WEEKLY MARKET OUTLOOK

7 November - 13 November 2016

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WEEKLY MARKET OUTLOOK - An Overview

Economics

Is The Brexit Vote Now Being Stolen?

As we mentioned in September, we continue to be suspicious of the postponement of the triggering of Article 50.

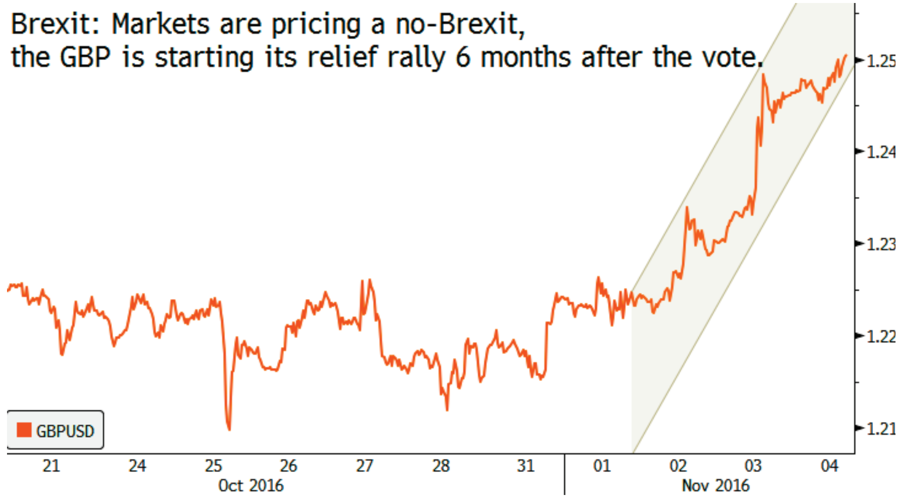
When Theresa May was announced as prime minister, she stated that it was important to respect the people's voice, that the Brexit was non-negotiable and that Article 50 would definitely be triggered. She also seemed very determined that financial markets would start to price in a “Hard Brexit”.

We feel that any negotiations would largely benefit the UK as the predicted economic nightmare did not happen but also because the economy is far from collapsing. There are even signs of recovery. This scenario now has other EU member states wondering whether they could follow suit.

The current turnaround is one we considered several months ago. The High Court ruling that the British Government cannot trigger Article 50 without parliamentary approval means that MPs will need to vote to start the exit process. What is that if not tampering with democracy? Theresa May seems to have lost her main battle, respecting the British people's vote. Indeed most MPs are against a departure from the EU. The Brexit is therefore very likely to be blocked. Many officials said that a referendum is not legally binding. So, what was the point to vote?

Theresa May now has one card up her sleeve. She can still call for a snap General Election in order to change the majority at the parliament to trigger Article 50. What a long road ahead.

The Brexit seems destined to join an already long list of European referendums that have not been respected over the past ten years, including the Lisbon Treaty in France in 2005.



Economics

Sell-Off Continues But Don't Panic

Don't panic. Yes we see the signs. Eight down days on the S&P 500 (after four months of sideways trading), global long-end yields rallying, volatility rising across-the-board, Trump close to ascending into the White House and the Chicago Cubs winning the world series.

