

Weekly Market Focus

21 June 2017

HINDUJA BANK
SWITZERLAND

CONTENTS

Asset class review.....2


Forex.....3

Views from the trading floor.....5

Calendars.....6

Contacts.....7

Disclaimer8

Follow us on
 LinkedIn



ASSET CLASS REVIEW

Gold price has been volatile of late. First correcting following Emmanuel Macron' victory and then rallying as demand for safe-havens picked up on the back of geopolitical issues and as physical demand has shown some signs of recovering.

Gold & Silver

Gold prices corrected after Emmanuel Macron won the French election as it gave Europe a shot of political stability, which reduced demand for safe-havens.

But, the respite did not last long as other concerns have bubbled up to the surface. There are now diverse factors worrying the markets, including President Donald Trump's domestic and international policy, the start to UK/EU Brexit negotiations, a possible early election in Italy and raised Middle East tensions over Qatar. In addition, there is potential for broad market corrections prompted either by the market becoming disappointed that some key US election promises have not been followed through, or by another slowdown in China's economic growth.

Numerous cross currents are influencing the global markets. On the one hand, strong equity markets suggest robust confidence, but record high equities combined with political uncertainty in the UK, Europe and the US raises the risk of triggering a market correction. The bond market is also strong with bond yields low, but that is looking at odds with the market expectation for interest rate rises in the US and a move towards the Fed cutting its balance sheet. In addition, geopolitical activity may have died down in recent weeks, save the recent pick-up in tension surrounding Qatar, but with North Korea flexing its muscles by test-firing missiles the drop in rhetoric between the US and North Korea may be something to worry about.

Physical demand from India and China, the world's two largest consumers, is on the rise as it recovers from the weakness seen in 2016. In India, the market is recovering from the disruptions caused initially by the jewellery retailers strike and then by the cash crunch caused when key 500 and 1000 rupee banknotes were demonetized. The recent announcement that the Goods and Service Tax (GST) will be 3 percent – which is less than feared – should be good for demand, although the surge in imports in recent months is likely to have seen considerably restocking.

Demand in China also seems to be rebounding, with consumption reportedly up 15% in the first quarter, driven by demand for Gold bars, while jewellery buying remained subdued.

Silver has had a volatile time of late. Prices fell back sharply (14% from the April high) on fund long liquidation, but prices are rebounding on ETF buying and fund short covering.

Silver imports in India jumped in April, but that may have been due to traders restocking ahead of the Goods and Service Tax announcement – imports are likely to ease for a while.

FOREX

The mild Risk-on tone sees the USD rebound off last week's lows. The Greenback now has potential to rally further, helped by hawkish Fed commentary, rising US bond yields and market positioning. Precious metals have turned lower, our downside target for Gold at 1240/43 noted last week has been achieved. Movement in other markets has seen the Euro lose its upside momentum, Oil is lower, and as a consequence so are commodity currencies. In central bank space, the Euro is still digesting Draghi's dovish comments. In the US Fed member Dudley, seen as a leader on the FOMC, sounded pleased with the rate hikes so far, and was against a pause in the tightening cycle allowing the USD to appreciate. Rates markets have pushed back slightly the next Fed tightening from September to December however as markets hedge the high probability discounted in other markets. Dudley's comments overshadowed Fed's Evans more dovish stance who would prefer to wait for a "several months" with better inflation data before the next rate step. This week we have meetings from the Norges CB and RBNZ, both expected to leave monetary policy unchanged.

EUR

We're back again, like an elastic band, to below the 1.1150/60 pivot. If you blinked, you missed the upswing. The Euro having failed again to break higher through 1.1300 has corrected 1.5% lower. Markets are losing confidence in a 2017 tapering from the ECB, especially considering Draghi's latest note on inflation. We can now assume therefore, that unless core inflation picks up in the Eurozone, an announcement on QE tapering is far from imminent. Markets are unwinding normalisation trades driving EURUSD lower. The common currency is now likely to remain in the lower half of the trading range against the USD that we highlighted last week, 1.11 to 1.13, barring any renewed hawkish rhetoric from ECB council members. There is little on the data front so the cross is likely to be driven by the USD side of the price. Technically the picture has become more pessimistic. Last week we saw a shooting star pattern on the charts followed by a down day (lower lows) signalling a failure of the attempted extension higher. This reversal pattern only adds to bullish concerns. To the topside, the 1.1300 Rubicon for EURUSD wasn't crossed and traders were quick to unwind longs. This week marks another bearish outside day and momentum indicators signal further weakness is in store. Near term support is at 1.1110/00. Below that, 1.1025 (May17 High and 38% Apr/June Fibo) and 1.0990 55 mda. Confidence for bulls will reignite if prices trade higher through 1.1210, with next resistance at 1.1300. The summer range can now be broadly defined by the levels, 1.0990/1.1310. We prefer to buy on dips towards 1.1100/1.1080, playing this range.

