SWISSQUOTE

WEEKLY MARKET OUTLOOK

16 - 22 Mai 2016

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WEEKLY MARKET OUTLOOK - An Overview

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BoT clears way for carry traders

The Bank of Thailand left its policy rate unchanged at 1.50%, in line with expectations in a unanimous decision. The central bank indicated downside risk to growth yet left economic forecasts unchanged after cutting outlook to 3.1% from 3.5% at the prior meeting. Sluggish export markets and political uncertainty, which is slowing investment sentiment remains a heavy weight on expansion. Drought in Thailand has hampered agricultural sectors, constricting consumer behavior in key regions. However, tourism remains a supportive driver as growth in tourist arrivals are up 14.8% y/y. In addition, the increase in public infrastructure investment has accelerated providing a backstop for growth. Inflation forecasts are expected to come in closer to the lower band of the central bank's 1-4% target this year. Headline inflation should recover from the weak Q1 as pressure from food prices and higher oil push rates from negative territory. The dovish tone, combined with easing inflation pressures, suggests that additional interest cuts are possible. However, The BoT will opt to wait-and-see as broader global risks could have a deeper impact on the economy rather than rushing in to micro tune a relatively stable environment.

Political risk a concern to the BoT. The referendum on the new constitution is expected August 7th. Critics continue to suggest that the document favors current military rule, however, passage in theory lead to civilian general elections. Given Thailand's tumultuous political past until the constitution's uneventful passage investors will be cautious.

Once again the THB will be critical in the outlook for economic and monetary policy developments. The BoT highlighted that the THB's recent strength was not helpful to any recovery and that it remains vigilant of unnecessary appreciation.

The BoT has also clearly indicated their readiness to intervene; a bullish outlook due to a flood in foreign reserves is making members uncomfortable. Moving forward, the BoT will likely keep their accommodative policy through a weaker THB rather than cutting interest rates. Given our dovish fed expectations and balanced economic outlook in Thailand we suspect that THB remains a solid carry trade.

