WEEKLY MARKET OUTLOOK

30 November - 6 December 2015

DISCLAIMER & DISCLOSURES

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WEEKLY MARKET OUTLOOK - An Overview

Economics

Sharp CHF Moves Have Traders Speculating

Sudden deprecation of the CHF has fueled speculation of SNB action. However at this moment there is no evidence of official SNB intervention. Most likely the sudden move was the result of low liquidly conditions and exceptions for the SNB action that forced participants to react. Better to adjust your trading book then to get caught flat-footed by the SNB.

Given amplified expectations for a lower ECB deposit rate, there are heightened risks that the SNB will defend appreciation pressure on the CHF with further policy actions. It's critical to understand that the recent improvement in Swiss economic data is a direct result of 5% weakness of the CHF against the EUR. The recovery remains fragile (Kof is on the edge of expansion and contraction) and conditional on developments in exchange rates. In recent weeks, the SNB has ramped-up its readiness to combat CHF appreciation and is not unlikely to let prices naturally evolve. In our view, the SNB has three primary tools at their disposal (listed in order of likely activated), verbal intervention, cutting interest rates, closing exemption thresholds and FX interventions. As with the ECB, there are more exotic measures the SNB can use but in our view the effectiveness will be marginal and therefore unlikely to be enacted.

We still suspect that verbal intervention remains the SNB most powerful tool and first line of defense. We anticipate an intensification of rhetoric prior to any action. Agreed, the expansion of the central bank's balance sheet of the last 7-years has eroded the market's fear of substantial FX intervention. Currently the monetary base is over 70% of GDP and foreign currency reserves account for around 88% of total assets. However, the bite of the SNB's past and current aggressiveness can still be felt by many FX participates (including our Bank). In our view even a restricted SNB carries weight.

The SNB cannot afford to let interest rates spread between the EUR and CHF widen. SNB speeches have clearly identified the importance of interest rate differentials on flows and therefore will ensure spread remains constant. According to Thomas Jordan "The SNB is ready to intervene, if necessary. The deposit rate could go lower." The SNB's next quarterly monetary policy assessment is on December 10th before or at this meeting our expectations are for a 20bp reduction (matching the ECB cut in deposit rate) in the mid-point of the 3-month LIBOR target rate, from -0.75% to -0.95%.

Currently negative interest rates only affect a select group of depositors. Currently the SNB charges sight deposits holding over 20 times each bank's minimum reserve requirements. Lowering exemption threshold would affect banks differently and it would be uncertain that the lower rates would be passed to depositors causing the desired outflows result. In addition, domestic savers are unlikely to be forced to shift currency deposits, resulting in the erosion of bank profitability.

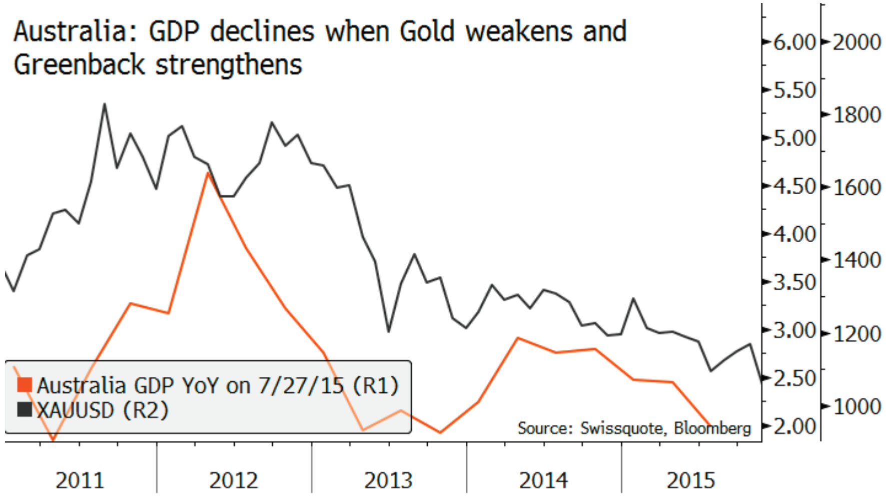
Finally, direct FX intervention would be the most persuasive tool in the SNB arsenal but would need to be used with discretion. Jordon stated on Thursday that there was "no limit" to the size of the SNB balance sheet. In theory this is correct but in practice is not so "unlimited". The SNB is unlikely to risk destabilizing the nation by become a giant FX hedge fund only to protect the CHF. Massive loses on FX reserves and effect on dividend payments to cantons has damaged the Swiss public resolve to protect the CHF.

