

# WEEKLY MARKET OUTLOOK

**13 - 19 February 2017**

## WEEKLY MARKET OUTLOOK - An Overview

p3	Economics	Trump's EM blindspot: Sell EURPLN - Peter Rosenstreich
p4	Economics	The French Election Becomes A Referendum On EU Membership - Yann Quelenn
p5	Economics	Swiss People To Draw Their Economic Future - Arnaud Masset
p6	Themes Trading	Swiss Smart Beta
	Disclaimer	

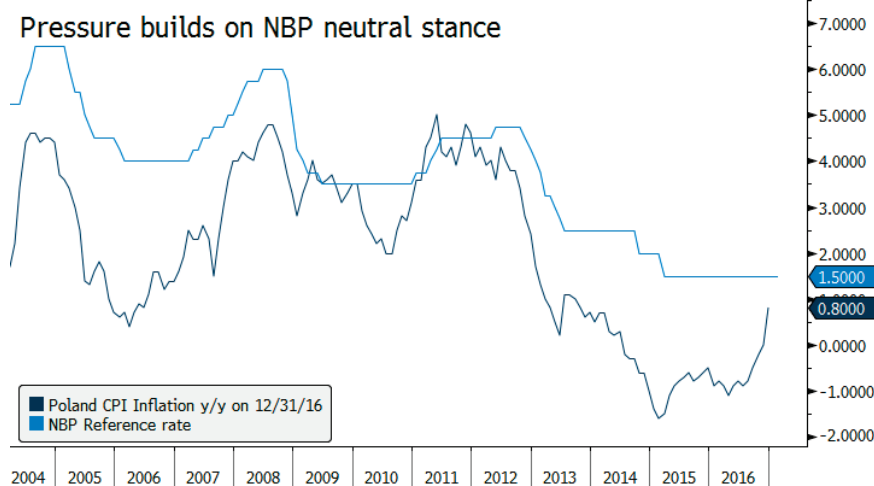
## Economics

## Trump's EM blindspot: Sell EURPLN

As we expected, the start of 2017 has been filled with noise - punctuated by explosive comments from US President Trump's Twitter account. However, the European political landscape and the failure of Greek debt talks have provided plenty of new headline risks. Yet while western nations drive market volatility, the outlook for EM nations quietly improves. The primary reason is that despite heavy anti-globalization rhetoric global trade has improved as developed market's domestic demand has increased. This had led to a general strengthening in economic conditions. Secondly, in spite of a checkered history, EM nations are staying out of the spotlight. As a result, EM assets have delivered solid YTD returns with historically low volatility, further encouraging inflows. We continue to see further currency appreciation in select EM currencies. Yet in the first 30 days we can see that Trump's protectionist threats could materialize into real trade stoppers, especially considering the naming of Navarro and Ross to close advisory positions. Although the real policy initiatives will be hidden within plenty of bluster and grandstanding. Therefore we like EM currencies with limited correlation to Trump's erratic, uncertain behavior. In this context, in our view, PLN is poised for further appreciation against the EUR.

Growth in Poland has been under steady pressure in recent years but now looks to be stabilizing around annual 3.0% GDP (2016 read surprised to the upside at 2.8%). January PMIs printed on the strong side, suggesting a solid momentum to the start of the year. Minutes of the January MPC meeting where the committee held policy rates at 1.50% indicated a shift from neutral to hawkish. Consumption remained subdued with slight acceleration but construction spending remains supportive. The latest pickup in activity supports the council's upbeat growth outlook while inflation has rebounded nicely.

It is likely that the NBP will take its guidance from the ECB and postpone rate hikes till 2018, yet steady economic improvement in Poland and Europe should pull this date in. In Europe, fears of an IMF-EU standoff and delay of rescue funds, has Greek yield curve inverted with the 2-yr yield reaching 10%. In addition, contentious elections in Netherlands, Germany and France will keep the euro weak.



**Economics****FR Election Becomes A Referendum On EU Membership**

The French elections will be one of the most volatile topics in the first half of this year. As we count down towards 23rd April, the outcome is currently anyone's guess. Francois Fillon's race has been seriously disrupted as he contends with recent embezzlement allegations, while the likelihood of a win for Benoit Hamon, the Socialist candidate is increasingly bleak. At the moment Marine Le Pen is still topping the polls and she is now using this momentum to drive the agenda of a "Frexit" referendum.

