

WEEKLY MARKET OUTLOOK

13 - 19 November 2017

WEEKLY MARKET OUTLOOK - An Overview

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Economics

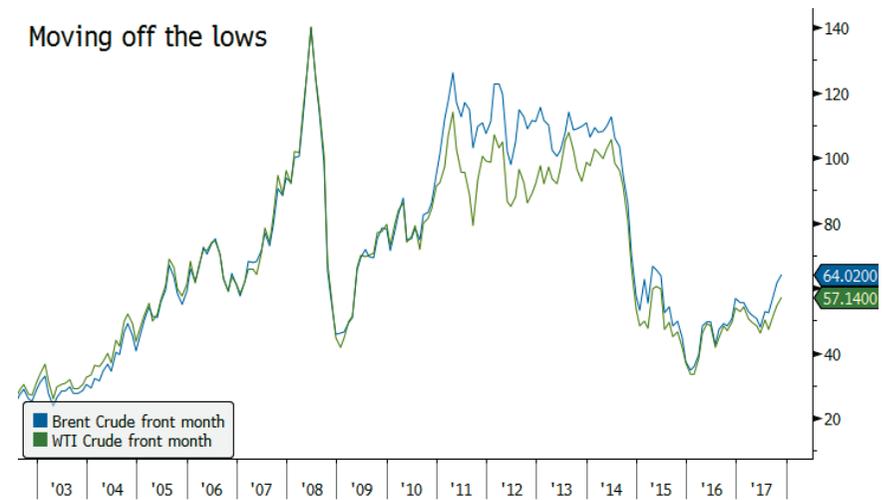
Oil and EM inflation-

Oil prices have risen due to drop in global inventories, fall in US rig count, solid demand outlook and expectations for extension of OPEC production cuts. Crude oil prices have risen over 30% from this early lows in June. However, oil-linked FX trades such as CAD and NOK have decoupled from the usual tight correlations to crude. This is due, in our view, to subdued volatility increasing investors risk appetite and low interest rates growing the currencies sensitivity to yields curve shifts. Yet, the sudden appreciation of oil prices has highlighted potential risk to certain EM nations, such as India.

India is a net imported of oil with inelastic demand. Historically, shift in crude oil prices have had a significant effect on economic growth prospects. Shift in crude prices tend to create an asymmetrical effect in macros like inflation, current account deficit and fiscal deficit. With Brent prices averaging around \$55 bbl, stability risk will increase but will be manageable without policy action. At this price the RBI Monetary Policy Committee is unlikely to changes direction opting for an extend pause and potential 25bp cut. However, strengthening of crude above \$70 bbl could result to terms of trade shock. With net effect, influencing inflation, growth, fiscal position and current account deficit. The RBI in this scenario will have to intervene, and tighten policy rates before conditions eroded.

Our current view is that the move up in oil prices is a shift higher in a price range rather than a broader bullish rally. The high probability trade is that dynamics of supply glut will kick-in especially as nimble US suppliers come back-online. Its well known that India and most of Asia is highly exposed to strong oil. Inflation which has bottomed in many parts of Asia indicate it will be while before prices pressure damage macro stability. Yet, sustained price pressure will force RBI to act.

Moving off the lows



Inflation trending higher



Crypto Assets

Bitcoin Ends Week Lower Amid SegWit2x Uncertainties

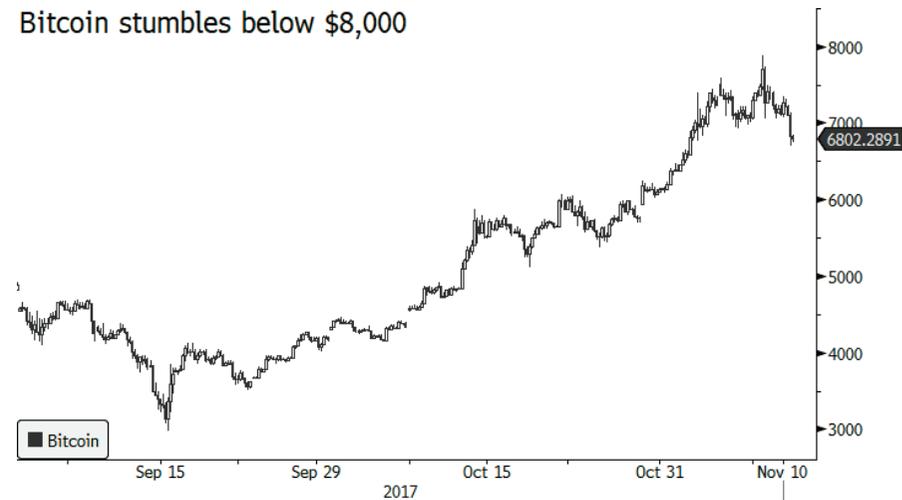
Last week was a rollercoaster ride for Bitcoin after key proponents called off the the controversial SegWit2x hardfork. Mike Belshe, CEO of BitGo, published a note explaining the reasons why they will not support the Segwit2x fork. The note was also signed by Wences Casares (CEO Xapo), Jihan Wu (Bitmain), Jeff Garzik (Bloq), Peter Smith (CEO Blockchain) and Erik Voorhees (CEO Shapeshift). The note explains that the initial purpose of SegWit2X was to improve Bitcoin scalability but also to reduce fees, which are quite elevated. However, Belshe explains that this should be done by keeping the community together and therefore cannot be done will only 30% support among miners. He regrets that they “have not built sufficient consensus for a clean blocksize upgrade at this time”.

Following the publication of the note, the price of Bitcoin exploded to \$7,900 before falling as low as \$6,978 at certain exchanges (13% move in less than 2 hours). The price finally stabilized at around \$7,300 before extending losses on Friday.

