SWISSQUOTE

WEEKLY MARKET OUTLOOK

3 - 9 July 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

Watch For A RBI Hawkish Cut

This month we have seen a bunch on central banks unexpectedly shift towards an unexpectedly hawkish strategy. Yet despite this U-turn we suspect rates rises will be slow with reduction in balance sheet over interest rates to be the primary tool for tightening. A current exception judging from market expectations is the Reserve Bank of India. Next week's RBI rate decision is likely to bring a 25bp policy rate cut. However, given the uncertainty around determining if the slowdown has been generating by cyclical issues or government interventions should probably delay any central bank action. It remains difficult to determine if India current weakness in growth and inflation is only the result of demonetization or application of the goods and services tax (GST). Currently inflation in India remains soft, due to a mix of transitory and structural factors, driving politicians to overlook potential of midterm higher inflation prices, for short-term growth gains. CPI inflation has dropped quickly, to 2.2% in May from 5.0% in 2016. RBI cut is likely to be a one off before shifting back to a tightening stance as we suspect inflation will pick up in 2H.

Leading economic indicators are signaling that economic activity is improving; led by consumer demand. The consumer already boosted by GDP growth above 6.0% is also support by loose credit conditions and improving external demand. Disruptions cause by demonetizations are still filtering through the system effecting consumer spending and slowing inflation, distorting recent readings. Yet strong rural wage growth and state government pay increases will kick in and drive growth and inflation higher. We could envision growth heading toward 7.5% by the years end.

In broader terms, the external environment remains supportive for EM currencies. Despite some talk of central bank "normalization", global interest rates remain subdued forcing investors to search for yields.

In addition incoming data such as China PMI show that trade demand remains solid supporting our EM story. We remain bullish on the INR heading into the RBI rate decision.

Economics

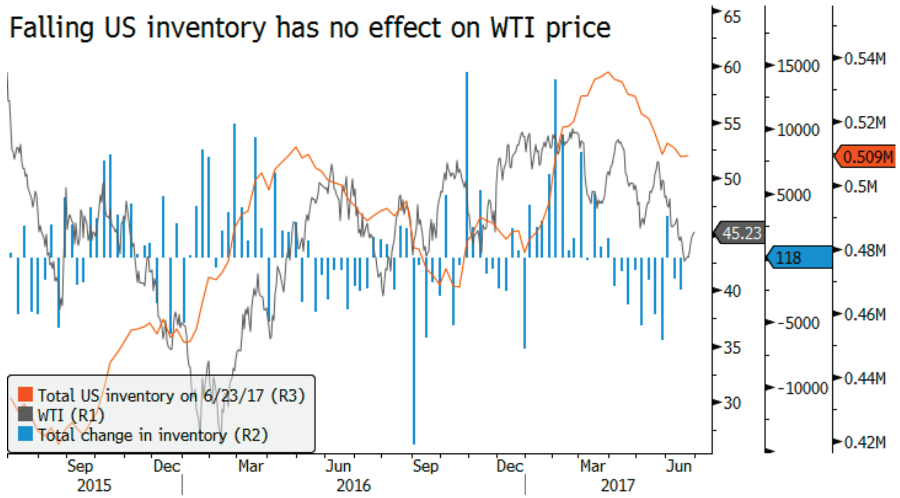
Oil Outlook Remains Clouded

Crude oil prices struggled to recover from the sharp sell-off that has sent a barrel of West Texas Intermediate to $42.05 a couple of weeks ago, down almost 20% from its peak of May 25th. However, since June 21, the WTI was able to recover marginally thanks to a weaker US dollar and reassessment of the fundamentals by investors. From a technical standpoint, the WTI's sell-off has been stopped by the key support at around $42 (multi lows) and is currently retracing toward the $46.00-50 resistance area (Fibo 38.2% on April-June sell-off and previous highs).

Overall, it seems that investors are negatively skewed about the oil outlook as even the recent political turmoil in the Middle East - several countries cut their diplomatic ties with Qatar, a major oil and gas producer in the region - was unable to stop the debasement in crude oil prices. In addition, the sustained contraction in US crude inventories seems to have no effect either. Despite a marginal increase last week (+118k barrels), US stockpiles (excluding strategy reserves) have been decreasing continuously since the end of March this year, sliding from 535mio barrels to 509mio as of June 23rd.