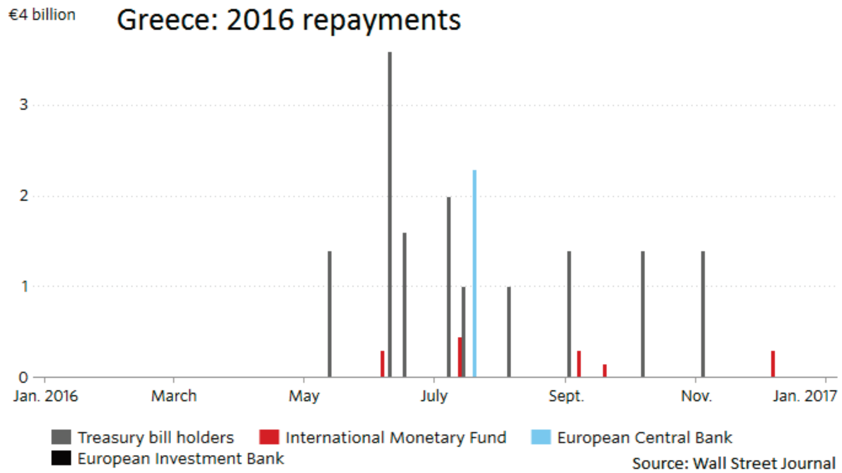
Economics

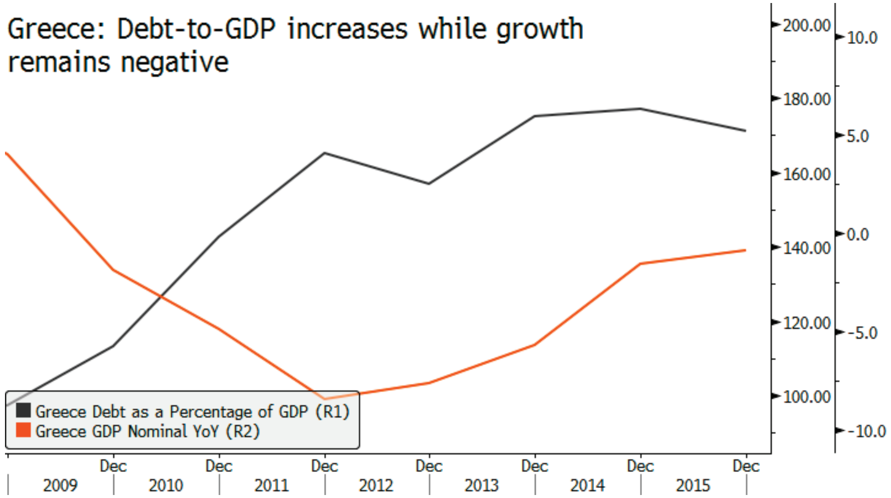
The Greek Issue Is Back On The Table

In Brussels last week, the Euro-Area Finance ministers discussed about Greece to approve the transfer of a massive €86 billion bailout amid the Greek pensions and tax reforms were approved this early May by the Greek parliament. The text was accepted in a very tight 153-146 vote. It is important to note that the text was defended by Prime Minister Alexis Tsipras, elected on an anti-austerity platform and who, contrary to the public's wishes, accepted to negotiate a bailout deal with the Eurozone. This vote was hugely significant for Greece as it finds itself in serious need of cash by July with a looming repayment of €3.5 billion debt due at that point.

Results of the vote are that value added tax will rise from 13 to 14%, the minimum, taxable income will lowered by €500 to €8,600 and taxes on small business will also climb to 29% from 26%. Over the weekend vote, massive anti-austerity protests took place. It is by the way worth saying that there is a major paradox as the majority of Greek people want to stay in the Eurozone but do not agree to austerity measures. Protests are far from over, especially knowing that Greek debt cannot be reimbursed. The price of each new bailout means less freedom and less sovereignty for Greece.

It is not often expressed that the overall Greek debt is not sustainable over the long haul. European policymakers are working to make it viable. For the time being it is unlikely that the nominal debt value will be reduced and it is clear that the Greek debt will constantly need to be restructured. Greek revenues will be insufficient to service at least the debt interest. Last Greek GDP fell by 0.4% q/q in the first quarter. The year-on-year performance is also still negative. Revenues should be far superior. The Greek future does not seem then so be bright and we consider that the country is simply the tip of the iceberg with other European countries also at stake.





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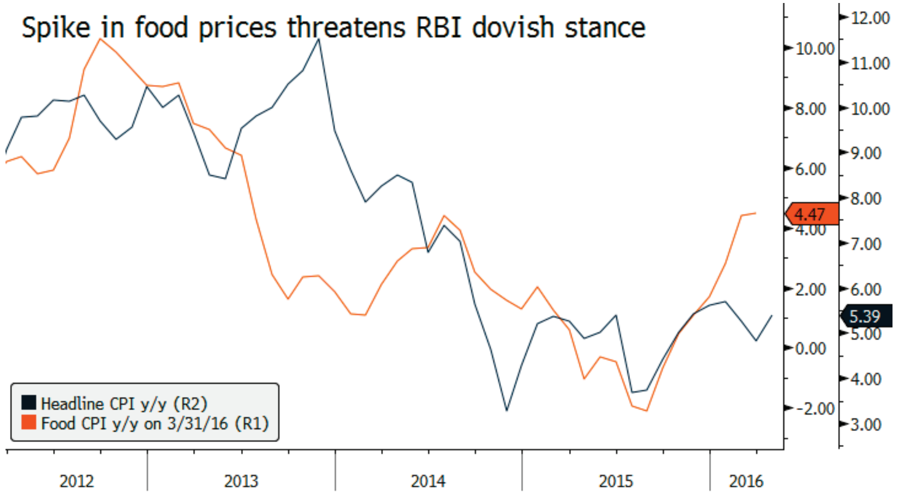
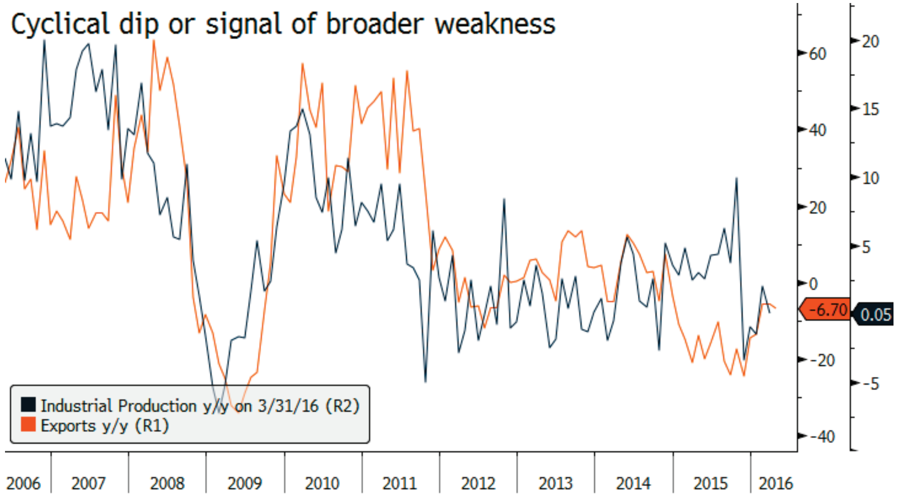
India's inflation pressure to sideline the RBI