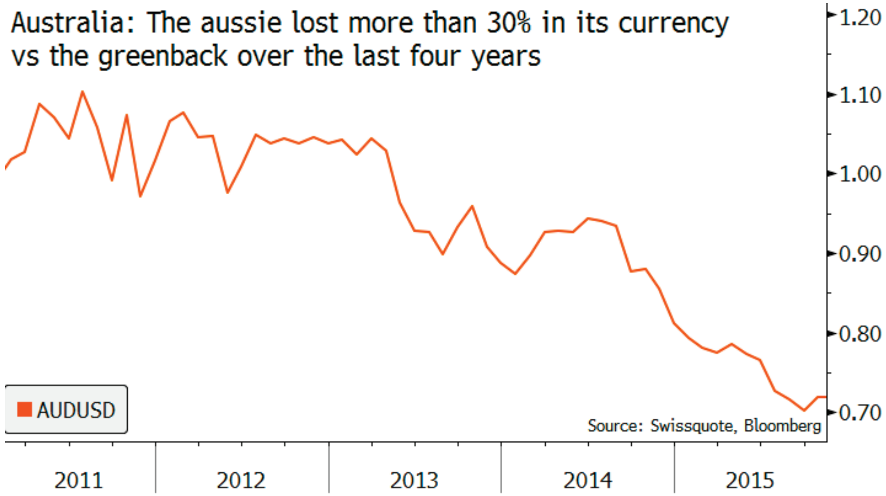
Economics

Australia: Business Investments vs. Paper Market

When commodities prices lower, there is a transfer of wealth between exporters (producers) and importers of commodities. The decline favours industries that need commodities as primary source for manufacturing products. Australia is on the exporters' side. Indeed, an important part of the Australian's revenues accounts for the revenues on the extraction of Gold, Silver, Platinum and other metals. For the time being, Australian GDP is still decent, at 2% annualized for the second quarter and is expected, to print in, next week, ironically higher at 2.3% year-on-year for the third quarter of the year. Last but not least, the strong greenback is supporting the commodities prices lower. The Aussie has lost more than 30% of its value against the dollar over the last four years.

The consequences of low commodities prices are weighing on the Australian economy and are now reflected in the current business investment data which declined 9.2% q/q for the third quarter. We believe this is partially because Australia is being hit by the current major contraction of the commodities markets. The negative demand of the paper market (Gold for example) also drives down the price of the physical market as there is no decorrelation between those two and especially because of the sheer size of the paper market. More specifically, there are, according the Comex now three hundred times more paper ounces of Gold than physical ounces. At the same time the demand for physical commodities has exploded. And at some point, we cannot say that the paper market is a hedge for the physical one as the difference in size is so great. We believe that Australia's issues with this contraction is not likely to lessen as the paper market continues to expand at a massive pace.





Stock Markets

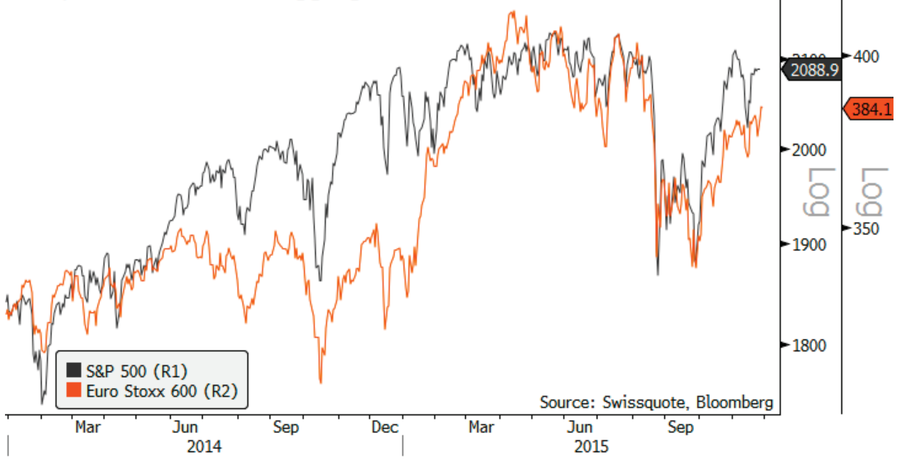
Will Santa Visit This Year ?

