WEEKLY MARKET OUTLOOK

21 - 27 May 2018

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WEEKLY MARKET OUTLOOK - An Overview

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Economics

Trump Could Send Oil Higher

Sentiment around oil prices remains extremely bullish. The march to $80/bll has been driven by higher aggregate global demand (China oil imports at all-time high), disruption in Nigeria and expectations for sanction induced supply disruptions from Iran and Venezuela. Interestingly, higher oil prices has not generated the rush of production from the USA that was anticipated to quickly push prices lower. This primarily due to greater domestic demand that has consumed the new supply (inventories remain below historical average), but also oil producer's conservative reaction-function to the firmer price. Upstream companies executives have generally committed to shareholders to take a restrained approach by not ramping up products during time of temporary price volatility. This strategy in the past has been costly and ending up producing minimal additional profits but plenty of debt.

We remain pessimistic that summer demand will meet market expectations. However, we are more focused on geopolitics as the primary level for further gains in oil prices. While Iran's output will be resilient, due to Europe unwillingness to support US president Trumps, America's actions will slow production. Venezuela production will continue to decline due to social disorders and likelihood of additional Trump sanctions.

There is plenty of speculation that Trumps "foreign policy" hands are tied out of fear of higher gasoline prices. Yet we don't see policy options as so limited. In fact we understand there is a clear rationale for Trump to drive prices higher. Energy production is a significant sector for Trumps political base. Higher oil prices easily equates to jobs, higher wages, capital expenditures in the "red" parts of the USA. Sanctions of Iran and Venezuela would act as a fiscal stimulus for key voting blocks. Higher energy prices will act as a tax on "blue" states.

Finally Americans are now use to volatility in gasoline prices so political backlash should be less then hyped. We remains constructive on oil prices, expecting prices to firm around $70-80 range, however, geopolitical shock sending prices higher should not be considered a low probably.

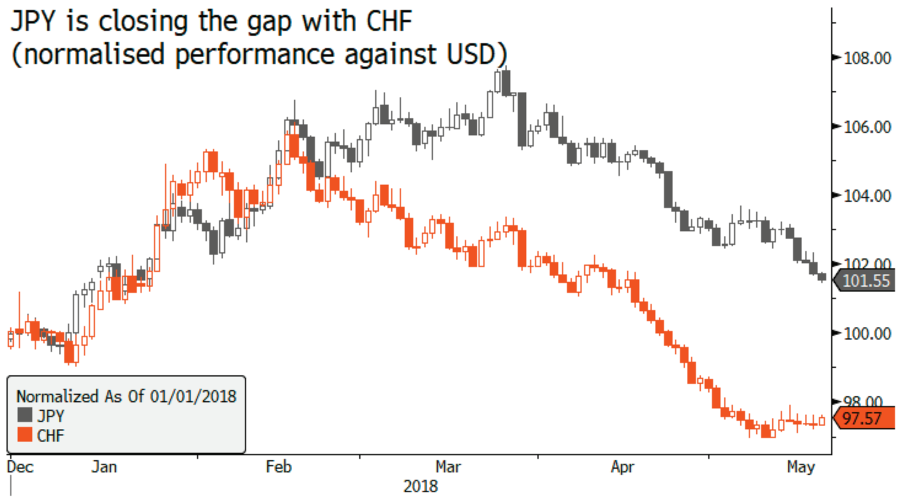
Economics

JPY In The Doldrums

The Japanese yen extended the upside last week with USD/JPY above the 111 threshold, the highest level since February 2nd. Most of the move could be explained by a renewed sell-off in US Treasury, which sent the 10-year yield as high as 3.09%, while the Japanese 10-year was stuck around 0.06%. Market participants are completely ignoring local development in Japan and focus exclusively on US related developments. Indeed, despite a contraction of the Japanese economy in the first quarter (-0.2%q/q versus 0.0% median forecast and a downward revision to +0.1% in Q3), the yen reversed losses partially following the release, with USD/JPY easing to 110.08, down 0.15%. Similarly, the worse than expected inflation figures, which were released on Friday, had little effect on the currency pair. Headline came in at 0.6%y/y versus 0.7% expected and 1.1% in the previous month, while the core gauge printed at 0.7%y/y versus 0.8% median forecast and 0.9% in March. These are way off the Bank of Japan's 2% inflation target, so the bank will not soften its reflation stance anytime soon.

On the geopolitical stage, the mounting tensions stemming from trade war initiated by Donald Trump, the US unilateral withdrawal from the Iran nuclear deal, which creates tensions with the European Union and especially France, as well as the recent opening of the US embassy in Jerusalem, were not enough to depreciate the risk sentiment and trigger a yen recovery. Instead, the yen kept losing ground, as investors preferred to take shelter into the Swiss franc.

