WEEKLY MARKET OUTLOOK

23 - 29 November 2015

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WEEKLY MARKET OUTLOOK - An Overview

Economics

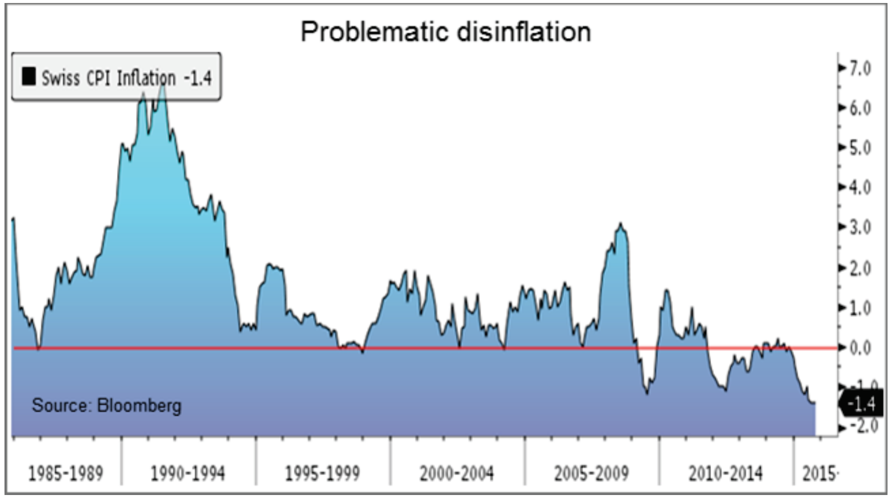
SNB Prepares To Defend The CHF

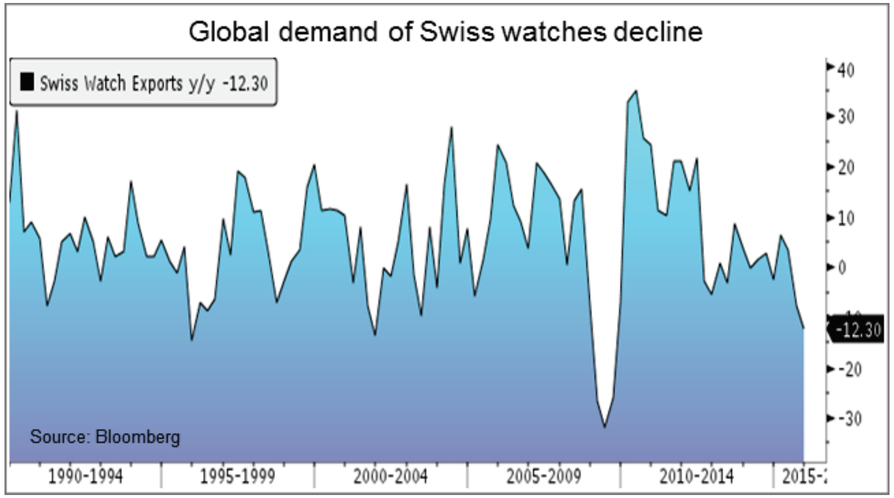
Disappointing ZEW indicates importance of weak CHF

Switzerland November ZEW investor's confidence fell to 0.0 against 18.3. The exact reading of zero indicates that financial analysts surveyed “expect to see neither an improvement, nor deterioration in Swiss economic activity over the next six months”. In our view the indecisiveness is due to the uncertainty around the EURCHF. The CHF is increasingly correlated with the economic conditions of Switzerland with recent improvement directly correlated with recovery of EURCHF (CHF weakening). The prospect of further ECB easing, which is expected to includelowering interest rates deeper into negative territory (alongside expanded asset purchase program and verbal intervention), has caused appreciation in CHF against the euro. Markets have heard plenty of chatter from SNB policy makers over the defense of the CHF, however, it is uncertain what exact tools will be used and how effective they will actually be.

Expect the SNB to react

In Switzerland, the market's confidence in the two primary defensive mechanisms in negative interest rate and direct FX intervention are precarious. Negative interest rates have had a limited effect on driving outflows, while punishing private investors. Yet, massive expansion of the SNB balance sheet indicates that sustained activity is improbable. It's true that Swiss corporates didn't collapse when the SNB removed the EURCHF “floor” but nevertheless, there has been steady erosion in economic activity, highlighted by the collapse of Swiss watch exports. The SNB must weaken the CHF against its primary trading partner, although markets are still unconvinced of the central bank's strategy. We continued to see the CHF as the ideal funding currency as the outlook for a stronger CHF remains restricted.





