

WEEKLY MARKET OUTLOOK

25 April - 1 Mai 2016

WEEKLY MARKET OUTLOOK - An Overview

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Economics

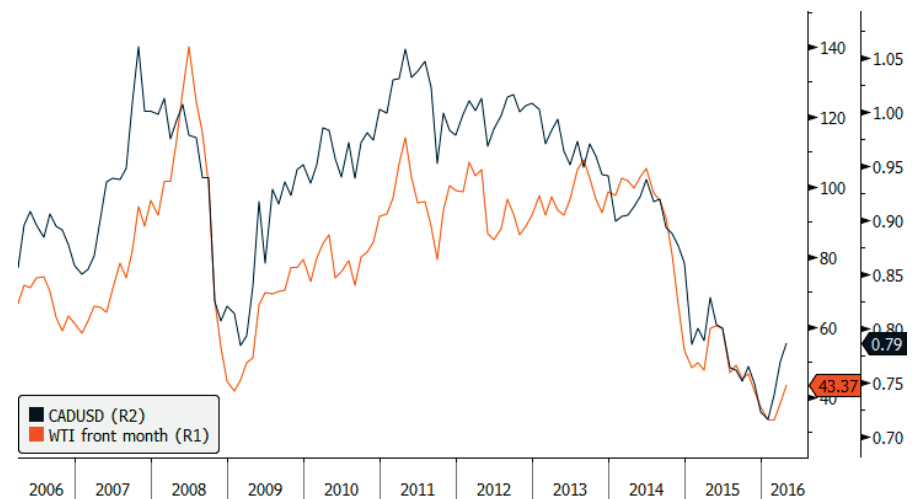
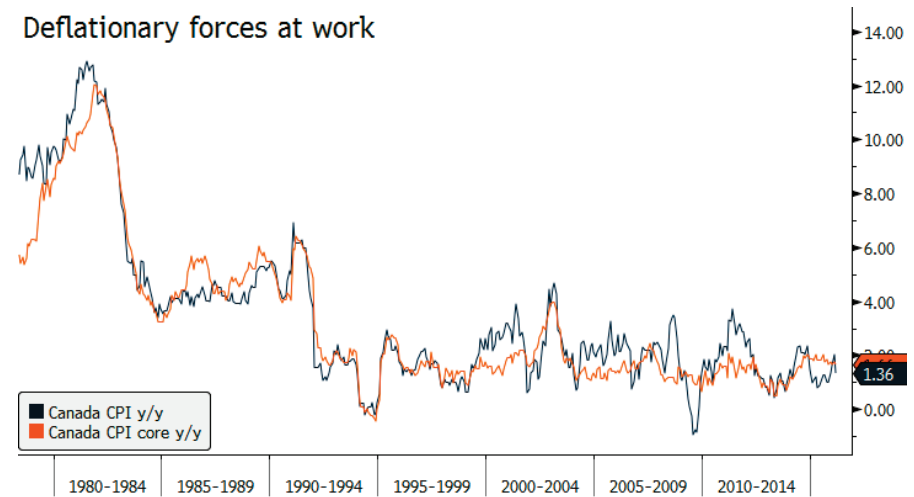
Constructive On USD/CAD

Crude oil was able to shake off the disappointment from Doha to rally a respectable 15% from the week's lows. In broader terms the expected deterioration in risk sentiment on soft economic data, further supply driven downside in oil prices and higher US real yields were expected to weigh on commodity currencies. However, as we anticipated global central banks accommodating policy has been able to support risk appetite. Demand for EM and commodity linked assets continue, partially added by further mass liquidation of European bonds with negative yields. Yet, heading into an FOMC week we are forecasting a short-term bullish reversal targeting specifically USDCAD.

On the domestic front, the effects of slowing growth and lower commodity prices will be highlighted in the data today. Canadian February retail sales rose a fragile 0.4% from a revised lower 2.0% m/m, reversing January unexpected strength. Key inflation measures, core and headline CPI, indicated further easing away from the BoC 2% inflation target. While the critical determinates of CAD pricing remains macro-driven, having an underlying dovish BoC and increasing expectations for additional easing, will pressure the Lonnie.

