WEEKLY MARKET OUTLOOK

7 - 13 December 2015

DISCLAIMER & DISCLOSURES

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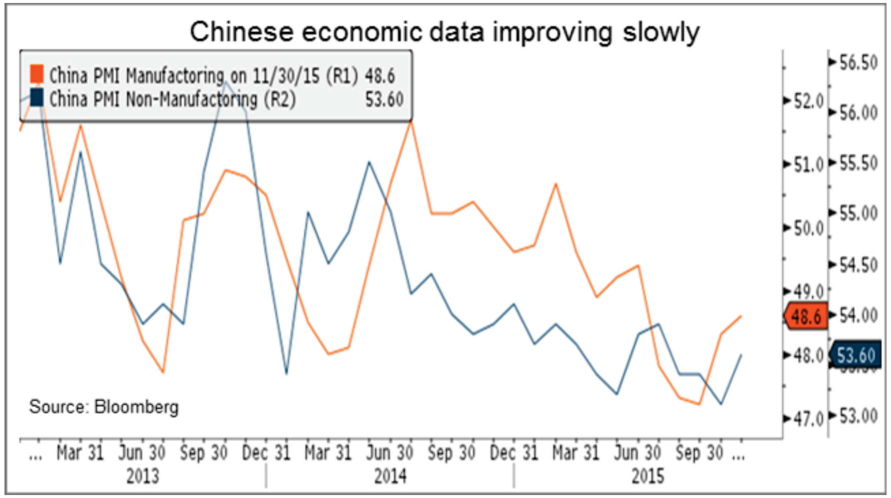
WEEKLY MARKET OUTLOOK - An Overview

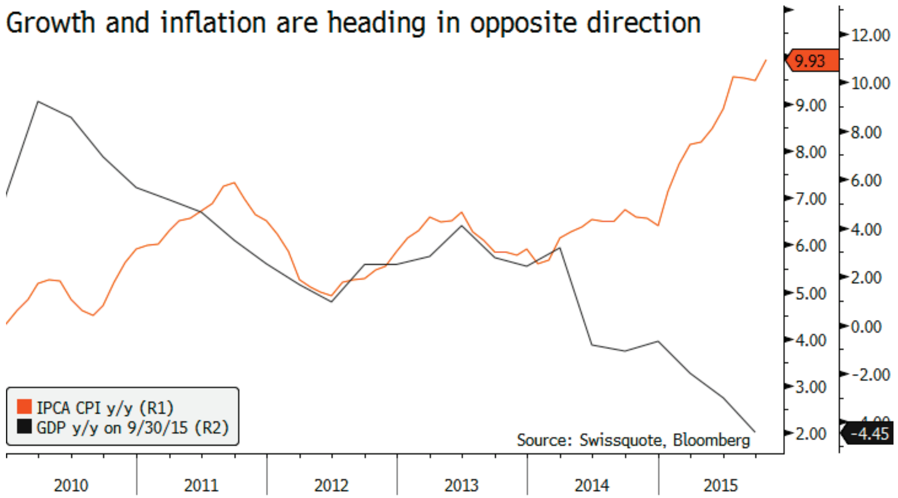
Economics

Yuan Added To The IMF SDR

As we expected the IMF voted to add the yuan to the Special drawing rights. In a statement announcing China's inclusion, IMF Managing Director Christine Lagarde stated the yuan's is evidence of "the reforms" proceeding in China. Lagarde went on to state that the US has supported the yuan's inclusion. The current basket is made up of USD, EUR, GBP and JPY. This will be the first change to the SDR's composition since 1999 and will take effect on Oct. 1st 2016. The yuan will have a roughly 11% weighting in the basket. PBOC Deputy Governor Yi Gang after the IMF executive boards vote stated that China will continue to reform to make the yuan more "freely tradeable." He went on to suggest that yuan would be "basically stable at equilibrium level" and further deprecation should not be a concern. We don't expected a sudden change in yuan pricing however to expected steady appreciate of the yuan in the near-midterm.

We are one of the few analysts on the street to forecast yuan strength moving forward. The rationale is based on two critical components. Firstly, the inclusion of the yuan in the IMF SDR, which should lead to asset manages including the currency in their diversification strategy. Also, the decision will provide more confidence to the market on this historically volatile and managed currency. The prospect of stable yuan should lead to foreign accumulation of fixed income vehicles such as bonds. Secondly, our view is based on expectations that China economic conditions are stabilizing. Recent incoming China data on exports, housing and domestic consumer have been positive, suggesting the worst part of the downside is over. Moreover, massive fiscal and monetary stimulus will provide a boost domestically. Finally, in our view the Fed tightening is unlikely to have a profound effect on the yuan's managed price.





