WEEKLY MARKET OUTLOOK

2 - 8 November 2015

DISCLAIMER & DISCLOSURES

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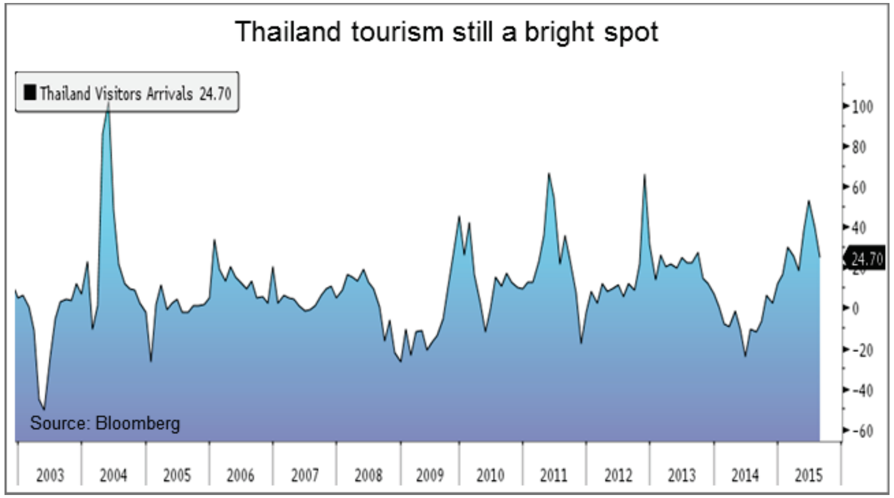
WEEKLY MARKET OUTLOOK - An Overview

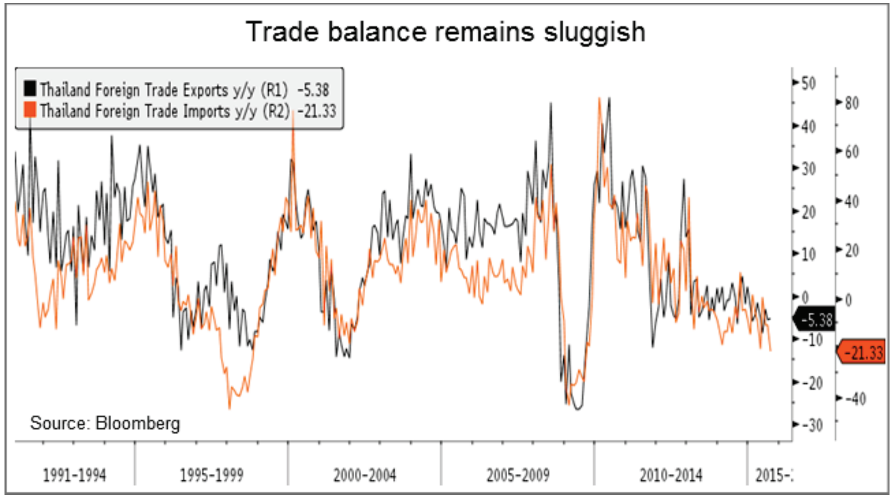
Economics

Thailand Fragile But Stable

Economic data from Thailand continues to show the negative effect of a sluggish external environment and weakness in domestic incomes due partially to the Bangkok bombing. Data showed that Thailand's August current account surplus declined to $2.65bn. The August data demonstrates a decidedly negative trade trend witness in much of 2015, as exports fell by -5.6% while imports dropped -10.8% annually. Worryingly to a historical strong point the Thai economy, tourism slowed considerably. Tourist arrivals growth in in September rose to 8.7% vs. 24.7% prior read reflecting the harsh impact from the Bangkok bombings (August 17th). However, a bright spot remains private consumption which increased by 2.4% from contraction of -0.5% in August, helping to balance-out reduced spending from non-resistance. Bank of Thailand's September quarterly "Monetary Policy Report" suggests that the while headwinds endure domestic demand and government stimulus will provide support moving forward. As noted in the reports, government spending remains crucial in protecting Thailand fragile recovery by supporting private investments. Prime Minister General Prayuth Chan-Ocha has launched roughly $6.5bn in stimulus spending to drive growth. Official BoT expectations is for growth after revision lower stand at 2.7% in 2015 and 3.7% in 2016.

