SWISSQUOTE

WEEKLY MARKET OUTLOOK

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WEEKLY MARKET OUTLOOK - An Overview

Economics

China Growth Outlook Weakens

The fresh round of protective tariffs and damaging rhetoric's has put the world unnervingly close to a all-out trade war. While still a tail risk, the current escalation and lack of amnesty indicates that the probability of a China-US trade conflict has increased meaningfully. When US government announced final list of tariffs on 6th July, China retaliation action came quickly proclaiming tariffs "of the same scale and same intensity". US then responded comprehensively with wider array of tariffs on additional $400 billion Chinese exports. Neither side backing down since then.

In reality, so far Trumps actions against China has been limited to approximately $50bn. Which is timid given the medias hype. However, given the wide gap between US demands and China's concession, it's unlikely that a agreement will be reached near-term. We continue to forecast a less harmful outcome, with calmer heads prevailing. Yet damage to trade, investment and confidence has already been done. US-China critical relationship with the global supply chains indicates there has been a knockdown effect regional.

The Chinese economy outperformed in 2017 and 1Q2018 but has slowed since. Domestic demand provided strong support for GDP growth at 6.8% y/y, yet recently weakness in consumption and investments has begun to erode momentum. Pressure exerted by US-China trade tensions will further weigh on headline growth. Its likely growth has already peaked and will continues to slow printing 6.7% y/y in 2018. In reaction, PBOC is poised to ease monetary policy with RRR cuts and managed policy rates. Amid uncertainty trade conditions financial reforms are likely to proceed with caution but not reverse.

Looking forward, US-China trade frictions remain the major drag on the Chinese economy even without escalation. However, impulsiveness of President Trump's trade policy and negotiation tactics, US investment restrictions, and China's reaction could aggravate the situation from both sides. Potentially aggregating the situation beyond trade. Fear of a trade war, weakness in current account inflows and slowdown in growth have all exaggerated capital outflows. The CNY fall of 1.50% year-to-date is unlikely to stop any time soon.

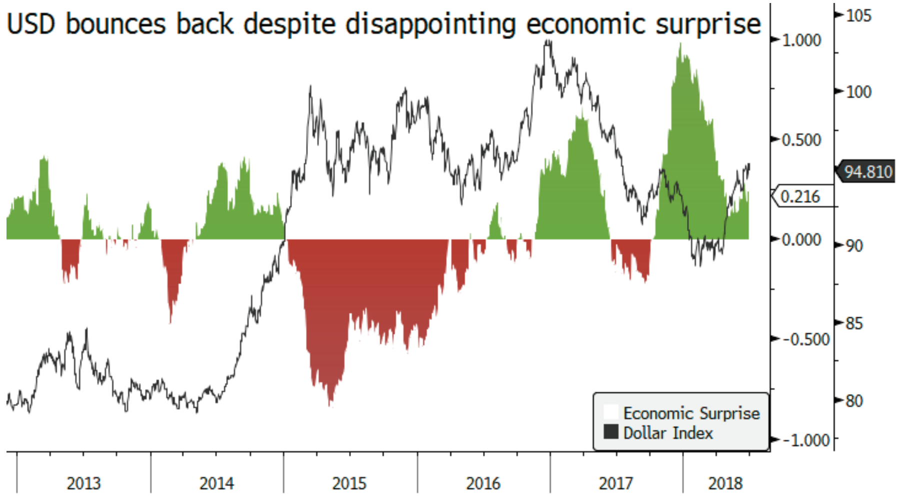
Economics

Summer Lull Is Here

The beginning of summer was a turbulent time for financial markets as market participants shifted focus from central banks' monetary policy decision to geo-political developments. The equity market was harshly impacted amid renewed trade tensions and political uncertainties in Europe. Emerging markets, and especially Chinese equities, bore the brunt of the sell-off as investors fled risky assets and took shelter into safe-haven ones. The CSI 300 fell as much as 9% as tech stocks fell across the board after Donald Trump announced a new set of measures aiming at protecting "industrial significant technology". Yet the final conditions are not written in stone. In addition, the National Security Council and the Commerce Department is also crafting a plan to prevent shipment of key technologies to the world's second largest economy. However, one has to keep in mind that those are just words and not definitive decisions and that there is a good chance the Trump administration back pedals on their threats.

In the FX market, this translated mostly into a solid demand for the greenback. The Dollar Index outperformed its peers all week - with the exception of Friday – as it rose more than 1.40% to above 95.50. However, looking at the big picture, the FX market has been mostly in range since mid-May. Indeed, for now the trade war is rather a war of words and investors do not really know what to expect.