Economics

The SNB Relieved That The ECB Disappoints Markets

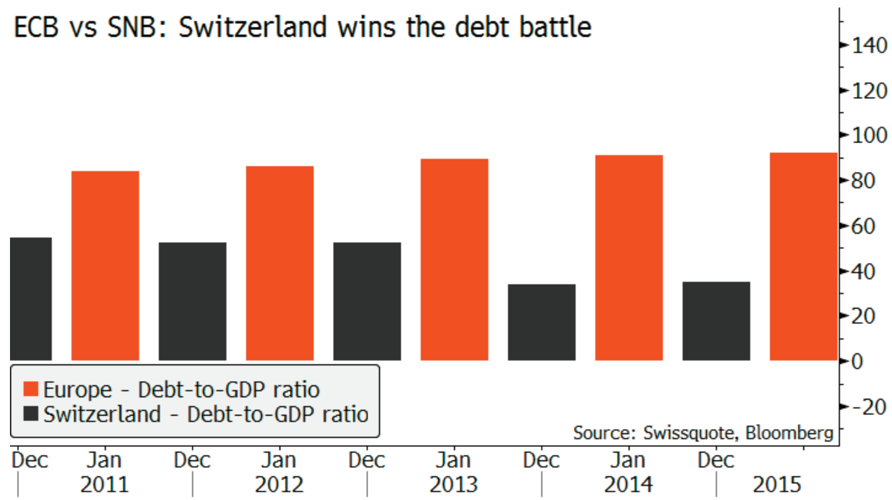
We expected some market volatility with the ECB meeting in December. There were significant expectations concerning how far President Mario Draghi will expand the QE programme. The inflation target of 2% has been said to be the primary objective of the central bank and Draghi mentioned that he will do whatever it takes to boost Eurozone inflation - and growth - in the near future. It turned out that markets had finally over-priced the likelihood of Draghi's action. At the press conference that was held following the announcement that the ECB deposit facility rate had been lowered to -0.3%, Draghi announced that the QE will continue up to March 2017. He has then confirmed his good hopes in the inflation reaching the target.

We believe that a six-month extension until March 2017 only represents a trade-off. Announcing an expansion of the QE up to September 2017 would have, clearly, affected the central bank's credibility. Mario Draghi has preferred to announce a 6-month extension that may be continued as long as it will be needed. Otherwise its monetary policy efficiency would be brought into question. As a result, we firmly believe that the QE will continue beyond 2017 but that was impossible to admit.

Another strong point is that there is the widespread belief that an easing monetary policy is the only way to get the crisis away. When using both U.S. and Japanese QE programmes as a yardstick, we know that the overall concept of QE efficiency still has to be proven. The question would be how the ECB would succeed where the Bank of Japan and the Federal Reserve are still struggling.

The Swiss National Bank looked closely at Draghi's conference as the Swiss economy is largely dependent on the European economy and the EURCHF has remained stable. We think that it is due to the Swiss safe haven status which offsets the EUR strengthening. In the near future, dow-nside pressures on the pair are set to continue as European uncertainties - both economic and political - persist.

For the time being, it leaves some room to the SNB to act in case the Swiss Franc strengthen. And we think that this is going to happen as the current European monetary policy won't create any growth. Only countries' debt will go much higher as what is currently happening in US and Japan. Consequently, we await a further action from the SNB to prevent the fatal strengthening of the Swiss Franc.



