SWISSQUOTE

WEEKLY MARKET OUTLOOK

27 March - 2 April 2017

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WEEKLY MARKET OUTLOOK - An Overview

FX Markets

Buy The Dip In EM Risk

After almost three months of an uninterrupted surge, emerging market currencies have finally taken a breather. In three months the ZAR has gained an impressive 12.20%, with MXN and KRW not far behind. In fact, among the liquid EM currencies, only the ARS, PHP and TRY saw losses against the USD. Last week's pullback in stocks spilled into rates and FX, raising questions on the sustainability of the current bullish view on risk appetite.

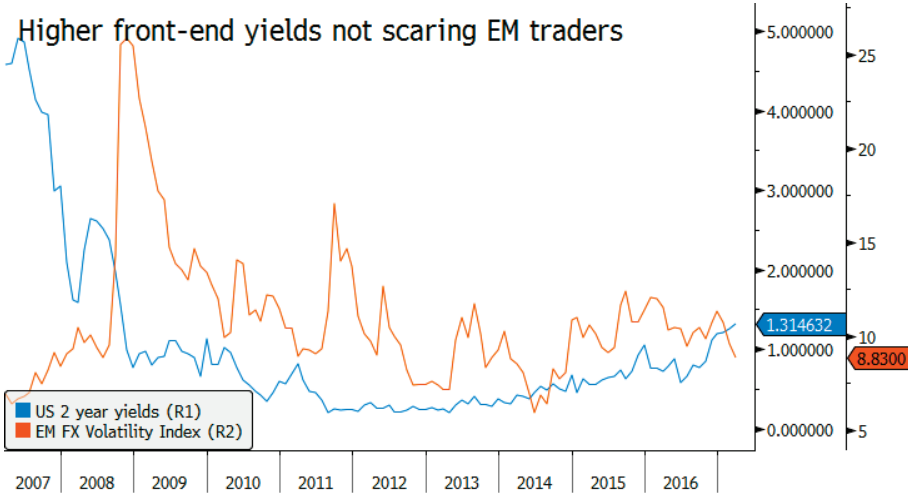
We suspect that this run is not over yet based on two key factors:

1) The Fed's policy path continues to be discounted with expectations for a June rate hike now below 60% probability. The FOMC's March communications were decidedly dovish. Also, Friday's CPI and durable goods orders ex transportation both disappointed, highlighting the fact that US investor optimism was based predominately on sentiment indicators rather than hard data (which as been unimpressive). In addition, Trump's failure to force through the Obamacare repeal bill indicates the challenge he faces in policy execution. This inability specifically threatens the administration's pro-growth agenda, which could accelerate the US economic outlook and position more hikes in play. We suspect that risk is skewed towards a less steep Fed policy path, but it's critical to highlight that the steady improvement in EM currencies means less sensitivity to US rates adjustment. A dovish Fed will further support EM risk taking.

2) EM growth is highly dependent on global trade, which President Trump has potentially endangered. Trump's protectionist trade policy was on display in the administration's first 30 day with the rejection of the TransPacific Partnership (TPP).

But other than some random, disorganised Twitter rants, his "America first" protectionism is more image then trade policy.

In our view, Trump's ability to create meaningful trade barriers such as punitive import tariffs has been discounted. We can just about hear Trump's words when discussing trade or FX policy "nobody knew that *insert policy here* could be so complicated." As with healthcare, just about everyone in the financial markets knows how complicated and non-mechanical these issues are. With the fear of excessive protectionism fading, EM currencies should continue to find buyers.

