SWISSQUOTE

WEEKLY MARKET OUTLOOK

14 - 20 January 2019

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WEEKLY MARKET OUTLOOK - An Overview

Economics

Unexpected Bullish Turn

Global trade, earnings downgrades, Brexit, and Fed policy cast a long shadow, but at the same time, there are signs that point to opportunities. US-Chinese trade talks ended and optimism about the outcome sent the Chinese yuan high and the US dollar lower yesterday afternoon. Dovish Fed speakers were followed by dovish FOMC Minutes that don't sit comfortably with the comments Chair Powell made at the press conference after December's meeting, but the dovish tone does support the risk bounce and the dollar's softness. The combination of Fed dovishness and trade harmony is risk-friendly and dollar-negative, even if Asian equities are threatening to run out of steam. While the U.S. dollar looks as though it has peaked, equity valuations still look promising, despite the inevitable volatility ahead and the risk of a U.S. recession is not on the horizon so far. There are opportunities for the prudent investor to take advantage of an environment that overall remains relatively supportive. Looming risks faded slightly over last week providing an opportunity for asset to recover. It’s fitting that two primary themes for 2019, US-China trade relations and Fed monetary policy path, would dominate the news flow at the start of the new year.

US & Chinese trade talks has ended and broad optimism sent the CNY higher and USD lower. While no hard agreements were released, it was likely these low-level discussions were setting up a positive outcome for their bosses. Significantly, in the near term, higher-level discussion are planned between Liu He and Lighthizer & Mnuchin possibly on 30-31 January. From the buzz, there is growing expectations that the US will suspend traffic implemented in 2018 in order to give China time to announced significant reforms. There is meaningful risk that a temporary settlement will send global sentiment higher driving foreign currency inflows (especial portfolio investments). The PBoC is not looking for a sharp appreciation indicated official inventions before the yuan becomes too strong. However, the significant undervaluation’s in the Shanghai composite would provide an opportunity for investors.

Elsewhere, Federal Reserve Chairman Jerome Powell predicted no recession in 2019 and stated the FOMC will be patient in additional interest rate tightening. The Fed speaker’s dovish tone supported the risk bounce and broad USD weakness. Highlighting the markets true focus, traders shrugged off the conflict between Trump and Democrats over the government’s shutdown. S&P 500 index nears 2600, bullish break would signal reversal of correction phased while failure would emboldened bears.

Economics

UK MPs Go To The Polls With A Clear Idea In Mind

One week before the House of Commons is expected to debate and vote on the Withdrawal Agreement, it seems clear that the likelihood of seeing UK MPs voting in favor of May's divorce deal as rather low. Despite the effort made by Theresa May to receive concessions from Brussels and intensified talks with President of the EU Council Donald Tusk and President of the EU Commission Jean-Claude Juncker, hopes of complacency from the side of the EU is subdued. Only assurances rather than guarantees can be offered.

Indeed, a vote in disfavor of the Withdrawal Agreement appears most likely on 15. January 2019 while the British pound, which recently made gains against the dollar (week-to-date: +0.60%) is expected to reach technical support of 1.25. As no alternative solutions appear to be favored among MPs, it seems pretty clear that in the event of a refusal, the House of Commons would be paralyzed and require further debates to come up with a consensus. PM May would be facing further pressure, as the date of the divorce of 29. March 2019 remains in place and the meeting of the EU General Affairs Council, taking place in 19. March 2019, would require a fully approved solution from the UK side before it could give its call. For these reasons, chances are that MPs would favor an extension of Article 50 in the end, which would postpone the deadline by end-November 2020 earliest.

Accordingly, in the scenario of an extension period, the most likely scenarios perceived are either a new referendum or a newly negotiated trade agreement, in a similar fashion than Norway. Under current circumstances, it appears difficult to estimate the direction of the British pound. We would therefore consider a sharp drop in GBP following upcoming vote as a first step while the second phase would strongly depend on whether the EU or the UK will be providing a constructive solution by 26. February latest (incl. 21 days objection period) after the refusal.

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