WEEKLY MARKET OUTLOOK

14 - 20 December 2015

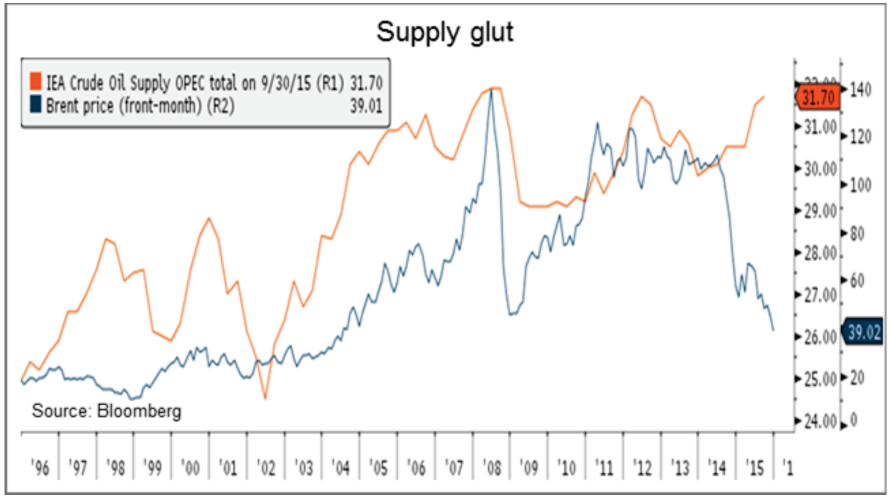
Swissquote Bank SA
Tel +41 22 999 94 11
Ch. de la Crétaux 33, CP 319
Fax +41 22 999 94 12
CH-1196 Gland
forex.analysis@swissquote.ch
Switzerland
www.swissquote.com/fx

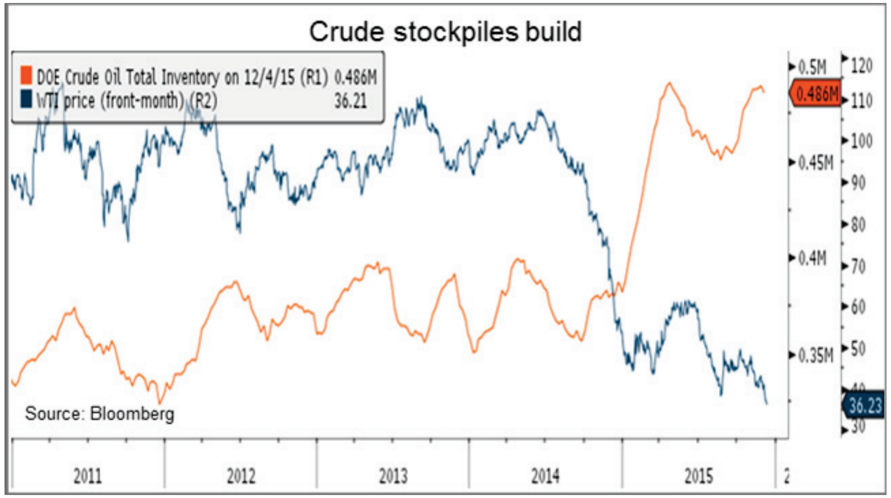
DISCLAIMER & DISCLOSURES

WEEKLY MARKET OUTLOOK - An Overview

Economics

Crude To Remain Low





You would have to be hiding under a rock to have missed the news that oil prices have taken another leg lower. Increased worries of oversupply and clarity surrounding the Fed policy strategy were the primary catalysts for this week's selling. On Friday, renewed supply glut speculation caused buyers to sideline oil prices, sending Brent to a 6-year low of $39.50 bbl and WTI to $36.50 bbl. Perhaps the strong argument for lower prices came from a chaotic OPEC meeting, which further undermined the credibility of the group. In what was flagged as a contentious meeting OPEC held production levels unchanged (approximately 31.5 bbl/ day, a number strangely omitted from the official statement) allowing members to pump crude in an already oversupplied market. The lack of unity was highlighted by UAE Oil Minister Suhail Al Mazrouei's statement, "We are not going to go back to a cartel and work against the customers." Elsewhere, regime changes in Venezuela and Argentina to more globally friendly oil producers suggest that additional supply could hit the market.

