SWISSQUOTE

WEEKLY MARKET OUTLOOK

22 - 28 May 2017

Swissquote Bank SA | Ch. de la Crétaux 33, CP 319 | CH-1196 Gland | Switzerland
Tel +41 22 999 94 11 | Fax +41 22 999 94 12 | forex.analysis@swissquote.ch | www.swissquote.com/fx

DISCLAIMER & DISCLOSURES

WEEKLY MARKET OUTLOOK - An Overview

Economics

Opportunity For The Brave In MXN

US political uncertainty finally took its toll on EM FX and global risk sentiment. After five months of nearly uninterrupted strength, speculations on President Trump impeachment and halt of his pro-growth agenda send investors running from EM risk. Unlike passed pullbacks the suddenness and aggressiveness of the selling shocked many. However, we remain constructive on EM FX as we haven't seen any material shifts. House speaker Paul Ryan was quick to address this fact, highlighting that efforts on healthcare and tax reform were still taking place.

A republican controlled congress can still push the "Trump" agenda even while the president is lawyering up. Removing the transitory political uncertainty we still have an positive environment with low interest rates and volatility (despite temporary surge), solid growth outlook and fading threat of protectionism (a weaker administration is a clear upside for trade dependent EMs). Interesting, the financial markets instability has decreased the probably of additional hikes after June, further supporting EM yield differentials. The nation most exposed to Trumps punitive trade policy has been Mexico. Declining prospect of a significantly redefined NAFTA and domestic hawkish monetary policy makes long MXN a key opportunity. While much of the Trump trade is has already unwound, we still think there are gains to be made given the market repositioning.

Last week's Banxico monetary policy decision saw an unanimous vote to raise the reference rate 25bp to 6.75%. The rational was the balance of risk on inflation were still skewed to the upside. As probably of second round effect pushing inflation higher had increase, which has already pushed reads (10 straight months of upwards trend) and outlook higher. The culprits are the weaker peso, tightening labor conditions and wages and top line items such as gasoline, perishable goods and transport cost.

The cyclical rebound that we expect in the US, after a soft 1Q will also push inflations expectation higher. Mexican general elections 1st July will further keep Banxico on a restrictive policy path as uncertainy could trigger outflows.

We don't expected Banxico to completely decouple from the Fed tightening cycle. Yet unless inflation prints moderate in the coming months they will have to address these elevated levels. Current outlook has raised the probability that Banxico will have to increase rates again after the Fed hikes in June. The prospect of a hawkish central banks, calming sentiment and 25bp more of tighten (at least) before ending its hiking cycle should support MXN against the USD.

Economics

Brazil Politicians Back Under The Spotlights

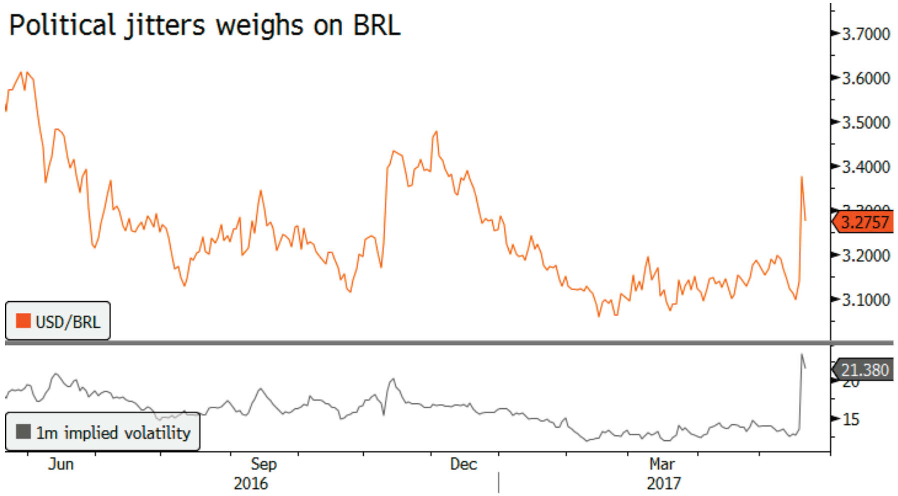
Brazilian assets fell sharply on Thursday at the market opening in São Paulo as the political uncertainty rose by another notch. The Brazilian real fell more than 7% against the greenback with USD/BRL rising at around 3.3760 compared to Wednesday's close of 3.1349 after Brazilian newspaper reports about President Michel Temer.

On the equity side, the situation was not bright either as sell-off in Brazilian equities triggered a circuit-breaker that halted trading after futures on the Bovespa crashed 10% at the Thursday open. In one day, the Brazilian stock market erased almost entirely the gains accumulated since the New Year as the Bovespa closed the session at 61,597.

Investors were caught by surprise as the political situation seemed to settling down as the business-friendly Brazilian President successfully managed to ease foreign investors' concerns. Traders' panicked reaction sent option's implied volatility on USD/BRL through the roof with the 1m measure spiking to 24% from 13.5% a day earlier. The 1m 25 delta risk reversal measure, which is the difference between the price of a call and a put, spiked to 5.74%. Despite the fact that Temer tried to reassure markets, financial indicators continued to move in the other direction with treasury yields and CDS exploding.

