

# WEEKLY MARKET OUTLOOK

**4 - 10 December 2017**

## WEEKLY MARKET OUTLOOK - An Overview

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**Economics****Emerging Markets Gain from Central Bank's Low Rates**

Volatility has picked up in developed markets which has spread into emerging market assets. In 2017 investors have been on a triggers edge due to massive asset appreciation, periodically hawkish central bank and general calls of overvaluation in equity markets. In our view rising vol. is more likely a function of seasonality, was investors lock in solid returns before the years-end, rather than a structural shift causing a sustained correction.

2017 failed to produce the central bank tightening many analysts had anticipated as inflation (wage inflation particularly) failed to materialize. The result has been calls for 2018 to be the "new" year major central banks raise rates and reduce quantitative easing. Markets have pencilled in three 25bp hikes. Yet, based on official projections consistently missing, we would limit tightening expectations. Especially considering recent commentary from policy makers indicate they are puzzled by inflation dynamics. Last Thursdays, Euro zone CPI data missed expectations in, headline and core, highlights this point. Weak DM inflation will keep the pace of tightening subdued. The lack of higher yields will allow further risk taking and help flow into EM FX. In broad terms, EM will experience improving growth, but low inflation increasing their appeal.

Clearly the noise which is President Trump, will randomly shake investors' confidence including comments around NAFTA and Mexico. Yet we continue to advocate focus on the data rather than the spectacle. Mexico deceleration in inflation due to softer growth should remain the core driver of MXN pricing. In this regard the market is underestimating the probability of new Banxico head increasing interest rate in December. In his first interview as Governor of the Central Banks of Mexico Alejandro D-

iaz de Leon sounded hawkish indicating that the board should not assume "deflationary path will necessarily go as expected." It suggests that the board has taken a hawkish turn. The market is pricing roughly 15bp. But should the Fed hike 25bp as we expect, that will push Banxico into action rather than taking a wait and see approach. The market has once again placed an oversized risk premium to the sixth round of NAFTA negotiations and presidential race, considering past threat to manifest themselves into meaningful policy. We are constructive on MXN against USD and should outperform BRL.

## Economics

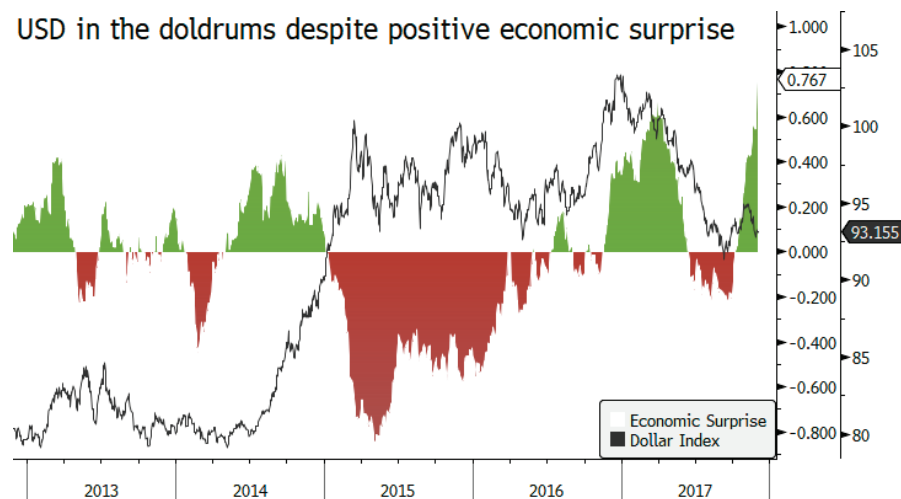
## Dollar Disappointment To Boost Euro

After starting last week on a firmer footing, the greenback reversed losses as investors scale down their long USD positions. After rising as much as 0.75% during the week, the dollar index reversed gains partially and returned at around the 93 threshold on Friday. A couple of month ago, everything was looking great for the greenback as Trump's tax reform finally started to move forward, the Fed started to reduce its giant balance sheet and signalled a rate hike in December, while economic indicators came in roughly in line with market expectations.

However, it looks like investors are still disappointed regarding developments with the US tax reform and the last batch of economic indicators. The economic agenda was quite busy last week. The first revision of the third quarter GDP was revised higher to 3.3% (q/q annualized), although the downward revision in personal consumption (2.3% vs 2.2%) killed off the enthusiasm. Still on the positive side, the last inflation figures were also in line. The Fed's favourite measure of inflation, the core personal consumption expenditure, remained steady at 1.4%/y/y in October, while the headline gauge edged lower to 1.6%/y/y from 1.7% in the previous month.

On the political side, the US tax reform is facing difficulties in the Senate. Even with a small republican majority in the upper chamber, Trump is struggling to get the required numbers of vote to pass the bill. Investors manifested their disappointment by trimming their long USD positions.

