WEEKLY MARKET OUTLOOK

26 Sept. - 2 Oct. 2016

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WEEKLY MARKET OUTLOOK - An Overview

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Economics

Fed Maintains Its Hawkish Stance

Markets were counting down the hours until the Fed's rates decision last Wednesday. We were not expecting a start of the normalization path just yet, especially as the Fed has never risen rates when the probability priced by the market was less than 60%. Before the decision, it was standing at 20%.

In our view, the current economic data, in particular labour market and inflation data were clearly not sufficient to trigger a rate hike. Moreover, US Total Public Debt is climbing at its fastest pace since the beginning of the crisis. As a result, increasing rates would only make it more difficult to reimburse interest without inflation to kill the debt.

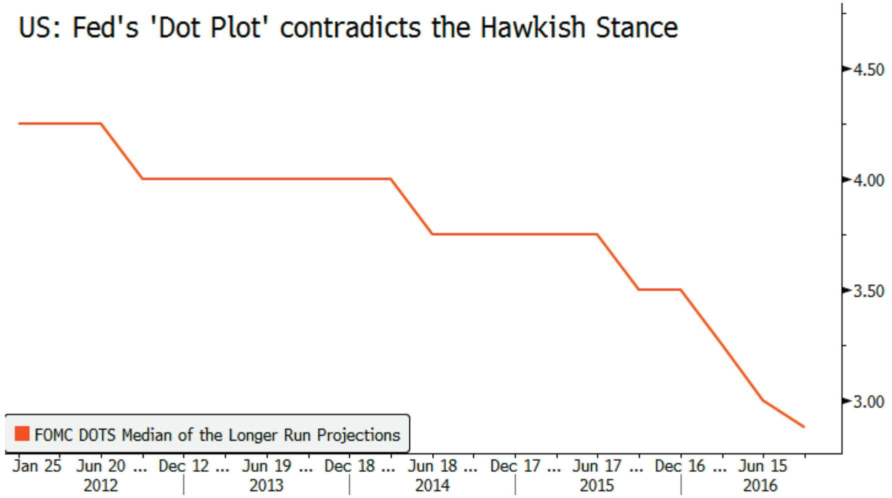
The apprehension felt by the market is justified. There is now the fear that the Fed would signal a deeper recession and burst both the bond and stocks bubbles. We strongly that the Fed's greatest fear is to disrupt financial markets. A few weeks ago, Rosengren's hawkish declarations sent the S&P 500 to around its 2-month lows before Brainard, Kashkari and Lockhart stepped in to put out the fire. Indeed, a big issue for the Fed is an overload of communication, which should be more tightly controlled. As a result, FOMC's messaging were about hawkish comments setting the scene for “the next meeting”.

For the time being, rates are then set to remain unchanged at 0.25% to 0.50%. The US central bank is awaiting further evidence that it can reach its objective. The Fed has also mentioned that a strong signal is very likely for a rate hike before year-end.

We maintain our view that a hike before year-end without sustainable inflation is not a likely scenario for the Fed, which is dragging out promises of a further rate hike to maintain credibility and in turn to avoid a dollar sell-off. It has now been more than a year that the Fed hints at a rate increase without actually taking action.

Fed Chair Yellen appears satisfied with the current state of the US economy. Yes, this satisfaction does not seem strong enough to tighten monetary policy, as officials await a pick-up in the labour market. Low unemployment rates are simply not synonymous with zero wage growth and signals a red herring. We believe that the current jobless rate is in fact underestimated and this is why the Fed is waiting for some improvement.

In the financial markets, the EURUSD has picked up and equity markets have been improved by this latest Fed decision. The likelihood of a December rate hike is now priced around 60%. There is a strong sense of déjà vu as we face a long wait for the Fed to move to save face, which is sure to have consequences for the central bank - most likely a deeper equity market correction.



