

# WEEKLY MARKET OUTLOOK

15 - 21 January 2017

## WEEKLY MARKET OUTLOOK - An Overview

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## Economics

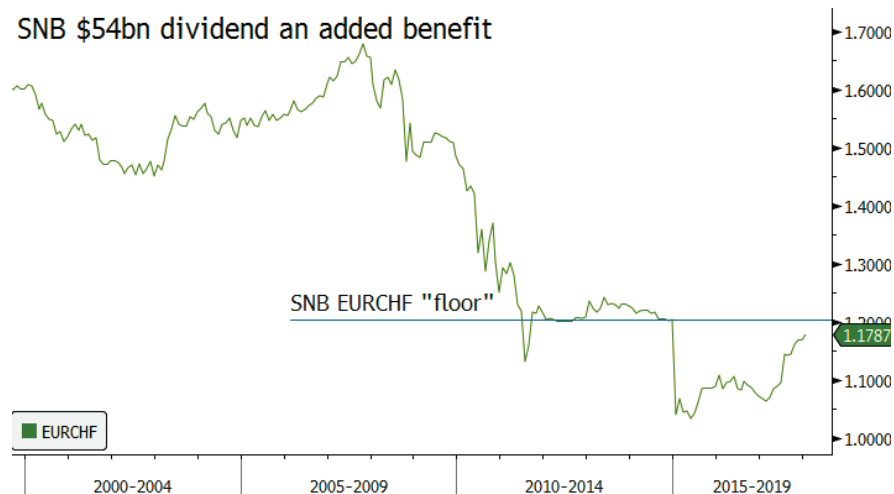
## Conditions Idea For Weak CHF

General improvement in the Swiss economy failed to equate into solid consumer spending as Switzerland retails sector contracted -0.2% y/y in November (marginal improvement from Oct -2.6% fall) according to data released last week. On a monthly basis retails sales increased 1.3% yet volatile read was largely ignored. Clearly the weaker franc and improved economy failed stimulate Swiss consumers, who have seen their purchasing power (domestically and internationally) steadily decrease. The fact is that Swiss consumer are increasingly shopping abroad. Despite the acceleration in GDP growth we expected in 2018 consumer spending growth will remain sluggish. Consumer and corporate plus investment rotation is likely to generate significant outflow from CHF.

Europe and the Euro remains the destination of choice for these asset reallocation. While the general outlook for Switzerland remain dim, conditions have considerably improved for Europe. Data from Germany indicates a strong finish with industrial output surging and strong business sentiment.

Divergence outlook has set up further appreciated in EURCHF. The regional pair has now engaged in a solid uptrend reaching the highest level since the floor was removed in January 2015. While the easy money was missed with many investors wrongly focused on the European political risk, there is still further upside. Despite Switzerland tight labor markets, we don't expect lower slack to push inflation consistently higher. Our based scenarios is for subdued growth and inflation (weaker-than-expected Dec CPI) to meander higher. The uncertainty economic performance will provide the SNB with plenty cover to remain dovish. In fact any shift in language, prior to the ECB ending emergence policy measure will like derails CHF current bearish trend. A risk the SNB is unwilling to take.

With the SNB unlikely to reduce their defense of the Franc or raise interest rate from less negative, the franc is the ideal funding currency. With the outlook for global conditions remaining bright, worries of EU fragmentation reduced and risk appetite strong, EURCHF will continue to trend higher.



## Economics

## UE Overview: German Coalition And ECB Hawkish Stance

European market has shown robust results for the beginning of the year. When looking back at economic reports of this week, we are very comfortable with the idea that the EU market is there when it comes to core economic data. Again, European as well as individual countries were able to deliver strong results when it comes to Retail sales and Industrial production along with French and Spanish CPIs that remained in line with expectations. This week, we will be looking forward to see if Y/Y EU CPI final data of January 17th 2018 will remain stable (Advanced: CPI: 1.40% and core: 0.90%).

As a follow-up to January 10th 2018 strong EUR/USD pair depreciation (surpassing the 1.20 value), the market was waiting for two relevant events that could have a significant impact on the European market, and specifically the German eagerly-awaited coalition agreement since Merkel's re-election as well as the ECB Account Monetary Policy Meeting:

