WEEKLY MARKET OUTLOOK

27 February - 5 March 2017

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WEEKLY MARKET OUTLOOK - An Overview

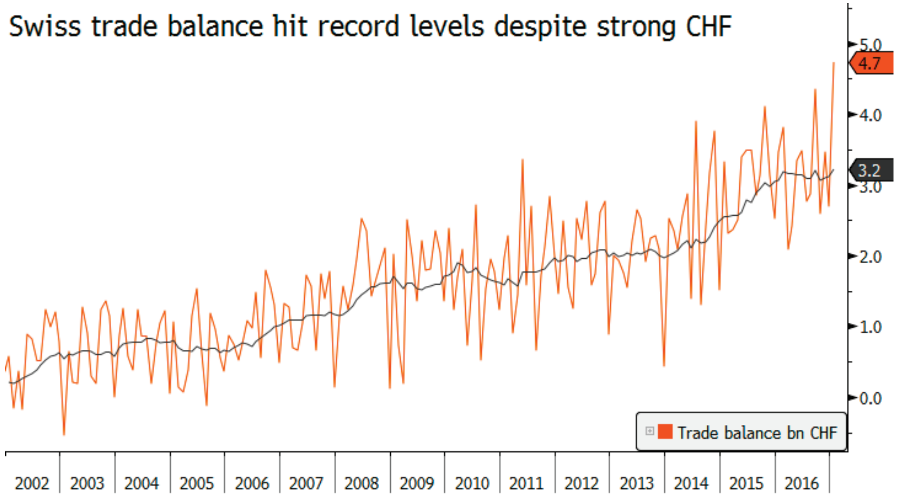
Economics

Swiss Exports Contract Sharply

After surging to a record level in December (+9.7%m/m), Swiss exports contracted significantly in January, sliding 4%m/m in real terms. Despite the fact that this is not good news for the Swiss economy, it is a normal adjustment for us, especially after such strong growth in December. Looking at the details of the report, we notice that the split among industries is quite uneven. The pharmaceutical and chemical industry had a solid month with exports rising to a record of CHF 9bn (+17%y/y). Outside the pharma industry, the picture is not that bright as exports fell 5%m/m, with the watch industry recording one of its worst months (-11%y/y).

Imports continued to shrink in January, falling 5.3%m/m after sliding -0.6% in the previous month. All in all, the trade balance reached an all-time high to CHF 4.73bn, the highest level since September 2016. The constantly improving Swiss trade activity is a thorn in the side for the SNB as it is lifting the bank's foreign exchange reserves. The 12-month trade balance average hit CHF 3.22bn in January, compared to 3.06bn a year ago.

For now, the Swiss franc is still appealing for investors who want to take shelter from the ongoing uncertainty - especially ahead of the parliamentary and presidential elections across EU countries. However, the Swiss economy will continue to suffer from the situation and the outlook is not that great should political uncertainty in the European Union further deepens. In spite of the probable intervention of the SNB on the FX market last week, EUR/CHF hit 1.0635 this morning, suggesting that the marginal effect of the intervention has dwindled. On the longer-term, the outlook is slightly brighter as the EU economy has been showing signs of improvement recently. The downside pressure on EUR/CHF should therefore start to ease in the second part of the year at the earliest. Indeed, beside the political election, the Greek debt crisis remains a potential weigh for the single currency.



