WEEKLY MARKET OUTLOOK

22 - 28 January 2017

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WEEKLY MARKET OUTLOOK - An Overview

Economics

Expect A Stronger China

China's GDP growth has steadied at a higher than expected rate of 6.8% y/y in 4Q. This positive read indicates that for most of 2017 the Chinese economy was moving at quicker pace than most analyst forecasted. The unexpected improvement in growth momentum was the result of net exports and solid real-estate markets that held up to tighter financial conditions. Yet, overall, the solid underlying data highlights our expectation that 2018 growth will further outpace predictions. Consumption's contribution continued to be the main part in aggregate demand, though it fell marginally to 4.1% from 4.3% in 2016. Industrial production growth picked up to 6.5% from 6.0% in 2016, further highlighting the shift to the "new economy". Finally, export contribution surged to an approximately 0.6% in 2017 from a weak -0.6% in 2016. Exports jump suggests not only the healthy state of Chinese economy but global demand as a whole. Our 2018 real GDP growth China forecast is an elevated 6.8%, expecting other analysts to steadily increase predictions through-out the year. The primary risk in our view is the pace of cooling in the white-hot property market. The government's efforts to tighten financial conditions has not significantly hurt the property sector. But there is the real risk that tougher actions directed at real-estate and shadow "lending" will halt property investment growth.

USDCNY broke below 6.40 on Friday as the PBoC set the stronger CNY fix for the fourth day in a row. The PBoC has attempted to slow the appreciation and local tightening by injecting CNY590 billion this week. Some indicated is that domestic business are paying annual taxes and banks have put aside a part of the expected payment. Yet in broader terms sentiment regarding China, and CNY, has notably shifting since mid-2017 illustrated by rising share of foreign investors in Chinese bonds and stocks. The positive environment has allowed for the balancing of net capital flows. Data also indicates that holding of US treasuries have declined by $30bn from December high. Baring a global shock to risk appetite and consider our positive view on China, risk to USDCNY remain to the downside.

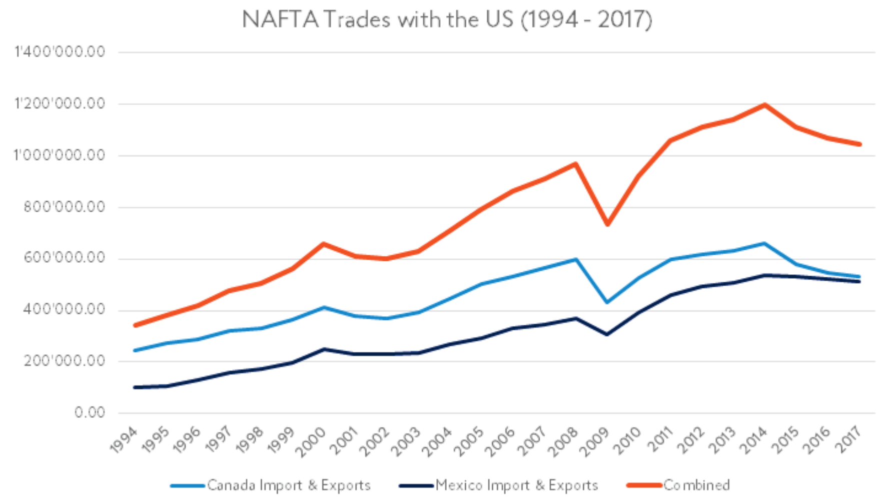
Economics

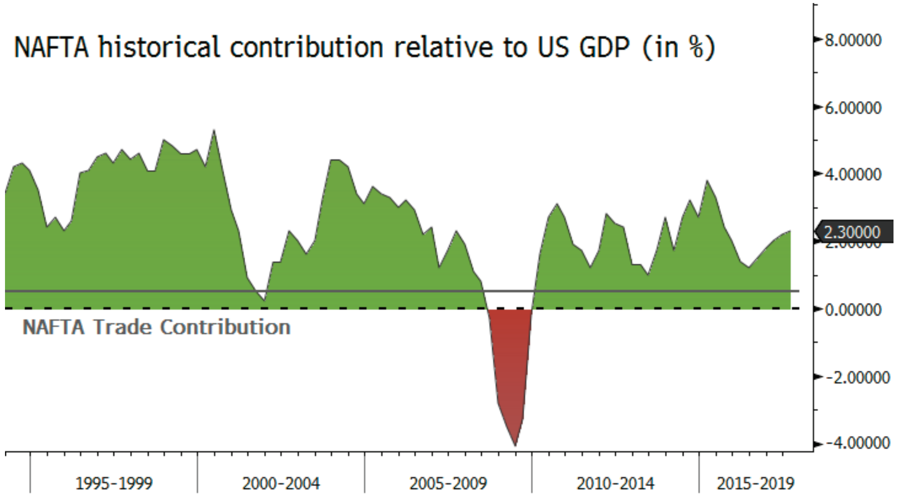
Is NAFTA Really Bad For The US ?

Signed by the United States, Canada and Mexico in order to form a free trilateral trade bloc agreement in 1994, the North American Free Trade Agreement (NAFTA) is in serious danger following Trump's reassessment of the treaty, and has particularly strong undesirable side-effects for Canada and Mexico who strongly benefited from it. Key facts to mention are for instance: 1) Trades have quadrupled between all tree states; 2) Prices between partners are much more attractive (tariffs removal); 3) Millions of jobs were created; 4) NAFTA allows national industries to specialize on products and services where it owns a noticeable comparative advantage; Foreign Direct Investment is increased; 5) Government Spending are reduced.

