WEEKLY MARKET OUTLOOK

18 - 24 December 2017

Swissquote Bank SA | Ch. de la Crétaux 33, CP 319 | CH-1196 Gland | Switzerland
Tel +41 22 999 94 11 | Fax +41 22 999 94 12 | forex.analysis@swissquote.ch | www.swissquote.com/fx

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WEEKLY MARKET OUTLOOK - An Overview

Economics

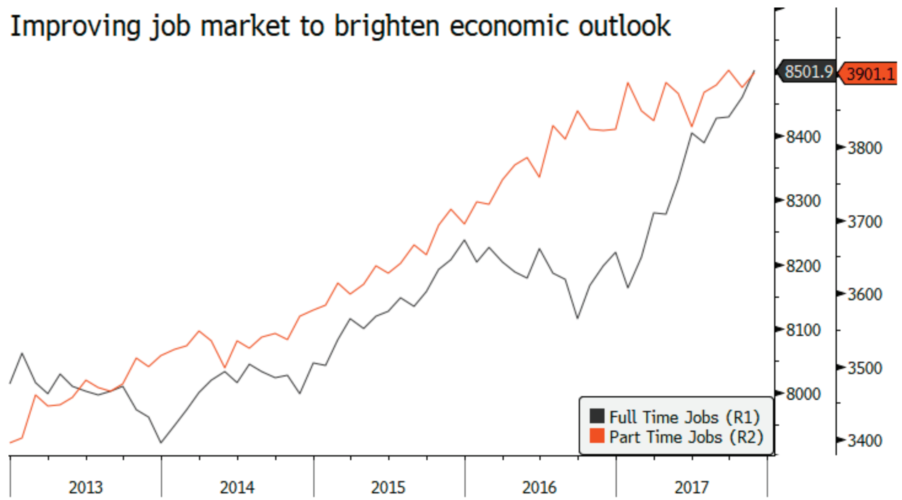
Solid Aussie Job Report Could Be Early Sign of Recovery

On Friday, the Australian dollar extended gains for the fifth consecutive days after the Australian Bureau of Statistics (ABS) released a better-than-expected November jobs report. Although the unemployment rate held steady at 5.4%, employment increased by 61,600 (seasonally adjusted), beating widely median forecast of 19,000. Moreover, the good news is that most of those news jobs are full time jobs (+41,900). Part time jobs increased by 19,700. Finally, the unemployment rate held steady for the simple reason that the participation jumped to 65.5% from 65.2% in the previous month.

This is definitely of good omen for the Aussie economy, as it would translate, over time, into firmer price pressures, which could only please the RBA and help in its mission to lift inflation within 2%-3% target range (currently at 1.8%y/y in the third quarter). This is also of good omen for the fourth quarter GDP. In the third one, the Australian economy grew 2.8%y/y, missing estimates of 3.0%.

Last week, the Aussie has gained more 2.50% against the greenback. AUD/USD is currently testing the $0.77 resistance area (high from 7th November and psychological threshold). Beside the positive push from rising commodity prices, the interest differential between US 2y yield and Australia ones has started to widen slightly since the beginning of the month increases incentives to go long Aussie Looking at non-commercial positioning, it seems that traders are still quite optimistic on the Aussie outlook. Net-long positions currently represents 29% of total open interest.

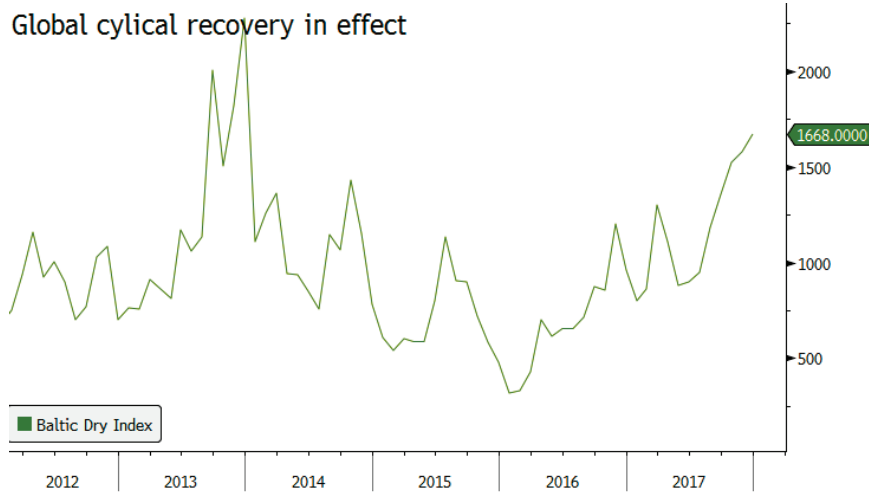
AUD/USD is struggling to break the $0.77 resistance to the upside, which suggests that traders are still waiting on developments on the US tax bill debates. After all, weekends are always subject to political news.



Economics

EM Growth Will Draw Investors

A gradual moving Fed and balanced global growth outlook will further prompt FX investors to buy higher yielding EM currencies. With expectations for the USD low as greenback is expensive looking at real yields and volatility low, carry trades will dominate. Yet its not just yields that is driving investors but real growth dynamics that make EM rally sustainable.



