SWISSQUOTE

WEEKLY MARKET OUTLOOK

18 - 24 April 2016

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

DISCLAIMER & DISCLOSURES

WEEKLY MARKET OUTLOOK - An Overview

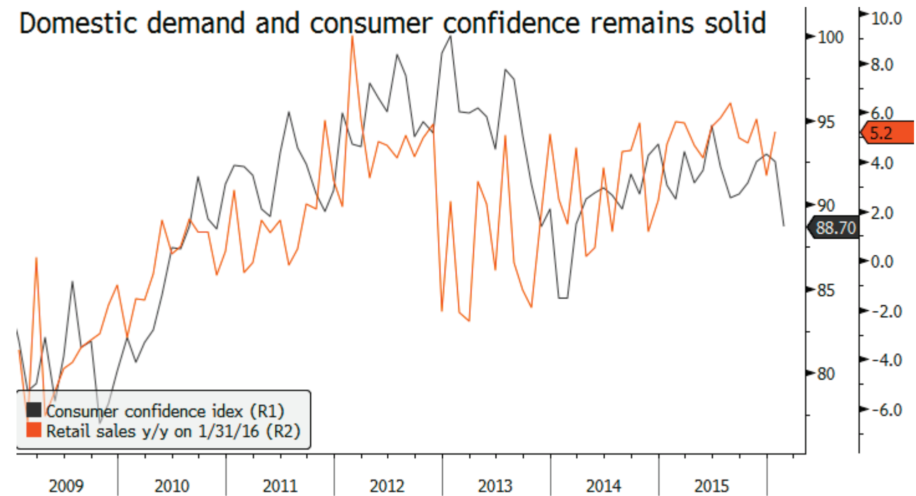
p3	Economics	EM Enters Goldilocks Conditions - Peter Rosenstreich
p4	Economics	AUD Rally Is Losing Steam - Arnaud Masset
p5	Economics	SNB Reaction Against A Backdrop Of Likely Brexit - Yann Quelenn
p6	Economics	China's Economy Stabilised In The First Quarter - Arnaud Masset
p7	FX Markets	IMM Non-Commercial Positioning - Yann Quelenn
p8	Themes Trading	BioPharma
	Disclaimer	

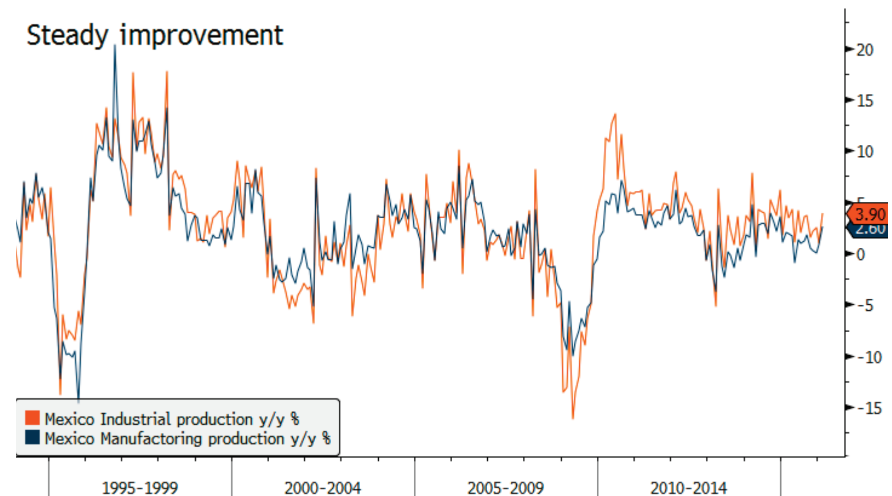
Economics

EM Enters Goldilocks Conditions

Encouraging economic data out of China is just one more reason to expect the rally in emerging markets currencies to continue. Other key factors include the dominant view of a shallow fed rate path, recovery in many EM nations economic data since Q3 2015 and steady improvement in commodity prices. As a result EM credit has witnessed significant demand as capital continues to search for yields and macro continues to remain favorable. However, the sustainability of this rally should soon be brought into question as a portion of the rally has been driven by improvements on the domestic economic front due to weak currencies. The fundamental rationale for this EM rally has always been questioned. There is a possibility that against a weak international backdrop, data improvement is purely a function of currency weakness. Therefore, a stronger currency could derail the current promising situation.

