WEEKLY MARKET OUTLOOK

23 - 29 April 2018

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WEEKLY MARKET OUTLOOK - An Overview

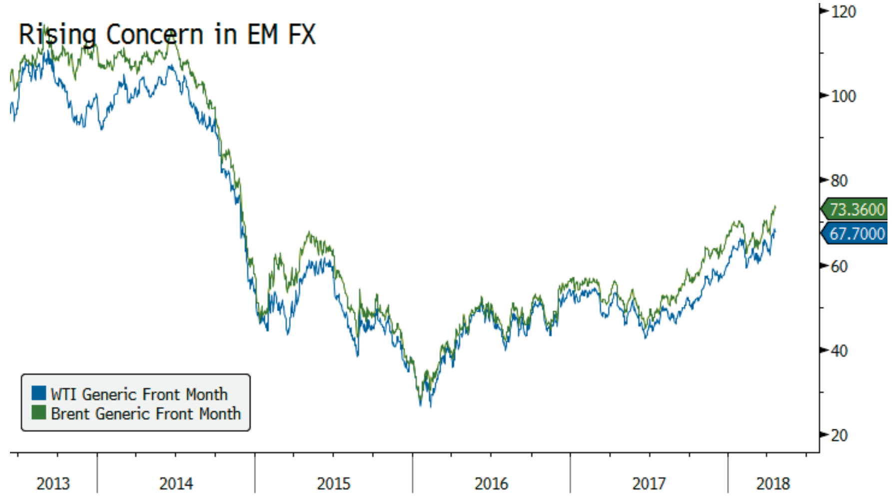
Economics

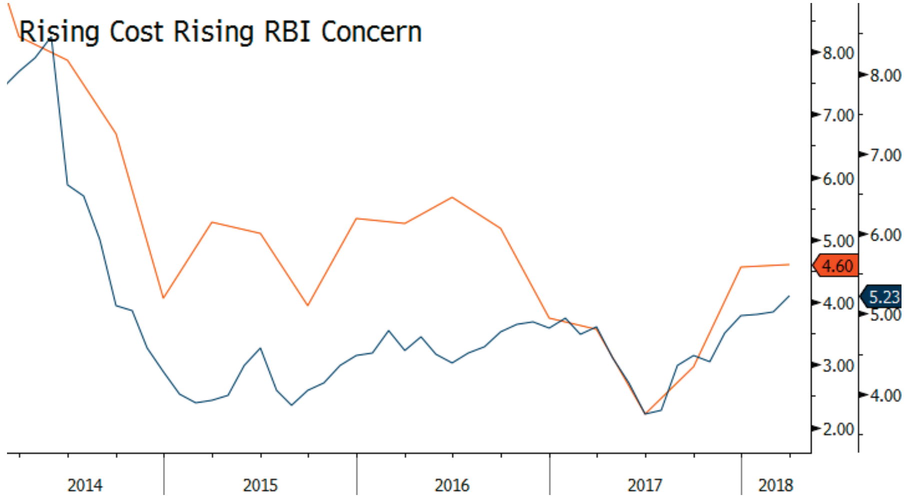
Oil Rise Hits EM FX

Protectionist tensions have broadly cooled, but risks remain between US-China. So the markets focus quickly shifted. Last week trading was driven by the oil prices which reached a three year high. Yet this move in energy prices was not sudden but has roots in June 2017. Crude prices have risen over 65% last summer. Like a frog in boiling water, the markets, specifically FX EM, were very complacent to the potential implications until the break of $65. All of a sudden, analysis which dominated only a week prior, were hastily thrown out the window. EM nations praised earlier for the fundamental stability were now fragile.

EM Asia sensitivity to oil is a well known narrative. Reviewing balance of payments, fiscal and inflation policy India stand out as country exposed to higher oil prices. In simple terms India, imports about 80% of its oil. Weakness in INR has been caused by persistent foreign fund outflows due to costly crude and weakness in the domestic equity markets.