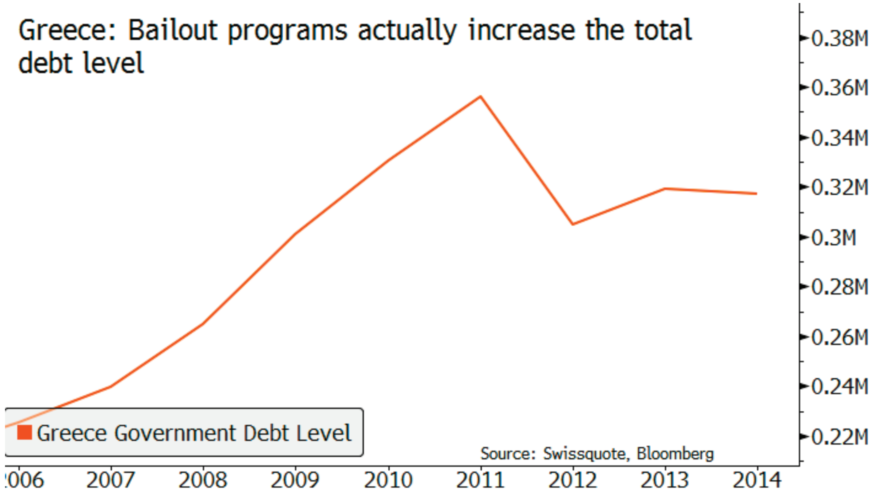
Economics

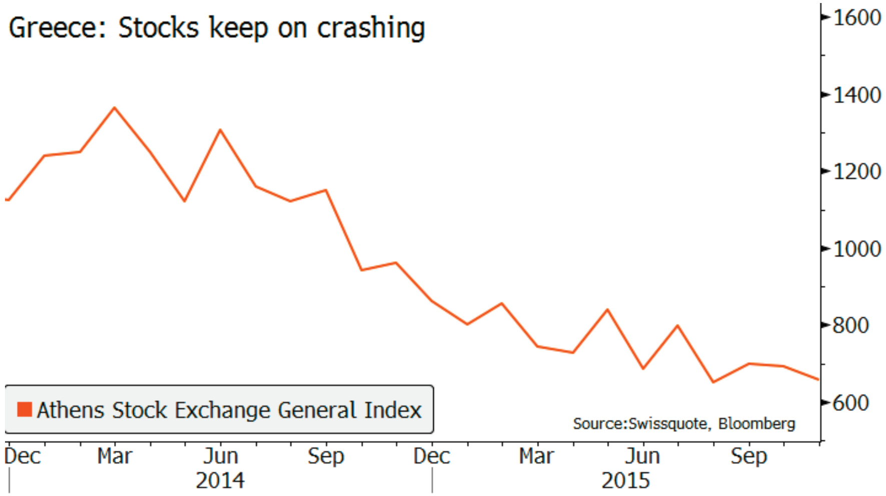
Two More Billion For Greece

Negotiations between Greece and Europe have reached a new step towards the release of €2 billion for the country. Major disagreements in the debate were mainly on home foreclosures and tax arrears. As a result, the atmosphere in the Greek parliament last week has been much tensed. Two deputies from the leftist party Syriza have been sacked as they would not agree on some aspects of the agreement. Indeed, the €2 billion will serve to pay civil service salaries amongst other things. In addition, what is currently contradictory is that Greek population are still standing against austerity policies but remain attached to Europe which, through the Brussel's authority, oblige the Greek government to apply austerity policies. Greece is not any more on the position of negotiating.

We also know that since June bailout negotiations, where PM Alexis Tsipras decided to turn down the people's OXO vote to accept disadvantageous lenders' terms for an emergency bailout deal, that Greek officials have been capable of providing some important concessions. The only unknown variable in the equation is to know by how much they are willing to compromise. Indeed, with last week's new agreement, only 60% will continue to be offered full protection from foreclosure. Parents will also be hit by a 24% VAT on private schools among other things.

Austerity policies are far from being over in Greece and yet still, despite this, Greek debt is not sustainable over the long haul. Instead, more and more efforts will be demanded from the Greek population. Markets have not reacted strongly to this news but the dollar keeps on the strengthening on the Fed's possible rate hike in December (which would be purely symbolic in our view). We are clearly bearish EUR and we are now turning our attention to the situation in Portugal.



