WEEKLY MARKET OUTLOOK

19 - 25 March 2018

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WEEKLY MARKET OUTLOOK - An Overview

Economics

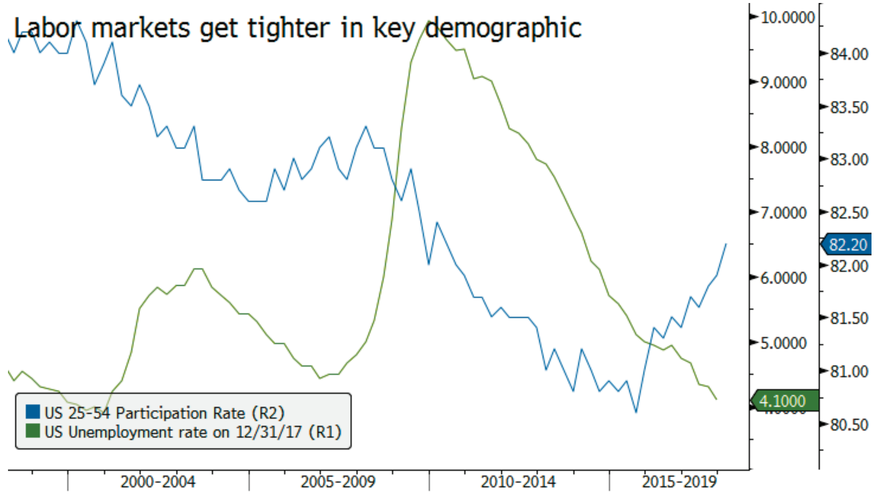
All Eyes On FOMC Meeting

This week Federal Reserve Board Chairman Powell will chair his first FOMC meeting, with likely outcome increasing its target range for the Fed Funds by 25 basis points. This will be the sixth hike in current cycle and will shift the target corridor upwards to between 1.50% and 1.75%. This move has been widely telegraphed, so participants will likely be interested in projections from FOMC members. Any shifting the "dots" will have a real effect on asset pricing but limited effect on USD.

There is increased evidence for the Fed to shift "dots" projections from three to four 25bp hikes in 2018. Incoming economic data indicates there has been some softening in economic outlook in 1Q 18 (due to prior interest rate tightening). Real GDP growth is tracking between 1.8 and 2.0% annual. Monthly retail sales contracted -0.1% m/m while February housing starts, an early indicator for tightening financial conditions, indicated a -7.0% fall. These are clear warning signs from the US households. However, this data was collected prior to US President Trump Tax Reform (fiscal stimulus).

In Fed Chairs Powell's hawkish testimony before Congress, he provided a significantly upgrade in growth forecasts. This came after the FOMC published their December economic projections. Powell indicated that prior policy was focused on pushing inflation back toward their 2% target but moving forward emphasis must be on keeping the economy from overheating. Even well known dove Governor Brainard is now in agreement that downside risks, visible only two years ago had faded. Moving forward with cautions was less critical.

Fear of overheat might be squarely focused on tightening labor markets. Stable / low participation rate in past years had given Fed members a level of comfort. Providing a high level of slack in the economy. Yet, recent data indicates that participation of person aged 25-54 (generally most discouraged demographic) has increase significantly. In the past, this disenfranchised segment had ensured that wage growth remained weak. With the Fed expecting unemployment for fall to 3.9% by the end of 2018, the risk of overheating has become high. Fed "dots" shifting upwards is a high probably.



Economics

Crypto Market In The Doldrums

The entire crypto market has remained under constant pressure for the last couple of months. Yesterday, the total market capitalisation fell to a 4-week low as it reached $313 billion. Since the massive sell-off of mid-January, the market sentiment is in the doldrums and it seems that the situation will never improve. Is it because of regulatoion? Google banning crypto ads? Mt. Gox trustee situation? This is most likely a bit of all those factors.

Last year ended on an upbeat note as investors across the globe rushed into cryptocurrencies. Investors failed to perform any due diligence and invested massively in cryptocurrencies, as they feared of “missing out” the trade of the decade. Unfortunately, the future of crypto is still quite foggy and the latest developments did not give us a clearer picture. The honeymoon is over and it is time to face reality: many coins will die this year. However, coins are not all equal as the factors mentioned above will impact them differently.

In my opinion, the regulatory factor is the least significant right now as many regulators (the SEC/CFTC, Korea, Japan, etc) have clearly recognised that the blockchain technology would thrive in the near future and revolutionise many business area. In short, it is already priced in. However, the future of pure payment tokens, such as Bitcoin, Litecoin or Dash, is less assured as their future depends heavily on central banks' decisions. Indeed, payment tokens are direct competitors of central banks, and the odds are good that the latter will not give up their right to print money and control money supply.

Regarding the Mt. Gox trustee case, there is no doubt that it keeps investors on their toes. Mr. Kobayashi sold over $300 million in Bitcoin and still have 168,177 Bitcoin (roughly $530mn as of today) and 168,177 Bitcoin (roughly $530mn as of today) and 168,177 Bitcoin Cash to unload. Given the relatively thin liquidity of the market (compared to traditional markets), the sale of these Bitcoin could trigger another sell-off or at least prevent the prices to rise again. There still a lot of uncertainty as to how, and when, Mr. Kobayashi will operate in the future.

Finally, many companies have finally realised that those blockchain start-ups were actually coming for their business. Therefore, they are trying to buy time by slowing down the broad adoption of the technology, in the hope that they could catch up.