In its latest policy statement, the BoT acknowledged its strategy as sufficiently accommodative, particularly if the THB remains competitive against their regional peers. With domestic conditions improving moderately from August soft patch, it is likely the BoT will stay vigilant but sidelined. With steady growth in developed markets, stability in China and TBH recent weakness, we suspect that growth in Thailand to pick up slightly allowing for BoT to keep benchmark interest rates unchanged at 1.50%. However, policy actions by regional peers, could create a response from Thailand risks of further accommodation will rise.



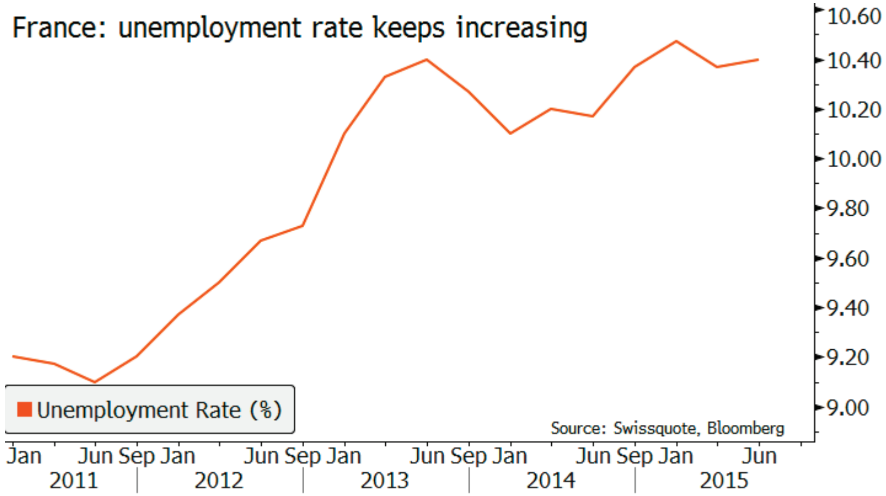


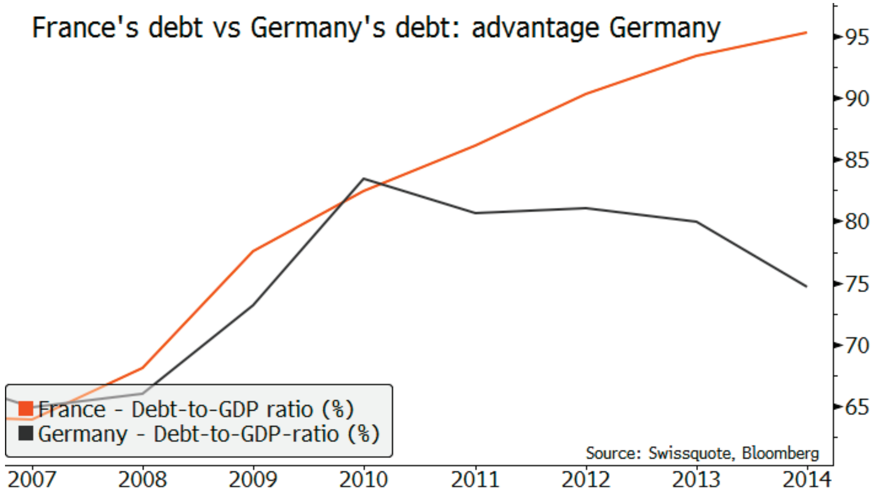
Economics

French Data Improved But Only When Seasonally Adjusted

Over the last seven years, the situation in the Eurozone is deteriorating. France is not an exception in the continent and the total number of French jobseekers has increased by more than 80% during this period. In 2008, around 2 million people were actively looking for a job while this number currently holds above 3.5 million. Last week data, the jobseekers net change, showed a diminution of 23'800 jobseekers. However, we remain very skeptical regarding those numbers. In the official report from the jobs minister, there are 166'000 more people looking for a job than the previous month. The only adjustments have been seasonal. New graduates for example have been removed from this number for example. And it is the way we get this improvement. Actually, the labour market conditions are not getting better. Air France, Fram (the travel agencies), symbols of those issues, are either closing (Fram) or restructuring (Air France).