The French presidential election narrative has then quickly shifted from a debate over domestic policy to a clear referendum on EU membership. By re-defining the vote as a question of EU participation, The National Front President has deftly tilted the advantage in her favor. Le Pen has forced the French population to look away from some of her more controversial ideology to weigh only the headline agenda. One that has had growing popularity and the ability to skillfully address many of the core issues French civilians are concerned with (such as security and national identity).

While the left struggles to find a scandal-free candidate (Macron forced to deny an extramarital affair and Fillon faces abuse of public funds charges), the National Front will focus on hammering home the benefits of a "return to monetary sovereignty".

Timing-wise, the pushing of this agenda could not be better for Le Pen. It has now been eight months since the Brexit result and the promised nightmarish scenario has not yet materialised. British economic data is on the rise, the devaluation of the pound is a strong point for exports and it also has taken some pressure off the BoE.

Recently, ECB member Benoit Coeuré stated that French people do not want to exit the Eurozone. However, Draghi has previously said that an exit from the EU is possible if a country pays off its "bill".

The evolution of a French EU referendum has significantly increased the political risk and will weigh on the euro. We remain nonetheless constructive on EURUSD but see upside contained by the French election outlook and possible "Frexit". We believe that there is definitely room for further euro weakness in the long-term, so hold on tight! The currency war against the greenback, which Trump considers overvalued, should accelerate.

## Economics

## Swiss People To Draw Their Economic Future

On Sunday, the Swiss will vote on a key matter that could redefine Switzerland's economic landscape. Back in September 2016, the Socialist Party, the Swiss Trade Union Federation and the Green Party successfully collected the 50,000 signatures required to put this game changing corporate tax reform to a nationwide vote. The voting results will be published on Sunday February 12th throughout the afternoon.

In a nutshell, the Corporate Tax Reform Act III (RIE III in French) is aimed at normalising the Swiss corporate tax system that is currently offering important benefits to specific set of companies. Indeed, the current system allows holding companies and companies that make most of their revenue abroad to pay little or no income tax at both the canton and municipal levels. This system has been creating strong incentives for foreign companies to relocate their head office to Switzerland but at the same it has led to a growing number of discontent countries, mostly from the European Union, which accuse the country of depriving them of up to CHF 36.5bn in tax revenue each year. Over the last few years, Brussels has placed increasing pressure on the Swiss government to abolish these special tax regimes, threatening to re-establish trade-tariff and put the country on the tax haven blacklist.

Sunday's vote is extremely polarised as the referendum committee - mostly left-wing parties - argue that the adoption of the new system would drive down tax revenue by CHF 2.7bn each year, which would pass on the tax burden to citizens. On the other hand, central and right wing parties believe that this is the only solution to save the 150,000 jobs - and income tax - directly related to those companies which benefit from these preferential tax rates. There has been harsh confrontation between the two camps and the results of the voting will likely be a coin toss.

The stakes are high for the 8.5mio inhabitants as a substantial part of Switzerland's success is due to these special tax regimes.

Looking at the persistent strength of the Swiss franc over the last few weeks, it seems that the market is widely underestimating the negative effects of a "no" vote to this Corporate Tax Reform Act. EUR/CHF has been challenging the 1.06 support area throughout the entire week, signalling that the Swiss National Bank is more tolerant regarding further strength of the franc.