However, higher oil prices will force the Reserve Bank of India to act. This would provide support for INR. The RBI MPC minutes indicate growing concerns over core inflation due to volatile crude oil prices (petrol prices hit a 55 month high). The hawks minutes, were a deviation from actual neutral" stance. In March RBI member kept its policy repo rate unchanged at 6% for the fourth straight meeting. The clear concern over higher oil prices driving inflation higher could prompt member to vote for earlier then anticipated tightening. On the oil front we suspect that US shale producers are likely to ramp up production pushing prices backdown. The real risk in our mind is President Trump’s decision, due in May, to revive Iran sanctions. If you must trade now, higher oil should support NOK, CAD, ZAR, BRL and AUD.





FX Market

EUR/CHF back at 1.20 !

The euro has finally made its way back to the infamous 1.20 level against the Swiss franc. EUR/CHF traded as high as 1.2005 last Friday but was unable to break the 1.20 resistance to the upside as traders wonder whether the market is ready to accept finally a weaker Swiss franc.

The Swiss currency retains a negative momentum since early March: on a trade-weighted basis, the franc fell more than 3.75% to its lowest level since January 15, 2015. Over the same period, the Swissie lost ground against all its G10: 4% against the euro, 2.55% against the greenback and 2% against the Japanese yen. What could explain such a move, especially against the backdrop of rising geopolitical tensions?

There are several reasons for this market movement. In recent days, the announcements of US sanctions against Russia have often been cited as a cause of the broad decline of the Swiss franc. Although they can explain part of this movement, especially in the last few days, it is too recent to explain the whole move.

We can also exclude without hesitation any intervention by the SNB on the foreign exchange market. Banks' sight deposits with the central bank have remained stable since the summer of 2017 - at around 575 billion - which clearly indicates that the monetary institution has remained on the sidelines.

A general strengthening of the euro could reasonably explain this trend – on a trade-weighted basis, the single currency rose 1% since February 28 – however, once again, it is not enough. On the economic front, inflation expectations in the euro area have remained relatively stable since the beginning of the year, as have expectations regarding the monetary tightening process of the ECB.

However, it would seem that divergences in monetary policies, as well as the acceleration of global growth, particularly in the euro zone, could very well explain this depreciation of the Swiss franc, as investors do not feel the need to seek to take shelter anymore. Indeed, the Swiss national bank has not yet mentioned any rate hike - which would go against its objective of keeping the Swiss franc at a sustainable level for the Swiss economy - while the ECB and the Fed are already much more advanced in this process. The SNB will never tighten its monetary conditions until it is ensured that this will not negatively impact EUR/CHF.

EUR/CHF should pass the 1.20 mark anytime. This level, however, remains a key resistance and won't break easily. It may take time before seeing EUR/CHF taking off towards 1.30. However, conditional on the ECB maintaining the course of monetary policy tightening and the growth outlook in the eurozone and in the US not deteriorating, the euro could reasonably reach 1.30 at the end of the year.