We believe that the increasing unemployment ongoing trend is not going to stop any time soon. France is still paying the price of the deindustrialization. Its trade deficit remains very large at around 3€ billion. Plus, the inability to debase its currency to be more competitive only paves the way to more austerity policies. A quick look at the exploding French debt-to-GDP ratio shows the French difficulties. Officials were saying that a healthy modern economy was not sustainable with a ratio above 90%. What could we say now that the ratio is way above this threshold? The widening trade deficit increases deflation pressures which will weaken even more the labour market. Indeed, wages will be driven lower in an oversupply of jobs applicants. As a result of this vicious circle, retail sales are set to decrease again, after a low read in September. France is definitely expecting a lot from the ECB QE.





Economics

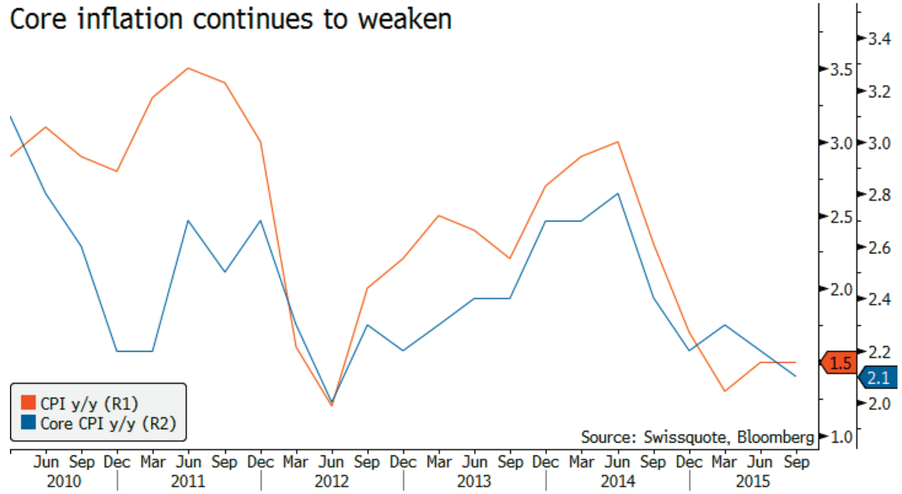
RBA Rate Decision

The Reserve Bank of Australia will release its interest rate decision next Tuesday against the backdrop of low inflationary pressure environment. The last inflation report showed that consumer prices grew only 0.5%q/q while economists were expecting an increase of 0.7%. On a year-over-year basis, prices rose 1.5% versus 1.7% expected. The CPI trimmed mean (excluding the most volatile components) also disappointed, printing at 2.1%y/y versus 2.4% expected but still within the target of between 2%-3%, on average. The market has been pretty optimistic about the Australian economic outlook over the last few weeks as commodity prices recovered and concerns about China eased slowly. However, recent data unveiled cracks in the economic machine, especially on the inflation and investment front. The long-term effects of persistently low commodity prices continue to slowly unwind and are casting a cloud over the Australian economic outlook. The weak AUD played a central role in the Aussie "moderate" recovery and even if the AUD erased previous gains against the dollar, AUD/USD remains biased to the upside. For now the pair is holding ground above the $0.71 threshold but a break of the $0.70 level is required to put an end to the bullish momentum.

