WEEKLY MARKET OUTLOOK

16 - 22 October 2017

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WEEKLY MARKET OUTLOOK - An Overview

Economics

Don't Be Fooled By ECB Balancing Act

ECB Governing Council members continue to talk down monetary policy normalization despite of evidence that tightening is coming. Ardo Hansson Governor of the Estonian central bank stated, "monetary policy has to remain accommodative. I don't think there is a lot of disagreement about that. But it is very, very accommodative now and if you were to do a little less, it would still be very accommodative".

We suspect that comments of ECB policymaker will carefully balance policy changes while limiting the Euro's strength. Analysis of ECB member public statements indicate that Governing Council is on track to broadcast alterations to its policy stance at its October 26th policy meeting. The markets is now pricing in a reduction in the pace of monthly asset purchases to €30bn from €60bn starting January 2018. In addition, the high probability expectation is a nine-month open ended extension. Yet there are risks that hawkish members could cut that extension call down to six months. To balance out this clear shift toward normalization the ECB will likely increase its guidance on rates stating "present levels for an extended period of time, and well past the horizon of our net asset purchases". Its critical for Euro pricing and prevention of derailing the current European economic recovery that deceleration of asset purchase does not pushing expectations for rate hikes. Propelling Euro to new highs.

The only reason the USD has not completely collapse, is the ambiguous faith that inflation will pick up. Traders are scared of being caught flat-footed should inflation snap-back given the solid economic data. Causing sudden repricing of the Fed policy path. Yet, so far there is limited evidence US inflation will not further weaken from here as growing evidence that structural changes are to blame (example: evolution from brick & mortar to online spending behavior).

Catalonia's failed independence declaration, opting to hold talks with the government in Madrid, opening a potential resolution of the constitutional crisis, has removed a significant European risk. Near term Euro should further advance against USD.

Economics

USD In The Doldrums As Inflation Stalls

Although the inflation data was expected to have been highly distorted by the several hurricanes that the country during September, the US dollar got smashed on Friday amid disappointing CPI figures. The headline measure came in at 2.2%y/y versus 2.3% expected and 1.9% in August, while the core measure, which excludes the most volatile components, held stable at 1.7% versus an expected increase of 1.8%. The solid pick-up in the headline measure is mostly due to a surge in energy prices as motor fuel prices and fuel oil rose 13%m/m and 8.2%m/m, respectively. Food prices, on the other hand, remained roughly stable, increasing only 0.1%m/m.

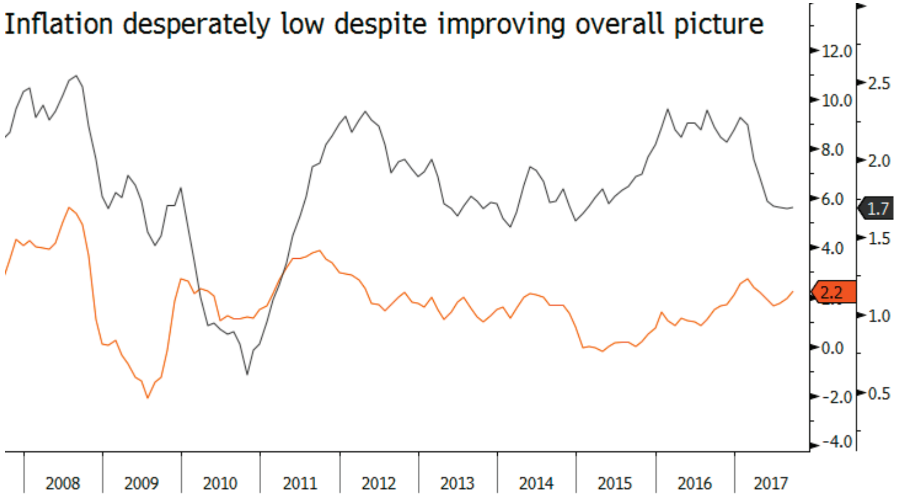
The increase in energy prices stemmed from the combination of two main factors. Firstly, oil prices have strengthened over the summer months amid shrinking oil inventories in US and efforts of OPEC producers to trim production in an attempt to boost oil prices. Secondly, the series of hurricanes that hit the Gulf Coast disrupted significantly oil production and also triggered widespread gas hoarding.

Retail sales data also came on the soft side with the headline gauge rising only 1.6%m/m versus 1.7%. The upward to previous month's data (-0.1% vs -0.2%) had little effect on reassuring investors. The core measure, which excludes auto sales, beat median forecast of +0.9%, printing at 1.0%.

There is huge confusion among investors regarding the persistent weakness in inflation despite a continuously improving labour market and solid pace in economic growth. This inexplicable phenomena is bamboozling investors and adds uncertainty to the overall US outlook. Indeed, the run for Yellen's seat at the head of the Fed, together with uncertainties to Trump tax reform have dampened investors optimist regarding the ongoing tightening cycle.