The year is almost over and the market is, as usual, counting on the traditional Christmas rally to end up the year on a high note. However, this is not a done deal yet as a few clouds are starting to appear on the horizon and could derail the traditional Christmas rally. First of all the geopolitical tensions surrounding the Syrian situation could derail the usual Christmas rally as investors would rather opt for a risk-off approach. The assets that could benefit from an escalating situation are gold, crude oil and defense stocks. However, looking at the political news, it seems that both Turkey and Russia want to ease the tension and resolve issues in a peaceful way.

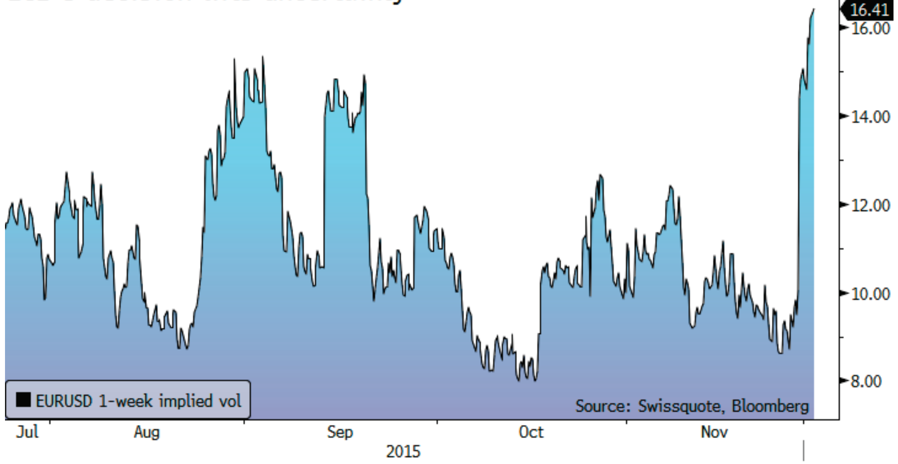
Secondly, the latest data from the world's biggest economy disappointed somehow. The first revision of third quarter GDP came in roughly in line with expectations at 2.1%q/q (annualized) from 1.5% first estimate. Low energy prices continue to support substantially consumption, however personal consumption, which is the biggest growth driver, eased to 3%q/q (annualised) from 3.2% first estimate. Moreover, the higher revision in inventories is casting over the Q4 growth as inventory levels are still elevated.

The Christmas rally is not a done deal this year as investors are too occupied to lock-in profits now as most equity indices are close to historical highs while uncertainties surrounding the upcoming changes in monetary policies, on both side of the Atlantic, are reaching record levels. Nonetheless, the economic data from the euro zone were surprisingly positive lately with the exception of inflation data, which remains subdued, confirming that the euro zone is on the edge of deflation. However this is a good news for stocks investors across the old continent as an expansion and/or extension of the ECB's QE would certainly be of support to European stocks.