Economics

RBNZ On Hold But Rate Cut In The Pipeline

On hold as expected

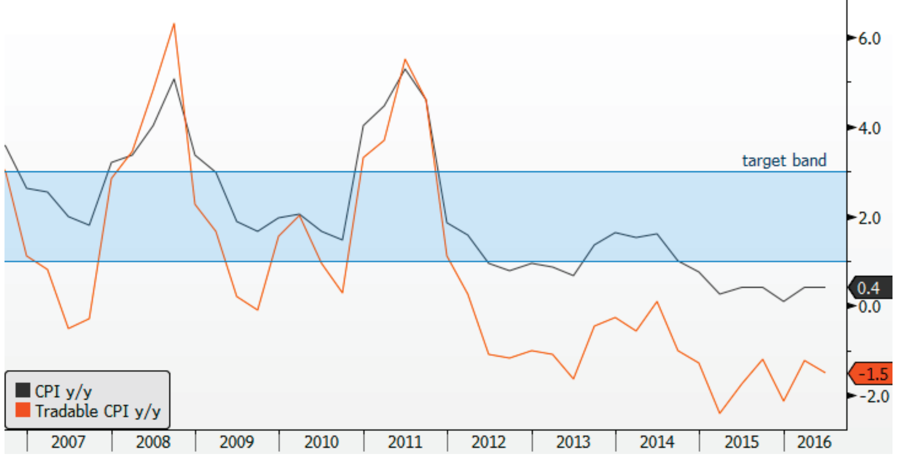
Last Thursday, the Reserve Bank of New Zealand left unchanged its official cash rate at record low 2% but extended a severe warning stating that "further policy easing will be required to ensure that future inflation settles near the middle of the target range". Unfortunately for Governor Wheeler, its statement was completely overshadowed by the FOMC meeting as the market was too busy analysing the Fed's statement and understanding Janet Yellen's press conference in order to guess the timing of the next rate hike in the US.

Improved forecast

The New Zealand dollar was therefore little changed after the release. However, the Kiwi muted reaction was also due to the solid profit announcement made by Fonterra. The Kiwi multinational dairy co-operative announced an annual profit of $834 million, up 65% from last year, and said it would pay out $3.90/kg milk solid for the 2016 season and 40 cents a share in dividends. It also raised its forecast of farmgate milk price to $5.25/kg milk solid for the next season.

On a broader front, the Kiwi economy has done relatively well over the second quarter, even though GDP growth over that period came in well below consensus, printing at 0.9%q/q versus 1.1% median forecast. On the inflation front, headline CPI has been far below the target band of 2% +/-1%, while in the housing market, prices remains under upside pressures as immigration and domestic growth remain solid. The RBNZ has therefore only one issue: inflation, more specifically tradable inflation. We therefore expect Graeme Wheeler will cut the OCR down to 1.75% at the November meeting in an attempt to devaluate the Kiwi. Indeed, on a trade weighted basis the New Zealand dollar rose more 2% since the August meeting, well above forecast. Unfortunately for the RBNZ the weak global conditions and low interest rates relative to New Zealand will certainly continue to attract investors across the globe, which would maintain Kiwi in demand. We however expect that the market will slowly start to price in the upcoming rate cut, which would limit the Kiwi and could, to some extent, bring NZD/USD below the 0.72 support.

