Positioning

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 October 6th 2015.

Short net positions in commodity currencies have decreased substantially during the first week of October and continued to do so during the following one. The risk-on environment will likely persist, in our opinion, as the uncertainties stemming from the timing of the upcoming Fed's lift-off have been put on the back burner. Short net position in NZD decreased to 3.04% of total open interest from 8.98% a week ago, short net position in AUD decreased to 29.18% from 34.20% while the one in CAD decreased to 28.77% from 30.9%. We think that there is still some room for further appreciation of commodity currency due to the improvement of commodity prices. Moreover, short positions in ZZD should continue to reduce due to a favourable economic environment.





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