European stocks are lagging behind



ECB's decision lifts uncertainty



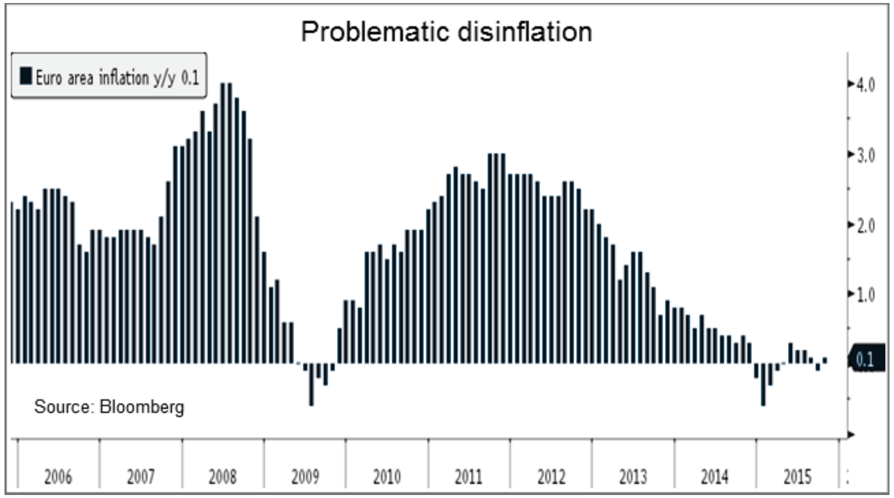
Economics

ECB Easing Expected

While it's nearly universally expected that the ECB council meeting will deliver further easing on December 3rd, the exact make-up of the package remain uncertain. Yesterday, under conditions of anonymity, an ECB official indicated that options for next week's ECB rate decision meeting are still being debated. One official was quoted as saying the ECB "are still trying to figure out what will be in the package. A lot of people have different views." One such option would include introducing two-tiered deposit rates and buying re-bundled loans on non-performing loans. The news has introduced the possibility of a surprise move by ECB President Draghi.

The easing options for the ECB are extensive but we think a more vanilla policy mixed would be more effective and the likely direction. Draghi is likely to withhold more exotic easing measures in the event that inflation and growth projections move downwards again. That said, given Draghi's historical reputation for over-delivering we suspect that he will not disappoint the high market expectations in whatever makeup of the final package hits the market. We are anticipating that Draghi will go big with a full suite of policy actions. The main deposit rate is expected to be cut 20bp (10bp consensus). There is expected to be a €10bn monthly increase in purchase accounts and 12-month extension of the program to September 2017. Also, Draghi's language will be significantly dovish indicating that more easing is possible should economic conditions warrant. The additional easing is keeping EURUSD under selling pressure, despite the already crowded nature of the long USD trade.

This aggressive strategy will have a real effect on EURCHF indicating that the SNB will have to respond with policy action of their own. The SNB is likely to tighten current negative rates loopholes and cut deposit rate further (near -1.00%) from current -0.75% level. We view the CHF as one of the best short opportunities against EUR, USD and higher yielding EM currencies.



Economics

IMM Non-Commercial Positioning

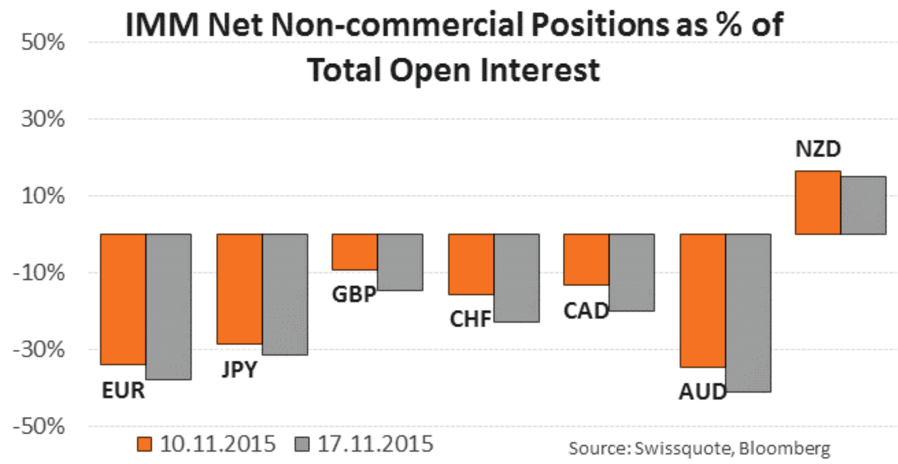
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

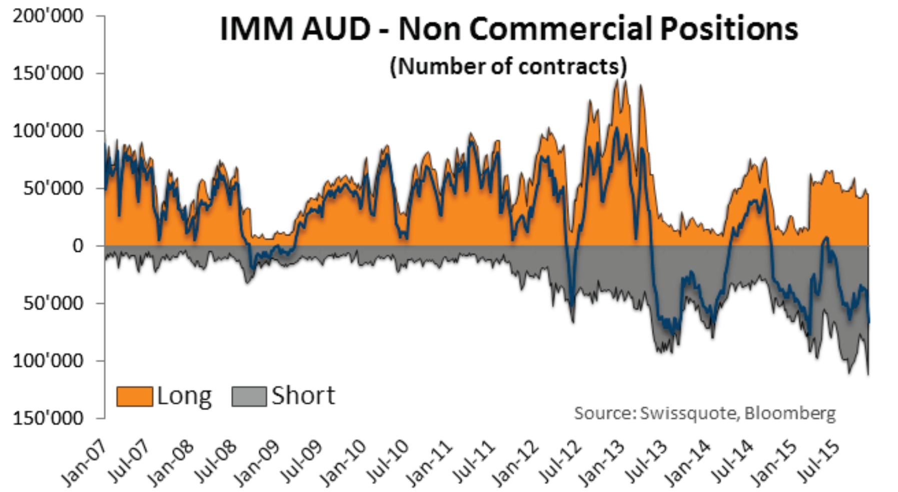
The IMM data covers investors' positions for the week ending November 17th 2015.