The current rally in crude prices feels stretched as the fundamental rational for additional price increase are thin and clear market oversupply remains dominate. Improvement in China trade data, including rise in crude oil imports, are too fresh to jump into longer term conclusions over the sustainably of any enhancement in crude demand. Over optimism in the China recovery story and risk sentiment is likely to be challenged ahead of the Fed meeting, resulting in a pullback in crude prices. FX traders are now net long CAD, so as crude prices decline, speculators will quickly cut. We are constructive on USDCAD in the near-term watching for moves towards 1.2750 to reload in long in order to target 1.300 range resistance.

Deflationary forces at work



Economics**Draghi Convinces The Markets****A non-event**

The ECB meeting on the 21th of April was, as expected, a clear non-event, with no monetary policy change being announced. The pace of the QE programme has not been increased, holding at €80bn per month and rates remained unchanged (main refinancing at 0%, depo rate at -0.4% and marginal lending at 0.25%). Most of the following press conference after the rate decision was verbal intervention to maintain confidence in ECB policy.

ECB President Mario Draghi also confronted recent criticism expressed by German policymakers saying that this come down to a delay in the achievement of the monetary policy objectives and "therefore the need for more expansion". Tensions are rising between Germany and the ECB over the European institution's current monetary policy. Germany believes that QEs and low interest-rates are destroying its economy and that what may be good for most of Europe is not, in the end, good for them, as they bear the brunt of the cost. In our view, German concerns are definitely legitimate and the overall efficiency of the current monetary policy should indeed be brought to the table.

Eurozone Inflation should remain weak

Draghi also mentioned that the path to the inflation target will take more time. This path is clearly very complex and the former Goldman Sachs banker added that inflation may in fact enter into negative territory before coming back to positive. Does this mean there will be no positive results achieved this year? Draghi is definitely trying to maintain confidence in the ECB monetary policy despite likely adverse results in the short/medium term.

Credibility is the key

Mario Draghi spent the rest of the press conference walking a line between supporting confidence in the Central Bank and adding downside pressures to the single currency. Too much concerning Brexit rhetoric for example would have pushed the EUR further downward but would have also affected the European institution's credibility and created useless volatility. He was therefore too reluctant to go too much further into detail about monetary policy expansion and his European's future economic outlook concerns. Helicopter Money is not at the moment a viable scenario and we should not see any FX intervention in the short-term.

Scrutiny is growing as current ECB actions seem unable to pave the way towards higher growth and inflation. The institution's credibility is still solid for the time being...but for how much longer will this last? Next week the April FOMC meeting will take place and we firmly believe that financial markets are becoming increasingly disappointed with US monetary policy. Currency wise, we remain bullish EURUSD as the renewed dovish stance of the Fed should continue to add upside pressures to the pair towards 1.20.

Economics

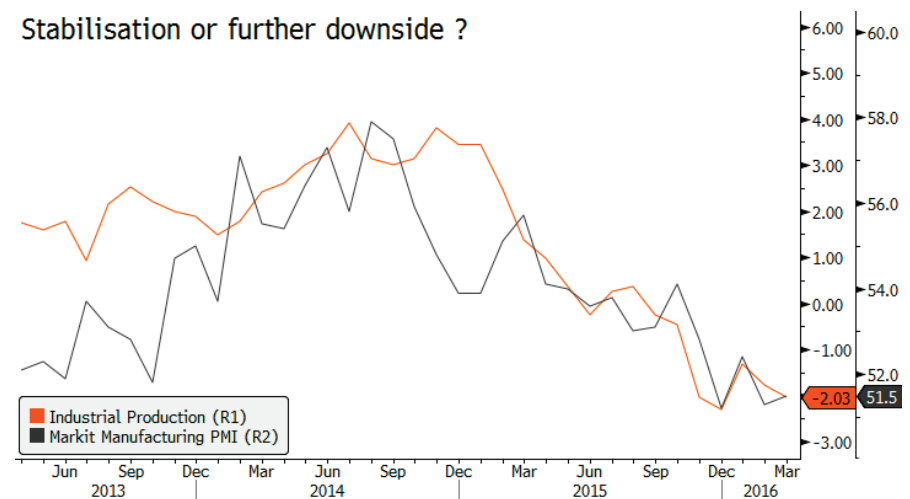
Market Already Waiting For June's FOMC Meeting

The Federal Open Market Committee will be meeting next week to decide whether to increase the federal funds target rate another notch. It is pretty clear now that the committee will keep rates unchanged at between 0.25% and 0.50%. Indeed the few speeches given by Chairwoman Yellen since the meeting in March leave no doubt as to the outcome. Moreover, Yellen's dovish press conferences following the release of last's month statement as well as her address at the New York Economic Club highlight the growing divergence among Fed members regarding the US economic outlook. Even though this internal divergence does not change anything regarding next week's meeting, it does increase the uncertainty regarding a potential rate hike in June.

