SWISSQUOTE

WEEKLY MARKET OUTLOOK

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WEEKLY MARKET OUTLOOK - An Overview

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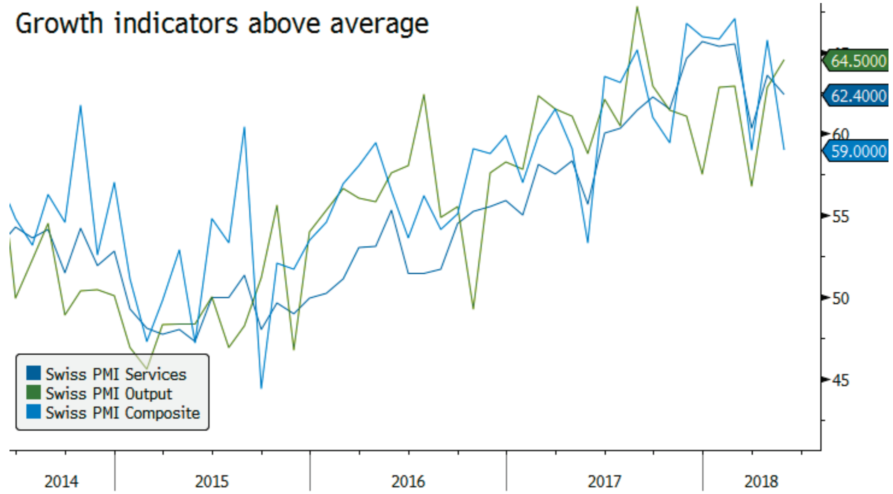
Economics

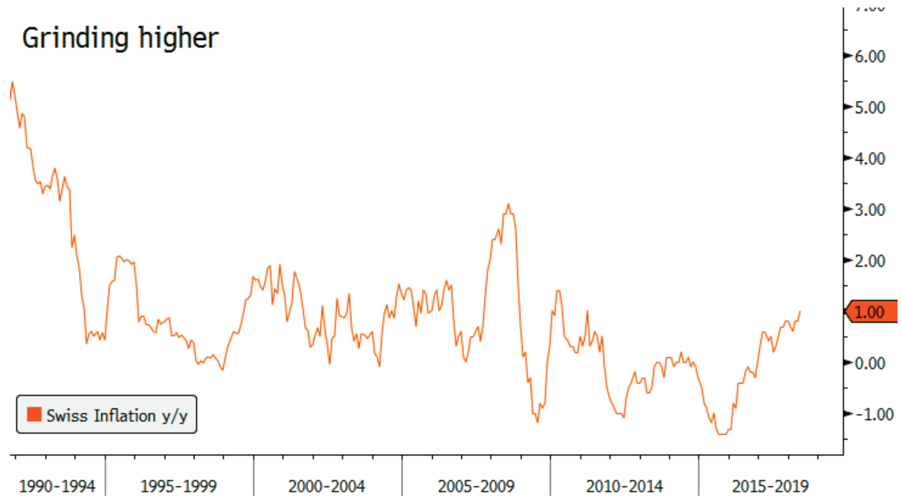
SNB Up Next

This week the SNB will meet to broadcast their monetary policy strategy. In the light of higher domestic inflation, ECB "normalization" signal and mounting political risk in Europe, this generally sleepy meeting should get additional attention. At the March meeting the SNB held sight deposit rates at -0.75% while reiterating the bank would remain active if necessary in the foreign exchange market. We anticipate a broadly dovish communication, particularly in the light of recent ECB forward guidance. Since the last statement, the CHF has generally appreciated ensuring that the "highly valued" term will remain. In addition, uncertainty in Europe, specifically in Italy will keep the SNB vigilant. We suspect that the near term inflation forecast and growth assessment will remain unchanged despite clear improvements.

Firstly, the SNB will avoid sparking any speculation that might cause CHF to appreciate. Secondly, global growth and macro backdrop are a cause for concerns for the small alpine economy, which will provide plenty of coverage for the SNB. Interestingly, the SNB has expressed concerned over overheating of the housing markets. Even suggesting a need for a price correction. We are uncertain how the SNB will handle this issue.