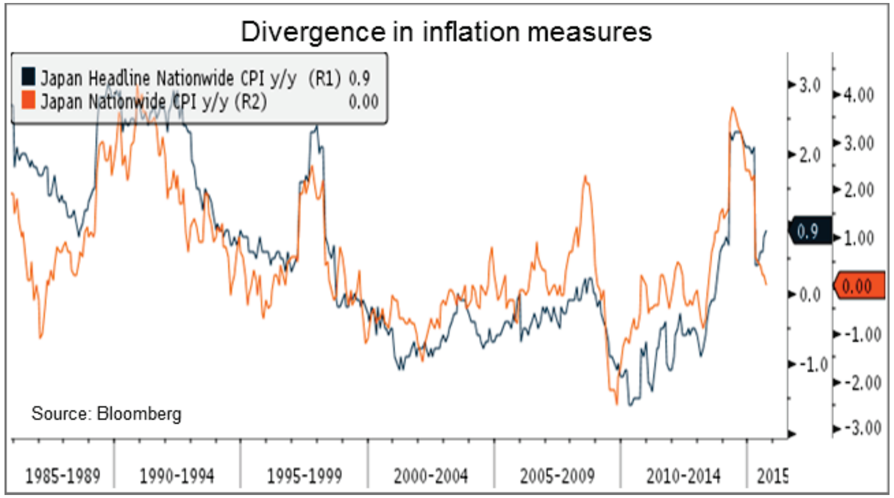


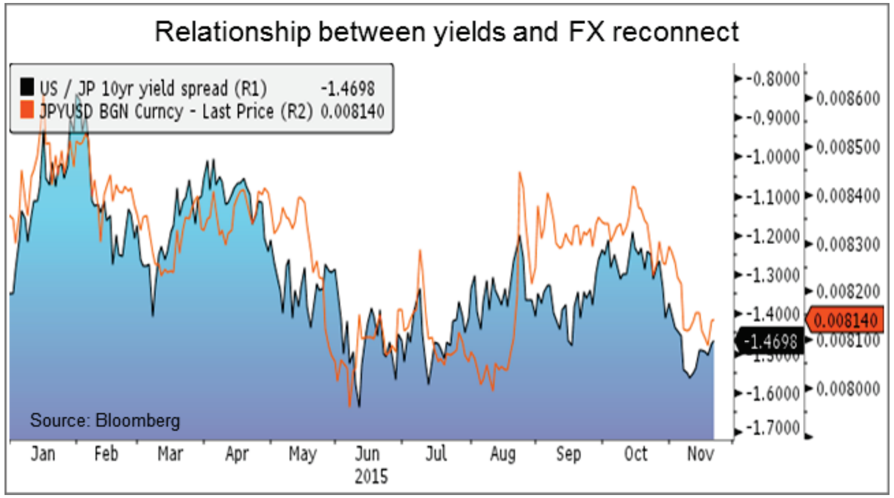
Economics

Positioning For Fed "Lift-Off"

Fed Reserve Vice Chairman Stanley Fischer has provided the markets with further verbal support for a rate hike in December. Fischer reiterated that no decision has been made on the precise timing of the first rate hike in ten years, yet stated in the "relatively near future probably some major central banks will begin gradually moving away from near-zero interest rates." There is a majority of analysts who expect the USD to come under selling-pressure after the first rate hike is delivered. Historically this is what happens. Yet, the recoupling of correlation between USDJPY and short-end US/JP yield spread (highest in G10), suggests that even after the first rate hike, yield seeking participants will continue to bid up USDJPY. While sensitivity between USDJPY and global equity markets performance remains strong, the traditional role of yields will become increasingly significant. While the US yields curve should continue to steepen, Japan rates will remain constricted due to additional BoJ policy.

Last week, the BoJ maintained its current pace of monetary easing despite evidence that the economy has stalled. Given the already massive stimulus program, the BoJ is clearly reluctant to expand unless absolutely necessary. Governor Haruhiko Kuroda tried to paint an optimist picture indicating that tightening labor markets would lift the Japanese economy. In the background the BoJ has slowly shifted how it assesses inflation to a broader range measurement, which in turn has made the BoJ sound less dovish. The rational is to keep strategy flexible and focused more on creating domestic inflation rather than economic adrenaline of imported inflation (via competitive FX devaluations). Domestic prices have shown a significantly more positive outlook indicating that the BoJ's rush to provide additional stimulus is diminished. That said, Japan's economic recovery has reversed back into a technical recession. A drastic switch in policy tactic is unlikely until economic data recovers, indicating more BoJ stimulus is coming (January).





