WEEKLY MARKET OUTLOOK

20 - 26 November 2017

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WEEKLY MARKET OUTLOOK - An Overview

Economics

Less Optimistic on Oil

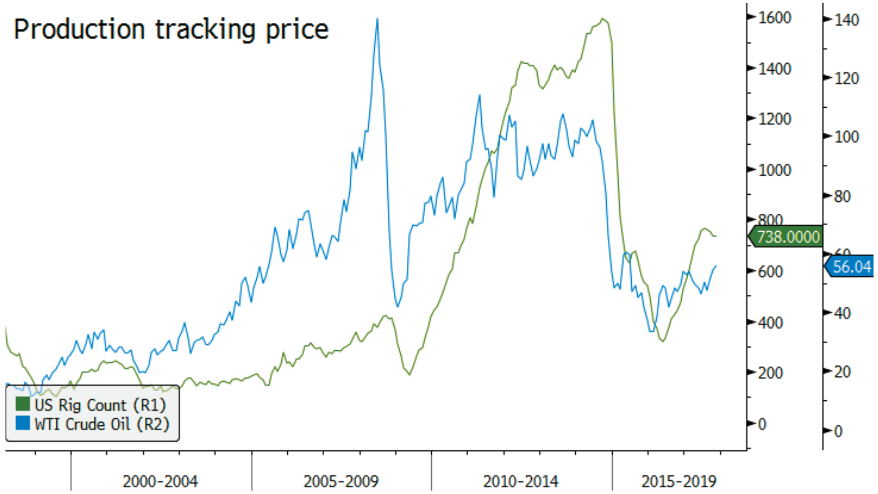
We have divergent views on the desk in regards to near-time commodity price dynamics. I remain bearish on the outlook, see improving demand unable to cover structural supply glut. Commodities especially oil have formed a loop were higher prices triggers a reactionary production functions sending prices swiftly lower. A situation we are seeing now. Commodities outperformed in the last quarter with metals up 10% and energy up 12%. A combination of factors help drive up prices including stronger global economic demand, weather related events and OPEC supply limits. We remain bearish on the outlook for commodity in 2018 as oversupply and slow demand growth will curtail any significant jump in prices. OPEC sill likely reaffirms its supply cuts at the end of this month but the result will have only a marginal real effect.

In addition, the longer members are required to mis oil revenues, the more likely the strict adherence will break down. Actions by Saudi Arabia have increase uncertainty in the region but also raises the probability of a break down in OPEC oil policy. Which is already weakened on suspicion regarding Russia's opinion on OPEC's planned extensions to output cuts.

Last week, U.S. Energy Information Administration reported that crude inventories rose by 1.9mn brl in the week ended Nov. 10, well above expectations of 1.4mn brl. A result of rising prices has been that the nimble US shales producers have increased output. US domestic production increased to a record weekly high last of 9.645mn brl. The rising crude stocks piles and record higher UIS production has renewed speculation about a supply glut.

Divergence between oil-linked currencies and oil have recoupled slightly. The NOK is trading 9% weaker than crude prices indicated a smaller reliance on oil prices then investment income on the country's current account.

However, CAD economic outlook remains highly influenced by oil prices. WITH oil prices expected to decline USDCAD has room to appreciate. Especially when you consider the US 2-yr yields are elevated at 1.708% and limited expectations of inflationary spillover effects. Soft oil, higher US yields and leveraged funds trimming long CAD position will likely pressure USDCAD correct phase back to 1.30 resistance.



Economics

UK Data Improves But The Pound Remains Weak

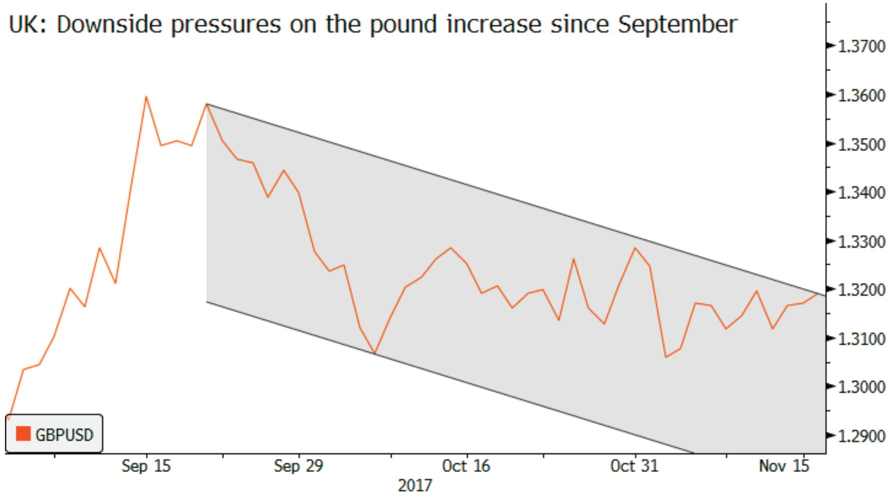
This week the inflation data has been released slightly below consensus at 3% y/y versus 3.1% expected but remains at a strong level. The pound has then suffered as markets priced in a lower probability of a rate hike in 2018. The pound is now trading sideways between 1.30 and 1.32 and downside pressures are lively. Indeed, while inflation data are strong, the cautiousness from the BoE to adjust its monetary policy can be difficult to understand.