In its April monetary policy meeting the Reserve Bank of India (RBI) voted for a 25bp benchmark repo rate cut to 6.50% and provided additional dovish commentary. RBI governor Raghuram Rajan stated their "stance of monetary policy will remain accommodative." These comments suggest blight of India policy makers, inflation, is no longer an issue due partly to falling commodity prices. However, this week's release indicates the fear of deflation has been overdone and inflation remains a problem.

India's consumer price inflation (CPI) surged to 5.4% y/y in April, from 4.8% in March. Core-CPI inflation climbed to 4.8% y/y in April, above the 4.5% in March. The major driver was the spike from food inflation to 6.2% y/y in April from 5.2% in March. The regional high temperatures and lack of rain has damaged the agricultural sectors, which will further drive inflation higher in the coming months. While metrological experts predict a strong monsoon season, which will help lessen pressure, we have mixed confidence in their analytical ability. There is a significant probability that CPI will head higher before cooling, we are unconvinced that longer term inflation expectations remain anchored. The spike in prices combined with our expectations for slow inflation normalization indicates that the RBI is unlikely to cut rates in 2016. The focus is on supporting the banking system's liquidity and transmission rather than targeting policy rates.

In purely Indian economic terms we suspect that additional rate cuts could come as early as August. However, our base scenario is for a Federal Reserve rate hike as early as November and resulting outflows will put pressure on INR. Deeper interest rate cuts would only amplify the capital outflow and risk instability in the financial system, which clearly the RBI would like to avoid. Despite disappointing March industrial production, which expanded at a weak 0.1% y/y from 2.0% in February, growth remains healthy. The fundamental rationale for INR appreciation remains solid making the currency a smart play for yield seekers.





Economics

US: mortgage applications and consumption weak

Looking through certain US fundamentals, there are reason to be worried. Each economic release are most of the time located in the soft side. Recent release as mortgage applications or retail sales are clearly not exception towards this trend.

We consider US real estate data to be an important barometer in assessing the true health of the US economy. The era of zero-interest rates has catapulted housing prices over the past few years to almost subprime levels. According to data from the Federal Housing Finance Agency, which tracks such changes in residential property, the index in early 2007 was at 380 while it now lies around the 370 mark.

The low volume of mortgage applications which stagnated around the same level from 2010 to mid-2015 has now picked up. However this volume decreased 3.4% for the week ending April 29. Data for the week ending May 6 have been released last Wednesday and printed slightly positive at 0.4%. In our view, the slight uptick in mortgage volumes that we have seen over the past year is exclusively due to Fed monetary policy. There are strong expectations that real estate rates will climb, so now is certainly the time for some to renegotiate their loans or to buy a new property before rates go up.

