

WEEKLY MARKET OUTLOOK

28 May - 3 June 2018

WEEKLY MARKET OUTLOOK - An Overview

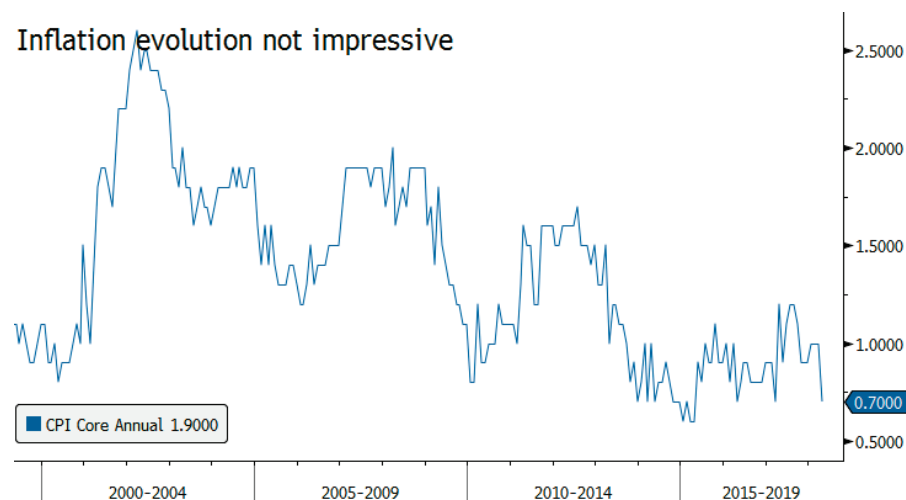
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Economics

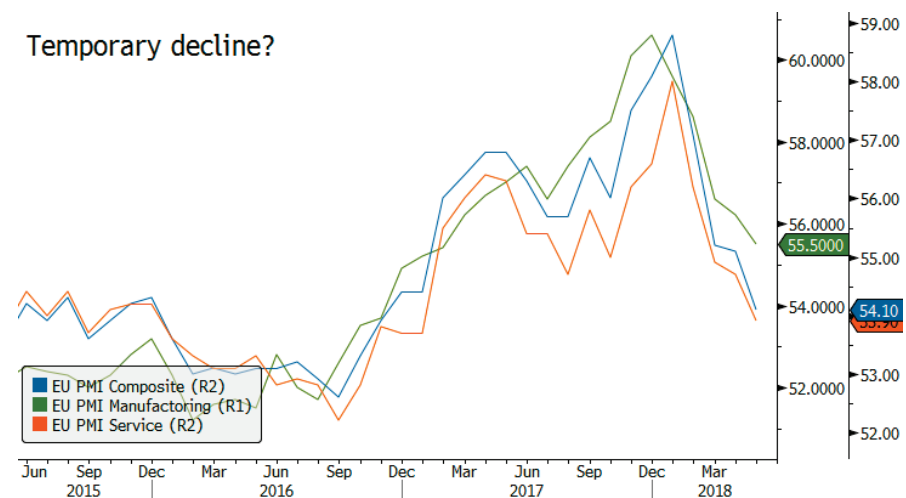
Fundamentals Won't Delay ECB

Euro continues to fall against the USD. Reaching levels not seen since late 2017. Part of the rationale for the demise of the single currency has been the political risk emulating from Italy. However, the larger concern is the pace of ECB "normalization". We continue to view the discussion over fundamentals less important than the desire to remove extremely policy settings (negative interest rates & asset purchases). A similar pattern was recognized as the Fed's strategy back in 2014. Review of the ECB April rate decision minutes provide no real insight or clarity into members thinking. The lack of definitive views indicates "normalization" is still on. At the accompanying press conference President Draghi indicated that economic growth moderation was due to temporary factors and reflects a correction from a high growth rate. Minutes of the Governing Council meeting confirm this constructive view on the slowdown in growth and noted risks are generally balanced. The GC was less concerned about domestic factors but consider the risk from global environment as high. Regarding inflation the GC consider the outlook as improving but underlying pressures weak. While the risk of trade war and drag on the Euro-area economy has been lower since April, incoming EU economic data continues to disappoint. Yet, recovery in global trade should start to support Europe growth moving forward. In regards to inflation, the weaker Euro and higher oil prices will support midterm inflation expectations. As growth prospect and inflation outlook firm the discussion will again focus on path of monetary policy in July meeting. We anticipated that, in July, the ECB would provide additional details to the deceleration of asset purchases in the fall. Our constructive view on Euro needs the risk hype around Italy to fade but then fundamentals are set for a solid currency rally. Overall conditions are strong enough for ECB to gradually "normalize" even if inflation trend is weaker than expected. A central bank is only as creditable as policy firepower. And right now the ECB needs to re-arm.

