

WEEKLY MARKET OUTLOOK

13 - 19 August 2018

WEEKLY MARKET OUTLOOK - An Overview

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Economics**Swiss Franc Back As Safe Haven Trade**

Foreign exchange markets are in a full-blown risk off trading. Extreme market pressure on Russia and Turkey has spread fears of contagion. Markets are directly worried about Europe exposure to Turkey. USDTRY surges above 6.00 triggering chatter of a lira crisis. The primary concern has been the intervention of President Erdogan on the central banks independence. Limiting the prospect for the bank to halt the capital exodus. With inflations expected to rise and interest rates now stuck fears over the funding of massive USD denominated current account deficit grows.

In addition, over the next few weeks markets will turn their focus back on Italy. The new government is expected to provide a budget plan for 2019 indicated how closely officials would stick to their expensive spending promises. Any extreme unfunded deficit spending plan will likely add to domestic turmoil and conflict with the EU.

Mounting uncertainty in Europe has driven investors back into CHF. Following Europe electoral affirmation for deeper integration the EMU and Euro was viewed as stronger combined lower political risk. The result was steady Euro appreciation. EURCHF reached the psychological 120.00 threshold. The SNB shifted their commentary from "highly overvalued" to "highly value", while balance sheet expansion slow suggesting a halt to FX intervention.

The CHF title of safe-haven currency marginally eroded as geopolitical and trade tensions had limited effect on investor's appetite for CHF. CHF become regionalized becoming the safe haven choice during rising European risks. This new reality was highlighted by CHF strengthening during Italian elections. The concentration of European centric risk in the current environment has sent EURCHF down to 113.98. The SNB has never drop its communication of standing ready to intervene in the currency markets if necessary. We doubt the SNB will stand in front of a European crisis to secure CHF just it does bring up the question of where the SNB pain threshold (112, 110, etc).

Economics

PBoC Strong Signals Provide CNY Relief

Under fire, the CNY strongly depreciated since mid-June 2018 with intensification of trade disputes between China and the US being the moto. Facing strong growth impediments, the Public Bank of China (PBoC) is now forced to change its priorities, moderating its deleveraging plan and focusing on supporting economic growth instead. Q2 figures remain firm, with Q2 GDP growth maintained at +6.70% while trade surplus stays firm. But the slackening in Chinese consumption, fixed asset investment and inflation confirm that the pace of economic growth will be slowing down in coming quarters.

Indeed, further tariffs implemented on both side of the Atlantic won't necessarily be conducive to economic expansion. In August, the US trade representative announced it will more than double down prior 10% duties on \$ 200 billion worth of Chinese goods at 25%. The measure was followed by Chinese imposition of \$ 60 billion of US goods, which was shortly countered by a second round of taxes of \$ 16 billion to be effective on 23. August by both sides. Therefore, at current state, there is probably little expectations to see respite in current mounting escalations.

Accordingly, in the middle of all this, the PBoC cannot remain silent. The recent decision to re-introduce a 20% reserve requirement on forward CNY short positions for financial institutions is a first move of capital controls, which shows a strong signal of the Chinese central bank determination to maintain the onshore currency stable. The decision follows an intraday rise of the USD/CNY at 6.85 and appears to be conclusive by now, although this has not always been the case when looking back in 2015.

Looking forward, we expect current trade tensions to remain. As long as both sides dig into entrenched positions without pushing diplomatic procedures forward, both nations will be paying the price. Even though the Chinese economy remains on track, a risk of slackening in economic growth is not gone. The PBoC will be maintaining a dovish stance and monitor the CNY development, intervening on foreign exchange and apply extensive capital controls if necessary. On US side, higher import prices for Chinese goods would most likely erode current strong domestic demand and aggravate ongoing trade deficit situation along with inflation.

Currently trading along 6.85, USD/CNY is expected to trade sideways. Psychological resistance at 7 is maintained.