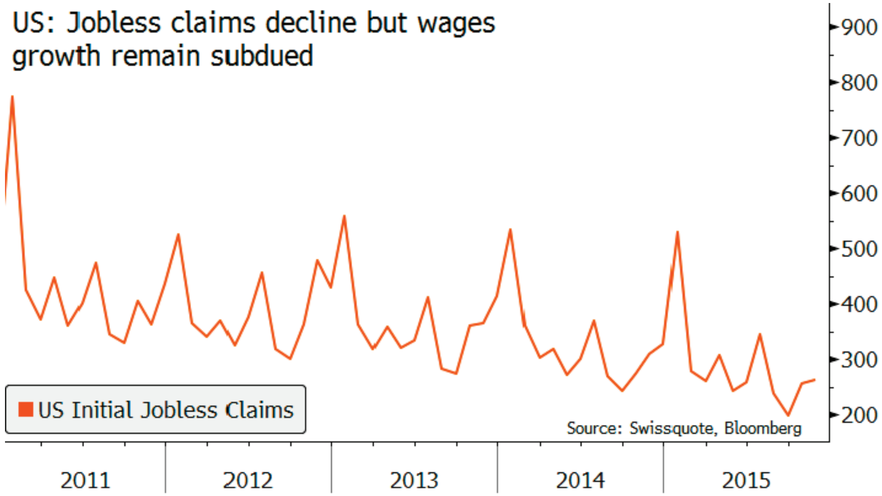
Economics

FOMC Minutes: Nothing New From The Fed

Usually three weeks after each FOMC, the Fed minutes were largely awaited. It seems that Fed members have judged that the US economic conditions have expanded at a decent growth over the past few months. A December lift-off is clearly a possibility. However, Fed remains concerned about the accomplishment of its dual mandate. Inflation is holding way below the 2% target and pace of job gains slowed. On top of that, we believe that the Fed is almost obliged to increase symbolically its rate and to end up the zero interest-rate policy for credibility reasons. Fed, and Chairwoman Janet Yellen in particular, has to show that the situation is in control.

Yet, Fed's committee, which removed the word “patience” in its (already 8 months ago) March statement appear ironically to be very calm. We believe that the next NFP figure will be decisive whether or not interest rate are going to be up. Fed also added that they would assess “a range of labour market indicators over the period to confirm further improvement in the job market”. There are growing dissensions about the actual state of the labour markets, in particular about the subdued wage growth in the U.S economy. Indeed, at the current unemployment rate, which holds around 5%, wages should be pushed higher which is not really the case.

At some point, being so afraid to raise interest rate of a quarter point after 3 massive quantitative easing sounds contradictory. The Federal Reserve remains also focused on the impact of lingering low commodity prices. There is still a non-negligible risk that downward pressures on inflation due to a strong dollar continue. We remain bearish on the EURUSD.



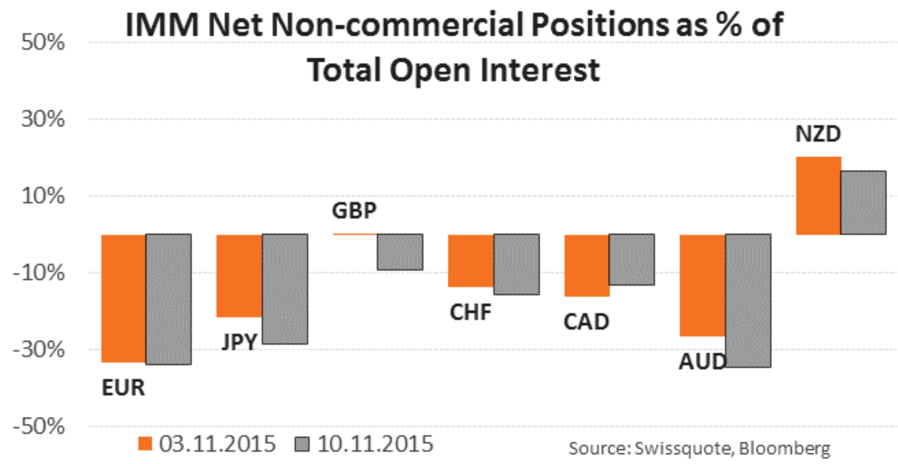
Economics | IMM Non-Commercial Positioning

