

WEEKLY MARKET OUTLOOK

11 - 17 December 2017

WEEKLY MARKET OUTLOOK - An Overview

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Economics**Bitcoin Is Moving Forward**

The CME Group (Chicago Mercantile Exchange) has finally announced a date for the launch of its much-awaited Bitcoin futures. CME's BTC futures contract will be listed on December 18, 2017. The CBOE, for its part, will launch its Bitcoin futures on December 10. In an attempt to boost trading activity, trading will be free through December. Both contracts will be cash settled.

It is hard to tell what would be the impact of the introduction of Bitcoin futures. One could argue it could increase downward pressures on the crypto currency, as it would enable short positioning. It is worth noticing that there are already some solutions that makes possible short positioning - such a lending Bitcoin on Bitfinex. The question is rather are investors willing to go short Bitcoin? We believe that investors' interest to take short BTC positions is quite limited for now.

A key point is that both CME and CBOE futures will be cash settled. Therefore, investors will not get real Bitcoin at contract's maturity. Bitcoin is the gateway to the crypto space (most alt-coins are quoted against BTC). If you want to invest in crypto assets you must have real Bitcoin, or ETH to some extent. Therefore, futures will be mostly used for speculation or hedging in period of downturn. Some argue it would decrease volatility as it provide and easy and liquid solution to swift between long and short. Given the rather illiquidity of the underlying, I believe it will increase the volatility rather than decreasing it, especially during rally and correction periods.

Substantial developments are currently in the pipeline for Bitcoin. Besides Lightning Network solution that is aiming at addressing Bitcoin's scalability issue, Rootstock (RSK) has made the headline recently. On December 4, RSK announced the launch of their beta mainnet version. Roughly, Rootstock is a decentralized smart contracts platform that is con-

connected to the Bitcoin blockchain via sidechain technology. Just like Ethereum, Rootstock will make use of a virtual machine, except that smart contracts are not deployed on the Bitcoin blockchain itself. Rootstock is aiming for 20 second block times on their blockchain, which could increase the number of transactions per second to 300 (and scalability to 1000 tps), compared to around 4 tps on Bitcoin. Bitcoin's price didn't spike after the announcement, which suggest that investors are waiting to see a broad adoption.

We remain positive on Bitcoin price developments, especially on the long-term, as the aforementioned innovations will increase the usefulness of Bitcoin. However, given the sharp rise of the last few weeks, a downside correction cannot be ruled out in the short-term.

Economics

Watch the Dots

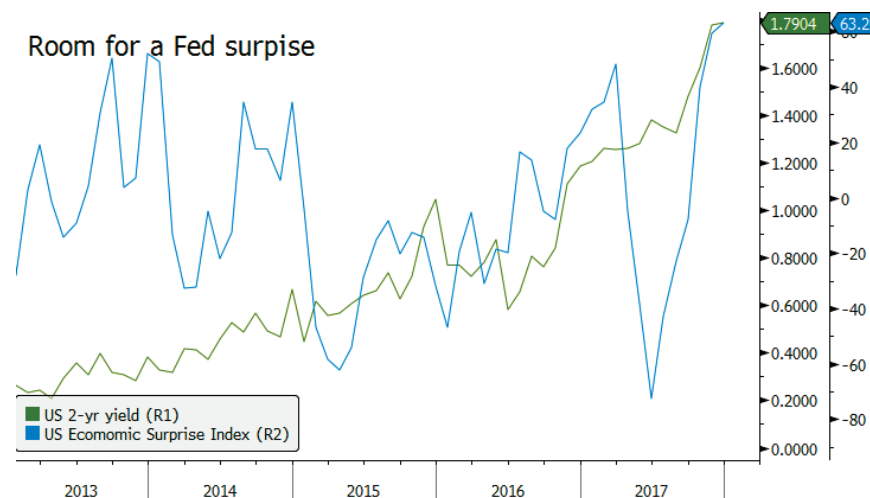
Fridays solid NFP print at 228k and wage growth 2.5% y/y, in our view, cements a FOMC 25bp rate hike this week. US economic activity continues to outpace the markets and Feds expectations. Recent Fed communication indicates that hike was coming if the data and financial backdrop remained supportive. This is clearly the case. The market has fully priced in the rate hike with fed fund futures at 98% for a 25bp raise. Current pricing suggests that the market focus will be on the Committee's economic and rates projection.