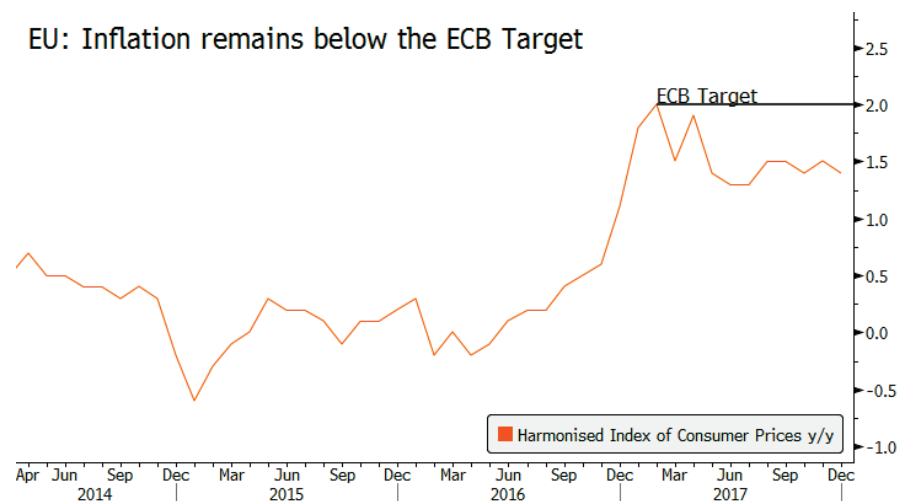
- German coalition among Merkel's CDU/CSU party and the Social Democratic Party finally confirmed an agreement on January 12th 2018 and rumors even mention Germany's contributions towards EU budget and also the support of "economic, social and structural" funds.

- The ECB Account of Monetary Policy communication turned out to be unexpected by the market that now predicts a reduced ECB quantitative easing program period and most likely a potential rate hike for 2018. As inflation accelerates, we stay put for January 31st 2018 Advanced CPI figures and stay confident that growth will further persist.

As a consequence, we have seen a EUR/USD spike up to the 1.20 range, confirming the idea that investors are on their way to invest further in the Euro region, supporting our EUR/USD appreciation scenario for 2019.

We confirm our view that currencies are more sensitive to specific short-term events and are expecting the European equity market to follow that upside trend in 2018.

### EU: Inflation remains below the ECB Target



**Economics****Oils Upside Uncertain**

The first casualty of 2018 forecasting might be crude predictions. With a vast majority of analysts calling for a range-bound (our desk call) or lower crude oil prices the commodity continues to climb. Brent oil has stabilized after climbing above \$70 bbl (WTI \$65) for the first time in three years. The harsh US winter (increasing demand and forcing production operations offline) has driven US crude stockpiles to sequential weekly declines, further supporting reduction of global surplus glut. U.S. crude stockpiles dropped to 419.5 million barrels last week, lowest level since August 2015, according to the EIA. In addition the equilibrium rebalancing has been supported by OPEC and allies decision to hold productions limits in place.

However, the outlook for higher prices is mixed as US production growth, specifically in shale oil could limit upside. In the past, higher oil prices have been quickly met with US shale companies ramping up production to extreme levels. Increasing production in order to cash-in on the apparently short-term price bonanza. Yet, shale executives have gained a bit of maturity after past drill-at-all-costs mentality, has come at the expense of profit margins. It has been reported that in an industry conference in Miami recently, executives reiterated their strategy of conservatism, "shale producers are largely not looking to use \$60+ oil in their budgets and spoke more proactively about debt pay down, corporate returns and returning cash to shareholders."

We are not so trusting of companies hurting for revenue and broad forecast of lower average prices. We suspect that volatility in prices will quickly drive shales producers to abandon restraint, triggering a wave of drilling (efforts to catch elevated priced before the opportunity is lost), sending global prices lower. While commodity sensitive currencies have lagged the oil price we would be caution especially with the CAD.

CAD remains haunted by negative developments over NAFTA and increasing probability that the Bank of Canada doesn't not increase interest rate next week.

## Themes Trading

## Bitcoin Active Certificate

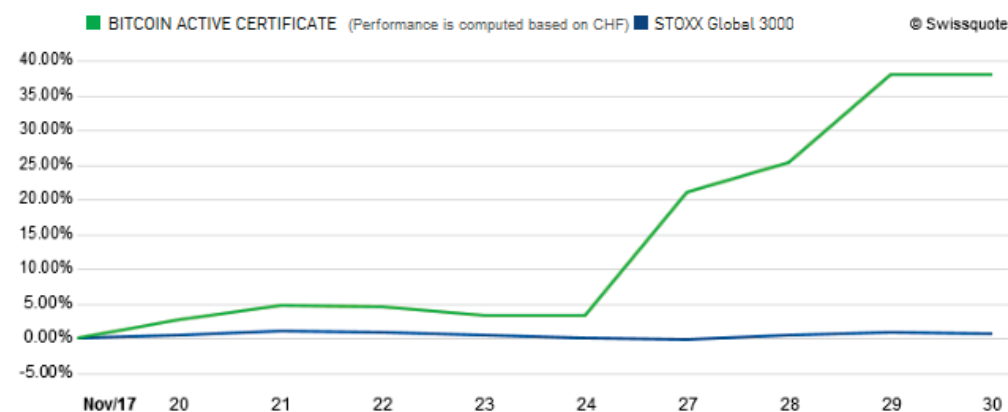
There is growing evidence that cryptocurrency - led by bitcoin - will revolutionize global monetary systems thanks to its ease of trading and rapidly expanding user network, as well as widespread acceptance of digital currencies as a form of exchange. Even critics have softened their attacks on the validity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