Since its adoption 24 years ago, NAFTA has allowed all three member economies to significantly improve their competitive advantage towards economic efficiency. Between 1994 up to 2015, trades have increased from USD 343 billion to up to USD 1.045 trillion in 2017 according to the United States Census Bureau. According to the Congressional Research Service (CRS) NAFTA report published on May 24th 2017, Canada and Mexico represented both combined (Canada being first and Mexico second market for the US) 34% of US total exports and 26% of total imports in 2016.

If NAFTA agreements are terminated, all three countries will return to World Trade Organization tariff rules and would be averaged (all industries included) as follows: United States: 3.50%; Canada: 4.20%; Mexico: 7.10%. In any case, the end effects would be price peaking, company profits would be drastically lower and many jobs would be cut. As Stephen Poloz mentioned last Wednesday during the BoC Monetary Policy Meeting, it remains difficult to quantify NAFTA's interruption on the economy, as it varies by sectors and firms. For these reasons, we think that the stake is too high to see NAFTA's agreement perish in two days.





Economics

AUD Prints New Highs Against Unloved Greenback

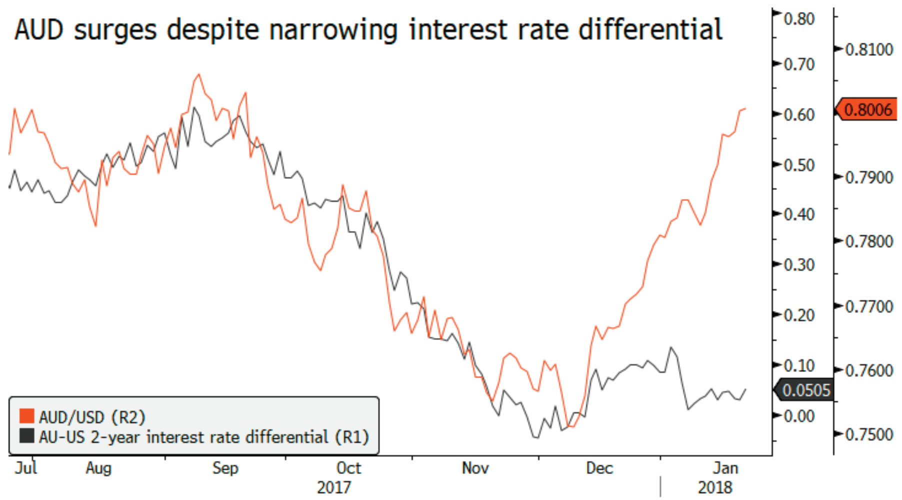
Just like most G10 currencies, the Australia dollar has benefited extensively from the persistent weakness in the US dollar. Over the past week, market participants focused their attention on Trump comments and fears about an US government shutdown. Even though AUD/USD spent most of the week trading range bound, the pair printed a 4-month high on Friday as it hit 0.8039. Even the disappointing job report released last Thursday did not led investors to drop the Australian currency. The December unemployment rate rose slightly to 5.5% from 5.4% in the previous month, while the participation rate inched up to 65.7%. The economy created 15.1k new full time jobs (versus 43.6k in January) and 19.5k part time ones (versus 20k a month earlier).

Over the last few months, the US dollar weakness has been the main driver in the FX market and this in spite of rising interest rates in the US. The Aussie was also a top performer amongst the G10 complex as it appreciated against all G10 currencies, with the exception of the New Zealand dollar and the Norwegian krone (+1.25% and +0.85% versus the AUD since December 3rd, respectively). This positive momentum could be explained by the recovery in the country's interest rates. Indeed, over the last month, the entire yield curve has shifted higher with the 2-year sovereign yield rising 40bps to 2.10%, while on the longer end of the curve the 10-year one climbed 37bps to 2.83%. But as mentioned above, interest rates have been rising across the board.

The 2-year interest rate differential between Australian and US has been quite stable over the last few weeks, confirming that the appreciation of the Aussie is rather due to the "failing out" between investors and the greenback. There is little chance this situation change in the short-term as market participants remain sceptical that Trump will deliver what was announced, while the battle is raging in the Congress.

There is just too many uncertainties for investors to go long USD, even though the underlying economic indicators are all on green.

AUD/USD is on its way to test September's high at 0.8125. Another key resistance can be found at 0.8295 (high from January 2015). The momentum is still positive for Aussie; however, the wind can quickly turn around, especially if investors' confidence in Trump starts to build.



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

Since inception	▲ 52.91%
1-month return	-32.61%
Return day	-0.66%
Est. dividend yield	0.00%
Inception date	17/11/17

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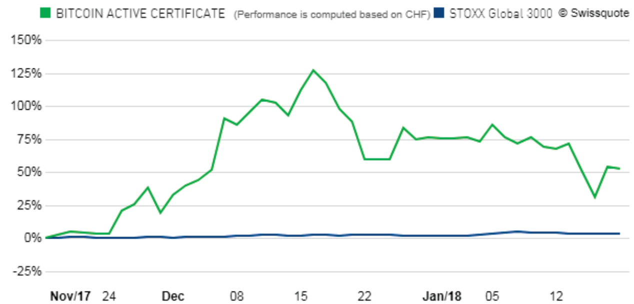

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