

WEEKLY MARKET OUTLOOK

6 - 12 August 2018

WEEKLY MARKET OUTLOOK - An Overview

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Economics

Lira in a "Death Spiral"

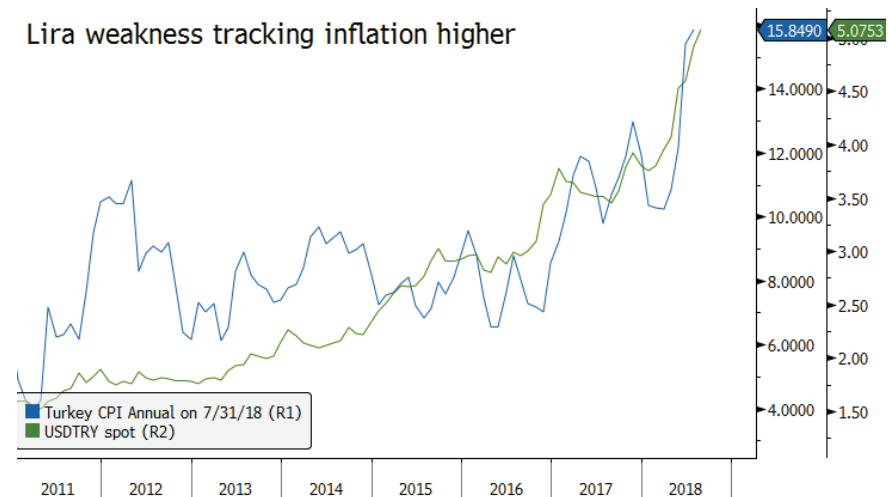
The Turkish lira remains the primary FX casualty in this risk-off environment. We are not seeing blind, across the board EM selling, but rather the select liquidation of currencies with reveal clear faults. Turkey with a heavy USD dominated debt-load has failed to play by international investors rules and are now facing the devastating consequence. The Turkish lira dropped to its weakest level as the White House indicated the US would impose sanctions on two minister of the Turkish government who were involved with the false detention of Pastor Andrew Brunson. Turkish authorities indicated Mr. Brunson is being held on terrorism charges. The violent reaction to the economically immaterial sanctions indicates just how on-edge investors are. The Turkish stock markets is the world's worst performer in local currency, bond yields have hit a record high and the lira has dropped around 25% against the greenback this year. Last weeks sanctions aggregated a situation were President Erdogan has suggested the removal of the central banks independence. Without policy control the CBT has been unable to address surging inflation. The CBT decision not to hike rates on July 24th ,despite market expectations, is evidence of the lack of freedom. The failure of correct governance in the eyes of investors has triggers the sustained rush to the exits.

The deadly combination of a puppet central bank and out of control inflation, sent USDTRY above 5 for the first time ever. Perhaps the lira's only saving-grace was the July inflation came in slightly lower than expected at 15.85% verse 16.30% (yet still above Junes read). However, Erdogans meddling in the CBT policy setting has prevents the bank from taking critical action to slow accelerating prices. Ergdogan has sacrificed price stability by stopping the central banks from raising rates in order to stimulate economic growth. Incredibly, Turkish interest rates at 17.75% has been too low to halt the mass exodus (real rate a paltry 1.9%).

Staggering interest rate rise considering Turkey started 2018 with one-week repo rate at just 8%.

Is the lira collapse over? In our view not likely. The CBT would have to raise rates right now (not at September meeting) with a substantial hike of 300-500bp. This would incentives investors but more importantly highlight the CBT control of policy setting. However, interest rates at 20% would all but kill the Turkish economy. Erdogan is unlikely to let that happen.

