SWISSQUOTE

WEEKLY MARKET OUTLOOK

16 - 22 April 2018

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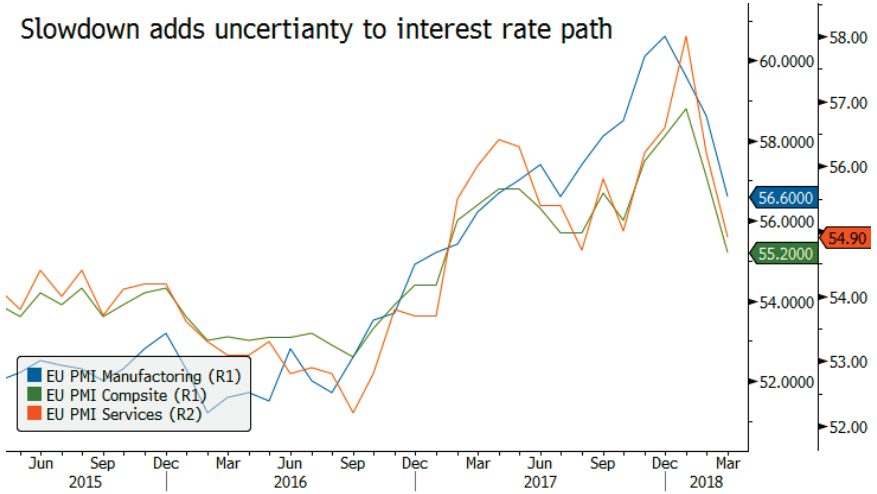
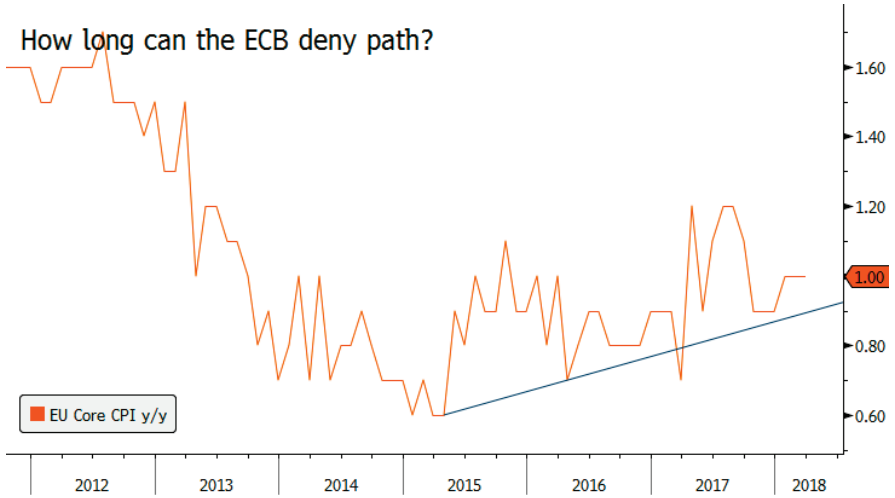
WEEKLY MARKET OUTLOOK - An Overview

Economics

ECB Treads Carefully

The ECB will define FX direction over the Fed and US interest rates. So when will the European Central Bank tighten money? Austrian Ewald Nowotny, one of its governors, said yesterday to Reuters that the ECB should get on with it now: hike interest rates and stop buying bonds. The ECB then disowned the remarks. A spokesperson for the bank said Nowotny spoke only for himself. The ECB is attempting a complex dance to get hawkish without out spooking FX traders and driving the Euro higher, possibly even derailing the European economic recovery. ECB minutes of the March 7-8th indicated that policy makers were close to reaching objective of steering inflation on the sustained path for medium-tem objectives of just under 2%, just not yet. The argument for no signalling was slack in the economy could be larger than thoughts. Current popular thought is that the ECB will reveal its plans for rates and bonds in June-July. We anticipate (with relative confidence) the bank will reduction bond buying to zero in September. However, even marginal slowing in European economies could delay action. ECB governors must envy the US Federal Reserve, which with quasi-stealth unwound its own, massive Quantitative Easing and raised interest rates without spiking the USD. Former Fed Chair Janet Yellen's near-magical abilities teased the prospect of rising interest rates without strengthening the USD. The ECB should take a page from the Fed. Talk down economic quality (not difficult, considering negative surprises in Eurozone) while moving toward the exits. The incoming commentary from ECB members indicates a clear shift from QE to interest rates. In our view QE is done yet with increasing headwinds and subdued core inflation suggest that interest rate path. The EUR/USD pair corrected from a two-week high of 1.2396, primarily due to fears of US-Russia war over Syria. Given the breakdown in EURUSD correlation to US interest rates it's logical to think that activates by the ECB have a greater importance moving forward then the Fed.