Looking at the positioning of speculators, data reported by the CFTC showed that non-commercial short USD positions have increased slightly over the last few weeks. More specifically, speculators remained bullish EUR/USD. We believe that there is plenty of room for further euro appreciation, especially against the US dollar. Positive economic developments together with a "tightening" of monetary policy conditions in the euro zone encourage investors to reallocate their capital on the other side of the Atlantic.



## Economics

## Bitcoin: Ready For New Highs

Bitcoin despite being declared dead hundreds of times since its creation in 2009 has finally reached 10'000 dollars. It definitely represents a lot of money but there are only going to 21 million bitcoins after all the Bitcoin will have been mined after 2020.

We believe the Bitcoin will continue to go up. There are around 38 millions of millionaires in the world. This means that not everyone will own a Bitcoin.

Now that the Bitcoin has this strong level, speculations regarding its futures are reaching a climax. Some see it at 1 million dollar like John McAfee who in a tweet declared that he was increasing its forecast on the digital currency. Some other like Jamie Dimon said "Bitcoin was a fraud", forgetting that JP Morgan was involved in the Libor scandal.

Others are also very suspicious like the 2014 Nobel Prize, Jean Tirole, who is concerned about the possible financial bubble that Bitcoin represents. Unfortunately we did not hear him yet about the massive debt from G10 countries. He then added that he is afraid that money is being privatised. We should recall that the Fed is a private bank that control the issuance of any dollar. Is there any reason to be afraid of the Fed in this case?

In our view, even though the Bitcoin technology is not perfect, very low transaction speed and high transactions fees, the digital currency has a strong advantage. I am not talking about the ability to store and transfer value but about the strong acceptance rate that makes it a strong investment over the future. Anyone can create a blockchain but there is almost no chance that it becomes mainstream as the Bitcoin.

On top of that Bitcoin is the entry door for accessing a lot of other crypto projects. Investing in ICO for example always requests to own Bitcoin and

many exchanges do not allow fiat currencies but Bitcoin.

Bitcoin will remain and we believe the price may reach very high levels in 2018. For example the Bitcoin market capitalization has recently exceeded the McDonald's market capitalization with \$165 billion versus \$134 billion. The future is definitely on the way.

### Bitcoin: It is just the beginning



## Themes Trading

## Bitcoin Active Certificate

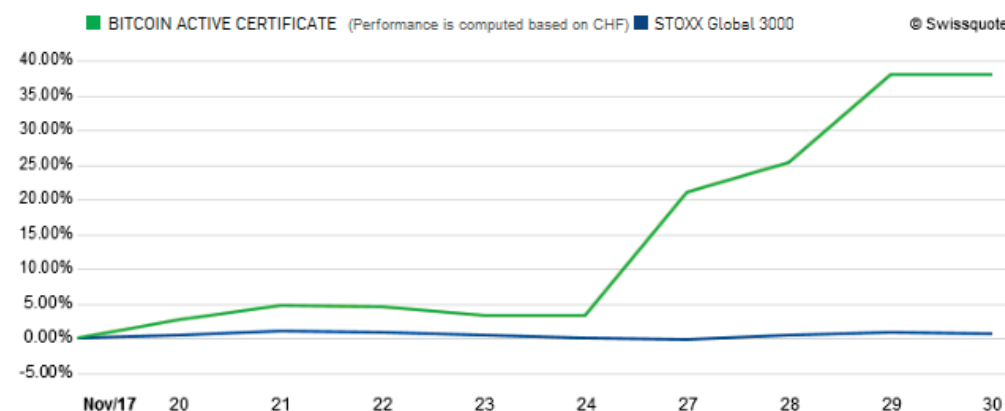
There is growing evidence that cryptocurrency - led by bitcoin - will revolutionize global monetary systems thanks to its ease of trading and rapidly expanding user network, as well as widespread acceptance of digital currencies as a form of exchange. Even critics have softened their attacks on the validity of cryptocurrencies as established individuals, financial institutions and governments increasingly integrate them into their business strategies.

Bitcoin has become the standard for decentralized digital currencies. It is the crypto-asset that has been around the longest, is most widely accepted, enjoys the highest daily trading volumes and has the highest market capitalization. Investors interested in entering the cryptocurrency markets view bitcoin as an essential investment. While the high returns on offer tempt speculators, many investors are understandably concerned by extreme volatility.

The aim of the Swissquote Active Bitcoin Certificate is to lower volatility while gaining a share of upside returns. Our strategy is focused on reducing volatility by increasing the amount of cash held during periods of uncertainty and downturns. This lower-volatility strategy is intended to decrease volatility to help create more consistent potential returns in the long run.

Bitcoin Active Certificate is available here at this address:

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



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