SWISSQUOTE

WEEKLY MARKET OUTLOOK

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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

WEEKLY MARKET OUTLOOK - An Overview

Economics

Who will guide the Fed?

The US is nearing the point where a new Fed Chairperson will need to be appointed with Janet Yellen's term ending on the 3rd February 2018. Rumors from the White House indicate that President Trump has created a short list with a decision to be made within the coming weeks. Yet the selections are far from certain. Given the role the Fed plays in defining trends in global markets, the potential selections are always news worthy. Given the Fed's telegraphed normalization strategy the risk is of deviations from expectations. In broad terms, Trump could choose an insider likely to contain the current gradual policy or an outside that might throw the current playbook away. So far the markets orderly reaction to the Fed tightening interest rates, and plan to reduce $4.5tr balance sheet has been based on expectation of cautious progress. Yet, there are factions of the Republican Party that want to dismember the Feds autonomy and fast-track normalization. This radical solution would have a volatility inducing effect.

A quick rundown of the reported front-runners:

Janet Yellen: Trump has been critical of her actions in the past but the smooth exit from QE and cautious rate hikes over the past few years speak highly of her qualification. Her gradual rate hikes are unlikely to derail his economic policies and are supportive of higher growth. Yellen’s two strikes are skepticisms over deregulation and a reminder of Obamas legacy. (Insider)

Jerome Powell: Fed board member since 2012, but a republican, would represent continuation of Yellen’s policy. In addition has been an advocate for loosening financial market regulations. (Insider)

Gary Cohn: Once the front-runner, he has dropped nearly completely out of the race due to critical remarks over Trump’s handling of Charlottesville. (Middle)

John Taylor: The investors of the Taylors rules has plenty of street and governments credentials having worked for George W. Bush's first term of office at the US Treasury. He also has been a harsh critic of Fed policy in the past, that will clearly appeal to Trump base. (Outsider)

Kevin Warsh: Having served on the Fed during the financial crisis with strong connection with Wall Street. With mixed record. He warned over risk of undercapitalized banks before most, but was significantly critical of QE, expecting asset creation to produce hyperinflation. (Outsider)

Economics

The SNB Had A Pleasant Summer But Will It Last?

After rallying strongly during the summer months, the Swiss franc seemed to have reach a temporary equilibrium against the euro amid rising uncertainty stemming from both the Catalan crisis and ECB's cautious tone regarding the future of its quantitative easing. Moreover, Switzerland's economic conditions have improved recently, especially on the inflation. Nevertheless, it wasn't enough to trigger a CHF rally as much more is needed for the SNB to move away from its current monetary policy stance.

According to the Federal Statistical Office, Switzerland's consumer price index rose more than expected during the month of September, rising 0.7% year-over-year as it reached 100.9 points and beating slightly median expectations of a 0.6% increase. On a month-over-month basis, the headline gauge rose 0.2% (matching expectation). The price increase was mostly driven by a price rise for clothing and footwear (+7.4%y/y), while the price of imported goods and services also contributed to stronger price pressure. It could be tempting to conclude that the SNB will have to start thinking about adjusting its monetary policy stance as inflation pressures finally pick-up. However, we are still far from the SNB's 2% inflation target, it is therefore way too early for Thomas Jordan to put into question the bank's strategy.

Also released la week, Switzerland's foreign exchange reserves edged higher for a third successive month in September, despite a clear period of respite for Thomas Jordan and his team. The Swiss National Bank's stock of foreign currency increased Sfr7.5bn from Sfr716.9bn to Sfr724.4bn, printing a new all-time high. Since the beginning of the year, the FX stockpile rose almost Sfr80bn as the SNB has continued to buy foreign currency, mostly EUR and USD, with the aim of protecting the Swiss franc against further appreciation.

However, the SNB has had quite a pleasant summer as it was able to reduce significantly the pace and size of its interventions in the FX market. Indeed, the Swiss franc lost ground against most of its peers during the summer months, which also help to boost inflation metrics. Since June, it has been falling against across the board, losing the most against the Canadian dollar (-8.25%), the Swedish Krone (-7.5%) but most importantly against the euro (-5.20%) and the greenback (-0.90%). Therefore, the sustained rise in FX reserve is not the result of a pick-up in SNB's activity in the FX market, but rather the result of the appreciation of the SNB's holding when valued in CHF. The stabilisation of the sight deposits held at the SNB supports this idea: since early June total sight deposits stabilised at around Sfr578bn.

