WEEKLY MARKET OUTLOOK

6 - 12 February 2017

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WEEKLY MARKET OUTLOOK - An Overview

Economics

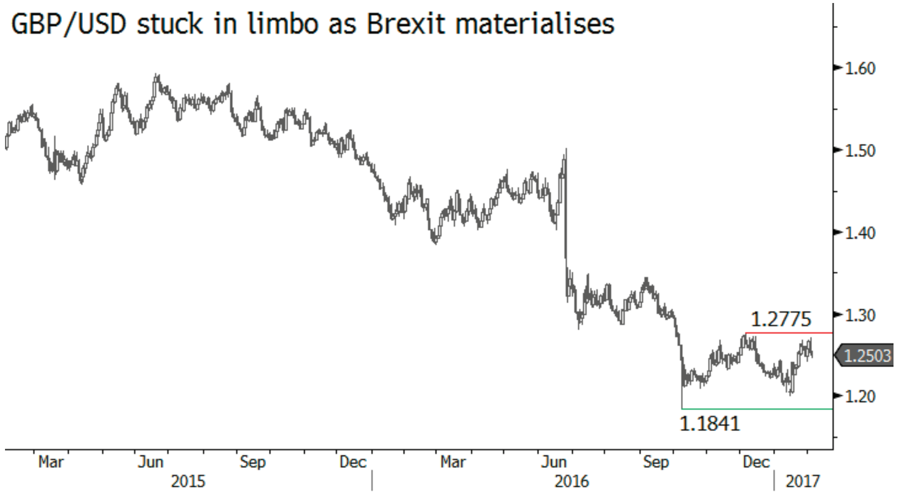
BoE Ahead Of Tough Decisions

Following in the footsteps of the Federal Reserve last Wednesday and the Bank of Japan on Tuesday, the Bank of England held the first Super Thursday of the year. The BoE created the surprise last Thursday as it revised its growth forecast to upside. Indeed, after the institution lifted up its growth expectations to 1.4% - from 0.7% - during its last MPC meeting back in November, investors were not expecting another upside revision against the backdrop of the imminent exit of the United Kingdom from the European Union. The central bank now expects the gross domestic product will grow 2% this year amid improved prospect for global growth, mostly due to the promise of tax cut and infrastructure spending in the US under President Trump, as well as the positive effect of the past depreciation of the sterling exchange rate. Similarly, the forecast for 2018 was slightly revised to the upside (1.6% versus 1.5% in November) as the BoE expects that the country will really start to feel the sting of Brexit at this end of this year.

On the inflation front, inflation figures were left largely unchanged as the committee anticipates now that the consumer price gauge will increase 2%, compared to 1.8% in November, as the boost in commodity prices as has been widely offset by the strengthening of the pound over the last three months. Even though the MPC left its asset purchased program unchanged and kept its benchmark rate at 0.25%, there are growing concerns about the possibility that inflation over shoot the 2% target. The market is therefore concerned the bank will have at some point to reduce its support to the economy by either increasing rates or reducing bond purchase. The most worrying thing is that the timing of Brexit and the possible overshoot in inflation may coincide, which would put the BoE in a very difficult situation, since it would have to decide either to defend its credibility or to give some slack to the economy in order to soften the hard lending that will stem from the Brexit.

The market perfectly understood this situation and sold the pound massively as it lost 1.30 against the USD.

The outlook for the pound remains particularly cloudy, especially now that the parliament has no plan to slow down Theresa May's Brexit move (498 for versus 114 against). An actual Brexit is within reach now - even though a few obstacles remain on the path - meaning that the pound will likely stay under pressure over the coming weeks as May is getting ready to trigger Article 50.