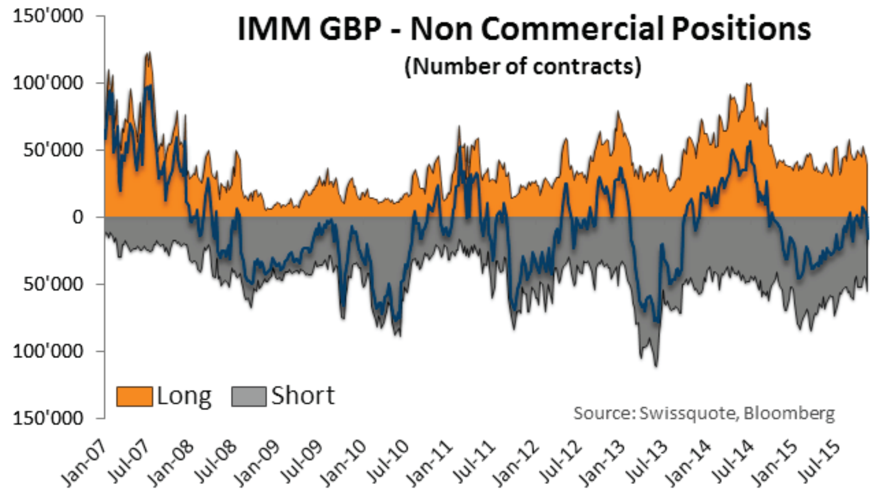
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

The IMM data covers investors' positions for the week ending November 10th 2015.

Net short EUR positions have increased marginally, reaching more that 32% of total open interest. The ECB Quantitative Easing drives the EUR lower. We expect short positions to continue increasing.

The net JPY positions have also increased as there are growing concerns regarding the true efficiency of the Abenomics. We believe that more easing will be announced withing the next few months. Mixed Japanese data support short positions.





Forex

Swiss National Bank Charts

On Thursday November 20th, Governing Board member of the SNB Andréa M. Maechler provided an overview of the SNB monetary policy in 2015. We pulled two interesting chart from her presentation.

CHART 1

Illustrates the selling pressure on the EURCHF building up to the SNB ending the minimum exchange rate policy. Interesting, the large green spike prior to January 16th indicates when the SNB cut interest rates into negative territory.

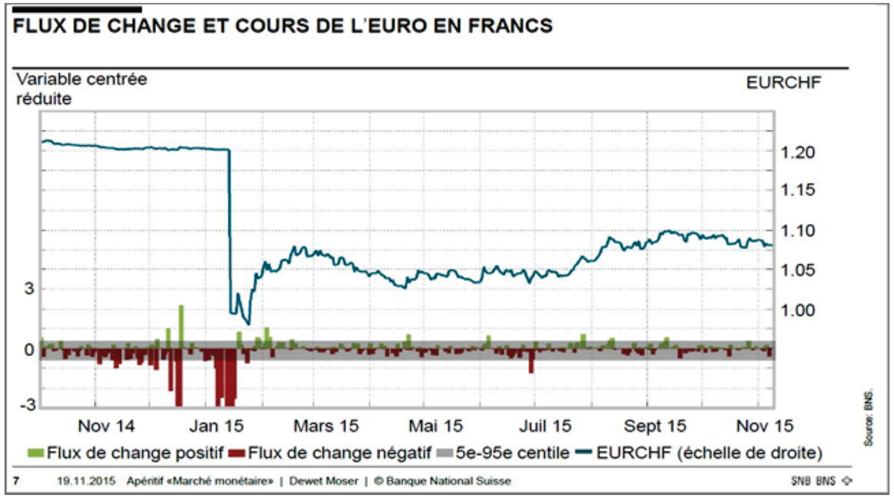
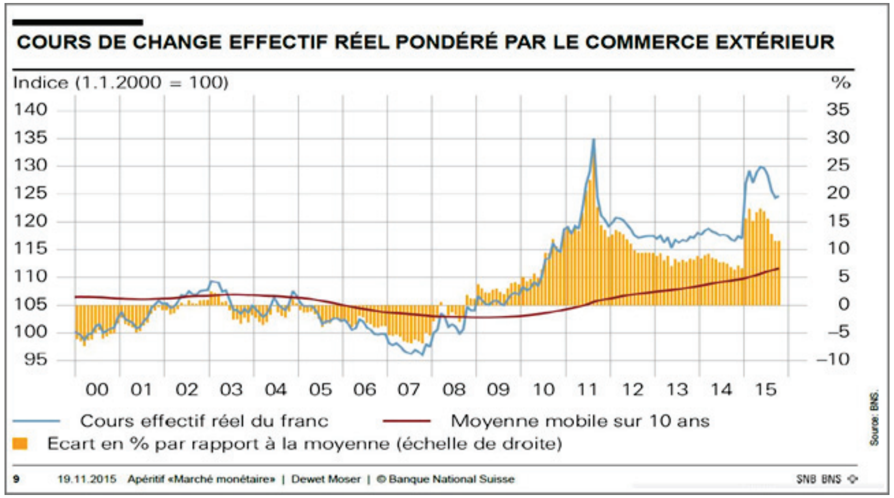