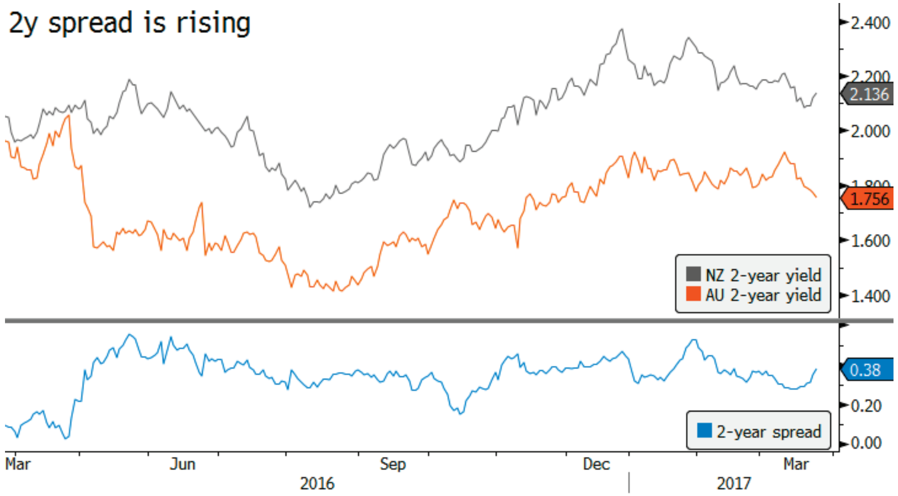


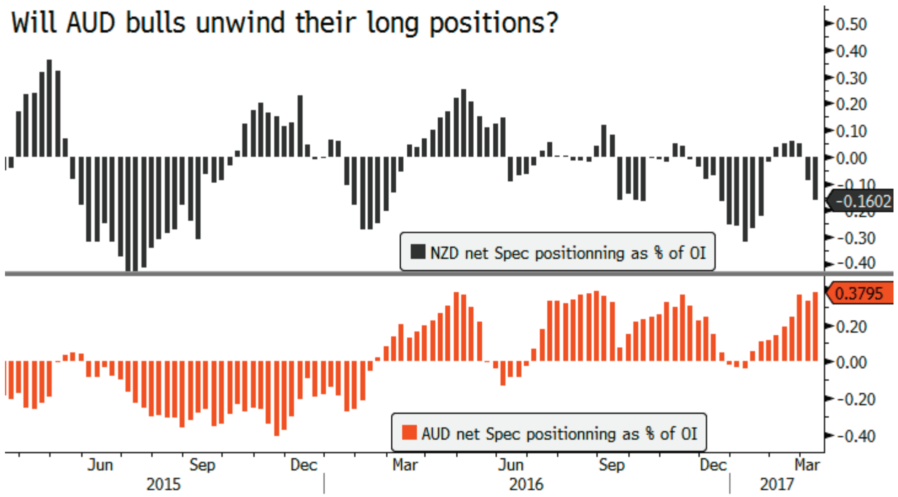
Economics

RBNZ Hopes The Market Will Collaborate

The New Zealand dollar, like most commodity currencies, has performed relatively poorly during the month of March as it failed to attract investors' attention in spite of the broad based USD weakness. On the other hand, its close neighbour the Australian dollar has had strong momentum over the same period. This divergence could be explained by the surprising switch in forward guidance of the Reserve Bank of New Zealand that delayed any tightening move back in early February. The last RBNZ meeting, which was held last week, was of the same stripe. Graeme Wheeler did not change his view on the overvaluation of the Kiwi, instead repeating the need for a weaker Kiwi "to achieve more balanced growth". He also allayed fears concerning rising inflationary pressure, arguing that the spike was temporary, stemming from a temporary rise in commodity prices.

Overall, the tone of the statement suggests that the RBNZ is ready to tolerate higher inflation in order to allow for a weaker Kiwi. This may be a good decision especially as core inflation has picked up at a slower pace than headline inflation. However, we are having a hard time believing that the market will collaborate. Indeed, the RBNZ has often struggled to drive the market the way it wanted. The sharp drop in US sovereign yields will force investors to switch in yield seeking mode. Moreover, Kiwi and Aussie rates have started to move in opposite direction last week with the Kiwi 2-year sovereign yields reversing momentum to reach 2.16% on Friday, while its Aussie counterpart slid to 1.75%. We favour long NZD positions, especially against the Australian dollar. NZD/USD has room for appreciation, even though the risk-off sentiment will limit risk appetite. AUD/NZD has already fallen 1.4% since mid-March and is now heading towards the next key support area at around 1.0755 (Fibo 38.2% on January-March rally).