Emerging markets have continued to grow faster than developed markets, with higher returns in 2017. The trend will likely continue in 2018. GDP growth in emerging markets for 2017 is expected to be 4.5%—its highest point since 2015—versus 2.10% for developed markets. Protectionism was a buzzword for early 2017, as Trump quickly withdrew from the TPP and challenged NAFTA. The rhetoric quickly died down, however, and global trade picked up pace. The Baltic Dry Index came off its lows, hitting a two-year high on rising demand. The global growth forecast increased to 3.6% for 2018, as the outlook for developed markets has been upgraded. But the story for EM in 2018 will be the further increase in international trading. Following a trend, China has reached 15 free-trade agreements with 23 countries and regions.

Protectionism will continue to take room in the headlines but real action will be limited, even out of President Trump administration. Inter-EM trade will provide some protection against growth deceleration, a stronger USD and policy uncertainty in the US, EU and Japan.

The CHF will be the funding currency of choice moving forward. The SNB held policy unchanged as expected, preserved its strong forward guidance on an overvalued currency, while outlook remained "fragile" and made not adjustments to longer-term inflation forecasts. The SNB is unlikely to increase rates before 2019 and CHF keep its role as the global funding currency.

Economics

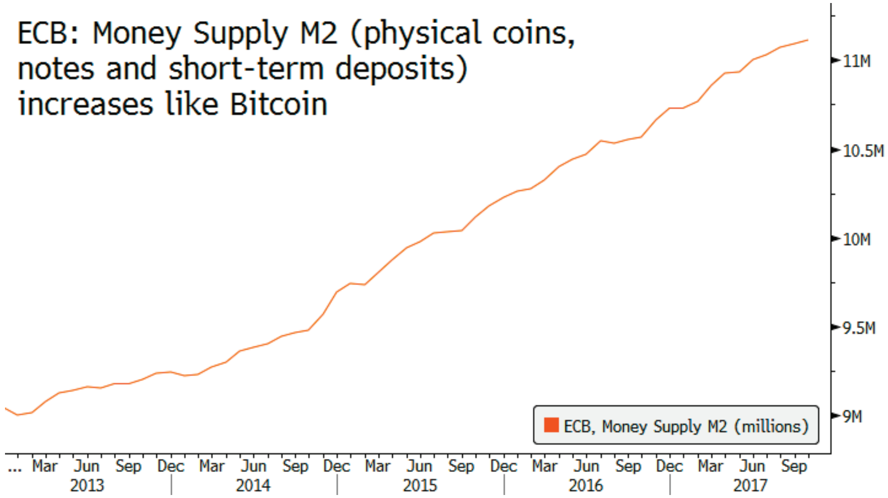
ECB Meeting: Draghi Is Buying Time

The ECB meeting did not bring anything new on the table. The European Central Bank has held its rates unchanged and increased its forecasts for growth for the next years. For 2018, they believe growth should head towards 2.3% instead of 1.8% and 1.9% from 1.7% in 2019. Officials also consider that the inflation won't reach the target by 2020. According to our view, this reveals the underlying ECB strategy. In order words, this is what we call "Buying Time" to actually let inflation run.

It is without surprise that ECB members renewed their commitment regarding the asset purchase program that should run until next September. The amount added on the overall money supply each month is clearly massive and growth is exponential. Mario Draghi was very happy of "the strong pace of economic expansion" as well as the usual "improvement in the growth outlook". Unfortunately we did not have a word concerning the cost of the growth. The truth is that one euro of growth costs way more than what it brings.

As for the Fed, the key for the ECB is to let inflation run without raising rates in order to kill the massive debt accumulated. By stating that the inflation is too low, the ECB is selling a dovish message that markets are too happy to buy as assets never stops to increase. And then the ECB is getting time hoping that inflation goes higher.

Currency-wise, the EURUSD is going to finish the year very positively slightly below 1.20 dollar for one single dollar note. Markets have been disappointed by the Fed and markets are surprisingly very patient with the ECB. We believe this trend is likely going to continue in 2018 as markets are clearly expecting way more from the US central bank.



Themes Trading

Bitcoin Active Certificate

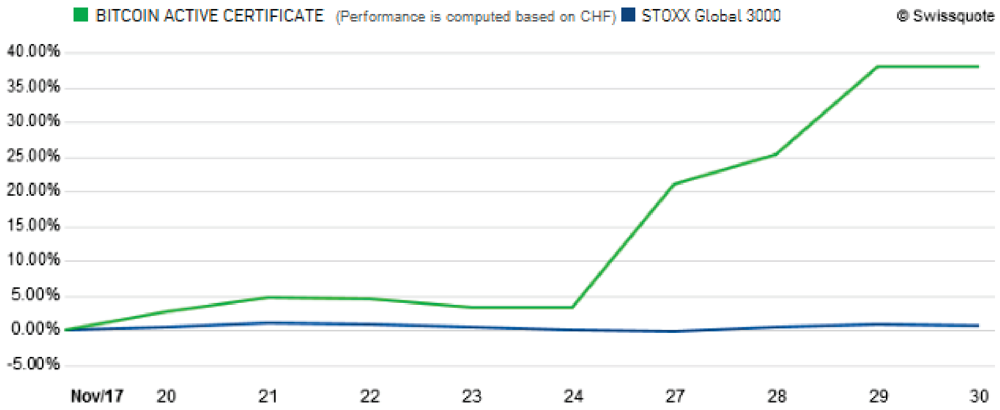
There is growing evidence that cryptocurrency - led by bitcoin - will revolutionize global monetary systems thanks to its ease of trading and rapidly expanding user network, as well as widespread acceptance of digital currencies as a form of exchange. Even critics have softened their attacks on the validity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