

# WEEKLY MARKET OUTLOOK

18 - 24 September 2017

## WEEKLY MARKET OUTLOOK - An Overview

p3	<b>FX Market</b>	Low Key BoJ Meeting - Peter Rosenstreich
p4	<b>Economics</b>	BoE Hawkish Shift Changes The Game - Arnaud Masset
p5	<b>Economics</b>	Gold Consolidates And Bitcoin Takes A Serious Hit - Yann Quelenn
p6	<b>Themes Trading</b>	Global High Dividends
	<b>Disclaimer</b>	

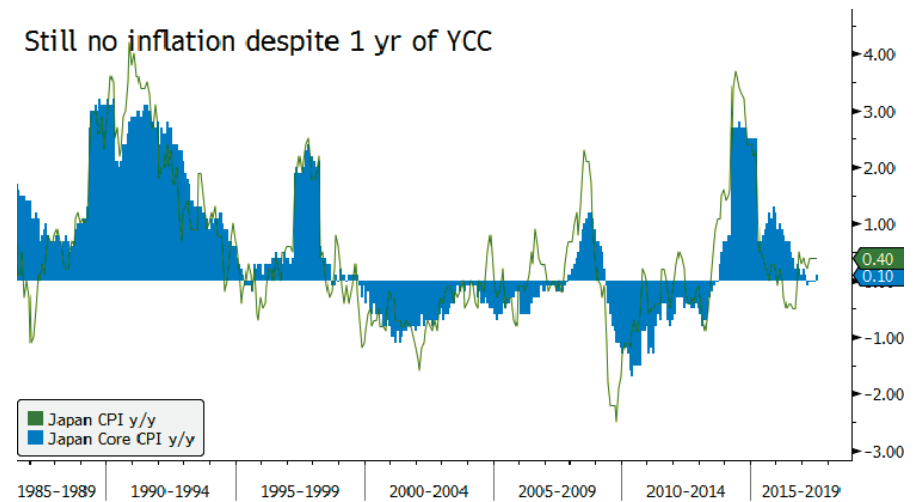
## FX Market

## Low Key BoJ Meeting

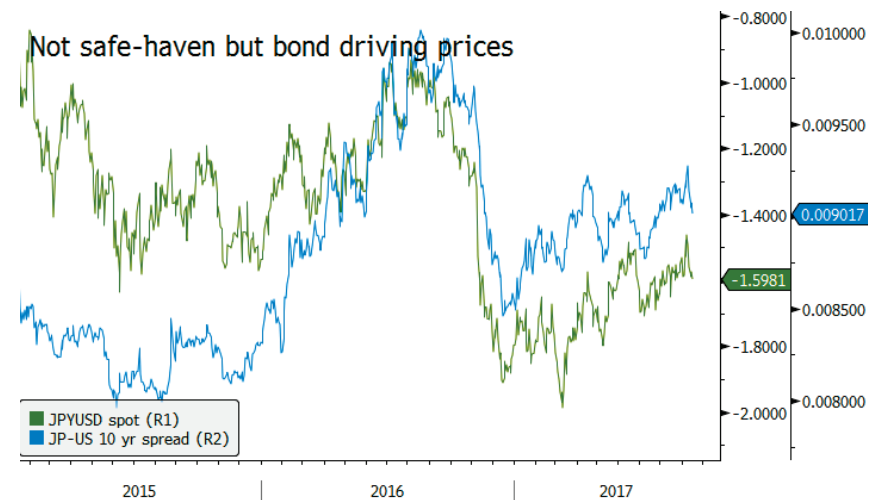
The BoJ meeting should be an uneventful event. Despite the one-year anniversary of yield curve control (YCC), growing question of stability and political pressure, now is not the time for the BoJ to act. Governor Kuroda will likely keep the BoJ's primary policy framework unchanged. In July, the BoJ decreased its inflation forecast, which in turn changed the time for reaching the bank's well published 2% inflation target. The new date is a distant 2019 as inflation trajectory is far from their stated goal. July core CPI, which excludes only fresh foods, increased to 0.5% y/y, core CPI, a strong view of underlying inflation pressures, remained around 0%. Initially, YCC policy likely helped to an acceleration of yen weakening in Q4 2016, but much more depreciation would be required to achieve the 2% goal and effect is now limited. Growth on the other hand has picked up with solid activity in 2Q as real GDP growth was 2.5% but spillover into prices has not materialized. So from a stated objective standpoint there is no rush to shift policy position. Recent communications from Kuroda indicate it's too early to discuss exit strategies.