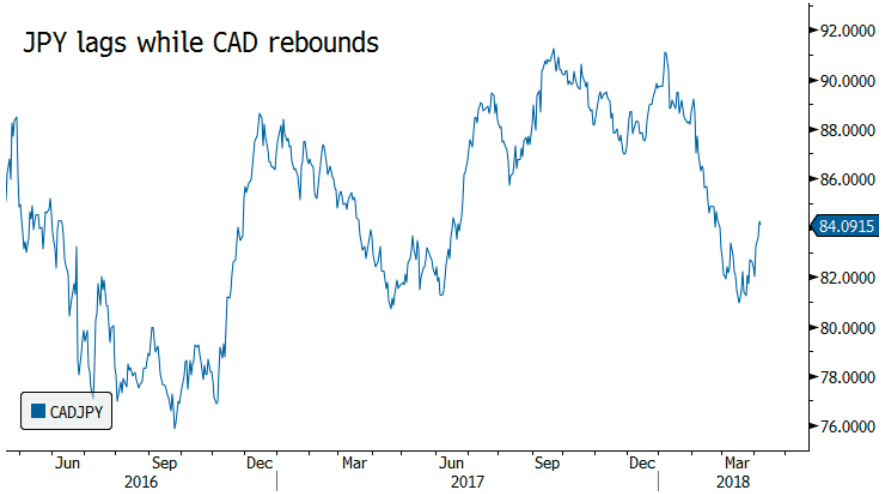
Economics

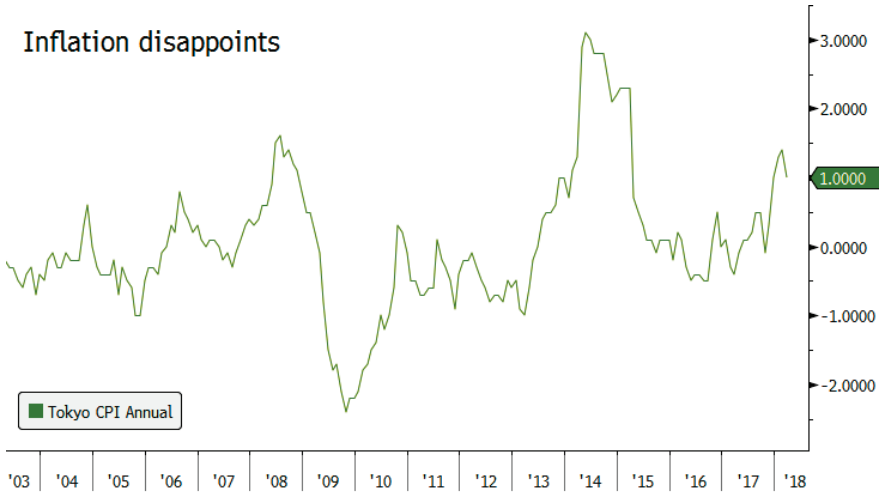
Long CAD/JPY

Surprising to us the scandal that that plagued Japanese Prime Minister Shinzo Abe seem to be blowing over. After reaching a height of around half of Japanese voters not supporting Abe's administration amid suspected cronyism and cover-up polling number are now improving. This suggest that predications over the end of "abenomics" might be premature. April 17th – 18th Summit in Japan will allow Abe to reinstate his control as Japan long post war leader. US and Japan's trade relationship will be key and there will be headline risks for JPY into the meeting. To highlight the sustainability, BoJ Governor Kuroda will begin his new second five-year term on 9th April.

Japans economic conditions have improved significantly in this first term year inflation remain below target. While the revised BoJ committee is dedicated to the 2% target, we suspect the economy and financial conditions must improve marketable to reach this lofty threshold. Clearly, the banks need to sustain its ultra-accommodative policy. Pricing in normalizations feel premature. The BoJ policy remains JPY negative. However, BoJ actions increasingly have a limited effect on the JPY therefore, the other side must have idiosyncratic driver to push the trade.

We are focused on the much-maligned CAD for a long CADJPY trade. CAD has performed well on the back of positive NAFTA negotiations. With Trump clearly focused on full-blown Sino-US trade war we suspect that Mexico and Canada will have an easier time.





