WEEKLY MARKET OUTLOOK

12 - 18 June 2017

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WEEKLY MARKET OUTLOOK - An Overview

Economics

With Events Out Of The Way, Buy Risk

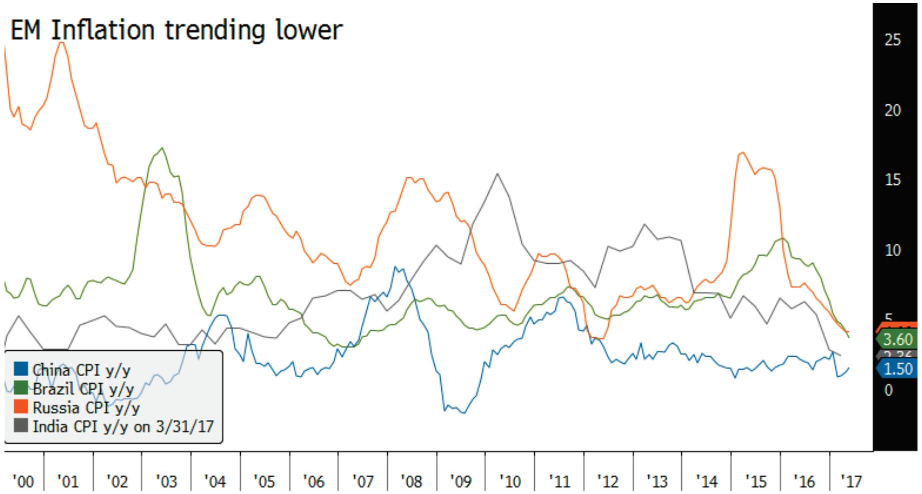
This last week has provided plenty of risk events that shifted investors' attention from fundamentals and on to flashy headlines. While the result of the hung parliament in the UK will likely hurt GBP and UK assets for the foreseeable future, the other key events will have only a transitory effect. While rogue bouts of risk aversion have provided a white-knuckle ride, we remain constructive on EM currencies based on fundamentals. The drivers of strong capital inflow, which have supported EM assets, are unchanged and are showing no signs of diminishing.

Emerging / developed markets growth differentials will support asset prices. The positive economic surprise in many EM nations has lifted the EM growth outlook. EM GDP for 2017 is expected to come in near 4.5%, well outpacing developed nations' soft 1.8% expansion. Yet, politics both domestically and internationally, such as President Trump's trade policy, provide a significant level of uncertainty to this forecast. Inflations remain in a sweet spot for investors. Solid economic activity, specifically in trade, has pressured price yet soft crude prices has pushed back on the reflation theme. Central banks are likely to keep policy loose as the outlook for energy prices remains subdued.

However, the strongest driver of EM appreciation is likely to be the delay of monetary policy tightening by the big three. Last week, the ECB lowered inflation outlook, which allowed Draghi to provide a dovish tone, despite clear movement toward the exits. The BoJ in comments are ready to let inflation overshoot despite general economic improvement and increasing pressure from politicians to begin normalisation.

Finally, this week's Fed 25bp hike is nearly completely priced in yet the probably of additional hikes in 2017 collapses. Disappointing US economic data (including weak core inflation data) and confusion in Washington has sapped investors' confidence of 2Q acceleration and therefore an aggressive Fed interest rate curve. With no impending G3 tightening, sustained higher volatility is unlikely benefiting EM in the mid-term.

Overall, global macro environments remain supportive to risk-taking and will further drive flows into EM assets. We continue to favour carry trades but remain nimble for shifts in sentiment.



Economics

SNB's Period Of Relaxation Is Over

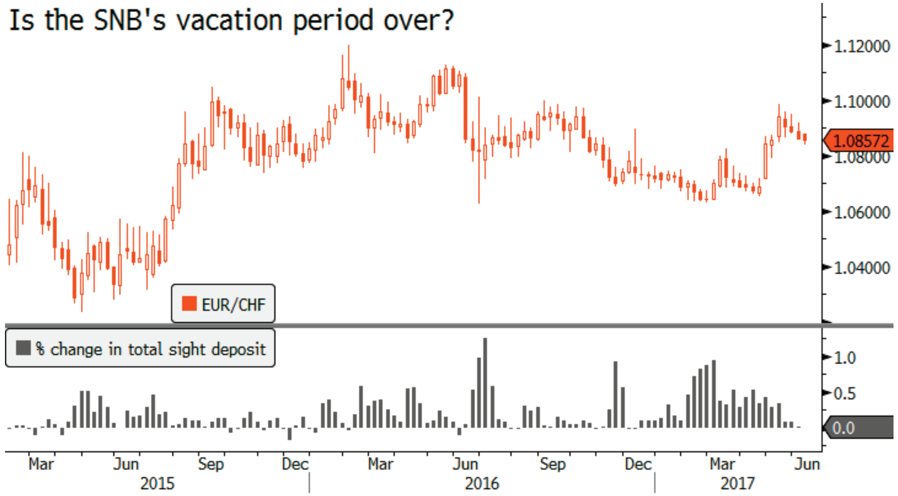
The publication of the latest batch of economic data from Switzerland went largely unnoticed as market participants awaited several key events. The unemployment rate eased to 3.2% (seasonally adjusted) in May, beating median forecast of 3.3%, while the previous month's figure was downwardly revised to 3.2%. Investors also got a positive surprise on the inflation front as the headline measure printed at 0.5% y/y, well above estimates of 0.3%.

However, the HICP measure, which allows to compare inflation pressure with that of its European neighbours, shrunk 0.2% m/m in the previous month. On a year-over-year basis, the indicator eased to 0.4%, down from 0.7% in April. There is no reason to worry as core inflation continued to accelerate in May, highlighting the negative effect of the most volatile components, especially petroleum products.

