WEEKLY MARKET OUTLOOK

16 - 22 July 2018

Swissquote Bank SA | Ch. de la Crétaux 33, CP 319 | CH-1196 Gland | Switzerland
Tel +41 22 999 94 11 | Fax +41 22 999 94 12 | forex.analysis@swissquote.ch | www.swissquote.com/fx

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WEEKLY MARKET OUTLOOK - An Overview

Economics

Is Trade War Really A Good Thing For The US?

The uncertainty surrounding the trade war between the U.S. and China has eased recently after the two world largest economies have signalled their intention to sit at the negotiation table. In addition, investors also started to realised that effects of tariffs have substantially exaggerated. In the FX market, the US dollar benefited the most of the improvement in risk sentiment. Surprisingly, safe haven currencies resisted quite well, which suggests that investors are not completely at ease yet. Indeed, even though the first batch of tariffs have already come into force, it will take some time before we can see effects on the economy. For now, the quick escalation of tensions doesn't necessarily means we are going for a full trade war but rather a way to flex muscles in anticipation of upcoming negotiation.

Nevertheless, there is a big chance that certain of those tariffs remains in pace after the negotiations. The Fed Chairman, Jerome Powell, said it believe the US economy is "in a good place" right now but warned that escalation in tariffs between the US and its main trading partners could darken the picture. Indeed, the implementation of protectionist measures could have significant effects on inflation, investment and economic growth. The implementation of tariffs would be a double whammy as it could add upside pressure on inflation in the medium to long-term, while at the same time it will have a negative effect on growth, which would ultimately force the Fed hike rate less aggressively – if not put the tightening on pause for some time.

All in all, we believe that tariffs could prevent the Fed to continue its tightening cycle as planned, or even worse, it could push inflation higher while at the same time dampen economic growth. The latter scenario would be the worst possible scenario, as the Fed would have to bring down inflation by increasing short-term rate, which would ultimately affect negatively economic growth.

At the moment, market participants remain cautious as emerging market assets have been dismissed by most investors. Developed markets' equities ended last week slightly higher. Looking at the big picture, both the FX and the equity market remain range bound.

Economics

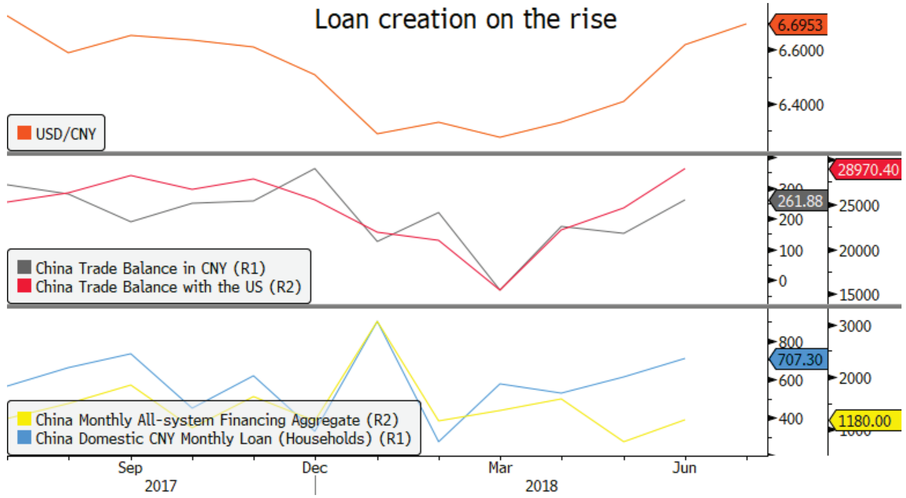
Are US Tariffs Effective ?

As the two largest economies continue to implement punitive commercial actions and the Chinese economy arrives at the edge of its possible tariff retaliatory measures (China’s imports from US accounted for USD 150 billion in 2017), trade surplus records are occurring in June.

Indeed, with a trade surplus estimated at USD 41.61 billion in June, its highest rate since the beginning of 2018, exports slightly higher (+3.10%) and imports substantially lower (+6%; prior: +15.60%), the Chinese economy lies in good conditions at first sight. Surplus with the US widens, estimated at USD 28.97 billion and highest since 1999 periods.

In fact, despite the evidence that US importers are inclined to squeeze their margins in order to satisfy the demand, Chinese exports remain in relative terms mostly oriented in Asia (approx. 46% in 2017) while the US, though it remains the largest trade partner, accounts for 29% of total exports. This suggests that the fate of Chinese economic growth will not be primarily bound to its exporting industry (e.g. manufacturing), but rather to its domestic demand. Since the credit risk from households and non-financial firms remains a major topic in the country and the government recently implemented stricter regulations to that regard, private consumption boost is expected to slowdown, thus causing a slackening in Chinese growth.