Economics

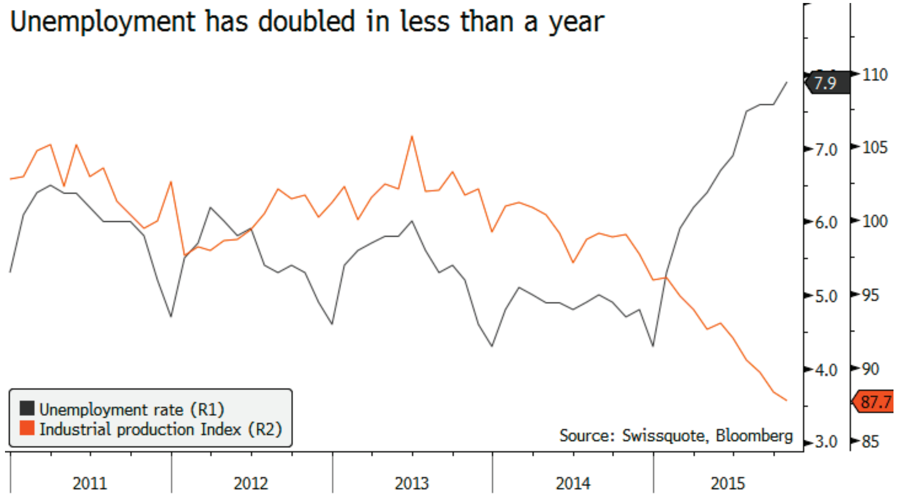
Brazil: And It Just Got Worse

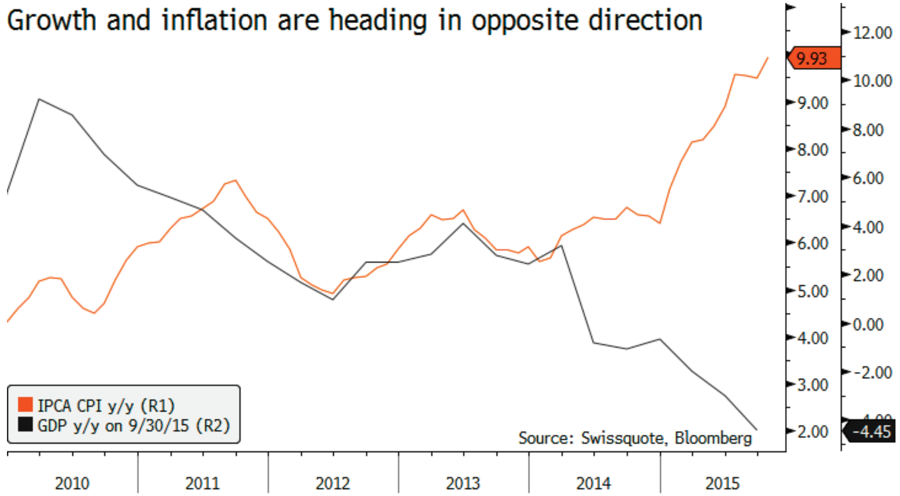
Impeachment process begins

Lower house speaker Eduardo Cunha have given the greenlight to impeachment proceedings against President Dilma Rousseff. Brazil's first female president is accused of having used accounting tricks to hide losses when handling Brazil's 2014 budget in order to assure her re-election. President Rousseff denied the accusation as she declared "I've committed no illicit act, there is no suspicion hanging over me of any misuse of public money". However, it's a long road from the launching of impeachment proceedings to effectively force the resignation of a president in office. The odds that Dilma Rousseff get kicked out of her seat are very thin. First the speaker needs to organise the investigation committee, then the house of deputies will vote in favour or against the impeachment. If it is approved (minimum of a two-thirds majority is required), then Rousseff will be forced to step down for six months and will prepare her defence. Finally, the Senate will have to vote in favour of or against the impeachment. We told you, a long road.

Uncertainty will persist

From a market standpoint, the uncertainty and volatility will increase, since any potential recovery could be reasonably postponed as the approval of austerity measures will remain on the backburner for an extended period of time. We therefore expect the economy to contract further over the upcoming months against the backdrop of political paralysis. On the medium-term, USD/BRL will continue to trade at elevated levels for an extended period of time while in the short-term, the pair will globally be driven by developments in the US.





FX Markets

IMM Non-Commercial Positioning

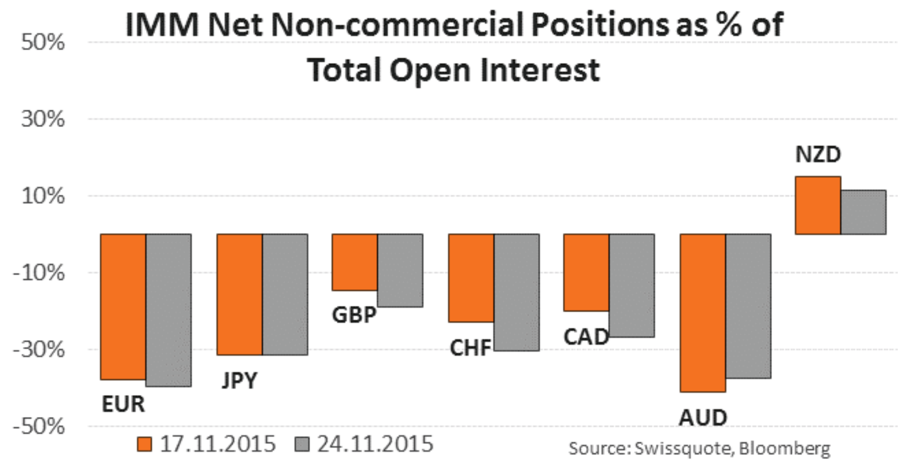
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