Therefore, Wednesday's meeting is more about the Fed's assessment of the global risks to the US economy than anything else. Investors will be extremely sensitive to any change of tone in the statement, especially if it is a hawkish switch. Nevertheless we expect that the Fed will use a cautious wording in order to prevent dollar bulls to get too carried away and also to ensure that the market does not built strong expectations.

For now the market is still skeptical about a rate hike in June. The probabilities extracted from the Overnight Index Swap show that the market is only pricing in a 16% chance of a 25bps increase in June. However, since the beginning of the month, the monetary sensitive 2-year treasury yields have started to increase steadily, signaling that a tightening of monetary policy is becoming more likely; yields moved above the 0.80% threshold for the first time since the end of March (before Yellen's speech at the NY Economic Club). On the other hand, the latest data from the US paints a gloomy picture of the economy as industrial output contracted for a second straight month (-0.6%/m in February and March) and inflationary pressures remain weak (CPI core came in at +0.1%/m in March versus 0.2% expected). Only the labour market and the housing market is sending positive signals.

Stabilisation or further downside ?



Economics

Does The US Housing Market Really Recover

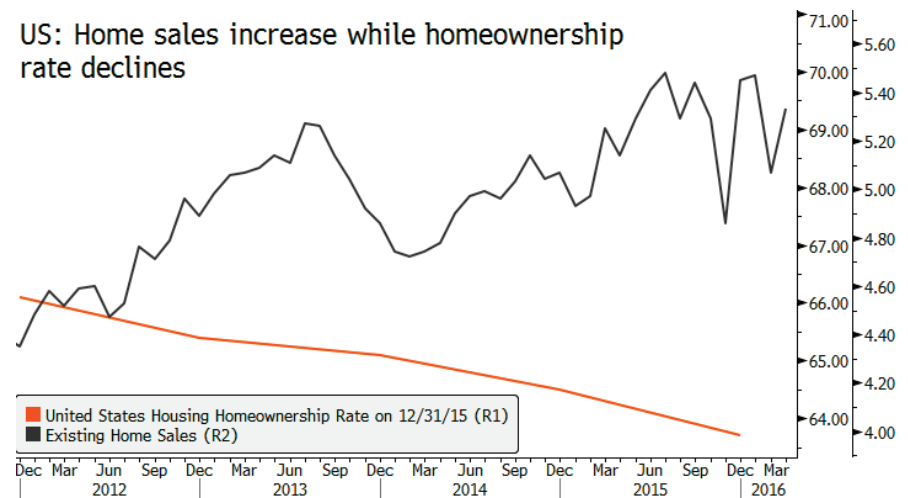
Though markets are mainly focused on verbal interventions from Fed members, right now any and all data is being closely analysed for clues concerning the future Fed rate path. Recent releases show that the fundamentals of the US economy seem to have improved, inflation has been growing since the beginning of the year, and unemployment remains stable around 5%. In contrast, retail sales disappointed with a last negative release at -0.3% in March. On top of that, there are growing concerns that the housing market is buried too deep in a bubble as a result of the loose monetary policy of the past decade.

March existing home sales rebounded earlier last week to 5.33 million according to estimates rising 5.1%. A first analysis of the situation could be to interpret this data as a sign of confidence in the economy suggesting the housing market is recovering. We do actually think it is the contrary. We believe that in the current environment, where rates are so low, there is no benefit for sellers as expectations for higher rates are pushing sales to decrease. Also, it is also way more difficult than before to get a mortgage. Our main idea is that existing home sales are currently increasing because institutional companies are largely investing their cash in real assets. Homeownership rate has been on the decline for the past 10 years. We also think that wealthy people may support existing home sales and whatever if you own 1 or 10 houses, in the end you are just one owner.