On the demand side, a strong US labor markets report all but cemented the likelihood that the Fed will raise interest rates on December 16th. With rates raising in the US the USD is now expected to outperform, increasing the cost of crude for buyers. In addition, meteorological reports indicate that El Nino will lead to a milder then expected winter. Consumption of oil has been growing, yet data from the global economy hit below average trends in 2016 (led by tepid Chinese growth), with little hope of acceleration in the near term. In a report released, today the IEA said "first signs of a slowdown" in oil demand has been seen in 4Q 2015 and suggested further deceleration could be expected in 2016. With daily supplies estimated to have outstripped demand by as much as 2m barrels and stockpiles in developed nations reaching 3 billion barrels at the end of September, barring a supply shock it's unlikely that crude prices will me will meaningfully recovery any time soon.

Economics

CHF Strengthens On Disappointment From The SNB

SNB keeps monetary policy unchanged

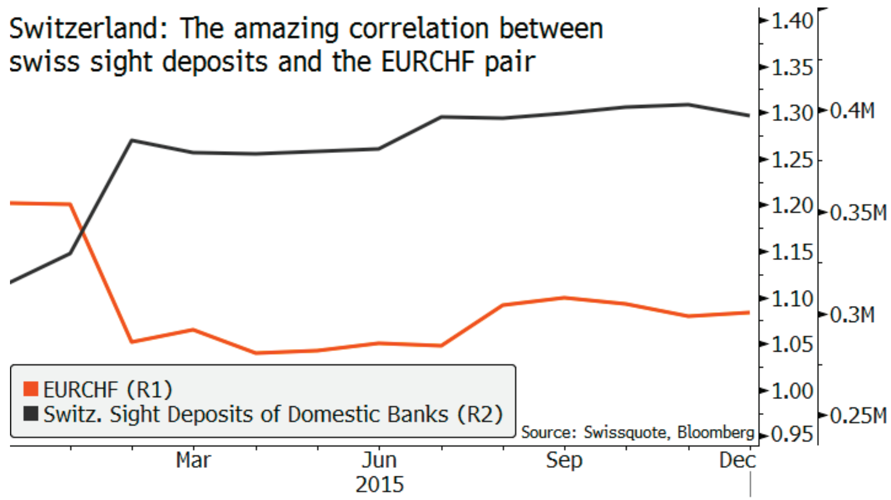
Following in the footsteps of last week's ECB meeting when Mario Draghi disappointed financial markets, the Swiss National Bank has announced last Thursday morning that its rates will remain on hold. The SNB kept unchanged the sight deposit rate at -0.75% and the Libor target which is still be ranging from -1.25% to -0.25%. Indeed, despite the ECB rate cut on the deposit facility rate to -0.3% from -0.2%, there was no desire for the SNB to react as markets in fact over-priced Draghi's delivery and finally ended up disappointed. As a result, pressures on the EURCHF were limited and left some room for the SNB to react. However, the inflation forecast has been set higher for 2016 at -0.5% and lower for 2017 at 0.3% instead of 0.4%. The GDP forecast has also been revised down in the short-term at 1% this year and 1.5% next year.

Swiss economy under pressure

Yet, we believe that the CHF will face increasing pressures as economic and also political uncertainties in the European Union grow. Europe should not expect better results from their QE program, knowing that neither Japan nor the U.S experienced positive results quickly. Moreover, Europe is a set of fragmented countries each with its own set of governmental and fiscal rules, meaning that there will be more than one occasion when the ECB monetary policy will be questioned. The main risk for the SNB is a renewed strengthening of the Swiss Franc as Swiss industry is mostly oriented towards Europe. The SNB has two tools to defend the Swiss Franc, the sight deposit rate as well as the intervention on the FX market.

Further intervention from the SNB

Officially, according to the sight deposits of domestic banks, the SNB is for the time being not intervening in the market despite some rumors sta-ting the opposite. Anyway we are clearly expecting some more surprises from the SNB within the next few months. In our opinion the EURCHF will not be allowed by Swiss Central Bankers to set up below 1.0500. We actually expect within the near future that the SNB may act the same way, i.e. very aggressively, than what it did in 2011 or in 2015 (set up a floor and abandon it four years later). The SNB has shown in its recent history a propensity towards aggressive action. Even if we believe that a new peg has a very small likelihood to happen, the central bank may rather decide to cut rate without any warning below -1% if for example European political and economic uncertainties expressed above become too strong. Indeed CHF is considered as a safe haven currency and in case the global risk-off sentiment increases and in particular in Europe, money may flow back in Switzerland, which would strengthen the Swiss Franc, and as result would force the SNB to react.