RBNZ has a real inflation issue



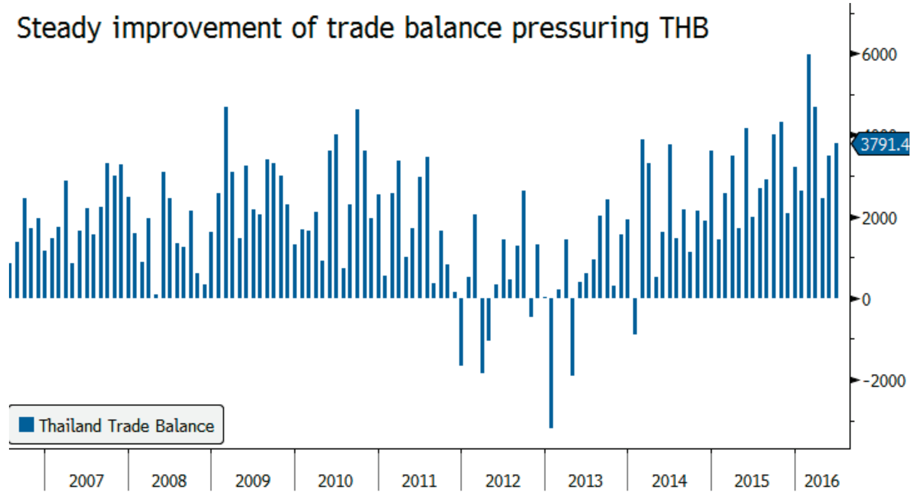
Economics

With BoT sidelined, buy THB

With the BoJ and Fed meetings providing calming results for the markets, investors can go back to accumulating riskier assets. We remain bullish on EM currencies and continue to search for opportunities in nations with firming fundamentals, steady current account surpluses and low reliance on commodity exports. Thailand continues to fit these criteria. Recently, the Bank of Thailand left its kept policy rate unchanged at 1.50%. As economic data continues to improve, we anticipate that the BoT will opt not to use monetary policy to protect the THB from further appreciation. Growth is showing signs of moderate improvement with PMI manufacturing rising to 49.8 after bottoming at 49.3, indicating that GDP y/y remains at a brisk pace of 3.5%. Inflation remains persistently subdued with consumer inflation at 0.29% y/y. With conditions improving, there seems no reason to shift from accommodative monetary conditions with a stronger THB supporting the BoT's management of quickening growth, therefore downgrading the probability of a 2017 rate cut.

That said, Thailand's widening current account surplus has placed persistent buying pressure on the THB. In response, the BoT has needed to step in to mop up excess liquidity through direct FX intervention. The resulting intervention has increased FX reserves by $26bn to $180.7bn this year. Evidence suggests that banks are holding the excessive capital in short-dated facilities because of the lack of return in the yields curve. In addition, there is a growing expectation that the government’s fiscal stimulus will lead to loan growth, providing lending opportunities for liquidity. However, currently, THB is getting recycled back into the BoT, rather than lending into the real economy. Should surplus widen and/or banks continue to sit on cash, the BoT will be forced to respond.

The BoT has a few options, such taking no action in the hope that the Fed hikes rates, relieving pressure from risky assets, manage reserves requirements (RRR), slow FX interventions from $3-4bn monthly rate seen currently. Finally, the BoT could cut policy interest rates which lower speculative demand and cost of sterilization. Yet, currently the BoT has expressed satisfaction with policy strategy and is unlikely to shift to deal with excess liquidity issues. Therefore, we remain bullish on THB and expect USDTHB to extend bearish trend to 34.50. This week, traders are awaiting trade balance and foreign reserves data.



FX Markets

IMM Non-Commercial Positioning

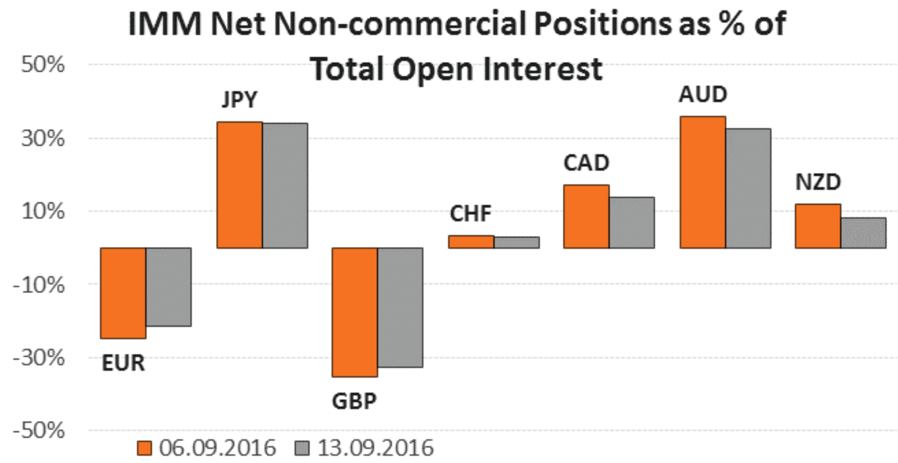
The International Monetary Market (IMM) non-commercial positioning is used to visualise the flow of funds from one currency to another. It is usually viewed as a contrarian indicator when it reaches an extreme in positioning.