Economics

NZD In The Doldrums Amid Dovish RBNZ

It has been a rough week for the New Zealand dollar – just like most of G10 currencies – as the Kiwie lost more than 2.40% against the greenback and fell as low as \$0.6571, its lowest level since 18 March 2016. However, the week had gotten off to a good start amid stronger inflations expectations. Indeed, the last RBNZ survey showed that inflation expectations increased in the third quarter. Business managers anticipate a moderate pick-up as average annual inflation expectation increase to 1.86%/y/y in the third quarter compared to 1.8% in the previous one, which is still below the central bank’s mid-range target, but of good omen for in the longer term. Two-year inflation expectations rose marginally to 2.04% from 2.01% three months ago. The Kiwie rose on the news but the euphoria didn’t last long as the RBNZ dashed hopes of a stronger Kiwie.

As broadly expected the monetary institution maintained the Official Cash Rate at record low 1.75%. However, investors didn’t expect that Adrian Orr would delayed the timing for the next rate hike. The RBNZ is now expected to wait until the third quarter of 2020, which corresponds to a delay of one year compared to the May forecast. In addition, Governor Orr said that the RBNZ leaves the door open for a rate cut, should the situation warrant it. After such a dovish surprise, the Kiwie started its downward spiral towards 0.65. NZD/USD broke its multi-year support at \$0.6676 (low from 30 May 2016) but stabilized around \$0.6580.

Overall, the greenback appreciated sharply against all of its peers, with the exception of the Japanese yen that is protected by its safe-haven status, amid raising protectionism fears, no-Brexit deal and rising tensions in Turkey. The Kiwi was no exception and has been hit hard by the deterioration of the risk sentiment. We remain convinced this is a spontaneous reaction and that the market will return to normal as the risk sentiment improves.

NZD/USD fell amid worsening risk sentiment



Themes Trading

Cannabis

Why?

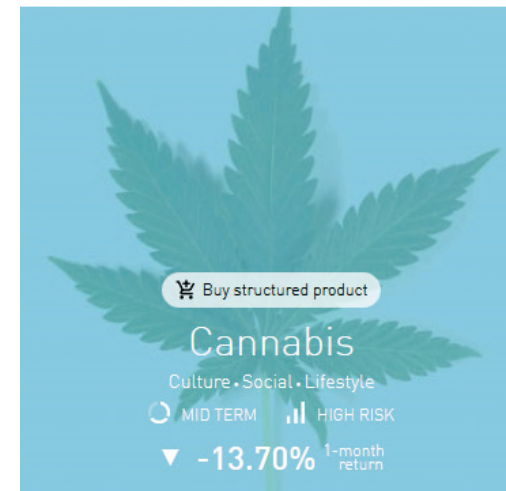
As one of the fastest-growing industries, the cannabis industry is one that should not be forgotten! With sales estimated to reach \$75 billion by 2030, cannabis is set to become a very lucrative segment in the years ahead. Taking effect in Canada as early as 2018, the legalization of recreational pot is now a reality – this time supported by real economic fundamentals. Significant investment and revenue potential is coming for the emerging marijuana sector, which analysts say could eclipse North American soda sales by 2030.

What?

This theme encompasses all the possibilities offered by the flourishing cannabis industry, mostly focusing on North American cannabis pure-player firms with high growth potential. Ranging from early-stage production and distribution to final consumption for personal and medical use (i.e. medicines, pain relief, cancer treatment, etc.), our cannabis certificate provides full coverage of the marijuana industry, allowing for the highest expected returns.

Takeaways

The long-awaited legalization of cannabis is taking place. Be an early mover in this evolving new product trend: join the cannabis revolution now!



Since inception

▲ 3.45%

1-month return

-13.70%

Return day

0.00%

Est. dividend yield

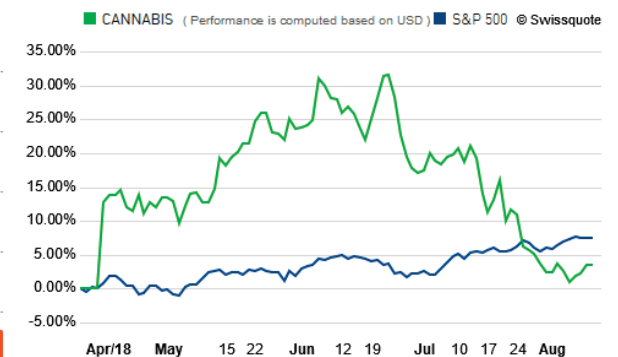
0.00%

Inception date

10/04/18

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