Net short EUR positions have increased marginally, reaching almost that 40% of total open interest. The ECB Quantitative Easing drives the EUR lower. Markets are pricing in some actions before the ECB meeting that will be held last week. We expect short positions to continue increasing.

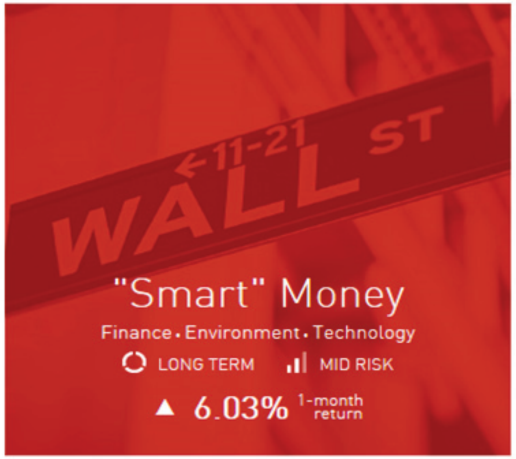
The net JPY positions have also increased for the fourth consecutive week as there are growing concerns regarding the true efficiency of the Abenomics. We believe that more easing will be announced withing the next few months. Mixed Japanese data support short positions.

Last, but not least, the CHF short positions have increased sharply as there are mounting evidence that the SNB must react to the ECB actions in order to avoid any further appreciation of the Swiss franc that would create serious damages to the Swiss economy.





Themes Trading — "Smart" Money



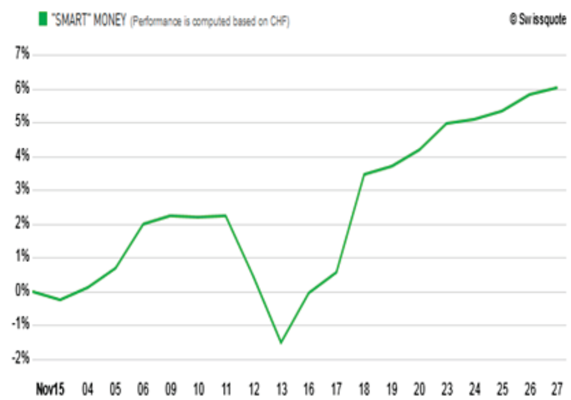
Most investors dream of positioning themselves alongside the world's greatest hedge funds and asset managers – finally operating in the rarified air of the smart money. Well, your opportunity has now arrived to pick some of Wall Street's best ideas.

A little-known rule in Section 13(f) of the US Securities Exchange Act of 1934 states that all institutional investment managers with assets over $100 million are obligated to disclose all their US equity portfolio holdings on a quarterly basis (not including short sales, cash positions, or any other asset class).

Now, it's important to note that there is a significant lag between a trade being executed and the corresponding holding being reported. Plus, by not knowing the complete book, there might be important information missing. However, there is critical information provided in the data that investors can use. By aggregating a universe of top-performing funds, we can see which stocks are being accumulated and which stocks are being sold.

For this universe, we eliminated funds that were significantly dependent on short sales (short-bias) and short-term trading (statistical arbitrage) and stayed with net long-only or long/short equity strategies. Value investors fare best. In addition, we filtered for only those funds with the vast majority of their investments in US equities. Finally, we focused on managers' top fifteen holdings, since this is where the fund's highest-conviction ideas are located.

Since inception	▲ 6.03%
1-month return	6.03%
Return day	0.18%
Est. dividend yield	0.83%
Inception date	02/11/15



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