CHART 2

Illustrates the significant over-valuation of the CHF on a trade weighted basis according to the SNB.



Themes Trading

Themes Trading - Robotic Automation

Our childhood dream of flying cars and elevators to the moon may not have become a reality, but there is no denying that technology is now ubiquitous in our daily lives. Within the field of technology, the use of robotic automation has steadily increased. Simply put, robotic automation refers to man-made machines that replace manual actions performed by humans. Such machines can now be found in a huge range of uses. From surgery to high-heat welding, automation technology is becoming commonplace.

Rather than focus on the many and varied directions in which robotic technology is currently heading (military and defense, medical and assistive, software, services, etc.), we have focused on industrial automation. In the manufacturing sector, increased scalability, improved quality, reduced costs and higher productivity have fueled a constant migration to robotic solutions. We see a clear trend in this proven segment, where companies will increasingly use machines rather than humans to carry out low-cost repetitive tasks. This segment is estimated to grow to over $300 billion by 2020.

This theme is based on firms that derive a significant portion of their revenue from industrial automation.

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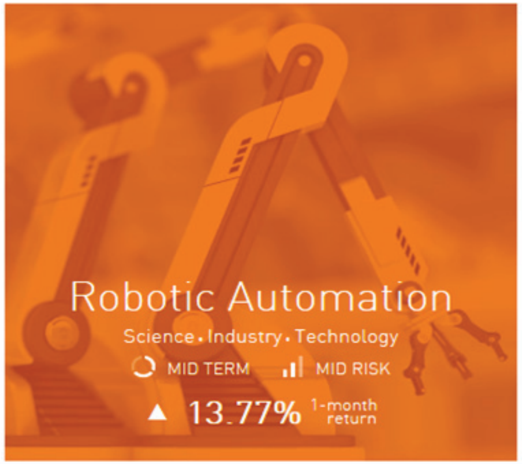

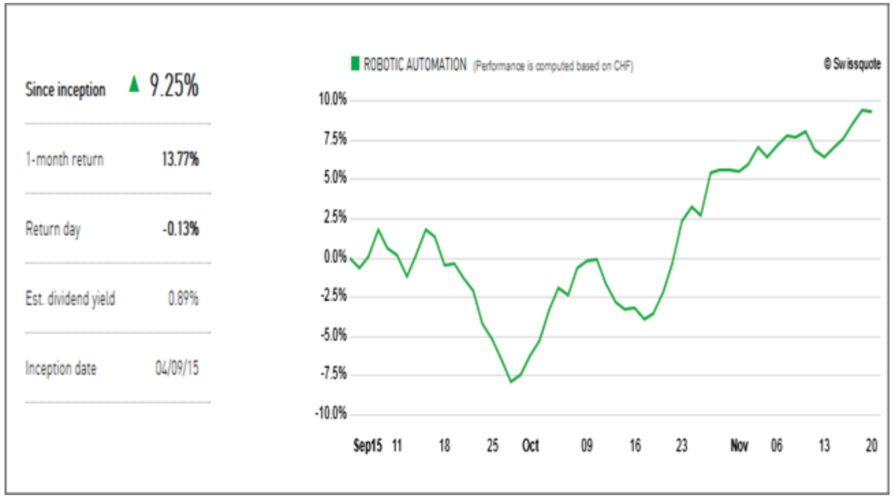

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