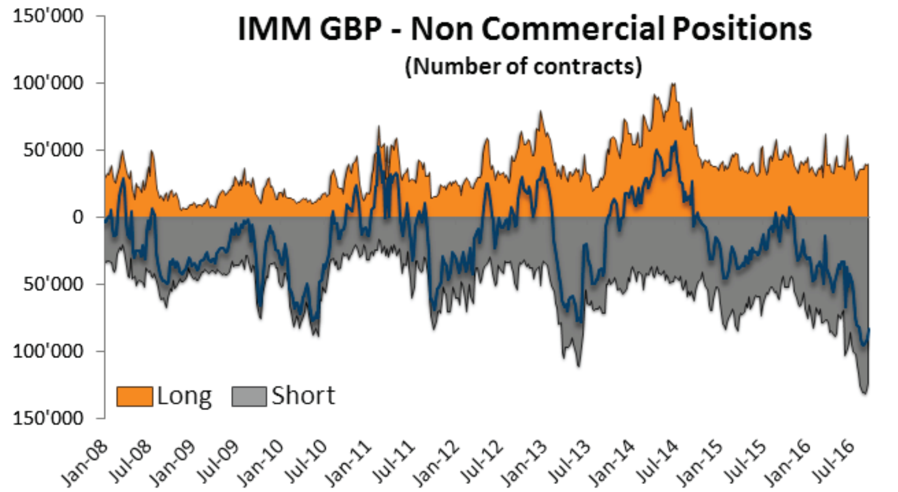
The IMM data covers investors' positions for the week ending September 13th 2016.

Net JPY positions have remained unchanged last week. Markets were awaiting the BoJ meeting. No major change happened and investors are still largely bullish. It seems that financial markets are suspicious about what the BoJ can to devalue its currency.

The CHF positions look mixed. Net positions is slightly long. The Swiss currency is very sensitive to any development in Europe. For the time being, markets are still waiting to assess the Europaan results of the QE.

The GBP short positions is still standing at very high levels as investors bet the pound sterling still has substantial downside potential. Investors are closely watching any adverse economic data resulting from the Brexit referendum.





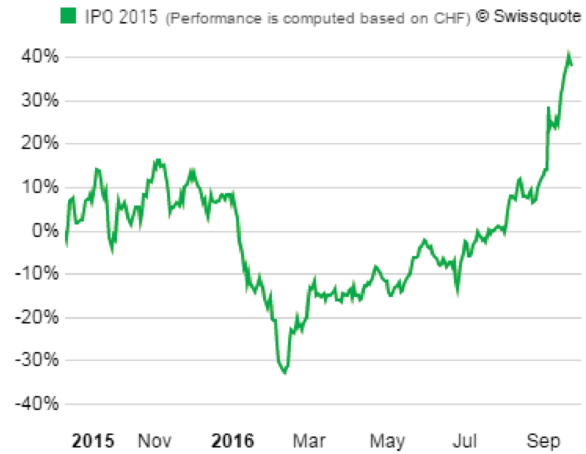
Themes Trading | IPO 2015

There may be no wilder party in the stock market than a "hot" IPO. After months of hype, underwriters, market makers and investors – all working off imperfect, asymmetric information – converge to create a price. The result is often extreme volatility, swings in liquidity and, in some cases (e.g. Facebook), a breakdown in technology. Yet after a period of trading on the secondary market, and with prices reflecting a more sober investment decision process, there are opportunities to be had. Getting in after a period of price adjustment can often lead to owning future industry frontrunners.

After a slow start to 2015 (following the IPO boom in 2014) due to nervousness over the stock market bubble, the potential for a Greek default and the looming US interest rate hike, investors and bankers are optimistic. Following Alibaba's $25bn IPO, we compiled this theme based on USA based IPOs with a market capitalization of over $100 million and more than three months' trading in secondary markets.

Analysis & Portfolio - Swissquote Bank Strategy Desk

Since inception	▲ 37.82%
1-month return	27.14%
Return day	-0.48%
Est. dividend yield	0.12%
Inception date	24/08/15



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