We remain optimistic on the Mexican peso. Weak domestic conditions look to have bottomed since last year. Last week, data indicated that industrial production decreased 0.1% m/m, above expectations, with positive expansion in manufacturing. The read suggested that deceleration was short-lived and correlated with the US own pullback in PMI reads. Mexico is on track for 2.3% GDP growth in 2016 as domestic demand remains resilient. On the government side, Banco de Mexico pronounced an allocation of MXN239bn ($13.6bn) in excess funds to the federal government for use in reducing public debt in light of lower oil revenues. The move should help support investor confidence in the wake of Moody downgrading the outlook for Mexico's sovereign debt rating to negative from stable due to weak economic growth and fragility in public finances. However, the most compelling reason to buy MXN is sustained correlation of oil and peso. Despite the expected absence of a deal in Doha steady global productions cuts and lack of capex should allow oil prices to grind higher. Our view that additional supply could come on line quickly as prices increase has been weakened as access to credit has become more complex. USDMXN traders should target 16.50 support.





Economics

AUD Rally Is Losing Steam

Since the beginning of the year, the Australian dollar has been appreciating against most currencies among the G10 complex as commodity prices recovered and the Aussie economy adjusted relatively well to the prospect of weaker demand from China. AUD rose the most against the pound sterling (more than 10%) but this is mostly due to Brexit fears that weighted on the GBP; more importantly the AUD surged almost 7% against the US dollar due to the combined effect of fading rate hike expectations in the US and a rally in commodity prices - iron ore prices surged roughly 50% in 2016.

The Australian dollar was also supported by the encouraging signals from the economy during the first quarter and especially in March. The unemployment rate fell to its lowest level since October 2013, falling to 5.7% in March from 5.8% in February. The NAB business condition gauge rose to 12 from 8 in February. The consumer price index ticked up to 1.7% y/y from 1.5% in February, getting to the RBA's target range of 2%-3%. Finally, the PPI rose to 1.9% from 1.7%.

Despite all those good news, we remain cautious regarding the potential for further Aussie strength as the commodity rally is loosing steam, while the Chinese economy is still adjusting to the downside. Moreover, despite showing some strong improvement of the unemployment rate, the details in the last jobs report are not that pretty. Indeed, the improvement in the unemployment rate was mostly due to an unexpected surge in new part time jobs (+34.9k versus -14.7k in February), while full time jobs contracted in March (-8.8k versus +13.9k in February).

Looking at the big picture, we think it is a bit early to claim that the Aussie economy is out of the wood as it keeps sending relatively mixed signals, meaning that the economy has to first confirm the stabilisation before talking about improvement.

Regarding the FX market, AUD/USD has proven to be unable to break the 0.7700-20 resistance area and a correction appears more and more likely. Looking at the technical structure, the daily RSI indicator continues to move lower, while AUD/USD continues to push higher, highlighting a bearish divergence that suggests that a correction in AUD/USD in looming. For all the reasons exposed above - faltering commodity rally, exposure to the Chinese economy, potential renewed rate hike expectation in the US - we believe that the risk is on the downside in AUD/USD with $0.74 as next target.

Economics

SNB Reaction Against A Backdrop Of Likely Brexit

Brexit, a primary concern

As expected by markets, the Bank of England has maintained its bank rate unchanged at 0.5%, record low, earlier last week. Rates have been at this level for the past seven years and we also believe that no change in the monetary policy will happen this year. Even more, the likelihood of rate cut is not null. Indeed, the UK needs to remain competitive as the ECB continues to ease while the Fed shows an increasingly dovish stance at each FOMC meeting.

For the time being, Brexit is the number one key issue for the UK (and Europe!) and recent polls are very mixed. The "remain" vote is definitely weighed down by massive debt, austerity policies, deflation and loss of sovereignty. David Cameron, UK Prime Minister, is running a campaign against leave vote and he has decided to spend a £9-million on an EU propaganda leaflet explaining "Why the Government believes that voting to remain in the European Union is the best decision for the UK". Testimonies from Portugal or Greece would have been welcomed additions to this leaflet but are regrettably missing.

EURCHF potential casualty of Brexit

Currency-wise, downside pressures on the GBP against the EUR are still lively and the sterling is approaching a 28-month low at around £0.80 for one euro. Right now, there is a growing speculation amongst analysts that in case of Brexit the EUR/USD could reach parity (traders will begin pricing in the break-up value). As a result, the overvalued Swiss franc is not out of the woods yet and a sharp euro decline is likely to trigger a reaction from the Swiss National Bank. The history of pro-activity from the SNB, which currently attempt to front run the ECB, makes us believe that there could be action in Switzerland before the referendum date on the 23rd of June

SNB lack policy tools to defend CHF

Indeed, downside pressures on the EUR/CHF are then set to continue knowing that the European future outlook is uncertain. Unfortunately for the SNB, policy actions are limited. Massive expansion of the central banks' balance sheet leaves little room for meaningful direct FX intervention (total sight deposits have increase approx. 18chf ytd). While the prospect of huge loses should the Euro head towards break-up is a risk the SNB cannot take. It is true that reducing the exemptions to negative rates may be a simple strategy but that would certainly not be a significant weapon during periods of rapid devaluation and long term effect on domestic savers are skewed to the downside. In addition, given home rate bias, deeper negative rates are likely to trigger a bank run to hoard cash rather than selling CHF. Last but not least, we do not consider that entering into the same monetary policy as the ECB is not an option for the SNB as a Brexit could trigger a deeper euro crisis and ruin all their efforts to stabilize the Swiss franc.