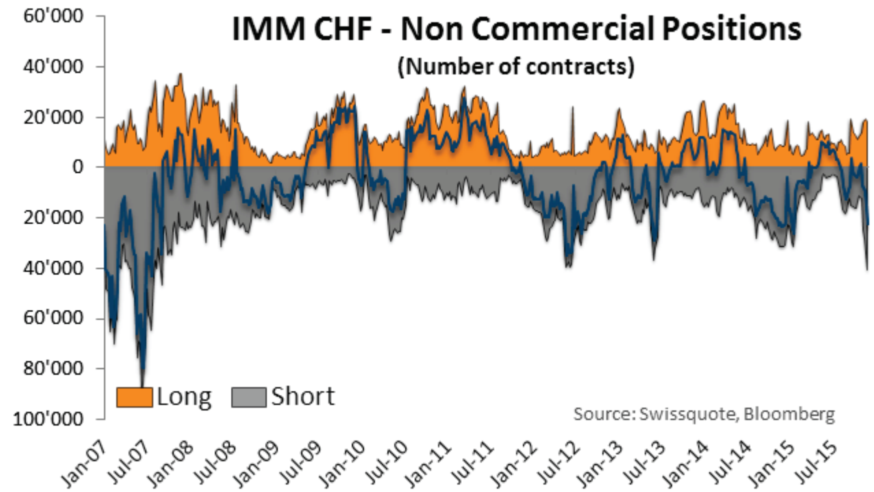
The IMM data covers investors' positions for the week ending November 24th 2015.

Net short EUR positions have increased again reaching almost that 40% of total open interest. The ECB Quantitative Easing drives the EUR lower. Investors are still pricing in a strong devaluation of the single currency despite the fact that Draghi under-deliver at the ECB meeting last week. We expect short positions to continue increasing.

The net JPY positions remain unchanged as the week was quiet in terms of data for Japan. Yet, we think that there will be growing concerns regarding the true efficiency of the Abenomics. We believe that more easing will be announced withing the next few months.

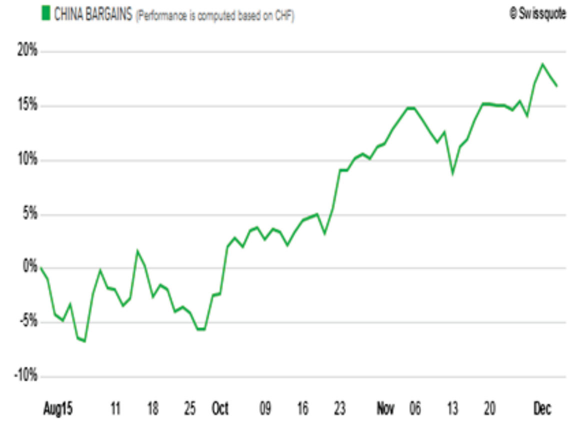
Last, but not least, the situation remains the same for Switzerland. CHF short positions have increased sharply as there are mounting evidence that the SNB will have to react to the ECB QE programme in order to avoid any further appreciation of the Swiss franc that would create serious damages to the Swiss economy.





Themes Trading | China Bargains

Since inception	▲ 16.74%
1-month return	4.78%
Return day	-0.77%
Est. dividend yield	1.23%
Inception date	28/08/15



Chinese stocks have just experienced one of the most spectacular collapses in financial history. A combination of retail speculation, a lack of investment opportunities for citizens and a "storybook" growth outlook sent stocks skyrocketing. However, when the bubble finally burst, it was not pretty. As more and more analysts downgraded China's growth expectations and speculation over a "hard landing" increased, the stock sell-off intensified. Chinese officials had to quickly respond with monetary policy easing, a devaluation of the yuan, and measures designed to limit speculative trading.

However, it was perhaps not the actions of officials that halted the stock sell-off but renewed appetited among foreign investors. China's mid- and long-term growth outlook appears extremely encouraging. Interestingly, the recent fall in global stocks is reminiscent of the 1998 Asian financial crisis. After the S&P 500 fell 20% on worries of a financial implosion in Asia and Russia, the S&P 500 rallied 20% in the last few months of the year. As the smoke clears, there is still very solid business to be done. China's lofty stock valuations had kept investors on the sidelines, but with over 40% lopped off key indices, investors now smell a bargain. The Shanghai Composite P/E fell from a high of 25.80 to a low of 9.68. With stocks cheap and expectations of government stimulus on the way, the upside looks attractive. In this theme, we filter on Chinese companies that we consider valuable, with healthy balance sheets, strong net earnings ratios and steady cash flows.

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