At the November FOMC meeting, the committee upgraded assessment of economic activity to "solid". Since then data has further surprised to the upside. 3Q GDP data, which was already strong, was upgraded. Following payrolls sharp contraction post-hurricane unemployment rate has fallen to 4.1% well below the fed own median estimate of 4.6%. Inflation data was marginally higher following trend developing in the 2H. Finally, consumer spending, income and production all indicate stronger upwards momentum.

If the US needed any more stimulus the increased likelihood for tax reform has risen significantly. The corporate tax cut is likely have the most immediate and positive effect on economic activity estimated adding 0.5% to GDP in 2018. We suspect it is probable that a majority of FOMC participants will increase their GDP forecasts for 2017 and 2018. However, shifting the "dots" from 3 to 4 would be seen as an extremely hawkish signal. We could get a few of the hawkish members to add hike in 2018 but this would not shift the median view. Our base scenario is marginally on three hike but we are assigning a high probability that an additional hike is added on either in end 2018 or early 2019. Should we see another dot show up the repricing would clearly benefit the USD, which remains on the softer side versus G10 currencies.

Our favorite trade would be given a shift in front end yields would be long USDCHF, which is highly rate sensitive considering the SNB unlikely to move in 2018.

From an administration standpoint, this will be Chair Yellen's last meeting and press conference. However, we don't see that as meaningfully shifting the course of events (ie no event risk). As with past transitions, Yellen is unlikely to disrupt the Fed current path prior to a handover to Jerome Powell.



Economics**Australia: RBA Held Rates Unchanged.**

The Reserve Bank of Australia has maintained the Cash Rate Target at 1.50% for some time. It is now the 16th consecutive months in a row that the rates is held at this level. It has also been since 2010 that the rates have not been increased.

At this rate level, we cannot consider that the housing market, one source of issue, will be soon cool off. Housing prices have tripled since 2000 and this has largely weighed down on consumption growth way below the inflation rate. On top of that markets have strong expectations that rates will remain on hold until at least 2019. The tone of the monetary policy statement is slightly pessimistic with a downgrade of the outlook on growth. The RBA does not also see a strong increase in inflation next year.

Economic conditions definitely look mixed. The low inflation and the low wages growth are then preventing any rate hike in a near future despite forecasts from the Australian central bank. The RBA Governor mentioned that debt levels are high. Is this possible that this is actually the main reason for holding rates so low? We could hardly believe it. The era of free money has created and is still underpinning bubbles in all asset-class. Raising rates may trigger a massive bubble burst. We note that the Australian debt levels went from 15% to 45% of the GDP since 2009 (much sustainable than most of the G10 countries).

The Aussie is getting lower against the greenback and will likely continue to do so. The RBA will likely follow major central banks and not lead the move of monetary policy normalization. This is why we believe that the Aussie has some more downside room within the medium-term. Right now the AUD/USD is trading towards 0.75 aussie for one single dollar note. Over the next 6 months our target is 0.70 AUD for one dollar.

Themes Trading

Bitcoin Active Certificate

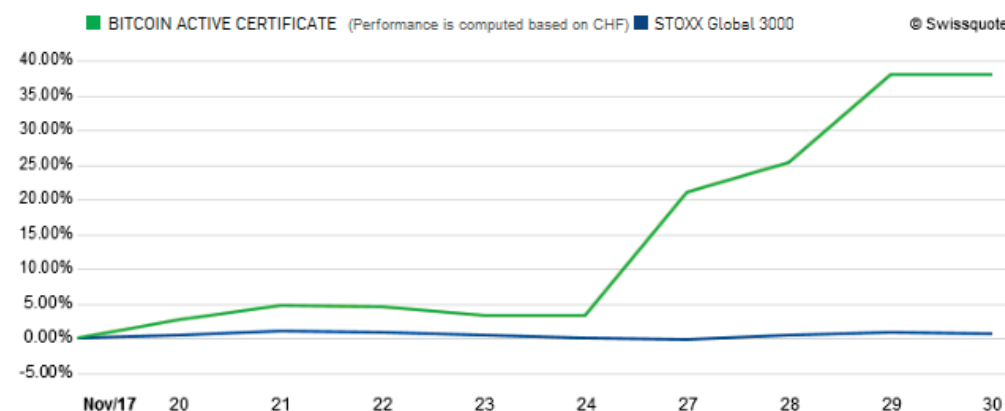
There is growing evidence that cryptocurrency - led by bitcoin - will revolutionize global monetary systems thanks to its ease of trading and rapidly expanding user network, as well as widespread acceptance of digital currencies as a form of exchange. Even critics have softened their attacks on the validity 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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