SWISSQUOTE

WEEKLY MARKET OUTLOOK

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WEEKLY MARKET OUTLOOK - An Overview

Economic

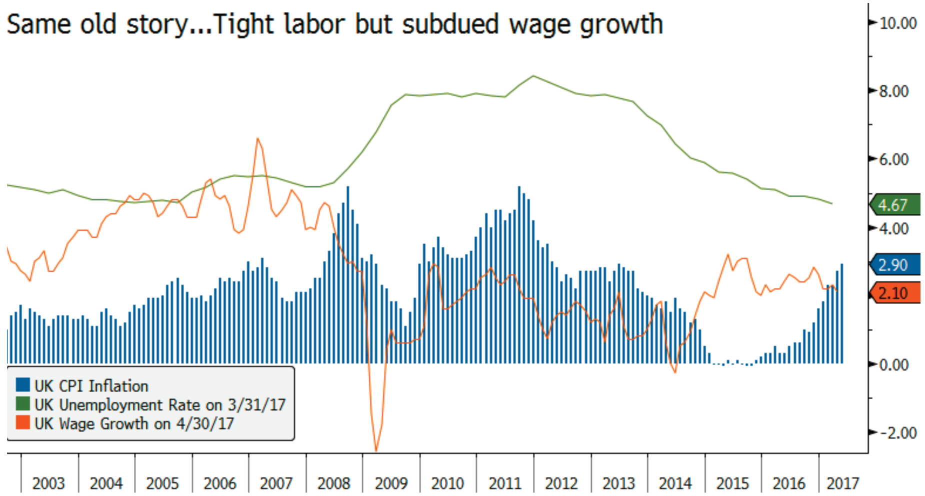
Markets overly bearish GBP

We continue to suspect that markets are underpricing the probability of a BoE policy adjustment. We believe that as with the Fed, the threshold for removal of emergency measures is significantly lower than standard interest rate hikes. Central banks would like to get to "normal" conditions in order to have tool to defend and economic downturn or worse. While interest rates in the UK never went negative, it's difficult for MPC members to justify ultra-easy policy given the economic momentum. BoE Governor Carney’s Mansion House speech dented our expectations of a 2017 rate hike. However, his argument that consumer cant handle higher rates due to large debt load feels akin to teasing a bull.

However, BoE chief economist Haldane indicated that solid economic data (although still below trend) and inflation risks would suggest hikes in 2H (most likely November). This was a surprising development since Haldane is a known dove. This is not the first time Haldane's view diverged from the MPC, but is especially interesting since Haldane is not part of the three MPC members which dissented last week. The wide majority advantage the MPC doves have enjoyed has quickly erod€ed. This change will put the markets on alert for shifts in doves Broadbent and Vlieghe and improving domestic data.

Last week UK manufacturing firms reported export and total order books has improved to multi decade highs. This CBI reports supports expectations for firmer 2H of economic growth. As with the rest of the G10 wage inflation remains subdued but at 1.7% wage grow is not terrible considering the Brexit induced threat of mass exodus. Outside Brexit negotiations, Friday release of 1Q final GDP read will the focus of sterling trader.

Markets are now pricing in 12bp of hikes by end of 2017. We would avoid EURGBP as Europe is enjoying an accelerating cyclical growth uptrend and ECB nearing reducing emergency measures which is likely to give Euro a boost. To materialize our constructive GBP view, we see long GBPCHF as the ideal position. Outside improving economic data and increase probably of near term rate hike, Brexit negotiating have taken a friendly turn with PM May decision to offer EU citizens right in UK. Switzerland is struggling with weak economic data driven by overvalued CHF. The SNB is unlikely to even entertain the notion of exiting from extreme monetary policy and stands ready to intervene should CHF appreciate further.



