

# WEEKLY MARKET OUTLOOK

9 - 15 July 2018

## WEEKLY MARKET OUTLOOK - An Overview

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## Economics

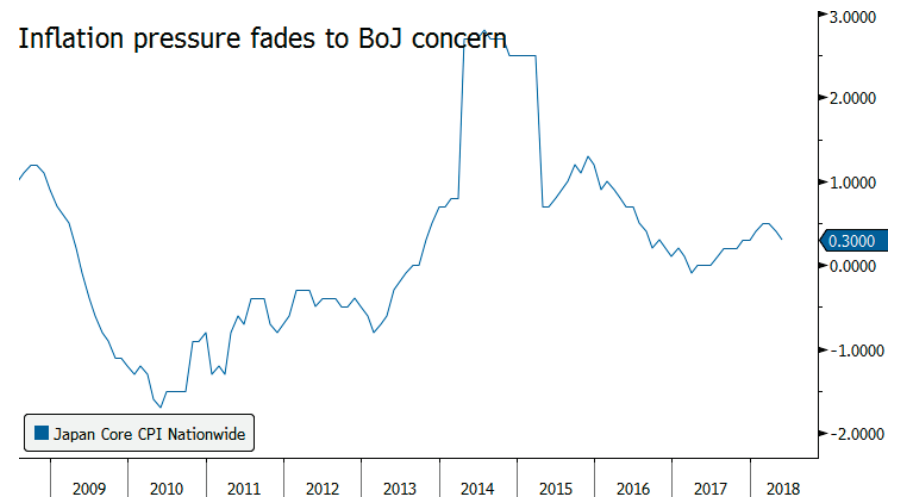
## USDJPY's Odd Strength

The direction of the USDJPY continues to confound FX traders. Without historical guidance from US short-term interest rates, finding a sustained drivers remain elusive. While global equities and EM asset have corrected and in light of growing US-China trade tensions, USDJPY remains well supportive around the 110 handle. It's true that regional risk from North Korea, protectionism and sell-off in Chinese stocks has decelerated in recent weeks. Yet with volatility at its height last week, we saw little follow through in the regional "go-to" safe-haven trade. Our view is that there is renewed expectation for BoJ ultra-loose monetary policy.

After a rocky period that threatened to dethrone Prime Minister Abe and thereof "abonomics", Abe's LDP control seems to be well entrenched. With approval rating recovering, September re-election bid looks secure. Improvement on the inflation front have all but vanished. CPI drop in March forced the BoJ to drop the April timing to reach the 2% target and downgrade their inflation outlook in June. Market are now expecting that at the July meeting the BoJ will further downgraded inflation protections. With 8 out of 9 BoJ board members, indicating downside risk to inflation forecasts, its likely persistently dovish meetings are in the cards. With no backup strategy for reenergizing inflation pressure the BoJ will continue the current inadequate policy.

The rally in Nikkei forced repatriation from overseas buyers. However, the reversal of domestics stocks are sending Japanese buyers abroad. Attractiveness of US over Japanese equities due to higher earnings revisions and stronger data have permitted Japanese investors to restarted allocations to overseas stocks. That's being said, we see that effectiveness of BoJ policy to weaken JPY is losing significance.

In addition, with the BoJ having bought "everything" perma-loose monetary policy is nearing the wall. At some point, regardless of inflation outlook, "Abonomics" first arrow of monetary easing will have to be abandoned. Strong resistance for USDJPY can be located at 111.00.