Further CHF depreciation, mainly against the single currency, remains our base scenario. However, the Catalan situation together with Draghi's cautious tone at the last ECB meeting interrupted the euro rally. However, the fact that the euro was able to hold recent gains against the Swiss franc suggests that investors are definitely not worried about the Catalan situation. All in all, this does mean that the December ECB meeting will be key in determining the future direction of EUR/CHF. There is a lot at stake and the expectations are high.

Economics

Catalan Political Crisis Weighs On Euro Bulls

The Catalan referendum has brought a very important question in centre stage. Do people have in Europe the self-determination right? It seems that the answer is a big no. Spanish Prime minister declared that there was not vote (i.e. legal) vote in Catalonia. Anyway the police violence have been used and it definitely drove “No” voters to stay at home. As a result this has created this surprising result: 90% of Catalonians are in favour of the independence vote.

This is then weakening the Spanish central power and European nations are suffering from regionalists. Amid the vote, the single currency has slightly declined but remained around 1.17 USD. Catalonian uncertainties have not clearly weighed on the Eurodollar pair price. We nonetheless believe that bulls have been reduced.

In the medium term, we believe the impact of this vote won't weaken the European Union. We rather consider that a weaker Spain would benefit to the European Union as the EU does not clearly need nations. Catalonia is still expected to declare its independence in a matter of days according to Catalan leaders. Tensions are then likely to increase and political risks will definitely add downside pressures on the single currency. Markets have not priced in yet any deep consequences of this independence.

According to us, the Catalonian vote won't trigger a political crisis in Europe, even in the short-term. However this vote reveals the economic underlying difficulties of Spain. Catalonia is the richest region in Spain and is not accepting to “pay for everyone”.

Volatility is set to increase, a euro sell-off may be triggered by the Catalonian crisis. Yet, one should not forget the high expectations from the ECB.

Benoit Coeuré, a ECB member, spoke on Thursday in a panel in Frankfurt. The panel's discussion was mostly on the size of the potential reduction of the ECB balance sheet starting in January. We continue to consider that markets are way too optimistic regarding this asset purchase reduction. Markets have sent the euro too high at the moment. Yet, the momentum, which is pausing at the moment, will likely be back on ECB meeting expectations as soon as we get closer to the meeting date which will be held the 26th of October.

Themes Trading | Cybersecurity

News of cybercrime has become commonplace. On May 12, a piece of malicious software known as “WannaCry” spread across global computer networks. In only 48 hours it infected approximately 230,000 computers. WannaCry knocked out computers at Britain’s National Health Service (NHS), Russia’s interior ministry, Telefónica and Hainan Airlines, among others, rendering them useless and demanding ransom payments from their operators. Wannacry was not nearly as damaging as other malware such as Conficker, ILOVEYOU, Anna Kournikova and MyDoom, which have reportedly caused billions in damages.

Regrettably, the frequency, sophistication and impact of cybercrime are only increasing as society increases its dependence on computers. Consequently, companies that are in the business of cybercrime prevention are looking at a massive growth opportunity. Spending on cybersecurity is expected to exceed $90 billion in 2017, rising to $170 billion by 2020. In this cybersecurity theme, we have included hot areas of growth in analytics, threat intelligence, and mobile and cloud security.

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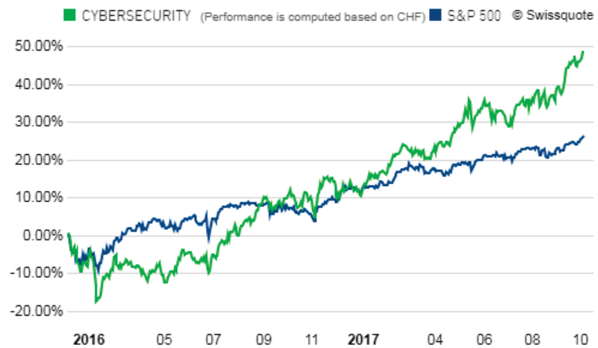

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