In the end, the widening monetary policy divergence between the Federal Reserve and the Bank of Japan is all that matter right now. Even though it cannot be ruled out that the Fed could slow down its pace of tightening, the BoJ is miles away from tightening its monetary conditions against the backdrop of stalling inflation pressures and anaemic growth. We remain fundamentally long USD/JPY with the 114 level as medium-term target.



Economics

Italy's Coalition Could Be A Threat For The Eurozone

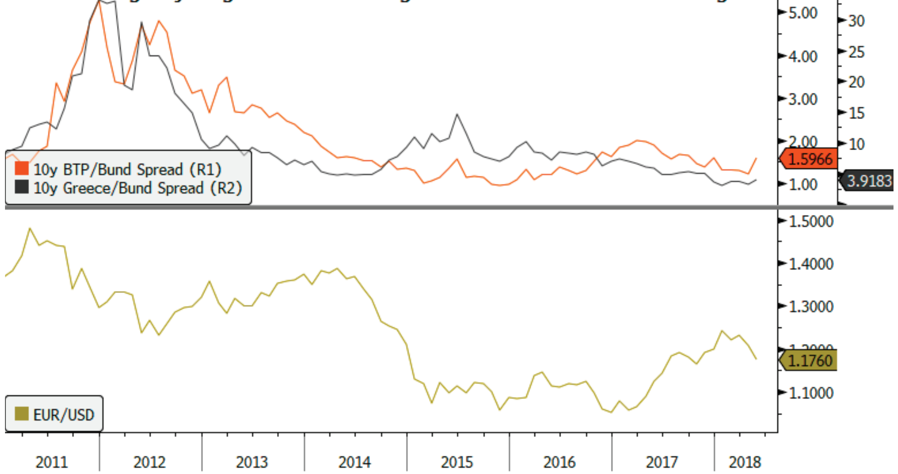
General elections in Italy early March has been a significant source of uncertainty for the single currency. Since then, the big winners from the nationalist League and 5 Star Movement led by Matteo Salvini and Luigi di Maio attempt to form a coalition remained lengthy until now, as they appear to have finally found a common agreement despite their fundamental dissimilarities. Indeed, both parties recently published a memo confirming their willingness to enhance Italy's commercial relationship with Russia, reinforce prison sentences for tax evaders, set a minimum wage of EUR 780, implement a flat tax rate across the country, review European treaties and most importantly, consider a write-off of the country's current debt.

The latter remains worrisome since Europe's third largest economy is also the second most indebted nation after Greece, with a debt estimated at EUR 2.3 trillion, or 132% of its gross domestic product, not to mention the fact that the European Central Bank (ECB) holds more than 17% of Italy's total debt due to its unconventional monetary policy implemented in mid-2014. The situation becomes difficult for the ECB Governing Council who will most likely have to postpone the tightening monetary policy cycle beyond June 2019 (despite the asset purchasing program end in December 2018), amid slowing EU growth since the beginning of the year and current European integration issues.

We therefore expect a widening on sovereign spreads in the coming days. Currently given at +1.551%, the 10y BTP/Bund spread steep rise since early March is notable, rising by +19.28% compared to +0.55% for Greece/Bund spread in relative terms, suggesting an escalating fear of credit risk among fixed-income investors.

Based on current economic and political events, we would therefore favor a bearish view for the EUR/USD pair, currently given along 1.1760 and expected to approach support at 1.1742 (12/12/2017 low) in the near-term.

Still a long way to go before reaching 2011 Eurozone debt crisis range



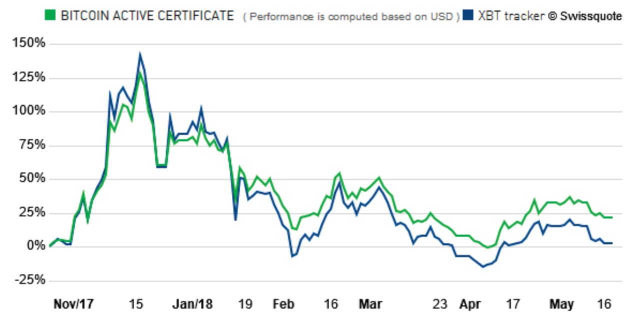
Themes Trading | Bitcoin Active Certificate

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.

Since inception	▲ 21.61%
1-month return	4.32%
Return day	0.00%
Est. dividend yield	0.00%
Inception date	17/11/17

See portfolio details | Buy structured product



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.

The Bitcoin Active Certificate is available for trading at :

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

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