WEEKLY MARKET OUTLOOK

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WEEKLY MARKET OUTLOOK - An Overview

Economics

ECB to signal end of QE

At this week ECB rate decision, we believe the governing council will signal the end of asset purchases. However, the language will be used to limit the markets impact and limited further speculation about interest rate hikes. The challenge for the ECB will to keep policy flexible without triggering a stampede into the single currency. Currently, over half of the council members have delivered hawkish statements. The general view remains that should inflation positive trend remain stable, bond buying should be taper. Core inflation has continued to float around the 1% mark. Yet, negotiated wages has just accelerated from 1.6% to 1.9% indicating prospect of wage inflation.

The hawkish majority received substantial boost when ECB chief economist Praet indicated data supported the end of net purchases. Praet view carries influence, since the chief economist will provide economic recommendations to the governing council. In our view, the failure of Euro rally further is due to the focus on the "pure" economic data rather than "big" picture. The cyclical economic weakness and systemic political threats have captured short-term volatility trader's attention. However, we suspect the primary driver for the ECB decision to removed extreme policy is practical over fundamental.

Firstly, the massive QE program has expanded the ECB balance sheet to destabilizing heights. Given the size of the ECB balance sheet, the issue of "moral hazard" has been reintroduced. To the concern of ECB, Italian politicians dragged the banks strategy into the national debate. The ECB wants to avoid owning more then 1/3 of a nation's sovereign debt, which after years of purchase the central bank, is coming dangerously close. Secondly, highlighted by spike in Italian yields and broader fears of crisis, the ECB needs to reclaim their primary tools. With bloated balance sheet and negative rates, the ECB has few policy options to defend the European Union.

As with the Fed in 2013, "normalization" was not just a function of economic data but also external considerations. It's critical to understand that ending QE does not necessary mean higher policy interest rates. We remain constructive on EURUSD as US rate hiking cycle is slowly ending while ECB is nearing the start position. We see the current level of 1.1750 as a good position to reload strategic longs.

Economics

Quantitative Tightening: Unexpected Consequences

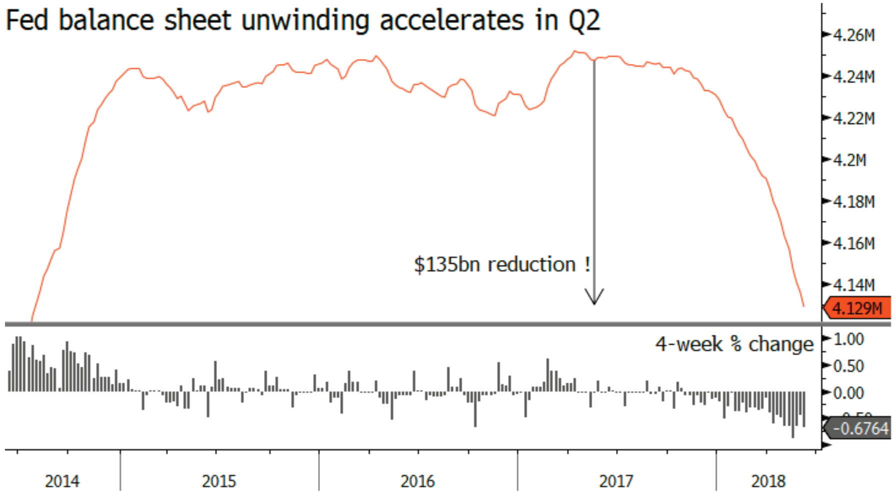
There is no doubt that the upcoming ECB meeting will be the main event next week as investors anticipate that the European central bank will start discussing quantitative tightening. The Federal Open Market Committee will gather next week as well. However, the feeling in the market is that the Fed meeting is a done deal: a 25bps rate hike and forecast showing further tightening and solid growth rate. However, there is also the eventuality that policy makers react to the latest political changes operated by Donald Trump, both on the domestic and international side.

Indeed, the Federal Reserve carefully timed the start, as well as the pace, of its balance sheet unwinding with the objective of going unnoticed. It worked pretty well so far as investors remained mostly focused on economic and geopolitical developments. Inflation pressures have remained solid over the last few month - April's CPI printed at 2.46% while the core measure increased to 2.14% - while the job market has never been in such a good shape. The unemployment rate eased to 3.8% in May, while wage growth accelerated slightly (+2.7%y/y) – even though on a real term basis, gains are less impressive.

Meanwhile, the Fed balance sheet shrunk by roughly $135bn to around $4.11tn, the lowest level since summer 2014. During the same period, the US 10-year Treasury yield rose from 2.20% to 3.05%, while the 30-year one hit 3.19%. It is difficult to know whether those increases in interest rate are exclusively due to the balance sheet reduction. One thing is sure: the biggest buyer of US treasuries is slowly moving to the sidelines, which is reducing the supply of dollar. However, this phenomenon has been widely anticipated by market participants. What wasn't expected is that Donald Trump took political decision that would result in an unexpected widening of the US deficit, which will ultimately translate into larger issuance of debt by the federal government. Against such a backdrop, it is not surprising to observe that emerging markets came under renewed pressure recently – since most of them are issuing debt denominated in USD. After all, the turmoil always starts at the fringe before moving slowly but surely to the core.

Even though we do not believe the FOMC will ring the alarm, we believe that members may mentions the global consequences of balance reduction, as well as the unfortunate concomitance of quantitative tightening and budget deficit widening.

Fed balance sheet unwinding accelerates in Q2



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 :

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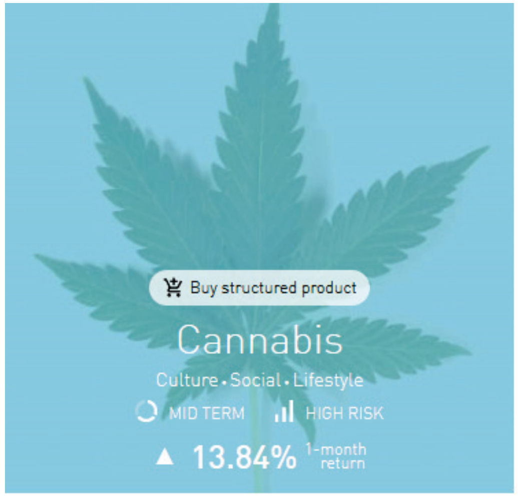

Since inception	▲ 29.87%
1-month return	13.84%
Return day	0.00%
Est. dividend yield	0.00%
Inception date	10/04/18

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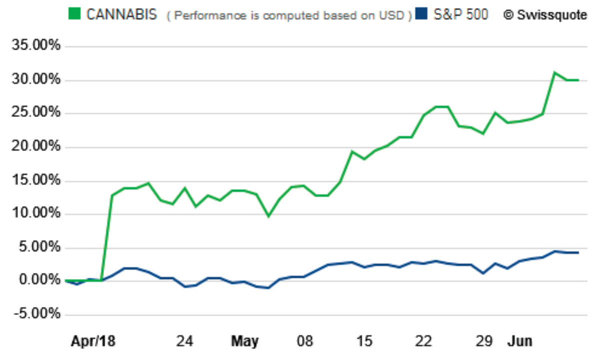

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