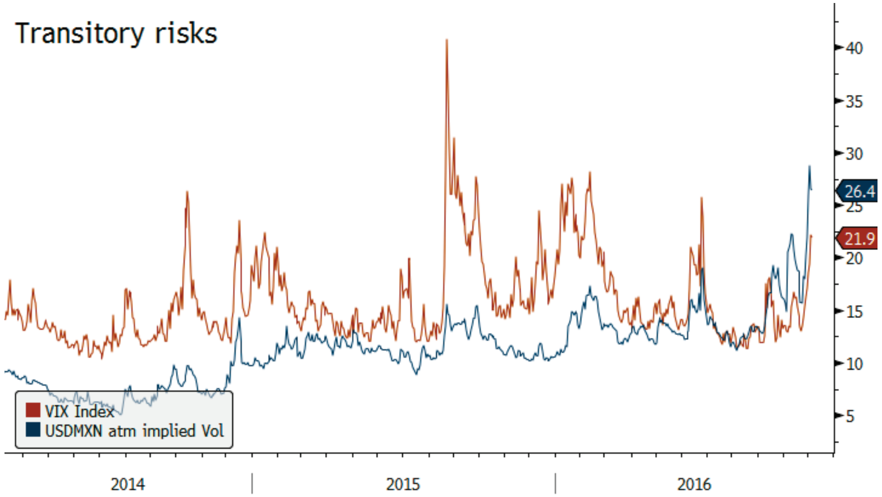
Maybe now is the time to sell….everything…the problem however, is that in our mind, structurally nothing has changed. Speculation and innuendos are driving uncertainty. Chatter that central bank reflation experiments have failed, the UK parliament is plotting to steal the EU referendum for the UK citizens and dead people voting for Hillary Clinton - all further evidence that the financial fridges are now mainstream. While this desk has its fair share of conspiracy theories and can see clear value in some of the ideas getting tossed around, now is just not the time. Let's remember that in 2016 plenty of experts predicted the crash. Perhaps the end-of-year has the same effect on elderly people who lack the understanding to see the world in a fluid continuum but rather in distinct calendar years.

First, is the wall of liquidity just waiting for opportunities. There is evidence that equities are being overbought (S&P p/e is at manageable 19) even less so with the current pullback they are experiencing. Estimates indicate that $12bn is now sitting in negatively yielding paper. This massive number is unlikely to remain trapped especially after clearing the Nov. 8th event risk.

Second, the OECD lowered their 2016 growth estimate 0.1% to 2.9%. While not an amazing number it is stable and comes with acceleration in the US and China, which means that demand is starting to safely recovery.

Improvement fundamentals have supported the rational decisions to liquidate long end paper and predicted the normalization of policy. However the shallow recovery indicates that tightening will not occur too quickly, allowing for normal adjustment.

Finally, it's clear that central bank policy is nearing exhaustion point. BoJ owns over 45% of the government bond markets and 65% of the domestic ETF market. However, there are still tools and strategies to keep conditions loose and and never underestimate a central bank's commitment to distort market conditions to their benefit. Despite the hype with plenty of liquidity, improving fundamental and central bank-prepared stimulus, we think that the current correction in risky asset is an opportunity to reload long positions. History also suggests that regardless of who is in the White House (think President Obama), the USA still remains largely unaffected by a single individual.



Economics

Fed Must Strike In December

As widely expected by financial markets, the Fed has not moved its rate and monetary policy will remain unchanged until the December meeting. For now, the likelihood of a rate hike stands at 75%. Last year's scenario is going to be played out again when the rate hike was also postponed until December.

Economic data is not the Fed's main driving force. If they do deliver before year-end, then this action will be purely driven by a question of credibility. If it fails to do so, the stock market may experience a more abrupt sell-off.

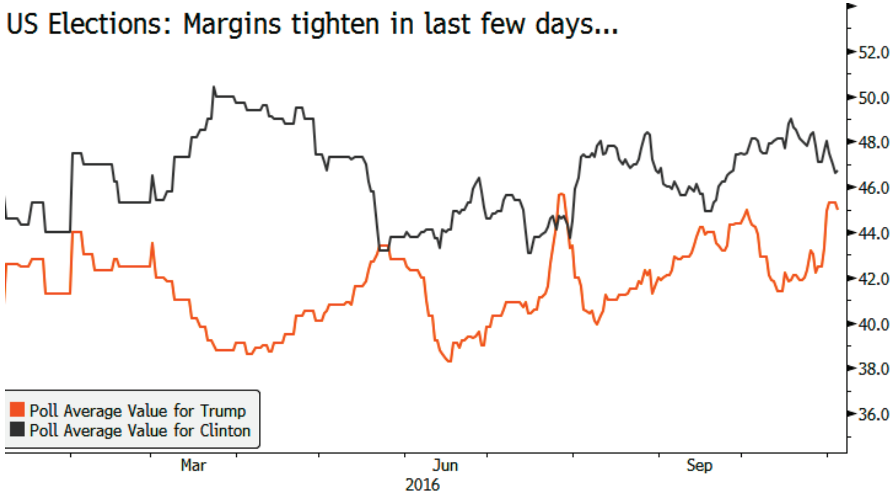
From a data standpoint, the week was busy. The non-farm payrolls, which is always a key event for investors, came in below expectations at 142k new jobs for October. However, prior month data has been revised higher at 188k. Unemployment has been low for some time and wages growth is not picking up yet which is conflicting. Our desk's view is that the US economy's recovery is overestimated.