On the monetary policy side, the SNB has had some respite over the last few weeks as investors renewed their faith in a strong European Union amid Macron's victory at the French presidential election and an expected positive outcome for the Conservatives in the UK. The pace of increase of sight deposits within the Swiss National Bank have slowed down substantially during the weeks following the election of Macron as total sight deposits rose by a weekly average of CHF 357 million compared to almost CHF 2 billion during the month previous to the election. As of June 2nd, total deposits printed at a new all-time high and topped CHF 576 billion.

Yet the honeymoon may be over as both the political and monetary environments have worsened recently. Indeed, Mario Draghi's dovish speech last Thursday, together with May's failed attempt to reinforce its position in the House of Common, will put investors on the back foot and incite them to cut their long EUR position, which would ultimately weigh on EUR/CHF.

We expect EUR/CHF to come under renewed downside pressure as investors adjust their portfolio. After hitting 1.0987 amid Macron's victory, the pair has kept on moving lower to reach 1.0838 last Friday. In the short-term, we anticipate the single currency to return to around 1.0650.



Economics

ECB Meeting: Draghi Disappoints Markets

The euro has weakened amid the ECB meeting last week. The European Central Bank has slightly lowered its inflation forecast. Indeed the CPI expectations are now 1.5% in 2017, 1.3% in 2018 and growth should remain below 2% within the next three years.

Financial markets were clearly expecting for hints about a possible normalization of the monetary policy as we can consider the massive easing did not yet have the expected results. Actually Draghi mentioned that rates could go further lower despite what appeared to be the current ECB political stance. Concerns are also coming from German Chancellor Angela Merkel and also from Dutch officials. Recently at the end of a meeting with the Dutch parliament, Draghi was offered a plastic tulip to remind of bubble concern.

As widely expected, the rates remain unchanged. In our view, we still believe that we are approaching towards an inflexion point regarding monetary policy

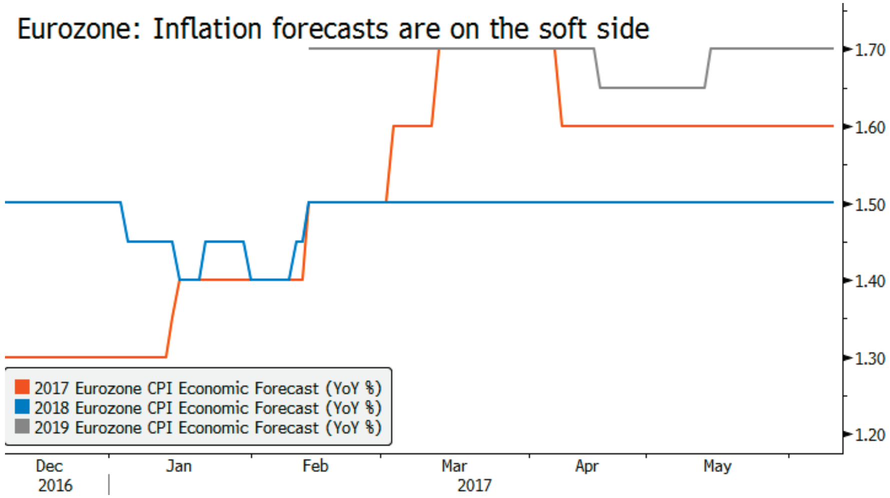
In order to assess the Eurozone economy, the German economy is a great barometer. Last week, German Factory orders declined - surprisingly - more than expected in April at -2.1% m/m. Anyway, recent economic data were robust and showed that Germany was on a strong recovery road.

The factory orders forecast, even though negative, was way more optimistic. Markets estimated the data to slightly decline to -0.3%. We now wonder whether there is a reason to worry after the very positive first half of the year. It is anyway important to notice that the annualized data remains largely positive with a +3.5% print.

As explained above, other German economic fundamentals are positive. Growth is running at a strong pace above Eurozone average at 0.6% for Q1 and the labour market is widely recovering.

Unemployment has never been so low. So last week's factory orders seem to be contradicting the current momentum in Germany.

Amid the release of this German data and the ECB meeting, the single currency is trading mixed and is now back below 1.1200. We believe that markets are still optimistic of the Eurozone recovery and continue pricing in US difficulties.



Themes Trading "Brexit"

The decision of the United Kingdom to leave the European Union turned upside down financial markets as most investors were anticipating the UK to vote "no" at the EU referendum. This decision triggered a panic reaction in financial markets with investors fleeing risky assets to invest massively in safe haven ones such as gold or bonds. However, even though most equities suffered a massive sell-off, a few ones were to weather the turmoil.

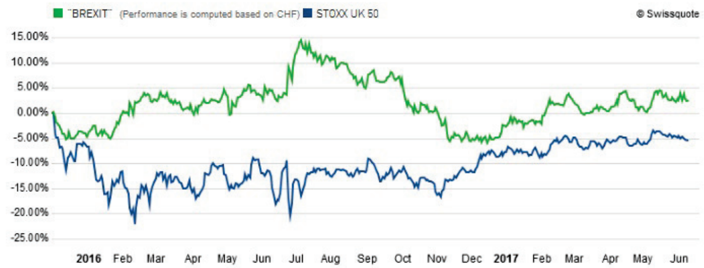
The portfolio we built a portfolio composed of stocks that are expected to perform well in case of a Brexit. The portfolio offers a substantial indirect exposure to gold, which always performs well during turbulent periods due to its safe haven status, as well as stocks weakly correlated with equity indices, which usually performs well during period of high volatility.

Find more info on:

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

Since inception	▲ 2.34%
1-month return	1.51%
Return day	-0.46%
Est. dividend yield	0.00%
Inception date	01/12/15

See portfolio details



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