## Economics

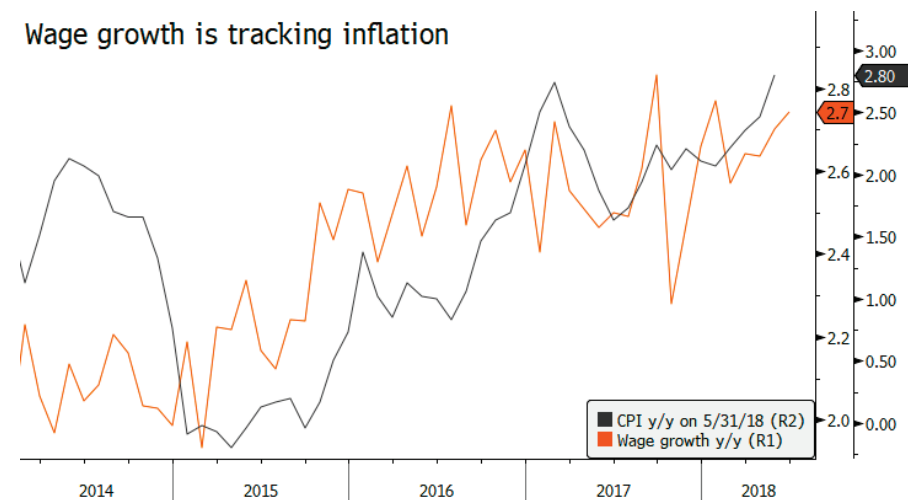
## Trade War Is On

Over the last few weeks, financial markets have been mainly driven by escalating trade tensions between the US and China. Last Friday, the White House took a first stab as Donald Trump imposed new tariffs on \$34bn of Chinese imports and announced it could lift the amount by another \$16bn to a total of \$50bn in the near future. He also threatened that it could reach \$550bn should China retaliates. The last threat didn't impress the Chinese government, as it is retaliating with tariffs on \$34bn of US imports and is planning to implement it immediately.

The lack of reaction in the FX market suggests that investors struggle to understand how the trade war will affect the global economy. Even though the dollar eased somewhat on Friday morning, most FX pairs were little changed after the announcement. Neither was a clear trend in the equity market. Surprisingly, investors reacted strongly to the publication of June Nonfarm payrolls. Indeed, despite the fact that the US economy added more private jobs than expected (213k versus 195k expected), the dollar fell sharply following the announcement. The unemployment rate ticked up to 4% (from 3.8% in May) amid an increased number of job seeker. However, it looks like market participants chose to focus on the lack of positive pressure on wage. Indeed, wage growth is the only missing piece of the full employment puzzle. Average weekly earnings increased only 2.7% (versus 2.8% expected), which means that on an inflation adjusted basis wage growth would stall if not contract in June (headline inflation rose 2.8%/y/y in May and is expected to have increased 2.9% in June – thanks to rising oil prices).

As trade tensions continue to escalate, foreign direct investment will continue to shrink in the US. It will therefore prevent employees to act to aggressively and will keep wage under pressure. In addition, the sanctions imposed by China will act as a drag on US growth. Therefore, we won't be surprised should the Fed use a more cautious tone going forward. Nevertheless, one has to keep in mind that this is just the beginning and that one cannot rule out the possibility that the two largest economies sit at the negotiation table.

Wage growth is tracking inflation



## Themes Trading

## Blockchain

**Why ?** Blockchain, the technology behind bitcoin, is drawing significant focus and investment from all corners of the globe. The distributed ledger technology arrived on the scene with a bang in 2018 as the world finally discovered its huge disruptive potential. Although the technology was initially largely misunderstood, the crypto craze left no one indifferent as the surge in crypto prices compelled investors to take a look. More than 20 years after the internet revolution, blockchain is set to become a worldwide, cross-industry, disruptive technology that will shake up a broad range of industries such as supply chain management, banking, real estate and even healthcare.

**What ?** At the moment, investing in cryptocurrencies is like investing in early stage start-ups. However, since these particular start-ups raise capital not through traditional channels but through ICOs (Initial Coin Offerings), they are not listed on traditional stock exchanges. This Theme therefore focuses on companies that gravitate around the blockchain economy and generate the majority of their revenues from this industry. The Theme encompasses companies operating in a broad range of areas such as venture capital and investment services, cryptocurrency mining, crypto exchange, consulting, software development and even hardware manufacturing.

**Takeaways:** We are still in the early stages of a major revolution that will change the face of many industries. It is only a matter of time before distributed ledger technology is widely adopted and gains the recognition it deserves.

The Blockchain Certificate is available for trading at :

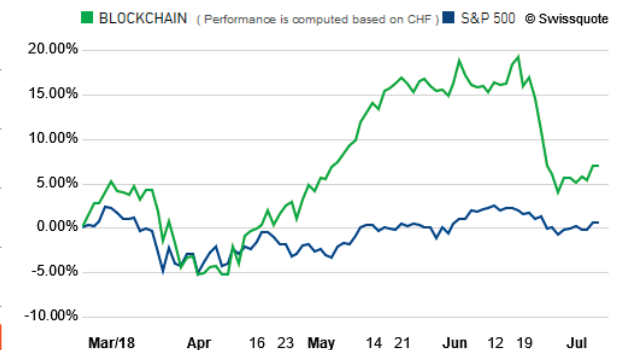
<https://www.swissquote.ch/url/investment-ideas/themes-trading>



Since inception	▲ 11.07%
1-month return	-8.73%
Return day	0.01%
Est. dividend yield	0.00%
Inception date	04/03/18

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