Markets will be focused on vote composition after the board members' changes (Mr. Kataoka and Mr. Suzuki first meeting) and communication guidelines regarding JGB purchase operation (BoJ has decelerated JGB purchases per operation since mid-August). In addition, timing of the meeting will provide Kuroda a platform to discuss the FOMC. The JPY is now at the crossroads. YCC no longer pro-actively weakens the yen but does set up an environment allowing hawkish foreign central banks (ECB, BoE, Fed, BoC) to shift toward normalization to drive JPY downwards. Events around N. Korea have created a safe haven buying rationale, yet in reality real yield differentials remain the primary driver of USDJPY pricing. However, political pressure on Abe could spill over into BoJ policy. Although the board is made up of policy doves, a political change could threaten the BoJ policy path. Without extraordinary measures, the JPY will likely appreciate.

Still no inflation despite 1 yr of YCC



Not safe-haven but bond driving prices



## Economics

## BoE Hawkish Shift Changes The Game

It has climbed to multi-month amid volatile week as investors anticipate the Bank of England is about to reduce its support to the economy. However, prior to the BoE hawkish shift, the week was punctuated by the release of several key economic indicators. On the inflation side, an upside surprise in August CPI readings gave a first booster to the pound. It was followed by

The headline gauge printed at 2.9%/y versus 2.8% median forecast and 2.6% in the previous month. The core measure, which excludes the most volatile components, came in at 2.7%/y versus 2.5% expected and 2.4% in July, suggesting that the tick up in fuel price is not the sole explanation. Indeed, the sharp depreciation of the pound sterling over the last few months impacted positively the cost of imported goods. Clothing and footwear component rose 4.6% over the last 12 months, contributing to 0.26 points to the CPIH rate (compared to -0.07 a year ago), while the surge in restaurant and hotels prices contributed to 0.35 points (compared 0.23 a year ago).

On the unemployment front, the July's jobs report added more impetus to the GBP bulls. The ILO unemployment rate fell to 4.3% July from 4.4% a month ago as employment change rose to 181,000 versus 150,000 median forecast and 125,000 in June. However, average weekly earnings stayed stable at 2.1%/y versus 2.2% expected. The lack upside pressure in basic wage growth suggest that households' stalling disposable income won't accelerate the pick-up in inflation. In addition, the pound sterling has stabilised since the beginning of the year, if not recovered, and this would somehow eases the upside pressure in inflation stemming from the exchange rate.

Finally, the BoE took a more hawkish stance on Thursday and appeared ready to hike borrowing rates against the backdrop of an improving economic picture and most importantly stronger inflation. Prior to the BoE decision, we thought the central bank would take a more dovish stance and would rather emphasized the downside risk created by the Brexit situation. Nevertheless, it is clear now that the BoE believe the economy is strong enough to take a 25bps hike, regardless the potential negative effect a hard Brexit. In addition, it seems that the Brexit negotiations will take longer than expected and that UK lawmakers are finally to take a conciliatory tone and abandon the harsh rhetoric.

GBP/USD is testing 1-year high



## Economics

## Gold Consolidates And Bitcoin Takes A Serious Hit

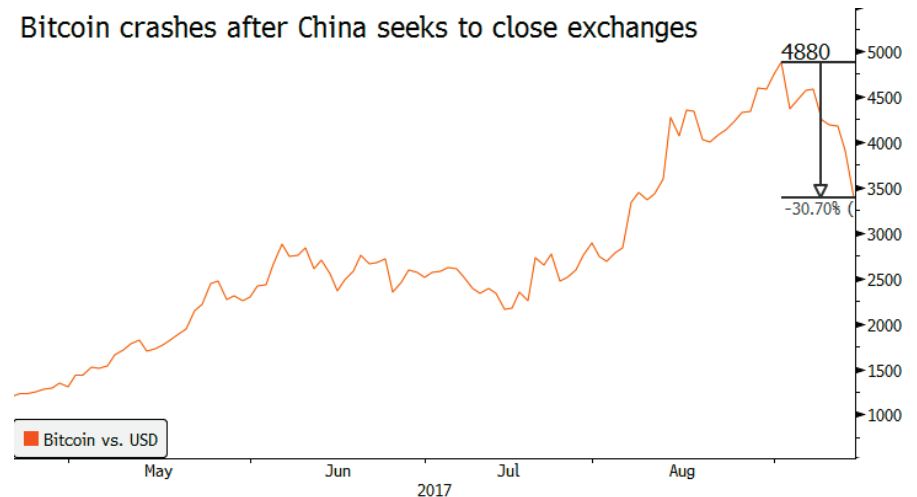
Gold has largely increased since the start of the year going from \$1150 to \$1350. The sharpest increase was during the summer. The decline of the dollar was largely followed by an increase in the precious metal. Now that central banks need to deliver within the short-term (balance sheet normalization for the Fed, reduction of the asset purchase program for the ECB), we believe that there are more upside for the yellow metal as we consider that global economic conditions are clearly not good enough to support a change in the monetary policy.