We also think that sellers are hoarding property due to current prices as there are also strong expectations for rates to stay low for a longer time. And this is not wrong. The Federal Reserve, despite its multiple statements, has still not managed to raise rates this year. In any case buyers will be more cautious especially due to stratospheric prices and due to the current draconian lending criteria. As a result, we foresee a decline in real estate.

Housing is not the only sector to suffer, retail sales are not particularly good despite the April rebound. March data was very disappointing with a 0.3% m/m decline, which triggered growing concerns of a stronger declining momentum. Yet, the April release printed in higher at 1.3% m/m which sounds nonetheless more like a slight rebound after a year of deceiving figures. Last month for example, the automobile industry was the major underperformer and markets have been clearly surprised by the drop in car sales which was entirely unexpected. We keep on think that consumption should further weigh on US growth as consumer spending accounts for at least two-thirds of the GDP.

In our view, we still believe that the true state of the US domestic economy is overestimated and that there are underlying difficulties. The unemployment rate, despite being very low, has not managed to push inflation and consumption so far. However, while it may be true that the US is at full employment, part-time jobs figures look increasingly significant. This correlates with Janet Yellen's several statements over the past six month that the part-time workforce is at "very high levels". Part-time is also synonym of precariousness and it sounds logical therefore that consumption will suffer from this new American labour structure.

Currency-wise, such data will simply reflect the underlying difficulties of the Unites States. The dollar still seems overvalued to us. Financial markets are increasingly resistant to any optimism when it comes to the topic of rate hikes. The probability for a September raise is now only around 33%.

Themes Trading

Brazil Recovery

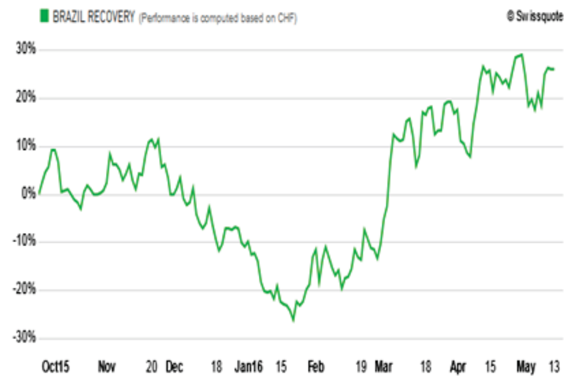
News that Brazil's Senate has voted to back the impeachment trial of Dilma Rousseff has refocused the worlds attention on the largest South American nation. Since September 2014, Brazil has been in the eye of an economic and political storm. The local currency – the Brazilian real – has lost more than 50% of its value against the US dollar, falling to an all-time low in September as investors fled risky assets for safe haven investments in an attempt to weather the country's political turmoil. In addition, anticipation over the Federal Reserve's tightening cycle has sent capital back to global investors. For the first time since 2009, the local benchmark equity gauge, the Bovespa index, has moved below 44,000 points, while yields on Brazil's bonds sky-rocket as prices plummet. To cap it all, Brazil lost its investment grade credit rating in early September 2015, when S&P downgraded it from -BBB to BB+ with negative outlook as the government struggled to shore up the fiscal deficit.

With the political crisis in full swing, the Brazilian real at an all-time low and the stock market bottoming, we believe it is time to start looking for investment opportunities. Also, at the macro level, with mounting expectations of disinflation and growth decelerating, major central banks – including the Federal Reserve – will likely delay any rate hikes until 2017. This would indicate a period of risk-taking and return-seeking in emerging markets. Many Brazilian stocks issued by high-quality companies are now available at very attractive valuations.

This theme, built using an adjusted market capitalization weighting, offers diversified exposure to leading Brazilian companies.

Analysis & Portfolio - Swissquote Bank Strategy Desk

Since inception	▲ 25.86%
1-month return	1.95%
Return day	-0.07%
Est. dividend yield	1.39%
Inception date	02/10/15



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