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Economics

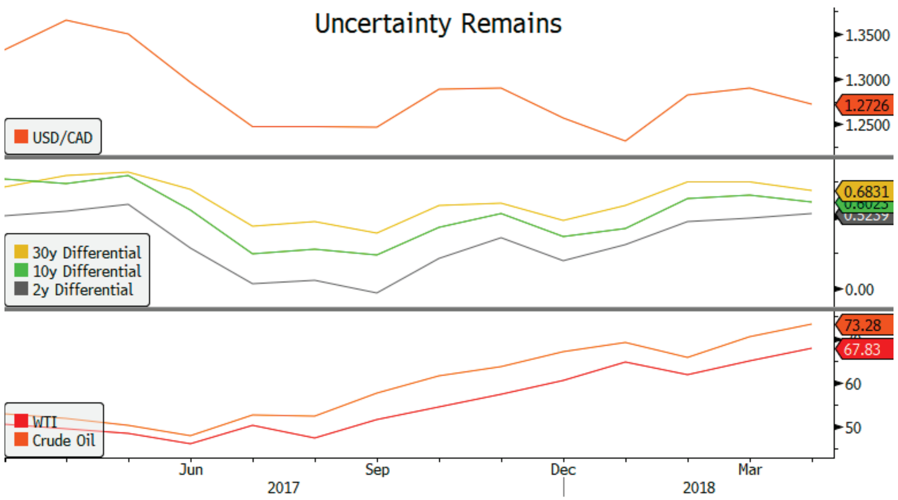
Canadian Economy Suffers Of Uncertainty

Pending NAFTA renegotiations with its US partner and recent Bank of Canada policy rate decision maintained at 1.25% since its January 17 meeting provided investors with a rather uncertain view as to the future direction of Canadian economy. Undergoing strong impediments on the fronts of business investment and exports, Canada continues to give signs of weakness. Though a rather low unemployment rate given at 5.80%, its lowest historical rate since the 1970s, wage growth maintained at 2 years high and inflation above 2%, Canadian consumption is giving signs of a slowdown, as presented by February m/m retail sales ex auto data estimated at 0% from 1% due to a decline in furniture, electronics, healthcare, clothing and materials purchases.

Supported by an increase in crude oil, which trades at its 2014 range, the Canadian economy can still rely on a strong commodity that accounts for more than 20% of Canadian total exports, reinforced by recent Russian - OPEC countries production quota since mid-2017 and which is expected to continue until the end of 2018.

Suffering from a rather slow moving normalization policy, the loonie continues to lose ground against the greenback since the beginning of the year (USD/CAD +1.40% year to date) and is expected to maintain that trend in 2018 since the market is already pricing in one rate hike in 2018 (either July or September). Whereas Fed's moves remain dubious amid current commercial tensions with China, thus reinforcing the USD in the mid-term. Interest differential between both nations also contributes to that tendency. Accordingly, CAD performance remains strongly dependent to current NAFTA talks' outcome.

Since its decline at mid-February lows, the USD/CAD continues to strengthen, bouncing off from 1.2528 (17/04/2018 low) and approaching the 1.28 range in the short-term.



Themes Trading | Cannabis

Why ? As one of the fastest-growing industries, the cannabis industry is one that should not be forgotten! With sales estimated to reach $75 billion by 2030, cannabis is set to become a very lucrative segment in the years ahead. Taking effect in Canada as early as 2018, the legalization of recreational pot is now a reality – this time supported by real economic fundamentals.

What ? This theme encompasses all the possibilities offered by the flourishing cannabis industry, mostly focusing on North American cannabis pure-player firms with high growth potential. Ranging from early-stage production and distribution to final consumption for personal and medical use (i.e. medicines, pain relief, cancer treatment, etc.), our cannabis certificate provides full coverage of the marijuana industry, allowing for the highest expected returns.

Takeaways: The long-awaited legalization of cannabis is taking place. Be an early mover in this evolving new product trend: join the cannabis revolution now!

The Cannabis Certificate is available for trading at :

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

Since inception	▲ 349.34%
1-month return	-9.66%
Return day	-0.03%
Est. dividend yield	0.00%
Inception date	01/01/16

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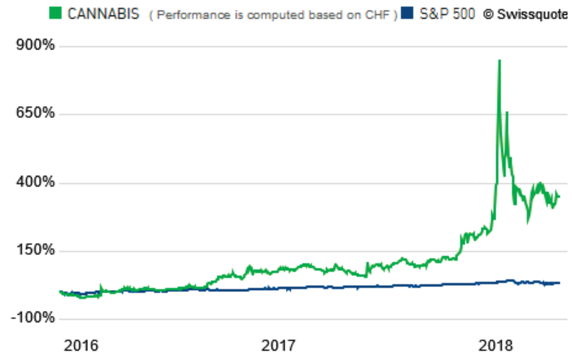

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