Economics

China Is Showing, At Best, Some Signs Of Stabilization

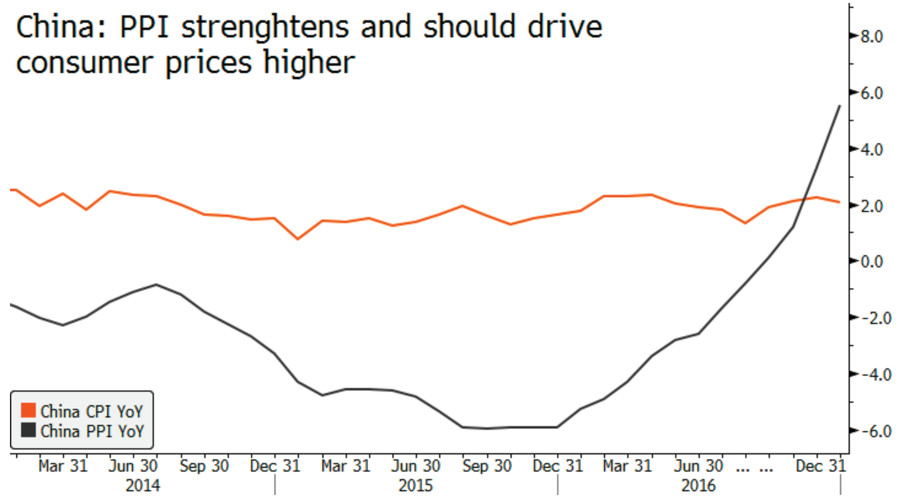
China's outlook has the full attention of world markets. Earlier last week saw the release of important economic data, including January manufacturing PMI which came in higher than expectations at 51.3 versus 51.4 in December. As we know, a figure above 50 indicates expansion. This marks the sixth straight month of expansion.

It is true that the housing boom has boosted demand for manufacturing products as new buildings are on the rise. Industrial firms selling raw materials have also enjoyed an upsurge in profits as commodity prices show some solid potential lately. Nonetheless, as the manufacturing PMI approaches the 50-mark, some fundamentals are beginning to cause fears - mainly that the housing market is on the decline.

In addition, we are currently concerned that China's fiscal deficit, which widened in 2016 will continue to do so in 2017. The PBoC has injected a lot of liquidity into the banking system through its MLF tool (medium-term lending facility) and this may cause issues at some point, particularly as it can drive downside pressures on inflation. We firmly believe that strong economic risks are ahead for China. We remain bullish on the pair USDCNY towards 7 in the medium-term.

We are in the middle of a currency war despite what China is saying, especially that the yuan has never been used to gain an advantage in commercial trade. The relation between US and China are deteriorating and Trump suspects Beijing of unfair competition. It is likely that some tariffs against China may be implemented by the US President which would help the north-American country to fight-off deficit.

The future of the relation between China and the US looks uncertain and consequences may be significant as any further US declaration that China is a currency manipulator would lead to process required by international law that specific negotiation takes place.



Economics

Denying Europe's Inflation

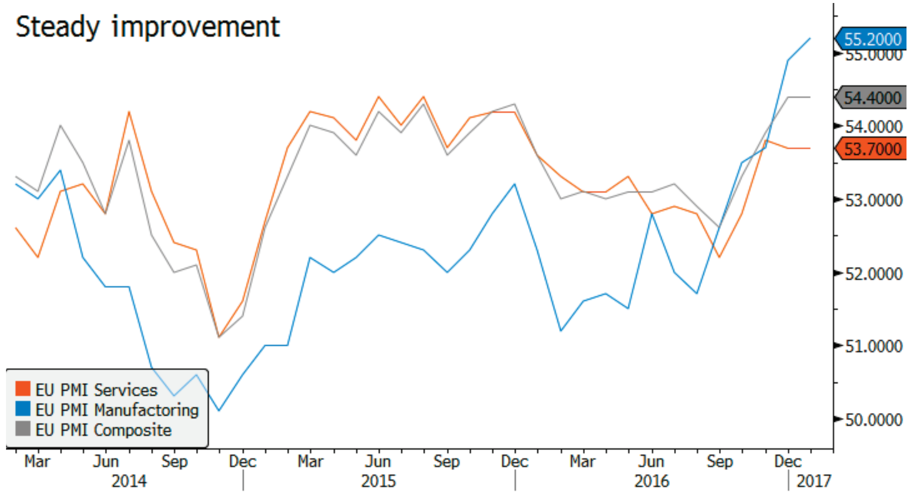
Data released last week confirms our view that the European economy is quietly performing well. Yet despite the solid data policy-makers, long disappointed over the sustainability of growth improvement and steady disinflation fears, continues to take a dovish stance on overall economic outlook. We suspect this negative bias will eventually put the ECB behind the curve in regards to setting monetary policy.