Inflation evolution not impressive



Temporary decline?



Economics**Italy's Political Jitters Stay Main Short-Term Driver**

The nomination of Italy's new Prime Minister has been the main driver in the FX market last week, as investors were getting anxious about the fiscal plan that the populist coalition government has promised to put in place. As a result the single currency has had a complicated week as investors fled European asset - and risky ones in general - and took shelter in safe haven assets. Consequently, the Japanese yen and the Swiss franc were in good demand (up 1.31% and 0.50% against the greenback during last week). The greenback also benefited from the deterioration of the risk environment but gains were rather limited against the backdrop of falling US treasury rates and uncertainty stemming from the hesitations of the Trump administration on geopolitical subject.

Regarding the Italian situation, it is difficult to say whether the new government will effectively implement the campaign promises of both the 5-Star movement and the League, which would expand the country's budget deficit (cancellation of pension reform, flattening tax, increase spending, tighter immigration policy, etc). Brussels is quite worried Giuseppe Conte's government will seek confrontation and claim back Italy's sovereignty on specific matters. Even though the chances that the new government implement their promises, we think that there is plenty of room for further debasement of the euro, especially against the Swiss franc and the dollar. Last Friday, the single currency extended losses against most of its peers as it fell the most against the Swiss franc (-0.70%), the Japanese yen (-0.65%) and the US dollar (-0.60%).

Regarding EUR/USD, even though we maintain our short bias, mostly because of the divergence in monetary policy, the latest developments in the bond market together with the stagnation of Fed expectations suggest that the dollar will be limited. Indeed, the entire US yield curve

has kept shifting lower with the 2-year yield falling 7.7bps on the week, while the 10-year one gave up 13.5bps to reach 2.93%, the lowest level since May 4th.

Long story short, we maintain our short EUR/CHF and USD/CHF bias and remain short EUR in short-term. On the long-term, this is a different story, as we believe the ECB won't derail the normalization process, which would ultimately be euro positive in the medium to long-term.

Themes Trading

Cannabis

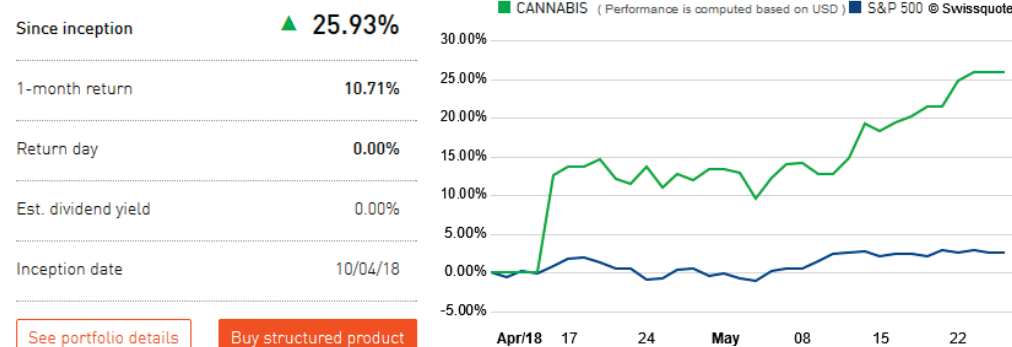
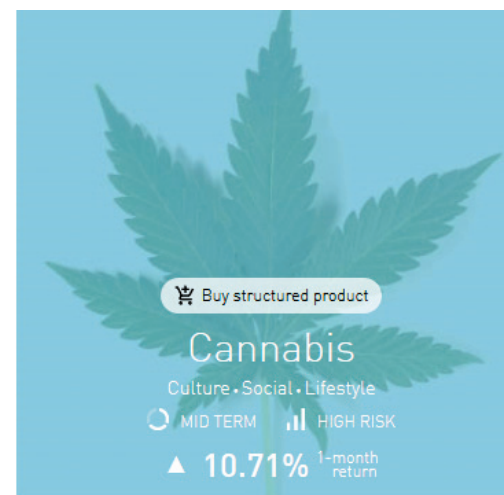
Why ? As one of the fastest-growing industries, the cannabis industry is one that should not be forgotten! With sales estimated to reach \$75 billion by 2030, cannabis is set to become a very lucrative segment in the years ahead. Taking effect in Canada as early as 2018, the legalization of recreational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



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