Also of interest at present is how stock markets are pricing in a higher likelihood of a Trump win. Hillary Clinton is definitely losing ground due to renewed controversy about her private emails. Any new release from WikiLeaks is showing the intrusion of the United States in the world's conflicts when she Secretary of State. As for Trump, he is paying its declarations regarding women.

On top of those uncertainties, the S&P is having its longest losing streak in five years. The index also closed below 2100 for the first time in four months. Though many question whether Trump would reduce the power of the Fed in the event of his election, we believe that the Fed would indeed keep its decision-making power.

For the time being, the US central bank is far from running out of ammunition and while it sounds ironic, the Fed might very well increase rates slightly to save its credibility and launch a new QE to support growth.

In our view, there won't be any rate hike in 2017 but the demand for dollar is going to increase on the back of rising hopes that monetary policy will be normalized. Moreover, it is clear that the Fed is pushing for inflation and will allow the spread between real interest rates and nominal interest rates to widen in an effort to kill the country's massive debt.



Economics

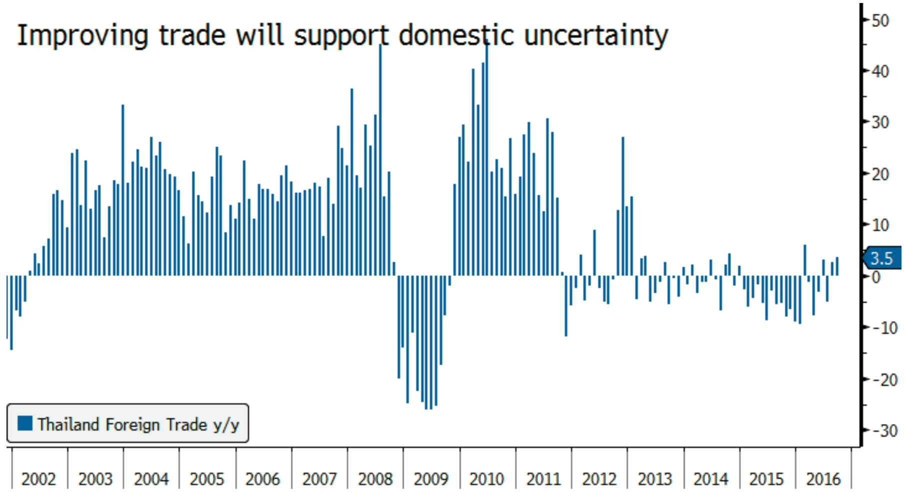
After Near Term Risk Fades, Thailand Looks Solid

Our recent trip to Thailand provided key insights into the current mind set of Thailand. The key take away is that following the death of King Bhumibol the political situation remains stable and a growing sense of national unity. There is no timeline for the crowning of the new King yet the orderly succession of the crown prices should further limited uncertainty. The critical question is the timing of the general elections slated for 2017 and if the stability and optimism can continue till then. We dont expected a meaningfully erosion in growth in fact see upside surprise potential to economic forecasts in 4Q (pushing growth above 3.5% in 2016).