However, Swiss general economy continues to surprise to the upside. PMI are running above average, while GDP growth is coming off a strong 1Q. We continued to see the SNB as one of the last G10 movers towards normalization. Our call is for the first interest rate hike, is September 2019. This forecasts is based less on the trajectory of Swiss inflation and more the ECB policy path. We anticipate ECB asset purchase will end in 2018 and first rate hike March 2019. This give the SNB six month to judge the markets reaction on Euro before preceding. The significant lag between G10 central banks and the SNB and excellent candidate for global funding currency, suggests that risk rewards trade-off for the EURCHF remains to the upside..





Economics

ECB and Fed: done. What is next?

The greenback ended last Thursday off to wheel as the ECB announced the end of its quantitative easing program in a dovish manner. As broadly anticipated, the European Central Bank will maintain its €15bn monthly bonds purchase until December 2018. However, contrary to what market participants expected, the ECB won't raise rates simultaneously but would rather wait until at least the end of summer 2019. In addition, the central bank has revised its growth forecast to the downside to 2.1% in 2018 compared to 2.4% in March; but inflation forecast has been revised to the upside, from 0.4% to 0.7%. Nevertheless, it wasn't enough to prevent a massive euro sell-off, which turn ultimately into a broad based USD rally. The FX market stabilised on Friday though.

The demand for German bunds increased sharply yesterday, which sent yields lower. The 2-year and 10-year yields gave up 5bps and 12bps and stabilised around -0.63% and 0.39%, respectively. Italian bonds moved in a similar fashion even though the yields' reaction was less acute. The uncertainty generated by the new Italian government has taken a secondary role as investors anticipate the government will not create as much trouble as initially anticipated.

Overall, nothing much has changed in the monetary policy landscape. The Federal Reserve continues to signal four rate hikes for 2018 and keeps open the option of increasing rates only one more time should the economic data justifies it. Across the Atlantic, the European central bank is taking its time. Even though Draghi disappointed markets by not signalling a rate tightening immediately following the end of QE, we believe that this decision is in line with what was done by the Fed a few years earlier.

On the geopolitical side, the story is much different as Donald Trump carried out his threats of slapping tariffs on Chinese imports. China already announced it would retaliate accordingly. The Trump administration is also hitting the European Union with steel and aluminium tariffs. Against such a backdrop, it is difficult to know how the FX market will react in the longer term. Nevertheless, Trump is acting like a lone wolf by bringing to an end trade peace on its own. This could translate into renewed pressure on the USD; especially should the countries hit by the tariffs decide to retaliate in a coordinated manner.

Themes Trading — Cybersecurity

News of cybercrime has become commonplace. On May 12, a piece of malicious software known as “WannaCry” spread across global computer networks. In only 48 hours it infected approximately 230,000 computers. WannaCry knocked out computers at Britain’s National Health Service (NHS), Russia’s interior ministry, Telefónica and Hainan Airlines, among others, rendering them useless and demanding ransom payments from their operators. Wannacry was not nearly as damaging as other malware such as Conficker, ILOVEYOU, Anna Kournikova and MyDoom, which have reportedly caused billions in damages.

Regrettably, the frequency, sophistication and impact of cybercrime are only increasing as society increases its dependence on computers. Consequently, companies that are in the business of cybercrime prevention are looking at a massive growth opportunity. Spending on cybersecurity is expected to exceed $90 billion in 2017, rising to $170 billion by 2020. In this cybersecurity theme, we have included hot areas of growth in analytics, threat intelligence, and mobile and cloud security.

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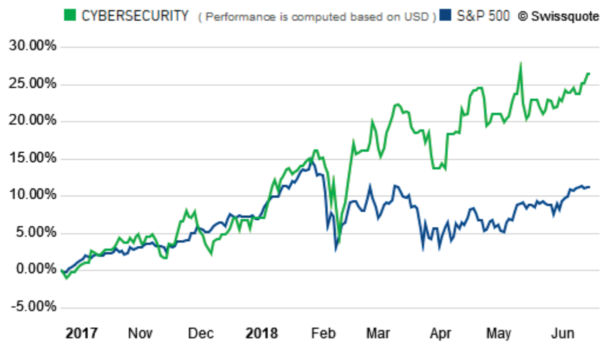

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