Partially contributing to the decline of the CNY, the People’s Bank of China is most probably planning to maintain monetary policy conditions loose for the time being, thus causing a depreciation on the CNY. USD/CNY trades at 6.6856 (year-to-date: +3%), currently trading at August 2017 range and expected to head along 6.70 in the short-term. Our year-end target lies along 6.80 for the pair.



Economics

Political Turmoil Takes The Ascendant Over Soft Eco Data

After a difficult week start for the British government, things seemed to stabilize at first sight. The departure of both David Davis, former Brexit Minister, and Boris Johnson, Foreign Secretary, already had a great deal of media coverage, pushing the cable below the 1.32 range, as worries of political disorder escalated to finally end up on a positive mark… At least until Trump's frontal criticism of Prime Minister May Brexit plan during the end of the week.

Indeed, it appears that May's government, composed mostly of soft Brexit supporters, will have the opportunity to negotiate with their EU partners smoothly and without having to count on disruptive tactics from both exiting Brexiteers colleagues. Furthermore, Brexit moderates from Conservative and Labour parties remain the absolute majority within the UK parliament and will therefore remain supportive towards that effort.

Nevertheless, the impact of further decline is lively. Despite a smooth assimilation on the side of the UK parliamentarians and the EU with regard to the White Paper plan published on Thursday 12. July 2018, and which was considered as the most important document after Brexit June 2016 referendum, May is not having respite. Trump's visit in the UK gives PM May some hard time, as the US President Interview with the Sun constitute a big impediment for political stability (despite Trump's "fake news" claim). Trump's threat of cancelling the awaited bilateral trade deal with the UK, if no hard Brexit is implemented, remains a shock for Ministers, which were counting on this key piece for supporting the transition process. Additionally, by affirming that Boris Johnson, former Foreign Secretary and advocate of a hard Brexit transition, would make a great PM, Trump is making a serious affront to current UK government.

Accordingly, the GBP got smashed on Friday trading session, and positive economic data figures during the week went ignored. For instance, month-to-month May GDP data written at +0.30% (prior: 0.20%), the decline in May trade balance deficit, as well as the monthly manufacturing production recovery, which signal an acceleration in economic activities, appear to be not considered by investors.

GBP/USD direction is indistinct but headwinds currently prevail. New round of talks with the EU starting next week could change the tendency. Accordingly, we would expect the pair to remain below the 1.32 range until then.

Themes Trading | African Consumer

Why ? The leading business opportunity in Africa is the continent's rapidly expanding consumer market. Africa's burgeoning consumer markets offer huge untapped potential for uniquely placed companies. With its rapidly expanding middle class, the continent is home to 1.1 billion people and will account for 20% of the global population by 2025. Well known barriers like political instability, diverse consumer behavior and poor infrastructure have delayed growth in consumer product-based companies. However, with the working-age population growing at 2.7% a year (the fastest rate of anywhere in the world), it is estimated that two-thirds of the projected 303 million African households will have discretionary income. With an average growth rate of 6%, Africa Co. is about to experience a massive explosion of its consumer pool. Furthermore, African consumers are young, willing to spend, and seeking to elevate their personal lifestyle by using new products. Demand for food and beverages will drive growth in consumption in a pattern similar to that seen in other emerging nations such as Brazil, Russia, India and China.

What ? This Theme focuses on consumer demand in the food and beverage industry across the whole of the African continent. We target companies focused on the fastest-growing urban centers and rising per capita income.

Takeaways: In spite of serious challenges, inventive companies have been able to make Africa a success story. With the fastest projected growth rate of anywhere in the world, demand for consumer staples will continue to expand. For those companies uniquely positioned to tackle local challenges, a massive opportunity awaits.

The African Consumer Certificate is available for trading at :

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

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1-month return	1.62%
Return day	0.00%
Est. dividend yield	0.00%
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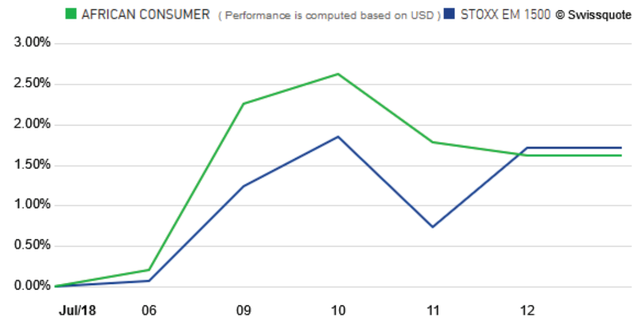

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