SWISSQUOTE

WEEKLY MARKET OUTLOOK

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WEEKLY MARKET OUTLOOK - An Overview

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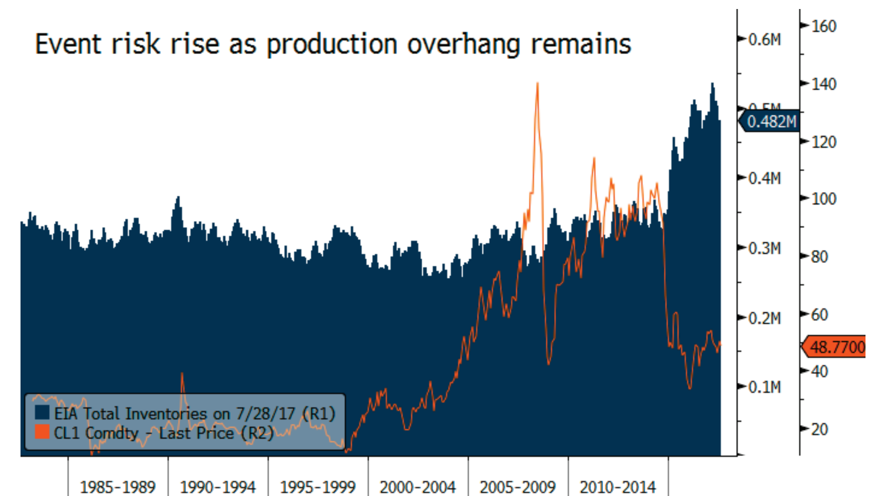
Economics

Venezuela Pushes Oil Higher

Last weeks weak EIA inventories data refocused the markets attention on US output and forced oil prices into a mild bearish reversal pattern. Yet oil is now facing a convergence of supportive fundamental events that will likely drive the prices to $55brl in the short term. Following further draws on inventories, rising in consumption and growing geopolitical uncertainties bullish trend should remain strong. However, these fundamental factors are unlikely to provide support in the midterm.

Summer demand, above the general improvement trend remains seasonally strong. This is because of growing demand in the US, but also globally (think China and Saudi Arabia). Higher demand has helped to limit deeper production induced corrections. OPEC surprisingly has done a good job at forcing nations to adhere to production quotas. While markets have turned a blind eye to chaos in the Middle-East, low spare capacity and expanded crisis regions has weighted on oil traders. The sanctions on North Korea, Iran and Russia is unlikely to have significant effect on production but there will clearly be supply erosion. Russia sanctions have targeted companies that support the construction of Russian energy export pipelines. In addition, new sanctions have tightened rules against technology used for the exploration or production of new shale.

Finally, in our view the situation in Venezuela is spiraling toward the event horizon. While taking Venezuela completely offline will not cause an "oil crisis" it will further pressure prices higher. Venezuela's Maduro regime staging of a fake "election" which preselected candidates will rewrite the country's constitution has split the country in two. In all effective terms, Venezuela has shifted into an outright dictatorship. The oppositions only have demonstration or escalation in violent as political tools. Cessation of Venezuelan production would be minor as it only supplies the market with 1m brl daily. Yet markets should not expected Saudi to step in as they did in 2003. Event risks have increased significantly giving oil prices a boost.



Economics

Status Quo For The Bank Of England

Last Thursday, the BoE announced its key rate that remains unchanged at 0.25%. Markets estimate that rates should only increase by early 2018. That was definitely not a surprise. The asset purchase target will be kept at £435 billion. 10 billion of corporate bonds will also be purchased but this does not change from what was previously decided.

For the time being, the British Central Bank is largely enjoying a weak pound in the wake of the Brexit vote. The economic collapse predicted after the referendum has not materialised and fundamental data are correct. Inflation is currently standing at 2.6%, growth at 1.7% (annualized) and unemployment rate keeps on declining, now at 4.5%.

We still consider that the Brexit vote has had favourable consequences for UK, in particular by lowering the pound value which is why we should see inflation heading towards 3%, probably in October. It is definitely clear that the sterling decline accounts for the growing inflation. By the way, consumer prices forecasts for 2018 have been raised to 2.5% from 2.4%. After 2019, they are expected to hold higher than the BoE target. This should likely trigger at some point a rate hike - Two are saying BoE policymakers. We remain bullish on the pound as in our view, markets are still overestimating the Brexit effect.

However, the British central bank slashed its growth forecasts expectations to 1.7% for this year from 1.9%. Policymakers underlined concerns about consumer spending growth which is too slow to drive growth higher. On top of that, Brexit negotiations outcome remain uncertain and investment levels should likely diminish on those fears.

The pound is getting stronger against the greenback but is weakening against the single currency. Indeed, Trump was unable to deliver what he promised and the Fed fears to increase rates. On the ECB side, markets estimate that the monetary policy divergence between the US and the Eurozone will now narrow down and that European policymakers are ready to increase rates in the late part of this year.

In addition, the BoE is still targeting £435 billion in its asset purchase program and it may soon be the time to reduce the flow of liquidity the BoE injects in the market. By now, the amount injected has been of £375 billion - around 25% of the annual UK GDP -. Current economic developments definitely represents a great moment for the British institution which decided not to act towards a monetary policy normalization. Current pounds levels are still providing the BoE with a window of opportunity to raise rates and drive growth.