Economics

US: Lift-Off Ahead

Playing it old school

Market participants were expecting a more aggressive move from the ECB than what was actually delivered by Mario Draghi a couple of weeks ago; resulting in a sharp correction in both EUR crosses and equity markets across the globe. The ECB decided to keep unchanged the amount of monthly asset purchase but extended the programme by six months to March 2017 and cut the deposit rate by 10bps to -0.3% - besides other cosmetic changes. Even several years after the financial crisis and the unprecedented measures undertook by central banks around the world - and more specifically by the Federal Reserve - to stimulate their local economy, it seems that traders have forgot that a central bank's role is not to support the economy against all odds. The ECB send a little refresher on December 3rd by showing that it was not ready to expand its balance sheet indefinitely. We have the feeling that central bankers also started to realise that quantitative easing programme did not work as expected and that the marginal effect of an increase of the QE is decreasing. This could be a reason why the ECB preferred to stay side-lined by not expanding its stimulus.

Rate hike already priced

Now that everyone is waiting on the Fed's decision, the question is to determine whether the Federal Reserve will deliver a 25 bps? What if the Fed delivered a smaller rate hike than anticipated by investors? After months of deliberation, market participants are confident and the last NFP report just strengthen that confidence: the Fed will likely hike rates in December. When you have a look at the market's muted reaction after the release of the NFPs, it appears that a 25bps raise is already fully priced in. Thus a rate hike smaller than 25bps (as we expect) would force traders to adjust their positions and would push the dollar lower.

USD is mainly exposed to downside risk while further appreciation is quite limited as the prospect of a strong dollar will have some significant negative effects on an export industry that is already under pressure.

FX Markets

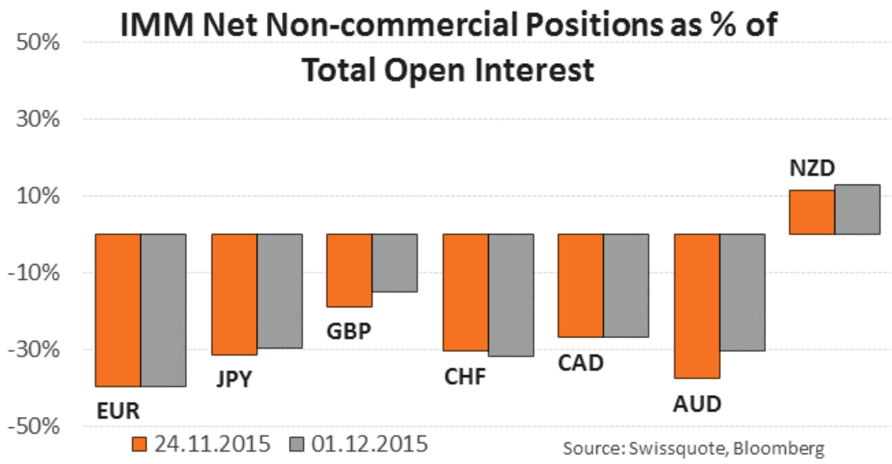
IMM Non-Commercial Positioning

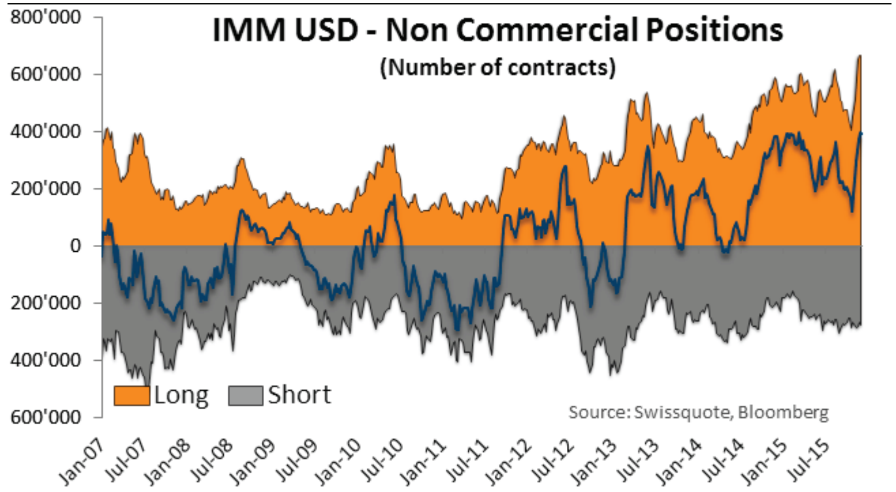
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

The IMM data covers investors' positions for the week ending December 1st 2015.