Lira weakness tracking inflation higher



Economics

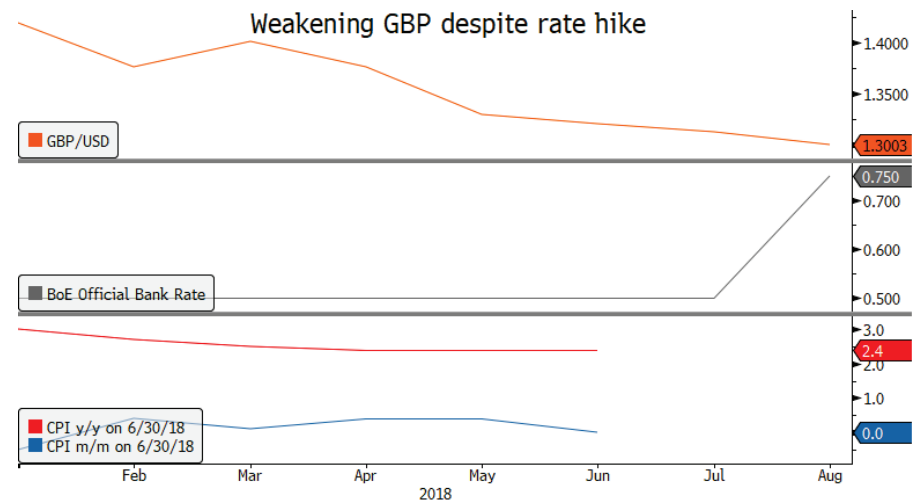
BoE Signals Firm Intentions To Support The UK Economy

Voting unanimously (9-0) to raise its Bank Rate by 25 bps, the Bank of England (BoE) is communicating to market participants its intention to stabilize the British economy at all costs. The BoE benchmark rate is given at 0.75%, a level not seen since 03. March 2009 and which could have been different if strictly looking at economic metrics.

Indeed, the BoE is not expected to start a round of additional rate hikes for the forthcoming meetings, though the opposite would be realistic, if economic conditions would rapidly deteriorate (i.e. uncertainty regarding PM May's ability to find a fully supported Brexit agreement in time or trade war concerns). Although the British economy is in shape, arguments for maintaining rates untouched are present. Inflation, private consumption (ex. fuel) and wage growth are slowing down, while unemployment rate remains flat. Truth is, the economy will be coping with the decision, but no further tightening is expected before the Brexit situation (official deadline set in March 2019) is solved. In any case, if a no-go decision was chosen last Thursday, the GBP would have endured a sharp drop, thus causing further damage to the UK economy.

Accordingly, since BoE's long-term equilibrium rate (the rate at which monetary policy is neutral – between tight and accommodative), lies between 2% - 3% according to the report, there is still a long way to go until corresponding range is reached. For these reasons, we maintain our view that the BoE will be maintaining its dovish tone until Q1 2019 (+/- end of Brexit talks) and will be carefully monitoring its evolution along with economic growth and inflation (projections for 2018 maintained at +1.40% and +2.30 respectively).

Despite BoE Governor Mark Carney attempt to play down concerns over Brexit stalemate, the cable declined following the announcement, trading at 1.3017 (-0.84%) during Thursday closing session. Trading along 1.30, GBP/USD is expected to head along 1.2975.



Themes Trading

Oil Recovery

As oil market dynamics continued to tighten, certain companies are better positioned to take advantage of improving oil prices. This Oil Recovery theme is designed to exploit rising prices by selecting companies mostly active in the upstream segment, which would benefit the most from a barrel above \$60. To enhance risk diversification, the portfolio is structured using an equally-weighted risk contribution approach. In summary, this means the allocation is calculated in such a way that each stock contributes on an equal basis to the portfolio's total risk. This approach allows for lower volatility and, in so doing, increases the risk/reward ratio.

The Oil Recovery is available for trading at :

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



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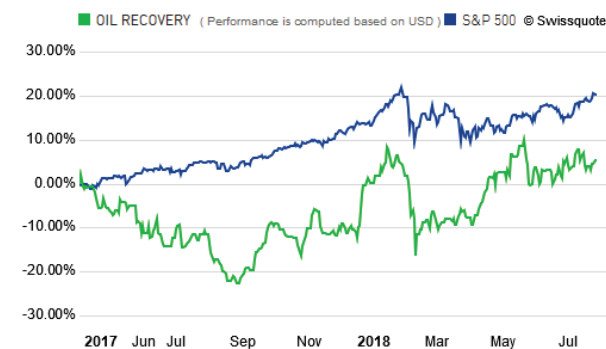
MID TERM HIGH RISK

▲ 4.04% 1-month return

Since inception	▲ 5.28%
1-month return	4.04%
Return day	0.00%
Est. dividend yield	1.12%
Inception date	04/04/17

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