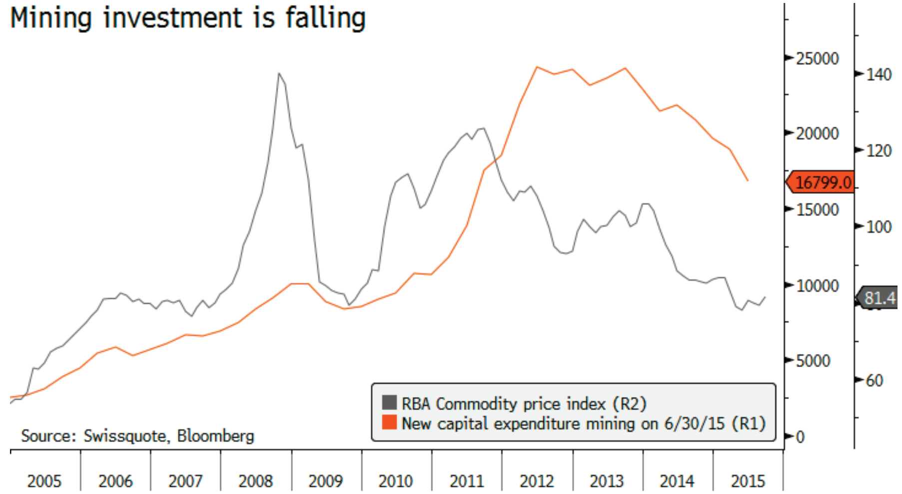
RBA waiting patiently

The reserve bank is counting on the Federal Reserves to depreciate the AUD further against the greenback. We therefore expect Governor Stevens to wait until 2016 before considering easing further monetary conditions. However, it will not prevent him to retain a dovish bias in the upcoming monetary policy statements, taking a chance to maintain the Aussie at levels considered weak enough, by the central bank, to support sufficiently the economy.

Core inflation continues to weaken



Mining investment is falling



Economics

U.S Rates Set To Remain On Hold Until 2016

Fed kept rates unchanged one more time

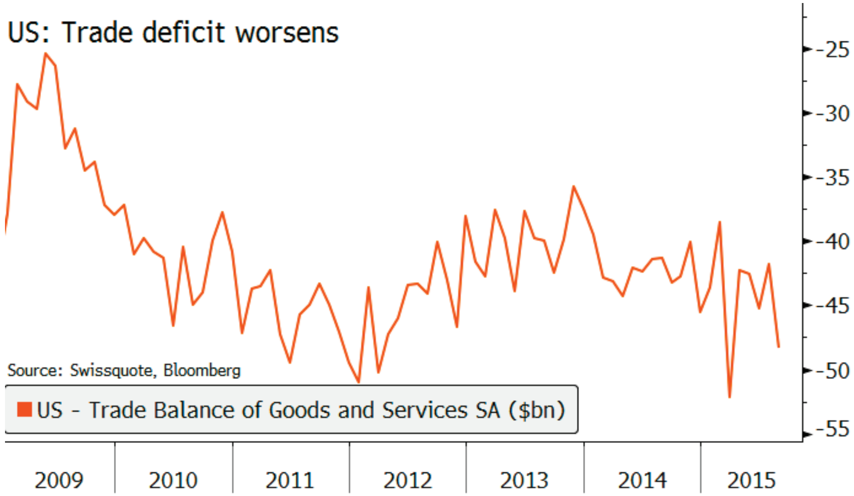
Central Bank actions continue to dominate last week's economic headlines. Unsurprisingly, the FOMC kept its rate unchanged at 0.25%, citing that policy tightening will be appropriate if the Fed's dual mandate (promoting maximum employment and achieving price stability) improves. The Fed is expecting inflation to remain low in the near term but continues to stay optimistic that the 2% target can be achieved in the medium term. The central bank's inaction at the FOMC meeting was, in any case, not a surprise and we maintain our view that no rate hike will happen in 2015. Yet, it has been several months since the Fed announced the end of the zero interest-rate policy. Slowdown in the global economy, and in particular in China, have, according to Fed officials, prevented the first rate hike, which would have been the first one in almost a decade. Janet Yellen declared that she is still awaiting confirmation of U.S. recovery before making any move. The Fed is trying to keep its credibility for future manoeuvres.

China threatens U.S. inflation

From our vantage point, we believe that no rate hike will happen this year as recent U.S. economic data came in mixed. The Fed's dual mandate to promote maximum sustainable employment and inflation target of 2% is for the time being actually failing in its mission. Indeed the dollar-complex has constantly strengthened since the beginning of the year. The deflation pressures are not likely to stop. China is the country with the largest U.S deficit. As China debased its currency three times in August, the trade deficit with China is likely to widen even more. As a result, U.S. inflation will remain low.

What's next?