With central banks in the rear-view mirror, market participants will pay more attention to political developments and trade tensions during the summer. There is therefore a good chance that risk aversion will prevail in the short to medium term. This situation would most likely translate into weak demand for the riskiest assets. EM currencies and equities will likely stay under pressure, while the buck will remain protect by its safe haven status for now.



Economics

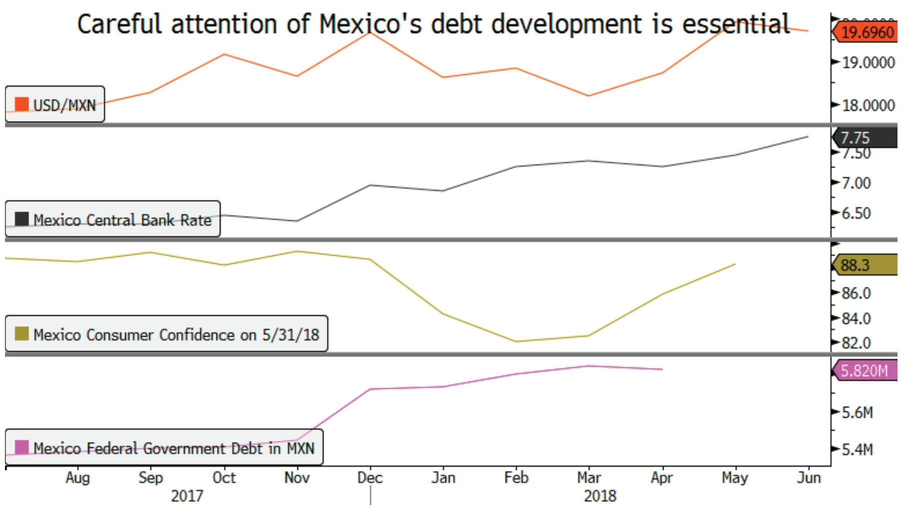
AMLO Could Be Mexico's Solution For NAFTA Talks

General elections in Mexico most probably remains the major event of the weekend. With the victory of leftist coalition candidate, Andrés Manuel López Obrador (AMLO), President of the National Regeneration Movement (MORENA), Mexico would offer itself a chance to start a new page of its history. Adding up with an absolute majority in the national congress, the MORENA coalition would become the most powerful party of the country, endowed with an absolute legislative right, an event that never occurred for the last three decades in the country. Accordingly, underlying issue would remain the risk of higher budget spending costs, since AMLO's majority in the Senate would allow him to pass all desired bills, effortlessly.

In what concerns NAFTA talks, AMLO could be the key of the negotiation. Indeed, Mexico might be missing an influential and decisive leader with a strong public presence with regard to diplomatic matter. With regard to NAFTA negotiations, it appears that López Obrador "way of working" would rely on strong opposition and negotiation termination threat if the agreement would be disadvantageous for the country, a position that remains in line with current Mexican Secretary of Economy, Ildefonso Guajardo Villarreal who is in charge of the matter.

Despite continued political and commercial uncertainties, it seems that the Bank of Mexico is thinking one move forward. The recent 25 basis points rise in overnight rate had a positive impact on the peso, which rose by 1.21% against the greenback after the announcement. However, In the event of further peso depreciation due to the elections (the effect should be priced in by now), the central bank would most likely intervene by raising the key rate by an additional 25 basis points (current: 7.75%).

Currently given along 20 due to a slight slowdown in USD strength, we suspect the USD/MXN (+0.73% year-to-date) to rise in the coming days, approaching the 20.25 range.



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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Return day	0.00%
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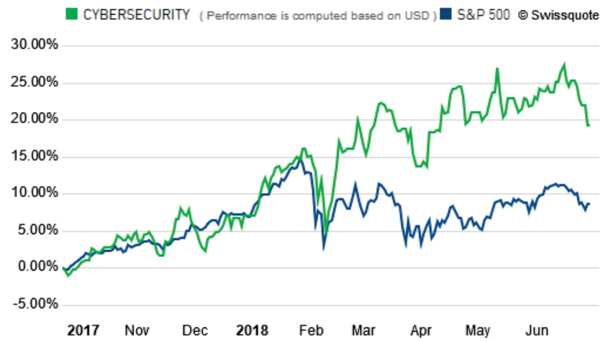

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