Real estate is one the remaining asset class where there are still decent return. Financial markets are by the way still expecting low interest rates and steady unemployment to provide the necessary traction to underpin the housing market.

As a result, we keep on believing that the US domestic conditions are overestimated and this leads us to think that the greenback is overvalued against the EUR. We believe that US difficulties are not fully priced in by financial markets.

US: Home sales increase while homeownership rate declines



FX Markets

IMM Non-Commercial Positioning

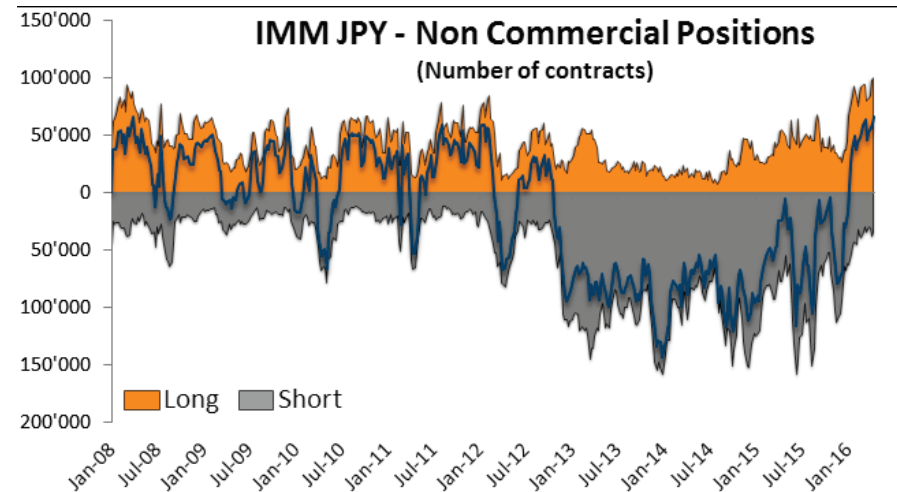
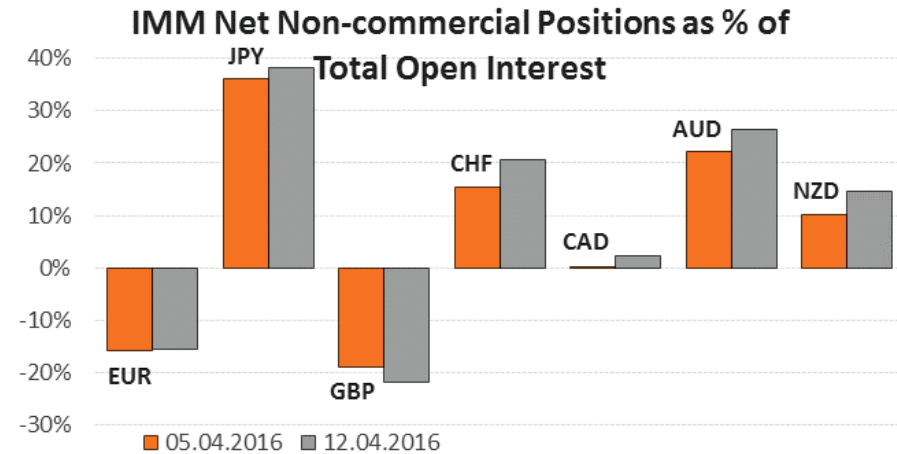
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

The IMM data covers investors' positions for the week ending April 12th 2016.

The JPY net long positions have increased slightly compared to the previous week. The elevated level of long positions is raising the question of a correction. In addition, the BoJ willingness to cut the lending rate in negative territory is also jeopardizing further yen appreciation. We can therefore reasonably expect a decrease of long speculative positions.

Net long positions in commodity currencies such as the Canadian dollar, the Australian dollar and the New Zealand have continued to increase significantly as the rally in commodity prices was running in full swing. However, the massive amount of long AUD positions suggests that a correction

The Swiss Franc has also seen an increase in net long positions on concerns over Brexit and the eurozone's sluggish inflation outlook. net long positions reached more 20% of total open interest, up from 15% in the previous week.