The headline Euro-area January final composite PMI were revised slightly higher to 54.4 from 54.4, maintaining a five-year high. Solid new orders and rising order backlog confirms firming demand, supported by improving confidence in service and manufacturing sectors. These read are setting up strong momentum for the start of 2017. In France, final composite PMIs were pushed up to 54.1 from the flash 53.8 read, as both manufacturing and services confidence improved. Even Italy, which saw service confidence indicate potential weakness, printed a headline read that remained stable. Spain which saw a marginal fall, encouragingly had forward looking underlings suggest growing improvement.

Euro-area headline inflation rose to 1.8% from 1.1% while core stabilized at 0.9%. However, the ECB continues to believe that recent inflation spike is transient in nature and not durable or sustainable. According to recent speeches by Mario Draghi and Benoit Coure conditions have not been reached to warrant adjustment to current monetary policy. There was a slight change in language as Mr.Coure indicated that the ECB will be closely monitoring the development of prices. Disinflation has been the dominate scenario in Europe for so long, difficulty shaking the view that price pressures will remain low for the next few months is logical.

In addition the overhang of disruptive European political risks and geopolitical events would worry even the optimistic economist. Yet, remove the noise, economic data is unmistakably improving, and likely to flip inflation pressures from transitory to entrenched. The ECB is likely to hold their current monetary position yet the costing of waiting to address the December end date of asset purchases would damage credibility and economic outlook. Despite the rising political risk emulating from France and persistent issues with Greek debt, we remain constructive on EURUSD expecting an extension of current bullish trend towards 1.1150.

Steady improvement

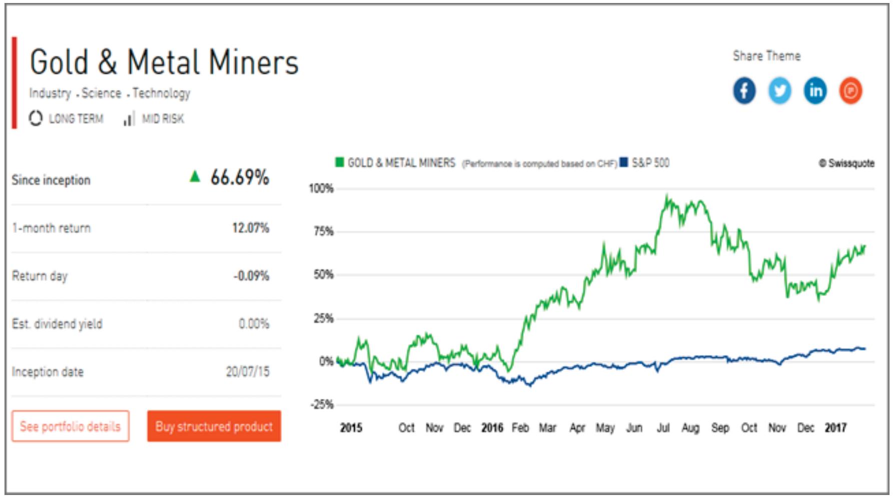


Themes Trading

Gold & Metal Miners

Gain in the Gold & Metal Miners theme have been impressive ytd. US President Trump "Bull in a China shop" approach has generated unwanted uncertainty and steady improvement in global demand has create a solid rational for commodity linked stocks. The sudden collapse in commodity prices in 2014 sent mining stocks into free fall. In the long term, however, precious metals – and gold in particular – are the perennial go-to sources of protection against inflation and economic downturns, something investors should be looking out for. The gold market is dynamic, and there are compelling reasons why gold producers could rally. Consumer demand remains solid, with around 2,500 tons of gold mined worldwide every year.

Over the long haul, gold as a commodity has appreciated by more than 287% over the past 15 years; by comparison, the S&P 500 has gained less than 44% over the same period. In a period of central bank policy shifts, it is reasonable to envisage a rebound in metal prices – something mining stocks will benefit from. Gold miners are a good way to tap into the benefits of precious metals without paying storage costs.



Gold & Metal Miners theme can now be trading in an easy to execute Strategic Certificate.

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