EUR/CHF slides toward 1.06 as SNB loosens the leash



## Themes Trading

## Swiss Smart Beta

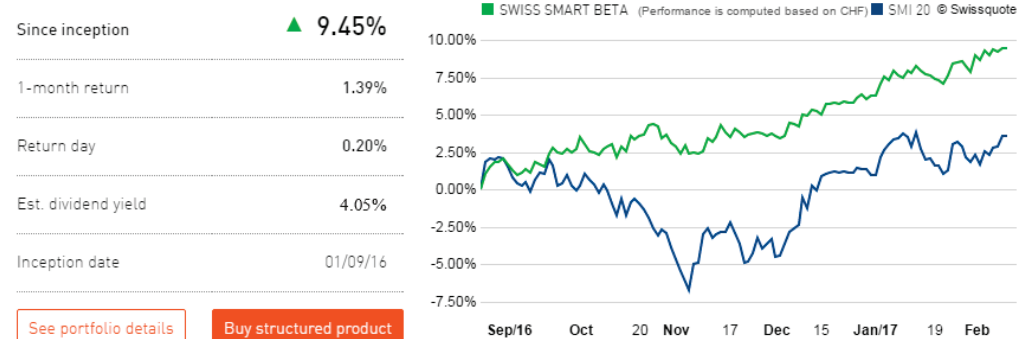
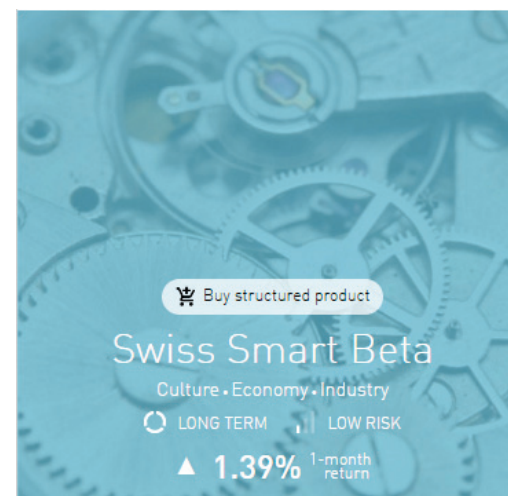
Swiss stocks have a reputation of being high quality and tend to provide stable returns during times of geopolitical uncertainty. With President Trump, Brexit, European elections and global protectionism, the world has become significantly more unpredictable. This portfolio sources high-dividend Swiss stocks and provides an active quantitative overlay to optimize risk/reward potential.

The Swiss Smart Beta theme consists exclusively of stocks from the Swiss Performance Index (SPI). The selection process identifies stocks with a high dividend yield and a market capitalization in excess of CHF 100 million. Illiquid stocks are screened for constant bid-ask spread and daily average dollar volume traded. To enhance risk diversification, the portfolio is weighted using an equally-weighted risk contribution approach. In summary, this means the allocation is calculated in such a way that each stock contributes on an equal basis to the total risk of the portfolio. This approach allows for low volatility and, in so doing, increases the risk/reward ratio.

Swiss Smart Beta theme can now be trading in an easy to execute Strategic Certificate.

Find more info on:

<https://www.swissquote.ch/url/investment-ideas/themes-trading/en>



## DISCLAIMER

While every effort has been made to ensure that the data quoted and used for the research behind this document is reliable, there is no guarantee that it is correct, and Swissquote Bank and its subsidiaries can accept no liability whatsoever in respect of any errors or omissions, or regarding the accuracy, completeness or reliability of the information contained herein. This document does not constitute a recommendation to sell and/or buy any financial products and is not to be considered as a solicitation and/or an offer to enter into any transaction. This document is a piece of economic research and is not intended to constitute investment advice, nor to solicit dealing in securities or in any other kind of investments.

Although every investment involves some degree of risk, the risk of loss trading off-exchange forex contracts can be substantial. Therefore if you are considering trading in this market, you should be aware of the risks associated with this product so you can make an informed decision prior to investing. The material presented here is not to be construed as trading advice or strategy. Swissquote Bank makes a strong effort to use reliable, expansive information, but we make no representation that it is accurate or complete. In addition, we have no obligation to notify you when opinions or data in this material change. Any prices stated in this report are for information purposes only and do not represent valuations for individual securities or other instruments.

This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. It is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning Swissquote Bank, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. Swissquote Bank does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are for information purpose only and are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Swissquote Bank as a result of using different assumptions and criteria. Swissquote Bank shall not be bound or liable for any transaction, result, gain or loss, based on this report, in whole or in part.

Research will initiate, update and cease coverage solely at the discretion of Swissquote Bank Strategy Desk. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. Swissquote Bank is under no obligation to update or keep current the information contained herein and not liable for any result, gain or loss, based on this information, in whole or in part.

Swissquote Bank specifically prohibits the redistribution of this material in whole or in part without the written permission of Swissquote Bank and Swissquote Bank accepts no liability whatsoever for the actions of third parties in this respect. © Swissquote Bank 2014. All rights reserved.