It is also worth mentioning that there were rumours that a small group miners (that represents only 30% of hash power) will carry out the fork regardless. However, it seems that investors are not buying it, as the price of BTC kept moving south.

The outlook for Bitcoin remains quite attractive, as institutional money should finally start coming in. The CME (Chicago Mercantile Exchange) announced it would offer futures trading before the end of the year. The SEC has not approved any Bitcoin ETF yet, but it should happen eventually. One slight note of cautious: with the SegWit2x being cancelled, a part of the Bitcoin community is now claiming that Bitcoin Cash is now the “real” Bitcoin. The price of Bitcoin Cash shot up 32% to \$830, compared to \$330 in late November. It is hard to say whether it is a legit claim. Let the market decide.

Bitcoin stumbles below \$8,000



Economics

Mexico: Overnight Rate Remains On Hold

Banxico has, without any surprise, kept its interest rates steady on Thursday at 7%. There are many reasons for that. Inflation expectations are now getting lower as the central bank certainly adjusted too strongly its monetary policy because of its anticipation of a strong Fed tightening rate path.

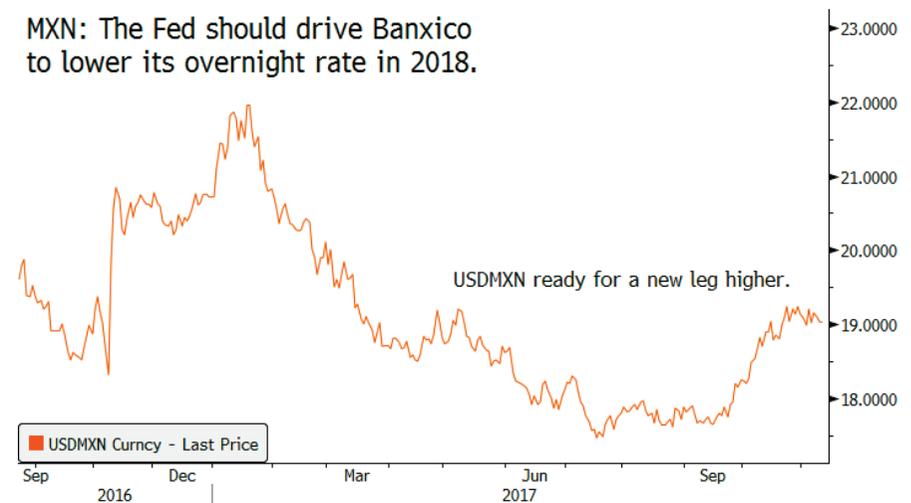
Indeed, Banxico has raised its overnight rates four times this year as markets expected also four rate hikes from the Fed. Now that the US central bank is on hold until December meeting, there was definitely no rush for Banxico to act.

We recall that the Mexican central bank is monitoring the interest rate differential between the US in order to avoid any potential capital outflow. When the rate differential is getting narrower, it is clearly not at the advantage of Mexico but now the spread is so large between 5.75% and 6.25% that investors have a preference for the Mexican Peso which offers strong return.

However, even though the Fed will certainly raise rates one more time in December (quasi certain event at this stage), we don't believe the Fed has the ability to increase rates above 2% or the risk of a bubble burst is very strong at this stage.

Currency-wise, the MXN has strengthened this year from 22 to 16 MXN for one single dollar note which is why we have seen Mexican's inflations expectations suffering. Right now, Fed monetary policy have driven the USD higher against the MXN and we believe that it is likely that we see Banxico reducing their overnight rate next year which would send the MXN lower. In our view, the MXN is definitely overvalued at the moment.

MXN: The Fed should drive Banxico to lower its overnight rate in 2018.



Themes Trading

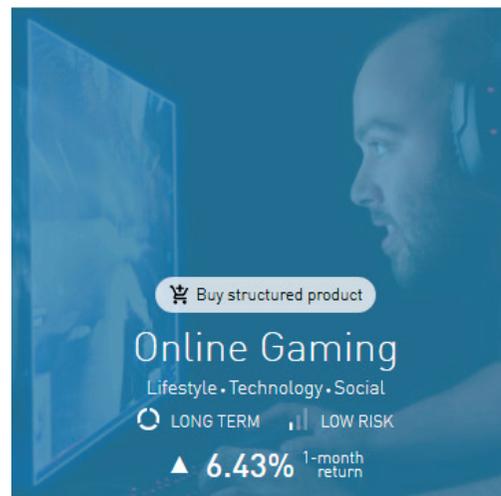
Online Gaming

Much ground has been covered since the first video game consoles of the early 1970s, which offered only 2D games in black and white with no sound. Since then, the video games industry has grown exponentially as computer technology has advanced. Nowadays, blockbuster video games enjoy massive budgets, easily surpassing those of Hollywood movies: budgets in excess of \$100 million are not uncommon. According to ESAF (the Entertainment Software Association Foundation), over the last five years total consumer spending on the video games industry in the US grew by an average of \$1.38 billion a year to reach \$30.4 billion in 2016. Video game content accounts for more than 80% of this amount, putting video game makers in a strong position to take advantage of this trend. Moreover, the fastest growth is in social network gaming, mobile apps and online gaming, which together account for over 65% of total revenue.

The video games industry is evolving faster than any other, constantly adapting to the latest technological breakthrough. The industry has already embarked on its latest transformation. However, it is not too late to be part of it. We built this theme with the aim of offering exposure to the entire video games market, from traditional physical media distribution and console builders to new market entrants. We have overweighted the fastest-growing part of the industry: companies active in

Online Gaming certificate is available on:

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