Economics

Switzerland's Trade Activity Picked Up

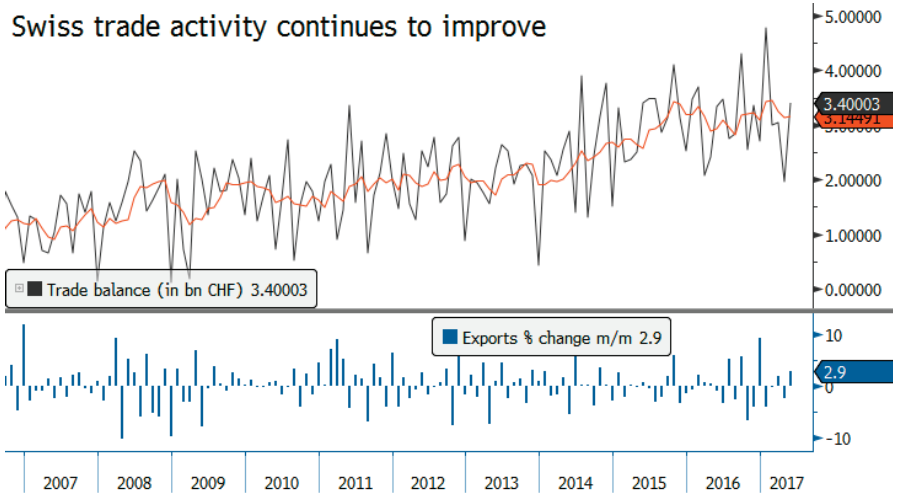
After the usual March-April contraction, Switzerland's trade surplus bounced back in May amid a sharp recovery in exports. The trade surplus rose to CHF 3.4 billion in May from CHF 1.96 a month earlier. Exports - in real terms - increased 2.9% m/m while imports eased to 2% m/m. On a year-over-year basis, exports rose 7.5% and imports 8.7% amid solid growth in chemical and pharmaceutical products.

Exports to China passed the CHF 1bn threshold to print at 1.16bn while imports reached 1.02bn, leaving a trade surplus of CHF 139 million. Trade activity with the European Union also accelerated substantially with exports and imports rising 1.47bn and 2.12bn respectively, adding evidence that the European economy is on the right track.

It was quite a pleasant surprise for the Swiss watch industry as exports rose 9% in May compared to a contraction of 5.7% in the previous month. The sharp recovery was mostly driven by a surge in exports to Hong Kong, China and Italy, while Gulf countries reduced sharply their imports amid falling oil revenue and geopolitical uncertainties.

All in all, the report showed that the Swiss economy is still right on track but continues to suffer from the strong CHF. The recovery pace is solid especially given the slower than expected recovery in Europe and the United States. Swiss companies already optimised their functioning and no more gains can be expected on this side. Investments have been reduced to the minimum, costs have been cut. Economic improvement of Switzerland's main trading partner is more necessary to see a substantial growth acceleration.

In the FX market, the Swiss franc continued to move higher against the single currency as investors sit on the sidelines assessing the potential effects of Macron's upcoming economic reform and the renewed positive dynamic between France and Germany. EUR/CHF held above the 1.08 threshold but short sellers will most likely try to push the pair lower, which force the SNB to give a warning shot.



Economics

Oil prices continue to slide; below $40 within a few weeks

Since May 23, bearish pressures on oil have been stronger. The black commodity is largely declining. Crude oil is approaching $40 a barrel. This represents lowest levels since August 2016. For now, we believe that the decline is set to continue. Indeed, since the Qatar diplomatic issue, there are growing concerns that other OPEC members will not respect the production cut and therefore oversupply.

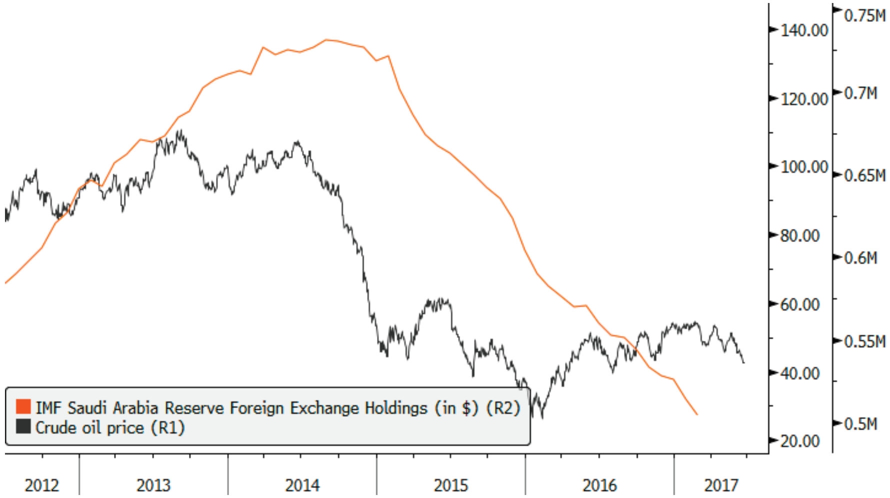
Why the decline will continue? When looking specifically to Saudi Arabia, the largest oil exporter in the world, we may believe that there are supporting evidence to this. In our view, the Arabic country really needs to have higher oil prices. For us its FX reserves are declining too sharply, 27% from its 2014 peak. We recall that only for this year, it has diminished by $36 billion.