Market participants have lost faith in OPEC's ability to drive prices as several of its members (mostly Iraq) failed to comply with the deal and did not cut production sufficiently. In addition, Iran declared it had increased the capacity of its main oil terminal, which tends to indicate that the world's fifth largest oil producer is willing to inch up production. Finally, according to the EIA, the US had more than doubled its exports of crude oil and petroleum products over the last six years as exports restrictions were lifted. Furthermore, the US shale industry continues to optimise production and cut costs.

On the medium to long-term we remain cautious on the oil outlook as the fundamentals do not support upside gains. However, in the short-term, crude oil prices have room to recover somewhat, thanks to a weak dollar and the end of the panic selling. We expect crude oil to return gradually toward the $50 threshold as fears ease.



Economics

Trump Target Of 3% Growth Looks Less Unattainable

Last Monday, no less than four Fed members have provided their views on monetary policy including Janet Yellen whose speech was in London on global economic issues.

Financial markets tried to grab some hints regarding the Fed's path towards normalisation of monetary policy. Markets currently estimate the likelihood of a third rate hike this year below 50%.

We believe the Fed will be very focused on economic data rather than geopolitical development and we consider that recent economic data is not fully supporting a continued normalisation of the economy.

Fed members looked concerned by the level of equities. San Francisco Fed President John Williams declared that the stock market is “running on fumes” while Janet Yellen said that current stock valuation levels are “rich”. Both declarations have been made at separate moments and it is clear the Fed underpinned stocks overvaluation.

Earlier last week, non-defense capital goods recorded their highest decline since last December at -0.2% m/m below consensus 0.1 m/m. US Manufacturing PMI came in below expectations at 52.1 vs 52.7 expected. We recall that a level above 50 indicates expansion and we are slowly approaching towards this threshold.

The US GDP came in surprisingly higher than markets estimates despite data for the second quarter is significantly weaker than what has been released during the first quarter. Nonetheless, we believe there are still clear downside risks on the greenback at the moment. Therefore, the EURUSD pair may continue to bounce higher in the short-term.

We also consider that there is other supporting evidence that shows concerns regarding the US growth future. US auto sales have constantly weakened from 18.29 million sales in December 2016 towards 16.58 vehicles sales in May 2017, and this trend illustrates a negative sentiment on the North American economy from consumers. We believe that fundamentals are still soft and we consider the US recovery to be overestimated at the moment.

One explanation is that despite labour data being positive, wage growth remains subdued and this is certainly preventing consumers buying new cars or at least it is making them postpone their purchases. It is definitely not a great sign for the US economy in our view.

On top of that, the IMF in a report has slashed its GDP forecast for year-end by removing the effect of President Trump's fiscal stimulus. Indeed, it looks more and more uncertain that this fiscal plan will ever be implemented at this point. The IMF forecast for US GDP is now 2.1% from 2.3% in April. As a result the Trump target of 3% growth looks less and less unattainable.

As we stated above, there is room for further weakness for the greenback. The Eurodollar pair, which has strengthened out of Draghi's comments, should continue heading higher on markets pricing back in US economic difficulties.

Themes Trading

Time For A Recovery In Oil Prices?

Since inception	▼ -3.55%
1-month return	-7.64%
Return day	-0.61%
Est. dividend yield	0.02%
Inception date	01/08/16

See portfolio details

Buy structured product

Cuts in crude oil production and growing demand indicate that crude prices should continue to grind higher in 2017. In an unexpected move, OPEC silenced skeptics by orchestrating the first production cut in eight years between OPEC and non-OPEC countries. The agreement sent crude prices soaring. After four years of depressed crude prices as a result of a global supply glut, the group's three largest producers – Saudi Arabia, Iraq and Iran – overcame significant disagreement to move to reduce global oil inventories. The agreement was unprecedented, with Russia and Mexico also joining in to cut output.

While this historic agreement will only begin to address the supply equilibrium, the steady improvement in demand will be the primary driver of higher oil prices in 2017. Steady oil consumption remains constant even during weak economic conditions as the world's consumers demand 95 million barrels of oil a day, up from 86 million in 2008. However, global demand continues to recover, with growth in the USA, Europe and China. Despite efforts for cleaner energy, oil remains the world's primary fuel, driving globalization.

As oil market dynamics continued to tighten, certain companies are better positioned to take advantage of improving oil prices. This Oil Recovery theme is designed to exploit rising prices by selecting companies mostly active in the upstream segment, which would benefit the most from a barrel above $60. To enhance risk diversification, the portfolio is structured using an equally-weighted risk contribution approach. In summary, this means the allocation is calculated in such a way that each stock contributes on an equal basis to the portfolio's total risk.

Find more info on:

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

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 2014. All rights reserved.

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