However, the market is now pricing out, after last week's Fed meeting, a rate hike in December. Yet, we believe that Janet Yellen, in an effort to keep her credibility, only left hopes in such an issue. In addition, her hesitancy to act, to increase rates by a quarter point has sent completely the wrong signal. It is leading us to now properly wonder whether the U.S. economy is actually in a worse state than we have been led to believe. In the foreign exchange markets, EURUSD lost more than a figure before bouncing back at 1.0900 on new hopes for a rate hike this year. Nonetheless, the short-term structure still indicates a negative bias. We think that markets were expecting a proper time frame for a rate hike and interpreted Fed statements in this sense. If there is effectively no rate hike this year then the true state of the U.S economy will really be brought into question.



FX Markets

IMM Non-Commercial Positioning

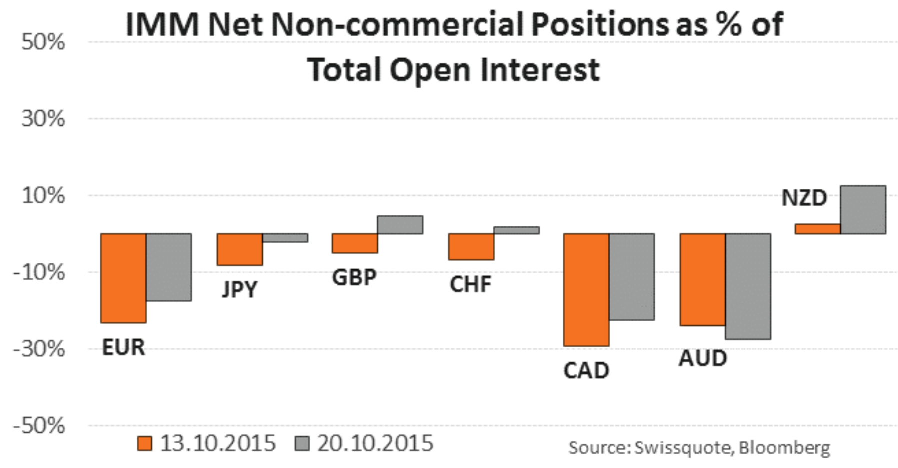
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

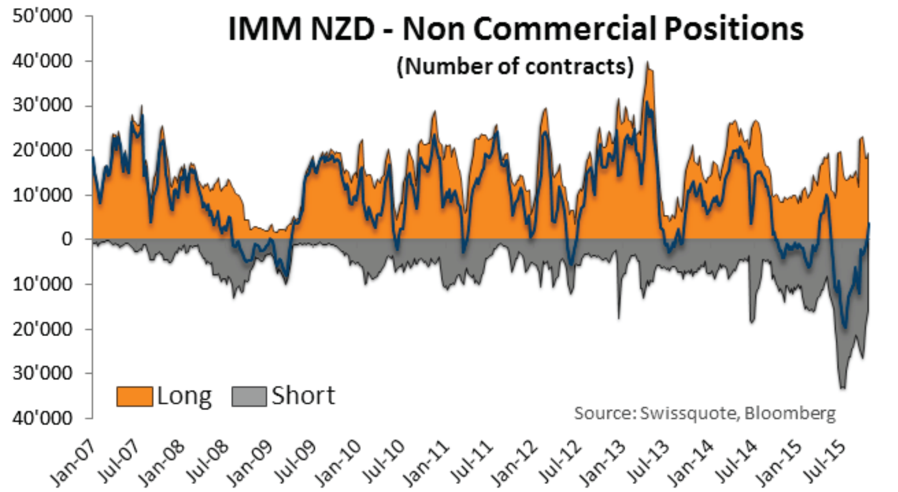
The IMM data covers investors' positions for the week ending October 20th 2015.

Net long NZD positions have increased from 2.38% to 12.47%, the highest level since May 5th. The recent switch from short to long positioning came along with the improvement in most commodity price levels and especially dairy prices.

After reaching 29.07%, net short CAD positions decreased substantially to 22.38% over the following week as investors turn their back on long dollar trade ahead of the October Fed meeting.

Net CHF positions have moved back into positive territory. However, we believe it won't last as the strong Swiss franc continues to weigh heavily on the country's export industry, dampening the entire economic outlook. Moreover, the EBC's dovish stance did help EUR/CHF to reach higher grounds.





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