Investors reacted aggressively to the news therefore we may see a temporary stabilisation of Brazilian assets morning, especially since the global risk-off sentiment is easing with global equities recovering this morning. On Friday, the real recovered 2.30% against the greenback with USD/BRL heading towards 3.25, while the Bovespa index rose 1.70%. However, investors are more than accustomed with the Brazilian political landscape and they know that it may take months before an equilibrium may be reached again. At the moment, the outlook is quite uncertain as Temer denied bribery allegations and rejected calls to quit, demanding a "full and rapid investigation".

We expect Brazilian assets to continue stabilising. However, investors will remain on their toes as the political turmoil will not vanish overnight. Therefore we would remain cautious regarding the BRL's outlook, even though there will be some opportunities in the short-term as investors pay more attention to local developments.



Economics

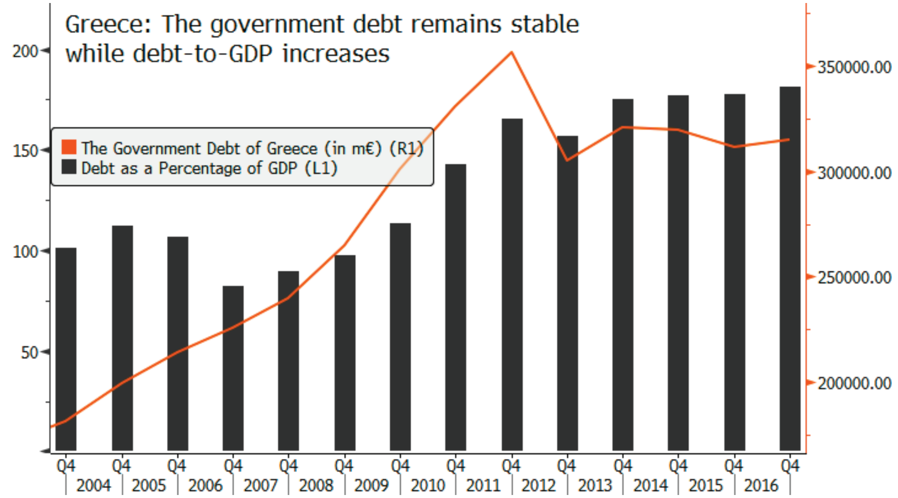
Greece: Tsipras Votes On New Austerity Policies

It has been a while since Greece was at the top of the market news. We consider the Greek debt is still a key issue for the European Union so we are still monitoring the country. The Hellenic country is now back into recession (printing two consecutive growth negative quarters). First quarter GDP printed at -0.1% q/q while last year final GDP has been released at -1.2% q/q. The massive austerity policies over the last few years has not been really useful so far.

Greece is having strong difficulties to repay its debt as we mentioned several times over the last two years. Last week, in order to be able to pay the next €6 billion installments, Tsipras and the parliament approved the pension cuts in order to get €7 billion bailout. At this point, who can still believe that this is going to end up well? This is a never ending story, the cost of servicing the debt is way too massive so we firmly believe that no positive issue will be found in the medium-term. Greece cannot devalue its currency and so it is then forced to devalue internally, for instance its public aid (pensions in particular).

Since February 2015, Greece has repaid €35.4 billion and by the end of 2018 Greece must repay €28 billion (including €2.7 billion of interest). To put that into perspective, the 2016 nominal GDP was €176 billion. The economy must then expand by at least more than 1.5% next year just to reimburse the interest. And it is important to note that next year repayments are less than half of what Greece will need to pay in 2019.

We don't see how Greece will be able to reimburse this debt as it is clear that the country won't be able to print a growth above the cost of servicing its debt. In the short-term, everything looks decent on the single currency side but what will happen when Portugal or Spain have issues as deep as Greece. Uncertainties are far from over on the euro side.



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.

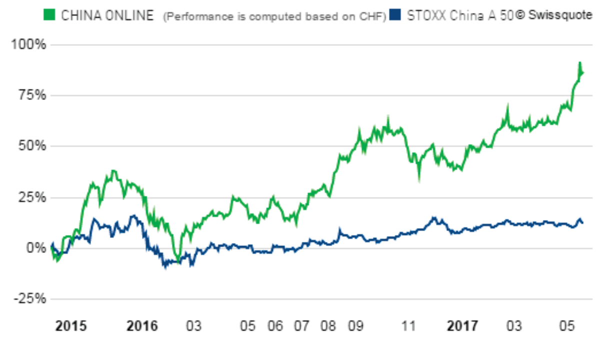
For this theme, we included social media, search engines, retail and B2B commerce, travel and key hardware manufacturers.

Find more info on:

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

Since inception	▲ 86.09%
1-month return	14.69%
Return day	0.58%
Est. dividend yield	0.00%
Inception date	18/09/15

See portfolio details | Buy structured product



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 SA | Ch. de la Crétaux 33, CP 319 | CH-1196 Gland | Switzerland
Tel +41 22 999 94 11 | Fax +41 22 999 94 12 | forex.analysis@swissquote.ch | www.swissquote.com/fx