SWISSQUOTE

WEEKLY MARKET OUTLOOK

20 - 26 February 2017

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WEEKLY MARKET OUTLOOK - An Overview

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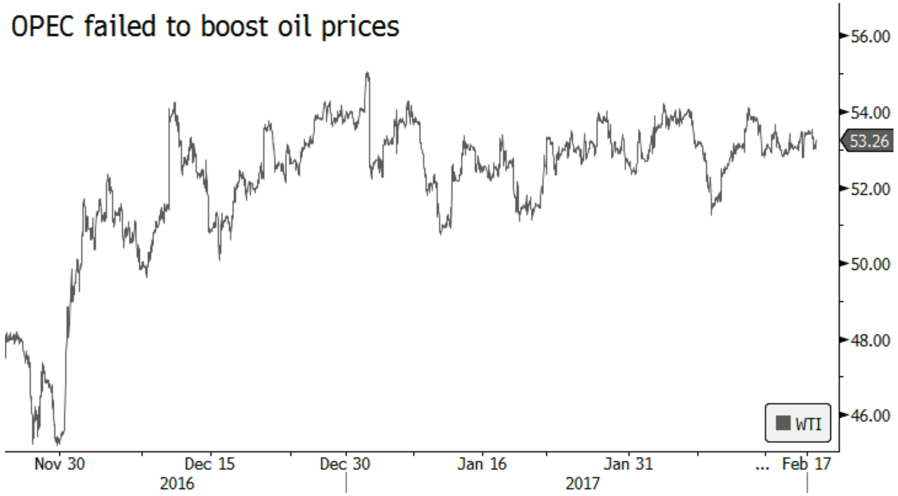
Economics

Quiet Gainers As Oil Stalls

Oil prices upwards climb has slow with WTI settling near the $54 mark. Crude prices have been supported by reports that oil producing countries have executed the production cuts agreed to. Despite evidence that supply remains abundant the expectation of narrowing differential led by growing demand and tighter supply has firmed prices, even steepening the crude forward curve. Yet evidence on the ground indicates that production delivery from OPEC nations have not slowed while US inventory data in crude and gasoline rose to new record levels. Heading into the summer driving season inventories generally increase yet higher refinery utilization will keep prices from significantly softening. It's too early to tell if producers which cut output can maintain the lower output especially while nations who have not agreed to cuts, such as the USA, benefit. In the long term, we doubt OPEC and Non-OPEC nations truly have the economic discipline to stay the course. However, in the short-term, we continue to see crude prices in a $52/$56 range.

In this risk taking environment, Singapore should continue to reap the benefit of soft oil prices. Singapore exports remain firm supported by low cost basis and strong China demand. 4Q GDP was revised higher to 12.3% q/q and 2.9% y/y led by a sharp improvement in manufacturing output. The MAS tone on economic conditions was optimistic and with solid momentum heading into 2017 Singapore annual GDP should be closer to 2.4%.

Elsewhere failure of crude prices to make additional gains should support India growth outlook. Oil account for approximately 1/3 of imports. While subdued oil prices will further help limit inflation pressures which came in at 3.17%. The RBI surprise the market by maintaining policy rates at 6.25% rather than cutting. The monetary policy committee decision was based on the belief that recent fall in headline CPI is due to short term volatility rather the lasting improvements (core accelerated to 5.1% suggesting higher build up in price pressures). Should sustained lower oil spill over into core lower interest rates will certainly support higher growth outlook.



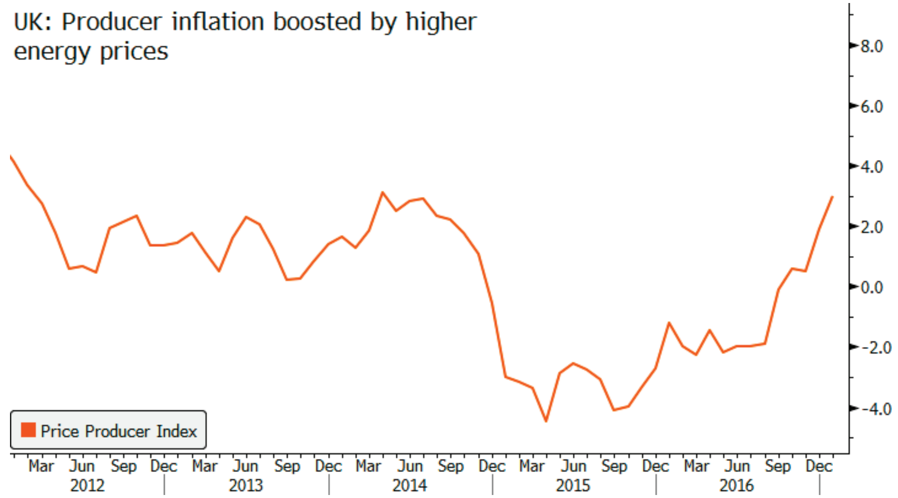
Economics

Good UK Data Seem To Persist

Since the Brexit last year, UK financial data are always on the spotlight as there was the promise of an economic disaster which is finally not coming. This week's data that were released at the beginning of the week confirm this fact. Core inflation came in equal as December figure of 1.6%. Bullish pressures on consumer prices are on the rise. In particular, since we consider that the pound is largely undervalued. The PPI (Producer Price Index) which ended up at 2.7% y/y for 2016 increased again to 3.2% y/y. While looking at the data, one harsh statement needs to be made. It seems that exiting the European Union has been the best economic thing for UK in a while.