Economics

China's Economy Stabilised In The First Quarter

From our standpoint the latest batch of economic data from China was rather encouraging as it proved that China's dragon still has some fire in its belly, The economy gained 6.7%y/y in the first quarter, down from 6.8% in Q4 2015 but still matching market expectations. The stabilisation came on the back of a rebound in the property sector as the total investment in real estate development reached CNY 1,768bn, corresponding to a real growth of 9.1% year-over-year.

On the inflation front, the consumer price index rose 2.1%y/y in the first quarter compared to 1.5% in the final quarter of 2016 as food prices continue to steadily grow. However, the producer prices for industrial products contracted 4.8%y/y in 3Q, signaling that the manufacturing sector is not out of the woods just yet.

Finally, March industrial production grew 6.8% year-over-year, beating expectations of 5.9%. In the March quarter, the gauge rose 5.8%y/y compared to 5.4% in the previous quarter, above median forecasts of 5.5%.

All in all, the data released by the National Bureau of Statistics is quite encouraging and may suggest that the Chinese economy is successfully adjusting to the "new normal". However, we think it is still a little premature to draw any real conclusions as nothing has essentially changed; what we are seeing may be simply a pause before further downside adjustment as China still faces rising debt in its corporate sector and industrial overcapacity. The positive trend in inflationary pressure suggests that easing is less likely, especially in light of recent signs of stabilisation. The PBoC will therefore maintain its easing bias but we doubt it will deliver further interest rate cuts and/or reserve requirement ratio.

Overall, the ongoing slowdown of the Chinese economy will weigh further on the global economy and we will not be surprised if we see a correction of most commodity currencies such as the Aussie and the Kiwi over the course of the coming weeks. Indeed, the Chinese economic activity is always booming during the weeks following the Lunar New Year. The next few weeks will therefore be crucial in assessing the actual sate of the world's second biggest economy.

FX Markets

IMM Non-Commercial Positioning

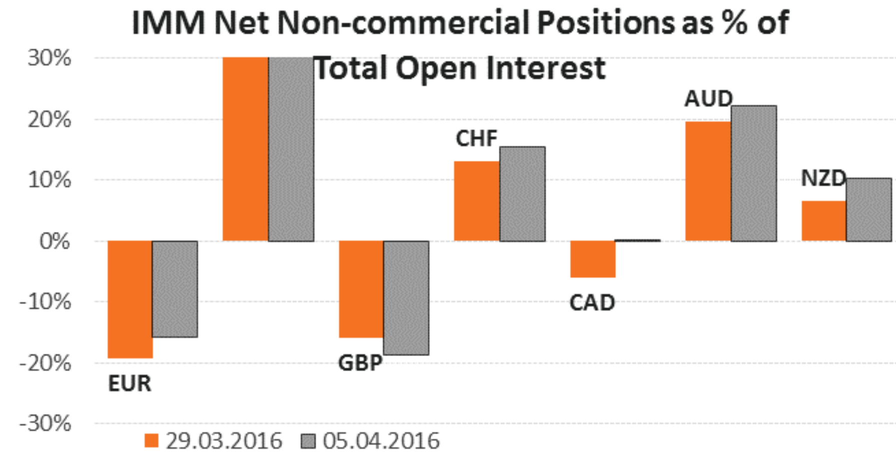
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

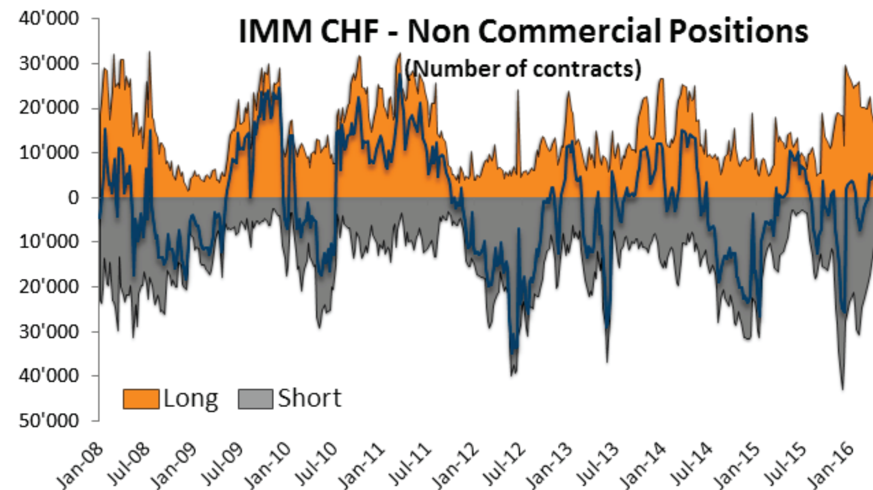
The IMM data covers investors' positions for the week ending April 5th 2016.