Current oil prices seem then way too low for Saudi Arabia, which is in return obliged to liquidate its FX reserves to assume its running costs. On top of that, Saudi Arabia is willing to let investors buy 5% of its oil reserves in a clear effort to get cash as soon as possible. By the way, at current oil prices, this seems like a deal for bullish buyers.

For the time being, Saudia Arabia looks unable to prevent the decline of its FX reserve at oil prices below $55 a barrel. Consequences will be catastrophic for the country and this is why see Saudia Arabia opening its reserves to investors despite their reserves are scarce and should last, according to most analysts, no more than 60 years.

Another solution appears nonetheless possible. That would be to convince other OPEC members to cut their production and prices would certainly go back up. Yet, geopolitical issues are important as Qatar is accused to finance terrorism.

The foreseeable future does not look so bright for Saudi Arabia. In addition, the US shale gas industry is booming back and is putting deeper downside pressures on oil. In the medium-term, we believe that oil prices should head below $40.

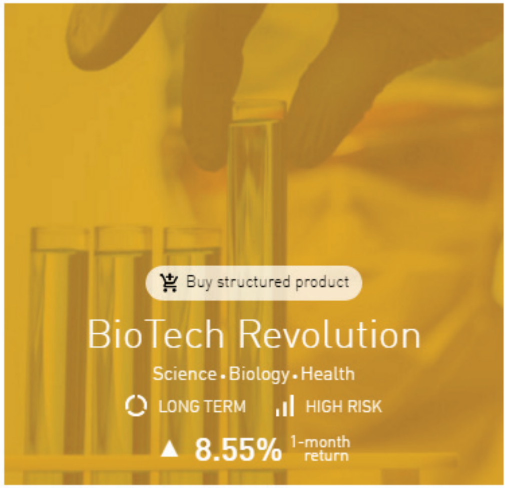


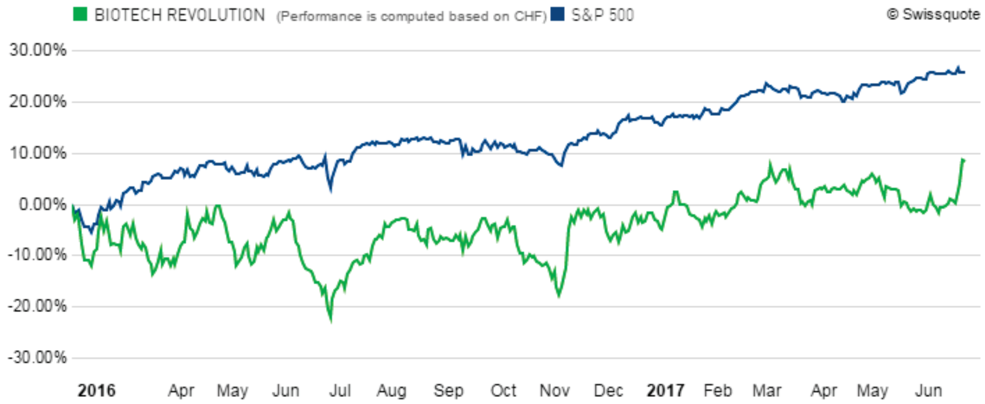
Themes Trading | Biotech Revolution

The pharmaceutical industry is going through a minor revolution. Biotechnology has a broad mandate, covering a wide range of processes for transforming living organisms for human purposes. However, this theme focuses on a new breed of companies that have joined the race to use modern technology to create healthcare products.

These companies harness cellular and bio-molecular processes to develop technologies and products to fight disease. Exploding R&D costs have forced traditional pharma companies to look to smaller, more agile, technology-driven firms as the primary pipeline for innovation. With public and private investors and big pharma all expecting the next big breakthrough to come from this dynamic sector, valuations are on the rise.

We built this theme by filtering on firms with a market capitalization of over $1 billion and positive sales growth over the past two years, ensuring that they have sufficient cash flow to fund the next blockbuster.





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