Technically, gold is in a clear uptrend channel and as inflation is back in the US, this is another strong point regarding the potential appreciation of the commodity. Yet competition appears and gold, which is one great asset for storage of value is now competing against Bitcoin.

This year has been a great year for the first cryptocurrency so far. Debates are strong regarding the question if Bitcoin will become a safe haven. Jamie Dimon, JP Morgan Chase CEO, has declared that "Bitcoin is a fraud". Cryptocurrencies are a new asset class and the war between fiat money and cryptocurrencies will be on regulatory issues. Recently the People's Bank of China has triggered a sell-off in the whole cryptocurrency market by forbidding exchanges. Yet, rumours are stating that exchanges will be able to buy licenses in order to be allowed.

Needless to say that the power of money is not a power central banks are willing to let decentralize. Bitcoin took a hit since this comment. Other would also say that China and its ICO ban are weighing on the most famous cryptocurrency. Further downsides are happening but Bitcoin still has a lot of potential. Only less than 0.01% of the global population has a bitcoin wallet.

If this would reach 1%, the demand for Bitcoin would skyrocket, knowing that there are only 18 million coins available at the moment.



## Themes Trading

## Global High Dividends

Dividends are set to become increasingly important to global investors. Over the past century, dividends have accounted for approximately 50% of total returns earned by investors. Should stock returns flatten, it will be expected dividends that will likely drive growth for investors. This means that in today's low-yield and low-volatility environment, the stability of dividend-paying stocks with historical total return characteristics has been in high demand.

Companies selected for this theme provide investors with geographical and industry perspective diversification, while offering the potential for capital appreciation and reliable income. This theme attempts to avoid the 'dividend trap' by focusing on companies that have delivered consistent dividend growth with limited share price volatility.

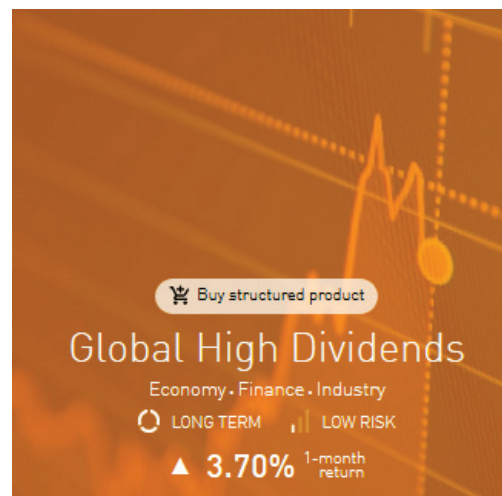
### IMPORTANT

The subscription period opens on September 12 and will run until September 25, 2017. This means the price will not move until September 25, the date on which the initial allocation will be made.

Do not hesitate to contact us if you have any questions.

Find more info on:

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



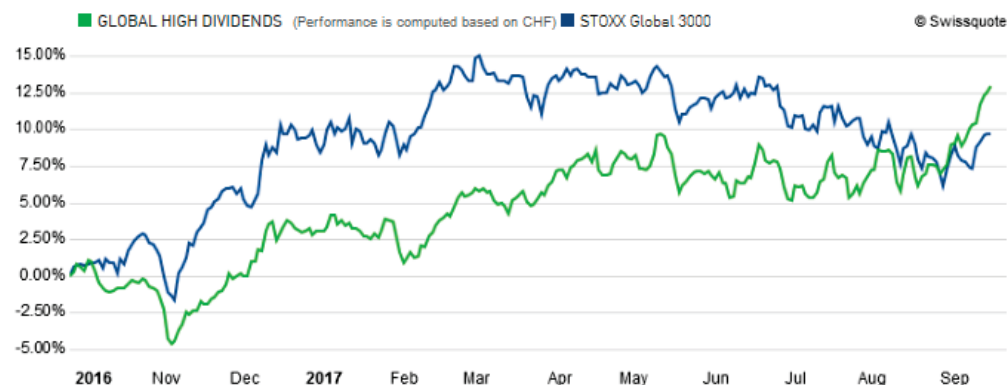
Buy structured product

### Global High Dividends

Economy · Finance · Industry

LONG TERM | LOW RISK

▲ 3.70% 1-month return



## 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.