The EUR net positions have been reduced for the third consecutive week. Uncertainties on the euro are still weighing on the currency which net positions remain largely short.

The recent rally in the Japanese currency does not seem to be over. Japan is still suffering from its safe haven status and speculators remain long. The Swiss Franc is following the same path with speculators reinforcing their long positions.

Brexit vote seems more and more uncertain. Downside pressures on the pound should continue until the referendum which will be held the 23rd of June.

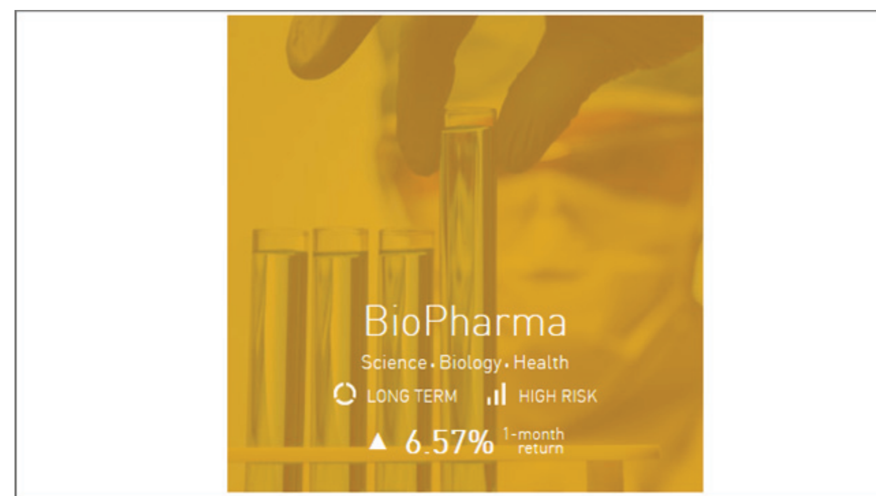


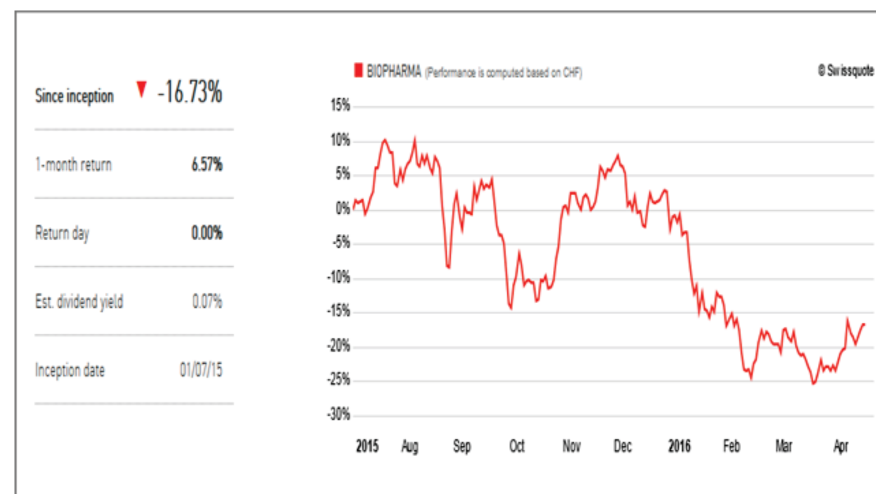


Themes Trading | BioPharma

The pharmaceutical industry is going through a minor revolution. Biotechnology has a broad mandate, covering a wide range of processes for transforming living organisms for human purposes. However, this theme focuses on a new breed of companies that have joined the race to use modern technology to create healthcare products. These companies harness cellular and bio-molecular processes to develop technologies and products to fight disease. Exploding R&D costs have forced traditional pharma companies to look to smaller, more agile, technology-driven firms as the primary pipeline for innovation. With public and private investors and big pharma all expecting the next big breakthrough to come from this dynamic sector, valuations are on the rise.

We built this theme by filtering on firms with a market capitalization of over $1 billion and positive sales growth over the past two years, ensuring that they have sufficient cash flow to fund the next blockbuster.





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 2014. All rights reserved.

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