However, one weak point needs to be told. January retail sales have disappointed. They were on a strong trend but have weakened in January to 2.6% y/y. The trend remains nonetheless largely positive. Higher food prices are the one key factor for the small monthly decline (0.2% m/m) which was unexpected by markets. From our vantage point, this confirms upside consumer prices pressures. In terms of labour data, wages have not really took off and we are monitoring very closely this data as this would largely support our view of a pound normalization value. Anyway, for the time being, the weak pound is definitely helping the Bank of England which gained some time in the currency war as the Brexit fears are helping UK exports. The cable has largely bounced back higher since it reached 1.20 in the middle of January.

Currency-wise, we are maintaining our bullish view of the pound as we believe that financial markets are still pricing in a hard Brexit. We consider that those fears are irrational and that the UK recovery is ongoing. A hard Brexit should not happen and negotiations are likely to take place with the EU. Needless for Theresa May to ruin the relationship with other European countries.



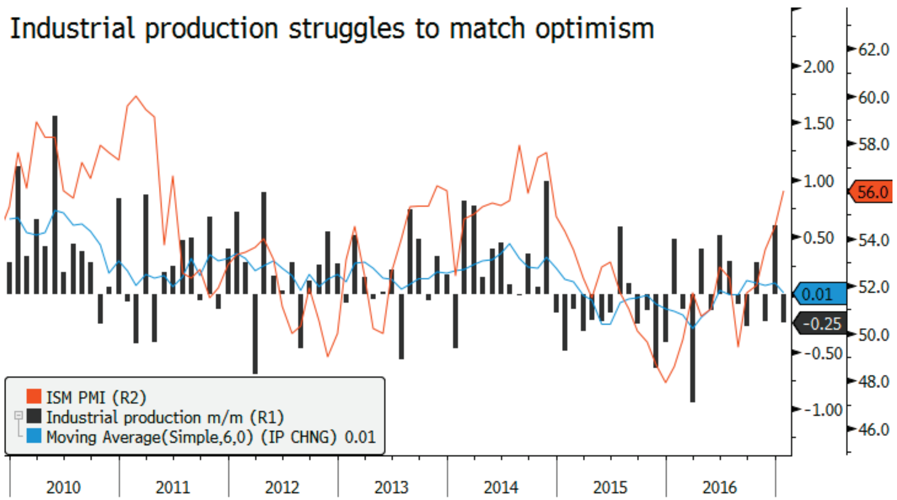
Economics

USD Under Pressure As Market Loses Patience

Despite the release of mostly upbeat economic data from the US last week, the greenback was unable to lock-in the gains accumulated over the previous two weeks. The inflation report was however rather encouraging and hinted at a possible move from the fed as a soon as March. January's headline inflation surged to 2.5%y/y versus 2.4% expected and 2.1% in December. Similarly, the core measure, which excludes the most volatile components, rose to 2.3%y/y versus 2.1% expected. Still on the bright side, after slowing during the four previous month, core retail sales jumped 0.7%m/m, while the market was expecting a reading of 0.3%. Retail sales were quite disappointing in the last quarter of 2016 and raised questions about the health of the US economy as personal consumption remains the number one driver of the world's largest economy. The January figures bode well for the first quarter of 2017, should the trend continue.

On a less positive note, industrial production printed well below the median forecast as it contracted 0.3%m/m in January, while the market was expecting a flat reading. In addition, the December figure was downwardly revised to 0.6% from 0.8% initially estimated. This data contrasts sharply with the recent survey that suggested an upbeat mood in the manufacturing industry. Indeed, the manufacturing PMI together with the ISM manufacturing has been on solid footing since the end of the September quarter last year as Donald Trump started to make its way to the White House. This strong divergence suggests that the sector needs more than Trump's boundless optimism to lift its head above the water.

All in all, it is difficult get clarity on the US outlook as both the Fed and the market have to play it by ear. Indeed, the reflation trade that has been fuelled by Donald Trump's announcement regarding a "phenomenal" tax plan is now running out of steam as investors lose faith amid a serious lack of details. Despite Fed Chair Yellen's slightly hawkish remarks last week, in which she reiterated that the time for another rate hike is coming, US treasury yields lagged behind, suggesting that the market is losing patience.



Themes Trading | China Online

Chinese stocks are still reeling from the all-out collapse of local equity markets. Yet while valuations have suffered, the fundamentals remain enticing.

China is undisputedly the largest internet market in the world in terms of its user base, with 620 million users –nearly double that of India and triple that of the USA. Yet the penetration rate is only 45%, compared with 84% for the USA, which means there is significant room for growth. According to Kantar Retail, China has become the world's largest e-commerce market, with sales of $589 billion in 2015. China has developed its own online offering catering to the country's unique culture. Western companies have had a challenging time breaking into the market due to structural and cultural issues. The result has been the incubation of innovative world-class private enterprises. As China shifts from investment- to consumption-led growth, these agile entrepreneurs will also benefit from support and protection from Beijing. With valuations in the single digits, these names offer significant upside potential.

For this theme, we included social media, search engines, retail and B2B c

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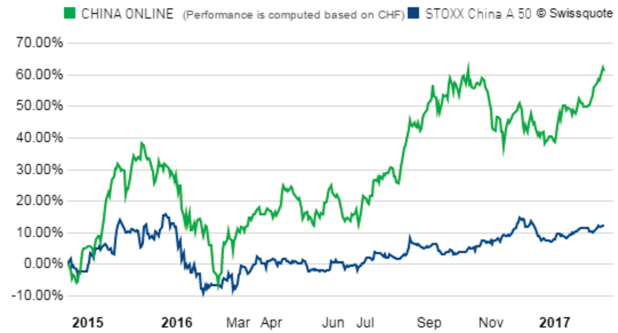

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