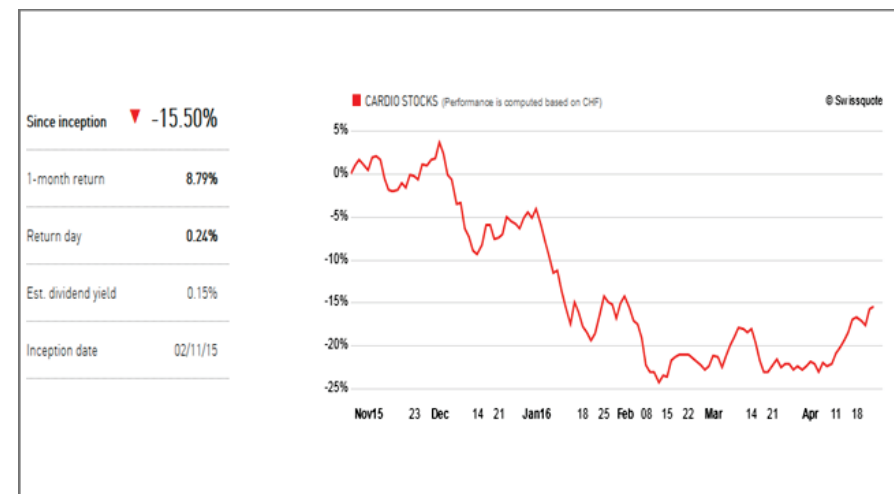
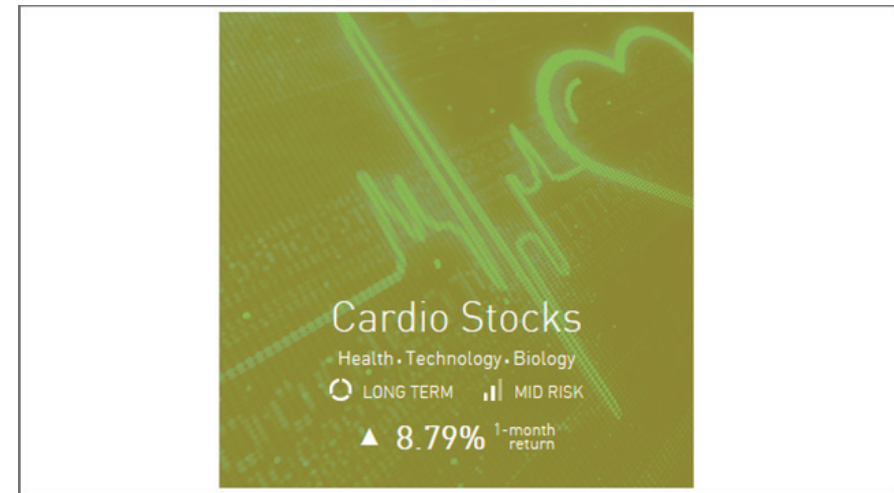
Themes Trading

Cardio Stocks

Heart disease is one of the leading global causes of mortality, accounting for 31% of all deaths. This represents 17.5 million people a year. Of all our organs, the heart is the one that pumps blood around our body. Our vitality depends first and foremost on its proper functioning. It is the engine of our health. When its efficiency declines, or when we fall victim to an unfortunate disease, organs can now be replaced. However, compatibility and the risk of rejection are still major issues, and donors remain somewhat rare.

Against this backdrop, some tech companies are betting that building a fully automated heart is possible. For example, French company CARMAT is developing an electrically powered completely artificial heart. For the time being, the device is still in testing and its first phase of trials, still currently underway, is providing better than expected results. A second phase, involving more patients, should begin in 2016. Some other companies, rather than trying to build a device to fully replace the heart, are trying to help this amazing organ to function in a more efficient way. US company Sunshine Heart is designing a complementary device to enhance dysfunctional heart abilities. We strongly believe that the need for such devices in the future will be significant: according to the non-profit organization PRB (Population Reference Bureau), which aims to inform people about the global population, people aged over 65 will account in 2050 for more than 16% of the total population, compared with only 5% in 1950.

It is obvious that technology keeps evolving at an exponential pace. We have created this theme because we think that research knowledge about the human body will enable us, in the medium term, to live better and longer.



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