The data suggests that investors have reduced their long dollar exposure as JPY, AUD, GBP short positions have declined. Net short EUR positions have remained unchanged at around 40% of total open interest. Investors are still pricing in a strong devaluation of the single currency.

In Switzerland, the CHF short position have increased as a reaction from the SNB was expected after the ECB meeting. Short positions should increase even more 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.



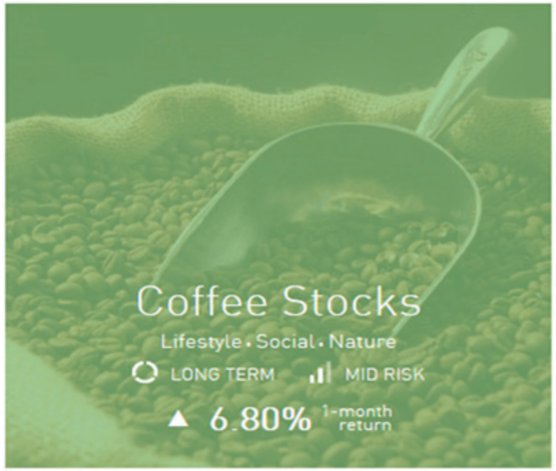


Themes Trading | Coffee Stocks

Far from being just a brown beverage, coffee has become a lifestyle choice. Around 500 billion cups are drunk every year, and two out of three people enjoy at least one coffee a day. For many people, where they get their coffee "fix" is as important as the brands they wear or the music they listen to. According to a recent report by the National Coffee Association, 61% of US adults drink coffee daily, compared with only 41% for soft drinks. This represents an annual spend of over $160 per coffee drinker. With new coffee shops often appearing to spring up on every street corner, coffee remains a growth industry.

Future expansion in coffee consumption will shift in two distinct directions. High-income western countries are moving towards "gourmet" coffee, single-cup systems and ethically-sourced varieties, all of which can command higher margins. Meanwhile, in emerging markets, the core strategy remains awareness and promotion of regular consumption through aspirational brand marketing. The rising middle classes in emerging markets, with their discretionary income and new leisure time, are expected to become the fastest-growing segment.

http://www.swissquote.ch/themes-trading



Since inception	▲ 12.08%
1-month return	6.80%
Return day	0.08%
Est. dividend yield	0.58%
Inception date	01/10/15

DISCLAIMER

While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Swissquote Bank and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions, or regarding the accuracy, completeness or reliability of the information contained herein. This document does not constitute a recommendation to sell and/or buy any financial products and is not to be considered as a solicitation and/or an offer to enter into any transaction. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or in any other kind of investments.

Although every investment involves some degree of risk, the risk of loss trading off-exchange forex contracts can be substantial. Therefore if you are considering trading in this market, you should be aware of the risks associated with this product so you can make an informed decision prior to investing. The material presented here is not to be construed as trading advice or strategy. Swissquote Bank makes a strong effort to use reliable, expansive information, but we make no representation that it is accurate or complete. In addition, we have no obligation to notify you when opinions or data in this material change. Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other instruments.

This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient’s individual circumstances or otherwise constitutes a personal recommendation. It is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning Swissquote Bank, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. Swissquote Bank does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are for information purpose only and are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Swissquote Bank as a result of using different assumptions and criteria. Swissquote Bank shall not be bound or liable for any transaction, result, gain or loss, based on this report, in whole or in part.

Research will initiate, update and cease coverage solely at the discretion of Swissquote Bank Strategy Desk. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. Swissquote Bank is under no obligation to update or keep current the information contained herein and not liable for any result, gain or loss, based on this information, in whole or in part.

Swissquote Bank specifically prohibits the redistribution of this material in whole or in part without the written permission of Swissquote Bank and Swissquote Bank accepts no liability whatsoever for the actions of third parties in this respect.

Swissquote Bank SA | Ch. de la Crétaux 33, CP 319 | CH-1196 Gland | Switzerland
Tel +41 22 999 94 11 | Fax +41 22 999 94 12 | forex.analysis@swissquote.ch | www.swissquote.com/fx