Economics

SNB Releases Its Annual Report

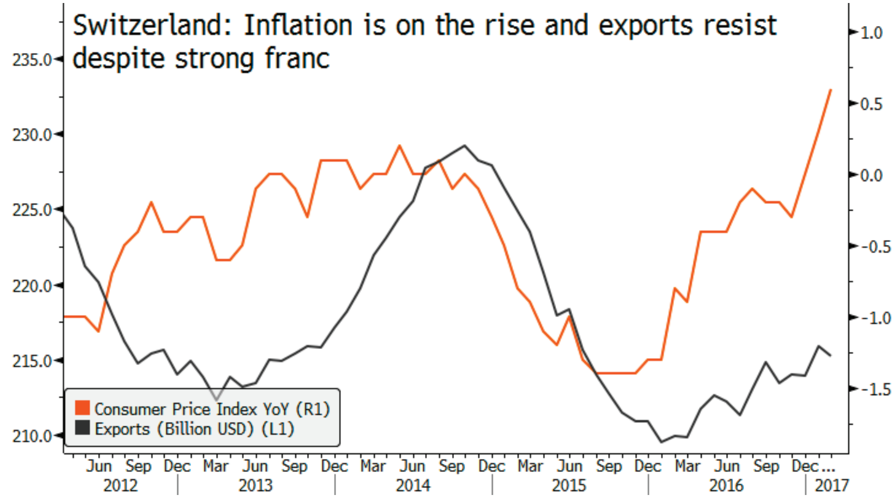
In the latest annual report from the SNB, we have learned that the Swiss central bank bought around CHF67 billion in foreign currencies in order to defend the franc. Comparatively, this is lower than in 2015, when the floor was removed. Interventions amounted then at CHF86.1 billion.

The SNB still sees the franc as "significantly overvalued" and so the negative interest rate policy is more relevant than ever. The Swiss economy relies on the exports. Hence it is normal to consider medium and long-term risk valuation. For now, the central bank is sticking to its wait-and-see approach.

Europe's political uncertainties are weighing heavily on the EURCHF and we believe that bearish pressure shows no signs of easing. In terms of Swiss data, inflation has never been so high in the last five years at 0.6% y/y and the unemployment rate remains moderate at 3.6%. Exports are a little more concerning with two consecutive declines in January and February (respectively -4% and -2.2%). In the short and medium-term, the Swiss Franc should remain below 1.0800 and the SNB is likely to intervene to avoid extreme strengthening.

What is certain is that the SNB is monitoring any development from the ECB which massive QEs keep running. We also believe that the ECB is likely to soon enter a tightening cycle - to reduce monetary policy divergence with the US - which in turn will definitely benefit the Swiss economy.

Currency-wise, it seems obvious that the Swiss National Bank is likely to increase currency intervention to defend the franc this year. Since the start of this year, the pace of intervention seems to have accelerated. In January total deposits were standing at CHF530 billion. Three months later, the deposits lies at CHF 557.2 billion. On top of that when looking at the price action of the EURCHF, selling pressures are way too important around 1.0800 and makes these interventions almost useless.



Themes Trading

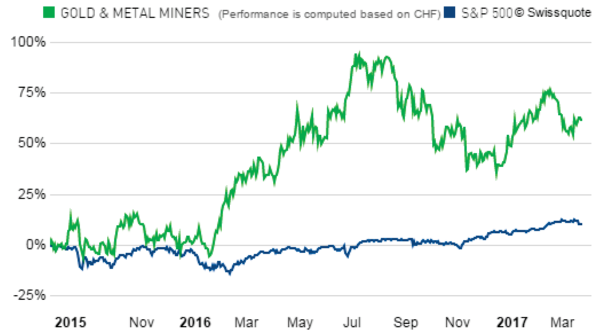
Gold & Metal Miners

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.

Since inception	▲ 61.32%
1-month return	-5.98%
Return day	-0.77%
Est. dividend yield	0.00%
Inception date	20/07/15

See portfolio details | Buy structured product



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