So, what investors should do? First, I think it would be smart to invest in the long-term rather than going for the short-term gains. There is no doubt in my mind that blockchain will be broadly adopted in the near future. However, this won't be a homogeneous phenomenon. More specifically, investing in pure payment token is a much more speculative bet, as their future depends heavily on central bank and regulators decisions. Thus, the future of pure payment token is quite uncertain, and therefore trading them is more speculative. On the other hand, utility token, such as ETH, OMG, NEO, etc, have a brighter future in my opinion, as they are intended to provide access digitally to an application or service.

Economics

China's Patience Might Be Reaching Its Limits

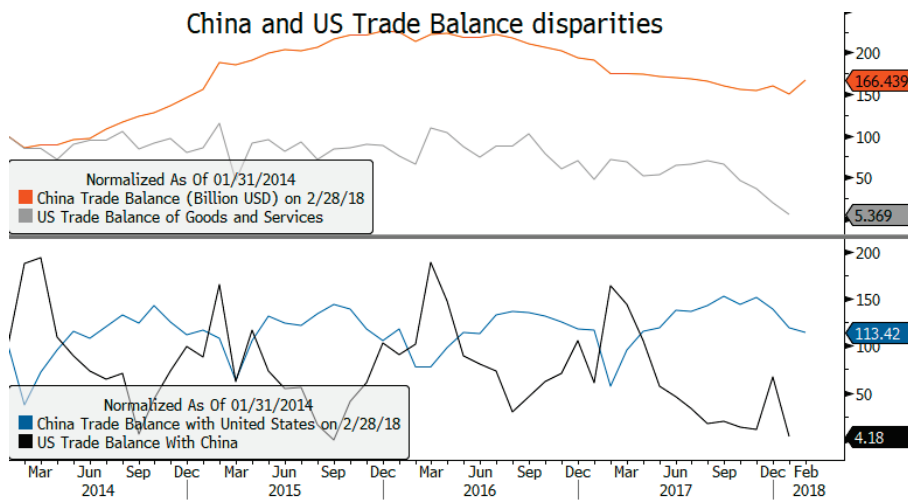
As trade tensions between China and the US intensify, multiple rumors are emerging as to the way Chinese government would potentially retaliate. In any case, the outcome is to be a loss for all parties.

Focusing its efforts on implementing trade sanctions in steel, aluminum and on the automotive industry to a certain extent, the US mainly looked up for countries again which trade deficits are highest. Trade partners such as Germany, Mexico, Japan, and China remain the main targets. Owning its largest trade deficit from China, accounting for USD 375 billion in 2017, or 47% of total US trade deficit (US total trade deficit in 2017: USD -796 billion) and is already reaching USD -36 billion for the only month of January 2018. From China side, exports in the US amount for less than 3% of its GDP.

Accordingly, Chinese government remained rather patient for now, but is expected to retaliate fast if further penalties are initiated (e.g. travel visas blockade, restrictions on Chinese-initiated corporate investments in the US). On Chinese side, multiple countermeasures are deepened and concern the boycott of US soya beans that would be bought from Brazil instead, the purchase of France-based Airbus airplanes instead of Boeing, reinforcement of barriers for approvals of US companies activities on Chinese soil or US treasuries holding reduction (currently estimated at USD 1.17 trillion), a move that could strongly disorder the global market.

For now, Chinese growth continues its expansion, though industrial overcapacity, corporate and private debt and inflation remain hurdles in the near term. People's Bank of China new governor will be officially named on March 19th 2018 and is expected to become Liu He, Xi's current chief economic adviser.

USD/CNY is weakening since the beginning of the year, valued at 6.34 (-2.44% YTD) and expected to strengthen along 6.45 in the next two months.



Themes Trading

Sustainable Energy

Why ? Sustainable energy is nothing new; it has been around for a long time now, fuelled by growing investment in the technologies behind solar panels, wind turbines and waste-to-energy. Global investment in clean energy totaled $333.5 billion in 2017, up 3% from the previous year. Against the backdrop of a consolidation in the wind energy sector, resulting in acute price competition, the solar sector has the strongest momentum, attracting almost half of all investment. Unsurprisingly, China leads the way in terms of total investment ($132.6 billion), followed by the USA ($56.9 billion) and Europe as a whole ($57.4 billion).

Clean energy is slowly taking over from fossil fuels as it becomes more competitive. Although we are not quite there yet, it is only a matter of time. According to the International Renewable Energy Agency (IRENA), clean energy of all types will be competitive with fossil fuels by 2020.

What ? This theme focuses on sustainable energy and provides exposure to companies operating in the clean energy sector, which includes solar, wind, geothermal, hydroelectric and waste-to-energy producers, as well as wind turbine and solar module manufacturers. It also provides global exposure, with companies selected from across the globe.

Takeaways: Do you think it is time for the world to switch paradigm and embrace a greener way of life to tame climate change? If so, this theme is for you.

Sustainable Energy is available for trading at :

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

Since inception	▲ 7.92%
1-month return	4.29%
Return day	0.43%
Est. dividend yield	0.00%
Inception date	12/02/18

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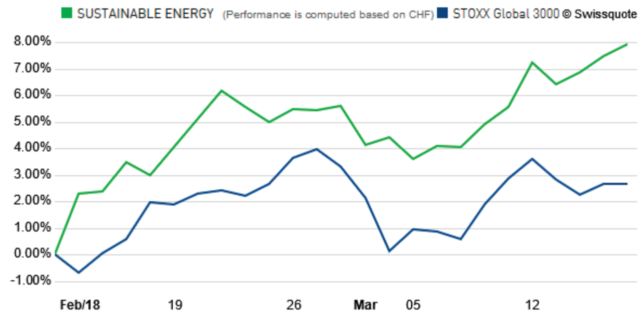

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