Economics

Aussie Weakens Against The Dollar Ahead Of RBA Minutes

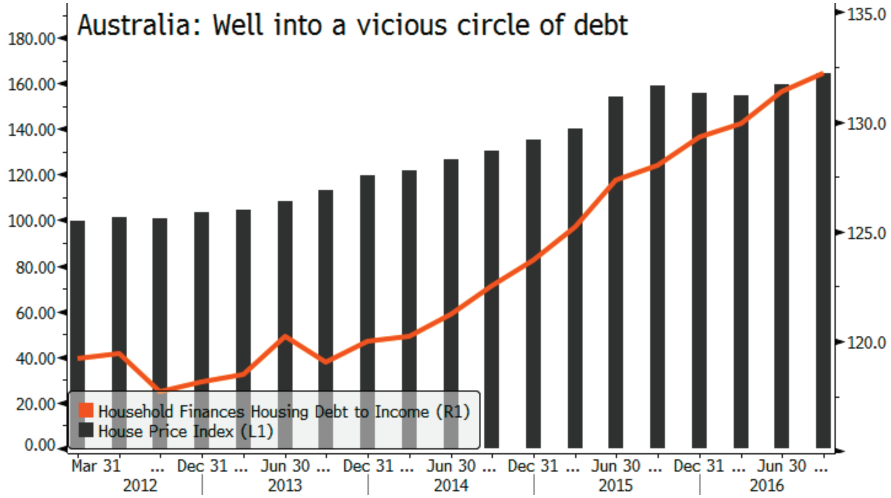
The minutes released earlier last week from the Reserve Bank of Australia only provided a minor update from the February statement on monetary policy. We learned that discussions were around the surprising 0.5% contraction in real GDP for the third quarter of 2016. Officials account that the decline was due to short-term factors such as bad weather, which had a strong impact on the construction sector, and on the coal supply weakness.

What remains concerning for Australian policymakers are the consumption forecasts. Indeed, the savings rate is not falling and wages growth stay low. Strong uncertainties prevail regarding labour data and unemployment rate forecasts are mixed. Yet, expectations for better job market conditions should add upside pressures on inflation, which should anyway end up the year well below the RBA's target of 2.10%.

There was nothing really surprising about these minutes and we continue to believe that the official cash rate will remain unchanged this year. Financial markets are only pricing in a 25% likelihood a rate hike before year-end. For the time being, the next monetary policy meeting that will be held the 7th of March is likely to be a non-event.

The fundamentals of the Australian economy is clearly mixed and it is difficult not to be concerned. For example, the levels of household debt is standing at record high and this supports our bearish view on the Australian dollar. The low cost of money is also providing continued upside pressures on the housing prices. The other side of the coin is that it pushes investors to take on more risk. As a result we consider that the Australian economy may already be in a vicious circle.

Last but not least, the private new capital expenditure has weakened by 2.1% for the last quarter of 2016 while the consensus expected a slight decrease of 0.5%. This confirms our bearish view on the AUD against the greenback. We target 0.76 over the next few weeks. We do not, however, forget that there is nonetheless a cause for satisfaction, gold is now trading at its highest level since November 11.



Economics

USD down amid dovish Fed and Trump's Failure To Deliver

The minutes of the January FOMC meeting did not provide ground breaking information as the essence of the Fed's message did not change since the previous meeting. Investors were left a little disappointed on reading the transcript as the minutes did not provide further clarity on the institution's thinking about the US outlook under Trump's presidency. The Committee reiterated its view that “it might be appropriate to raise the federal funds rate again fairly soon”, should the current trends in both the labour market and inflation prove sustainable. Nothing new here. The Committee appeared concerned about the current strength of the dollar that could hamper a still fragile economic recovery. The slight retracement of the dollar amid the release of the minutes suggests that investors are still unconvinced about a rate hike at the March meeting.

In addition, the declaration of the new US Treasury secretary, Steven Mnuchin, that the government is backing away from calling China a currency manipulator, is weakening the confidence in the ability of trump to deliver what was promised. The Trump administration is getting another reality check and is slowly realising that there is a whole world between making promise and bringing them to life. Good will is not the only prerequisite. This is another backlash for Donald Trump, which is slowly but surely eroding the market expectations. Indeed, the election of Donald Trump has boosted confidence and sentiment across the board, sending equities to record levels, while the US dollar has been climbing to higher ground since November. However, investors want something concrete and are getting tired of the waiting.

EUR/USD was on fire last Friday as it moved back above the 1.06 mark. The upside is however quite limited, mostly due to the highly uncertain political environment stemming from the ongoing French presidential elections. This environment has further capped euro gains against the greenback despite an improving economic outlook in the European Union. Against this backdrop, the risk remains on the downside in EUR/USD, at least in the short-term.

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