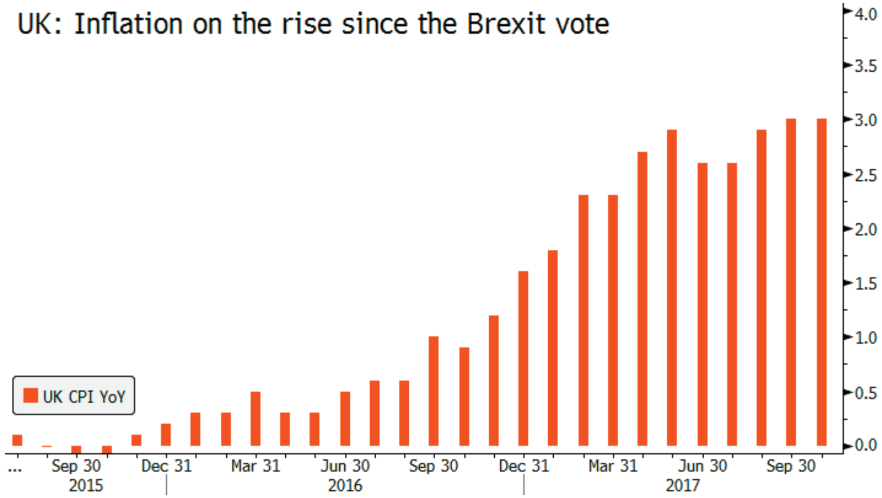
Actually, we consider that central banks, including the BoE, are letting inflation run in order to kill the massive debt accumulated over past decades.

There is something clear, the Brexit has been very far from destroying the UK economy. This has nonetheless boosted inflation. There is then something ironic going on at the moment. Currency wars are not over just because markets expect interest rates to rise. Global economies are still way into a devaluation battle and central banks must play it dovish. It is a mandatory strategy as too much short-term confidence may bring investors back way too early. Demand for currencies would definitely weigh on growth.

In addition, central banks cannot raise interest rates too fast as it would likely burst the bond bubble. Central banks must maintain confidence by increasing rates but not too fast in order not to disrupt the economy. This mix of dovish/hawkish is a very subtle art played by central banks.

We believe that the BoE is then playing it safe and will tend to raise rates gradually and very slowly next year in an effort to maintain confidence in its monetary policy. However, as stated above the central bank will as much as possible let inflation run higher. This is why we could see in the short-term more downside moves on the pound.





Economics

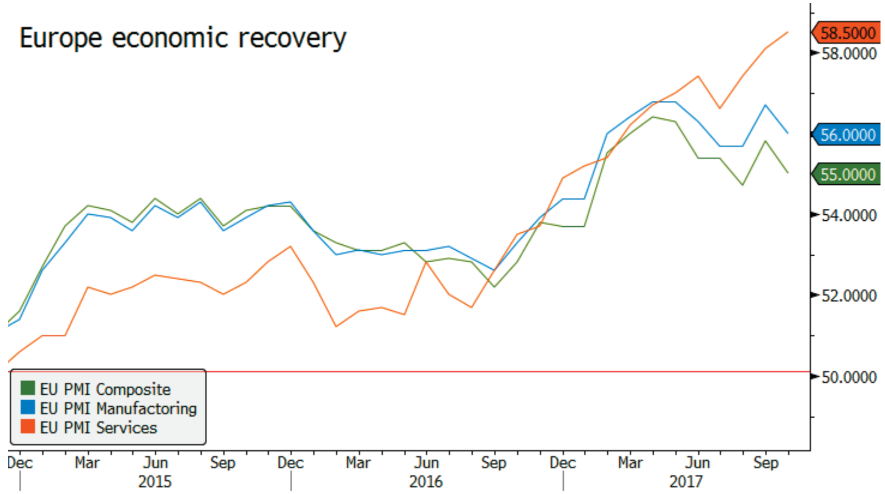
Strong Euro Data Threatens ECB Doves

This week brings a string of Eurozone PMI which should reinforce the argument for solid growth momentum heading into 2018. PMI reads remain elevated after accelerating since mid-2016. With this data European commission optimistic view of the economy don't seem misplaced. In the EU executive Autumn Economic Forecasts, just released, the economy will grow 2.2% in 2017 and 2.1% in 2018 saying that it is "on track to grow at its fastest pace in a decade this year." The strong global backdrop has supported falling unemployment that then has fueled a privately lead consumption recovery. Years of austerity created pent up domestic demand, which now has the ability to unwind.