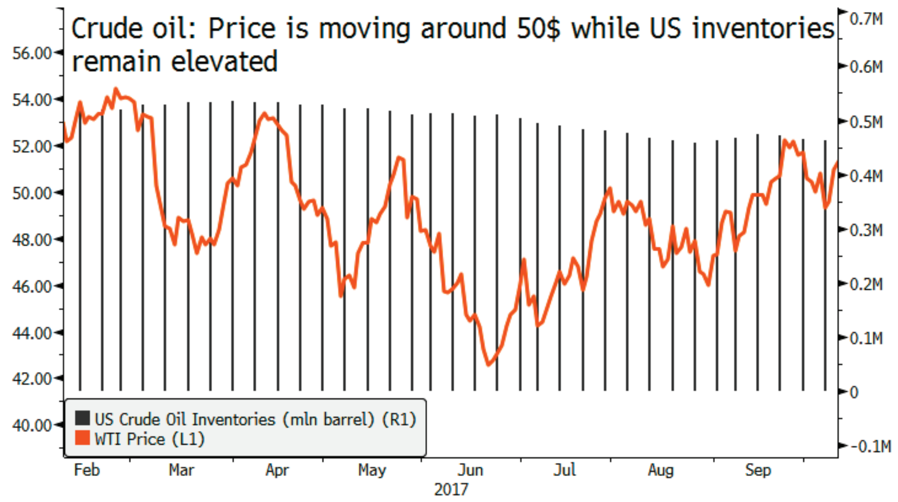
On Friday, the USD fell the most against higher yielding currencies such as the Aussie and the Kiwi which were up 0.85% and 0.86%, respectively. EM currencies were also on a firmer footing as investors chased yields. According to Fed funds futures, the probability of a rate hike in December eased slightly to 71.8% compared to 76% earlier in the week. Although this is a marginal decrease, it summarized the overall sentiment in the market.

Inflation desperately low despite improving overall picture



Economics

OPEC Reports See Oil Below $55 Next Year



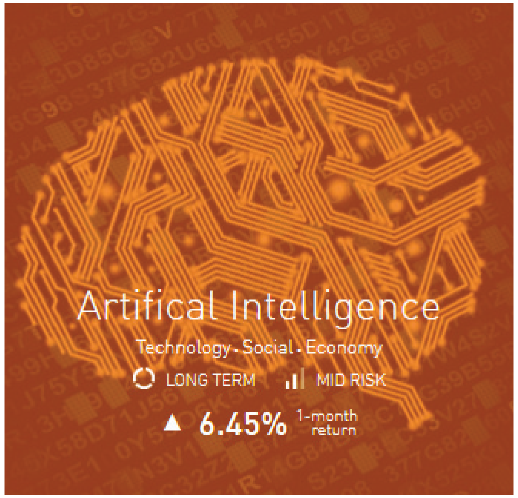
In the OPEC Monthly Oil Market Report, markets discovered the estimates for the end of 2017 and 2018 from OPEC members. The cartel has largely increased in the oil demand based on a strengthening economy. For the time being, crude demand is around 32.8 million barrels a day while the projected demand should rise to 33.1 million barrel a day.

OPEC are forecasting a world growth to 3.6% from 3.5% according to last month's report. What we can learn from the report is that OPEC mentioned that low prices are clearly weighing down on the US shale gas industry which is why OPEC expects oil prices to remain below $55 a barrel within next year. The cartel will definitely adjust its production output to maintain oil prices around those levels which will continue to pressure the United States shale oil industry.

It is worth noting that that U.S inventories are still above 5-year average which tends to add downside pressures on crude oil prices. And it seems that shale production is still on the rise in an effort to lower the overall cost basis. It is also important to realise that the rise is happening at a moment when downside pressures are strong.

In our view, the OPEC global growth projection are too optimistic. Major countries are not in a hurry to raise rates as it could provoke massive disruption in many markets due to the massive debt accumulated throughout the years. This is why we should definitely see the OPEC production output increasing to maintain oil prices at the desired level. We are definitely bullish on oil prices at the moment anticipating future OPEC difficulties. Needless to recall that OPEC members have also had a recent history of tensions regarding output levels.

Themes Trading | Artificial Intelligence



Artificial intelligence (AI) is no longer science fiction. Not only has this progressive technology dominated the headlines, it has also invaded our everyday lives. AI is part of a critical sub-sector of technology that is set for a leap in innovation that will span not only years but decades. AI spending is forecast to grow from $1 billion in 2017 to $37 billion by 2025. AI has already revolutionized fields such as image recognition, healthcare and securities trading. Perhaps the biggest surges are occurring in the automation sector, where AI technology is being used to make self-driving cars and trucks.

As virtually all industries catch up with the technological advances offered by AI, companies will seek to quickly implement incorporate them into their business processes. AI investment and demand will continue their upward trajectory as the technology shifts from a trend to a ubiquitous tool for individuals and businesses alike.

For this Artificial Intelligence Theme, we have focused on companies are increasingly focused on using technologies AI to define their businesses.

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