Economics

EUR/CHF's Catch Up Is Done

SNB's profit plummet amid CHF appreciation

The Swiss National Bank reported a profit of CHF 1.2 billion for the first half of 2017, compared to CHF 7.9 billion for the first quarter. The sharp appreciation of the Swiss franc against most of its peers, mostly the US dollar, ate up the profits from shares and bonds investments. The Swissie rose 5.9% against the USD, 2.4% against the CAD and 2.1% against the JPY. As the SNB declared on Monday: "…financial result depends largely on developments in the gold, foreign exchange and capital markets. Strong fluctuations are therefore to be expected, and only provisional conclusions are possible as regards the annual result". Therefore it is hard to draw any relevant forecast regarding the year-end results, especially since those results do not reflect the sharp depreciation of the Swissie against the euro of the last few days.

Foreign currency investments rose to 728 billion as of June 30th from CHF 714 billion three months ago and 700bn six months ago, highlighting clearly that the SNB is committed to defend the Swiss franc.

SNB's profit plummet amid CHF appreciation

Last week, the CHF continued to extend gains and reached 1.1538, the highest level since the SNB removed the floor in January 2015. We see the last two weeks' sharp appreciation as a catch-up session for the Swissie. Despite a broad-based appreciation of the euro, the Swiss franc held ground, which led directly to a sustain appreciation of the CHF against the USD. However at some point EUR/CHF couldn't stay completely immune to the euro appreciation, after all the end of the ECB's ultra-loose monetary policy will impact the EU/CH interest rate differential as well. Therefore this is more a healthy adjustment, rather than the end of the CHF overvaluation.

Since early May and prior to the EUR/CHF rally, the single currency was up only 1.6% against the Swiss, while it has risen 5% in average against most of its peers (TWI index was up 5.3%). Due to its safe-haven status, it is normal that to some extend the Swiss franc is insensitive to short-term variation. However, as the rally gained traction, EUR/CHF has had to join the party and catch up with the rest. As of August 4th, EUR/CHF was up roughly 5.8% since early May, while the EUR TWI rose 6.7%. The rally is over. However, it is important to remember that such a move has been made possible by the solid risk appetite and partial unwinding of safe haven trades.

Although the EUR/CHF still may have some legs, we doubt the pair will pass the 1.20 threshold. The 1.15-1.18 area looks like to be a good equilibrium given the current valuation of the single currency. The pair still has upside potential should the euro continue to strengthen. Do not count on CHF weakness yet.

Themes Trading — Football Business

Football is the most popular sport in Europe, bar none. Investing in football shares is a very risky business, since it is highly dependent on on-the-pitch results. However, the return on investment can be sky-high. In 2014, when Benfica Lisbon reached the Europa League final, the club's stock price tripled. That same year, Borussia Dortmund's stock price surged when it reached the Champions' League quarter finals.

Football stocks are not just about fan loyalty: they can become solid investments. After years of tough economic conditions in Europe and the UK, growth is beginning to emerge. This means consumers have more discretionary cash in their pockets and can support their clubs financially. According to consulting firm Deloitte, combined revenues for the English Premier League soared by 29% to £3.26bn in 2013-2014; in their first profit-making season since 1999, clubs made pre-tax profits of £187m. Today, prize money is rising, so a strong season is the key to extraordinary stock performance. Television revenue is also increasing sharply: broadcasters acquired the 2016-2019 rights to the English Premier League for more than $8bn, almost twice as much as three years ago…

In this theme, we have defined our weightings according to the odds of each club performing well this season. In the end, football is just like investing: it's all about how much you believe. Let's kick off!

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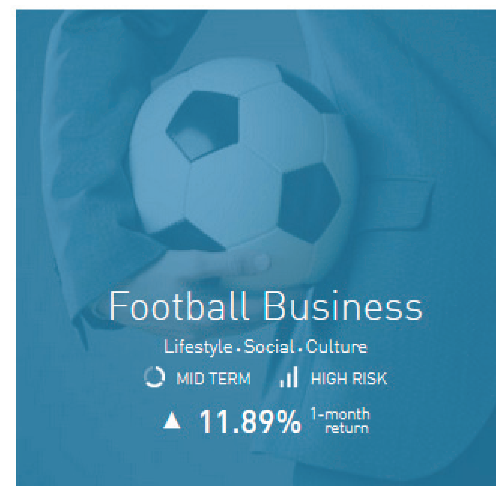

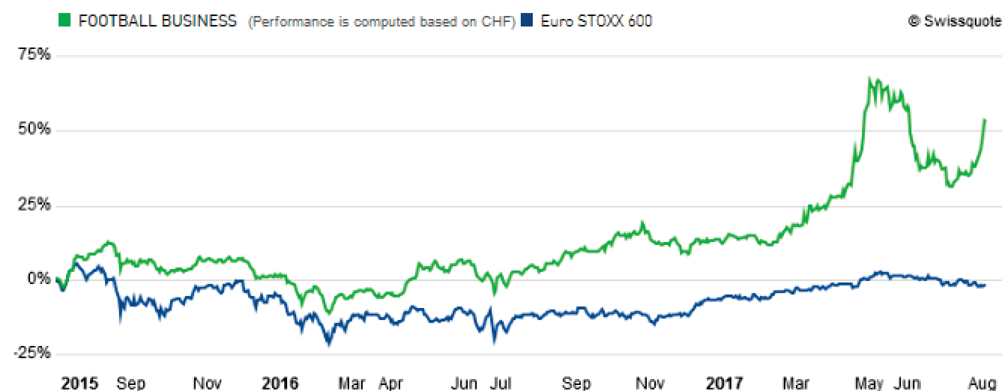

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