The strong growth and employment backdrop is having clear effect on inflation. Headline inflation in the Eurozone fell marginally in Oct from 1.5% to 1.4%. Yet core inflation came in higher than expected rising to 1.1% from 0.9%. The rise suggests that the ECB belief expectation that dips would be short lived seem correct. Last month the European Central Bank announced it will reduce the size of its quantitative easing program from €60 billion per month down to €30 billion, beginning in January. Bond purchase will continue until September 2018 were the bank is expecting to see sustainable return of inflation towards its 2% target before official winding down its stimulus program. While Draghi has mentioned that end of bond-buying is not a precursor to imminent policy tightening. However, we have a hard time seeing how this would happen.

ECB president was able to provide the market with a dovish meeting by keep the door open for more purchased beyond the current end-date. But there is growing evidence that Draghi was out-of-step with other ECB members. And should the data continued to point to further accelerations the divergence is likely to widen.

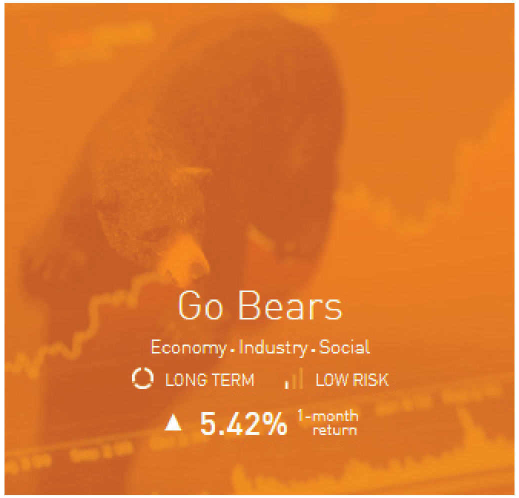
Sabine Lautenschläger, Executive Board Member: "I made my point clear in October; I would have liked to see a clear exit. There was a different decision made, and we will see in the next year how things are developing." Ewald Nowotny, Austrian central bank governor stated "At some time there will be of course a reducing and some kind of an end date but it's too early to have this discussion." ECB communications will increasingly become critical to policy strategy especially in light of strong economic activity.



Themes Trading | Go Bears

There are clearly dark clouds forming over global equity markets. The current bull rally in stocks has lasted over five years, and the potential for a correction is growing. For investors looking to rotate a portion of their portfolio into stocks that could potentially weather the storm, we believe high-quality US markets are the best option. By overweighting their investments in traditionally less volatile sectors such as consumer staples, healthcare and the granddaddy of defensive investing, electricity utilities, investors should be able to lower their exposure to risk without sacrificing exposure to equities.

We built this theme based on consumer staples, healthcare and electricity utilities located in the US, filtering on companies with historically stable earnings and dividend yields and sustainable product positioning.



Go Bears Theme is available on:

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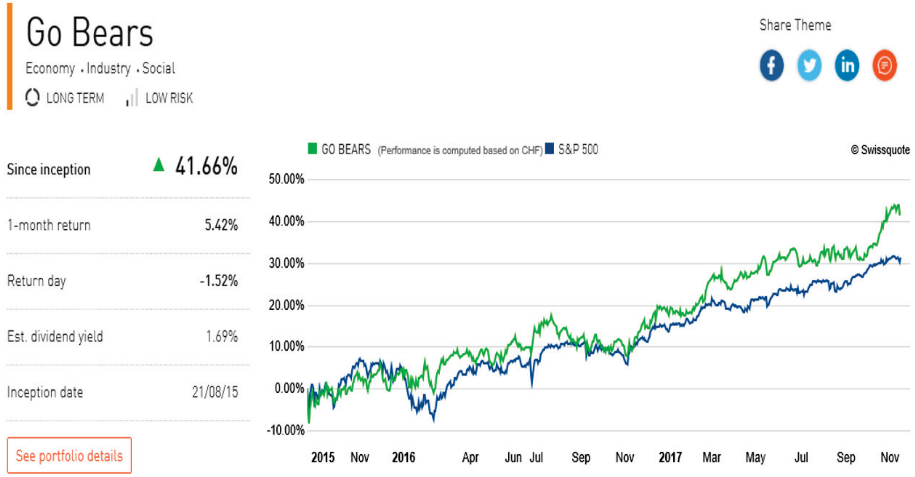

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