Economics

Chinese Economy Slightly Sluggish

Following recent appointments of People's Bank of China (PBoC) Governor Yi Gang and Vice-premier Liu He responsible for Central Financial and Economic Affairs, adding up with PBoC's recent additional mandate considering the regulation of banking and insurance policies, China is set to retain firmer growth in the future. In an attempt to halt ongoing trade tension between both biggest economies, President Xi Jinping made mention of his willingness to reduce current import tax rate of 25% on foreign automobiles, a commitment to initiate constructive dialogue with its first commercial partner.

Revealing a slowdown in March consumer price index (CPI) and producer price index (PPI) given at 2.10% and 3.10% respectively (prior: 2.90% and 3.70%), there is much likelihood that US trade sanctions threatening as well as continued USD/CNY depreciation since the beginning of January 2018 (-3.30% year to date) are being felt, strengthened by recent anti-pollution campaign.

The rather weak PPI data, given at December 2016 low, impacted by reduced petroleum and natural gas extraction and processing as well as metal mining due to recent regulations with regard to pollution-related goods continue to decrease since November 2017 (-3.80% in absolute value). Conversely, the CPI month-to-month data estimated at -1.10% (prior: +1.20%) impacted by a slowdown in food purchases reinforces the view of lower private consumption, an effect that appears to largely offset the impact of higher imports within the country.

Though trade balance remains neutral at $ -4.98 billion (prior: $33.45 billion), weakened by larger imports (+14.40%) and more costly exports (-2.70%), due to gradually easing trade confrontation, we remain confident that Chinese economy will be able to tackle structural issues regarding current non-financial debt risk by implementing accurate and conclusive reforms that will reinforce confidence of future Chinese growth projections.

Due to continued weakness since December 2017 the USD/CNY pair currently trading at 6.2806 is approaching strong support at 6.2097 (10/08/2015 low), trading slightly lower and heading along the 6.2790 range in the short-term.

Cryptocurrency

Is The Crypto Winter Over?

The beginning of 2018 was a tough period for crypto investors as valuation melted like snow under the sun. As a reminder, the total market capitalization of the crypto market hit $244bn in early April, a drop of more $584bn from January all-time high of $828bn. Over the last couple of weeks, most crypto-currencies treaded waters as investors waited for a signal that would indicates the end of the bear market.

Despite the lack of significant news in the crypto space, the entire market rallied sharply last Thursday with the global market capitalisation rising $52bn in a few hours to $323bn. Even there is now apparent reason for such a move, there are rumours that institutional money is finally moving into the crypto-market, together with speculations that the SEC could allow the listing of Bitcoin ETFs. Bitcoin rose more $1,100 in less than an hour, moving above the $8,000 threshold for the first time since March 28, and dragged the entire market with it. Over the last two days of the week, Ethereum increased more than 26% to $520, NEO rose 20% to $67, NANO surged 32% to $6.70, while Bitcoin Cash hit $763, up 16.5%.

However, even though we remain bullish crypto, regulatory uncertainties will continue to weigh on cryptos and will keep most of institutional money on the sidelines. It is therefore the right time to enter the market.

From a technical standpoint, BTC has broken its 200dma (currently at $7,848) to the upside. A break of the 50dma, which currently lies at $8,772, should validate a bullish reversal. On the upside, the nearest resistance lies at $9,173 (high from March 21), while on the downside, the low from April 6 will act as support.

Themes Trading

Bitcoin Active Certificate

Algo Advantage Bitcoin Certificate

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.

Quantitative algorithm

Volatility-smoothing algorithm

1. Swissquote's Quantitative Asset Management department has created a propriety algorithm based on technical patterns, realized volatility measures, buy/sell pressure and social media sentiment.

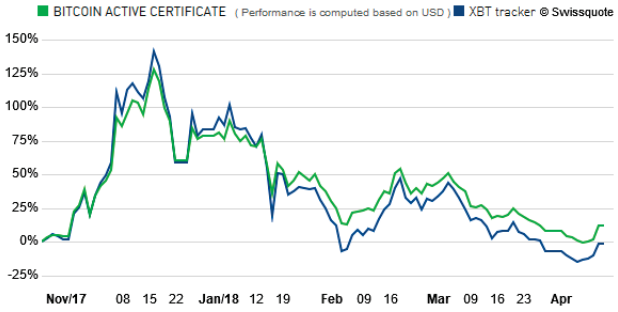
2. A machine learning algorithm predicts the short-term direction of future returns based on these indicators.

Bitcoin Active Certificate is available for trading at :

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

Since inception	▲ 12.49%
1-month return	-10.50%
Return day	0.00%
Est. dividend yield	0.00%
Inception date	17/11/17

See portfolio details | Buy structured product



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