Bank of Thailand's September economic reports indicate that growth is progressively improving as consumption and investment recovered. Private consumption increased 0.1% m/m and private investment growth on domestic capital equipment sales. Agriculture incomes improvement despite the ultra-low rice price as farm income rose 12.4% y/y in September. Manufacturing production was sturdy at 0.6% y/y. Tourism moderated slightly in September with arrivals falling -0.7% m/m but sector remain hot and positive on an annual basis.

Since the Military coup in May 2014 tourism arrivals has been on a impressive bullish trend. A further improvement in exports strengthened Thailand external position with a current account surplus of $2.9bn in September. Will overall recovery remains below historical averages Thailand like many ASEAN nations continue to stabilize and improve. The primary risk factors are not domestically generated issues but problems in developed markets. We only see a slightly strengthening in USDTHB and only see BoT policy support should THB movement become destabilizing. That said broader risks are building… Starting with Nov 8.

Despite the growing idiosyncratic risk it's unlikely that EM demand will taper near term global liquidity remains a primary driver of asset prices, above fundamentals. Although there are plenty of distractions such as the US election and EU / UK relations until there is an actual structural shift, EM will continue to be in demand. Headlines have pointed to higher global yields potentially leading to increased volatility premia, but we suspect that the bond sell-off should moderate allowing higher yielding EMs to improve. EM bond funds saw good inflows last month despite negative noise. Should we be incorrect and global bonds see further liquidation watch for commodity linked currencies and EMs with higher current account deficits to be sold first (Near mirror image of the 2013 taper tantrum).



Politics

Themes Trading - US Presidential Election

The 2016 US presidential race has captured the world's attention, not only because of America's standing in the world order but also because of the candidates' divided views. Never has American political ideology been so extremely polarized. In order to grab the spotlight and differentiate themselves from their political competitors, Democratic nominee Hilary Clinton and Republican nominee Donald Trump have been forced to embrace radical positions, far from the center ground that most American presidents embrace to secure a majority vote. Not only does this ideological divide make the candidates easier to separate; it also makes the potential financial ramifications of an election win clearer.

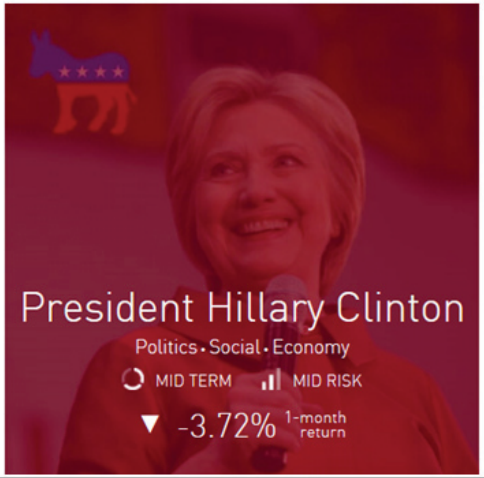
To develop a theme for each candidate, we focused on issues that have formed the bedrock of their campaigns and on which they are less likely to shift under political pressure.

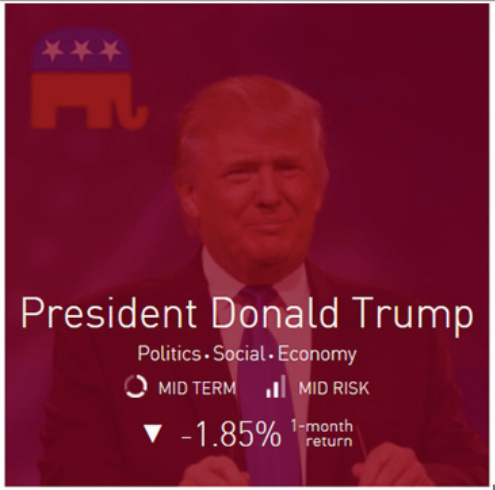
For Democratic nominee Hilary Clinton, we focused on three key areas: renewable energy, the defense sector, and healthcare.

For Republican nominee Donald Trump, we focused on three key areas: international trade, immigration, and energy policy.

To see stocks and performance go to:

www.swissquote.ch/url/investment-ideas/themes-trading





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