GBP

GBP too has suffered this week. The UK has seen nothing but bad news of late notably, terrorist attacks, political uncertainty and now difficulties in the Brexit negotiations at stage 1. BoE Carney spoke on Tuesday saying that now is not the time raise interest rates dashing recent hopes of an early 2018 hike. Mr. Carney warned of anaemic wage growth and subdued inflation pressure. He also highlighted the level of uncertainty surrounding the UK's talks to exit the EU. In short he signalled that the BoE won't be moving on rates anytime soon. The forward interest rate swap curve quickly pared back early 2018 hikes to now just a 28% probability, down from 68% last week. This comes in the wake of the recent 3-6 vote split by the BoE MOC which saw the pound rally to 1.2830. MPC member Forbes comments had also fuelled the bulls in saying that she expects wage growth to pick up and that the spike inflation to 2.9% isn't temporary. Carney comments however have erased these gains pushing cable lower to the 1.2630/20 support area.

Technically, GBPUSD now also looks vulnerable to downside pressure. It is hard to conjure bullish appetite from here. We prefer to wait for stronger support levels at 1.2560, the 200 mda before assuming upside risk. Lower prices are in store over the near term with the path of least resistance to the downside. 1.2550/60 guards the Oct 2016 trend line support area at 1.2450/70.

JPY

Risk-on sentiment has pushed USDJPY higher to reach levels near 111.80, capped by the Ichi-moku cloud resistance. Caution for bulls is needed here as the overall trend is still the broad Year to Date bear channel. The recent upswing can be construed as just a corrective wedge in the overall bear move. Against this argument we have seen prices bounce off the 200 mda at 111.00. Risk appetite has picked up and yields on UST's has stabilised.

On the Yen side of the price, the importance of last Friday's BoJ statement for the valuation of JPY has not yet been fully discounted. Last week the BoJ indicated that

it stood by its JPY80trn QE target. The BoJ's intention is to keep real rates low, allows asset prices to stay supported and JPY to weaken.

We favour Buy on dips 110.80/111.05.

NZD

This week sees the RBNZ meet to decide on monetary policy. The central bank is likely to reaffirm the status quo and leave the official cash rate unchanged at 1.75%. Just to note, inflation is at 2.2% year and back in line with the mid-point of the 1-3% target range. The growth outlook appears stable. A combination of net migration and falling unemployment is underpinning consumption, while capping wage pressures. The renewed support for USD and concerns for commodity currencies due to the fall in physical prices in this sector has stalled the rally in NZD. Technically the price struggles with the 76 % of the Feb-May down move. There is negative divergence in the RSI and momentum indicators are turning. Over the past few sessions we have seen two failed attempts to trade higher, marking 2 shooting star patterns, signalling exhaustion for this cross. We will be watching closely the 0.7200 support area and will sell on any follow through weakness. On a confirmed break of the trend I target a correction lower to the mar 2016 and 200 mda support area of 0.7100. Stop at 0.7260/75.

VIEWS FROM THE TRADING FLOOR

Equity

US markets remains in overbought territory and are losing momentum since prices are getting printed higher on reducing volumes;

The S&P 500 remains close to its highest level but some sector are already turning around; We believe the index could lose up to 100 points in the correction.

The VIX index rebounded from its lows but remains at a very attractive level. We still recommend in buying some protection.

The banking index has been consolidating from 140 to 130 over the past 30 days. If 129.50 holds, we could see further upside in the current range;

The EuroStoxx 50 is approaching the key monthly resistance level at 3'600. Level that needs to be monitored during month end. A break on the upside could lead to more upside;

As expected, the Nasdaq has fallen from an overbought level. There remains ample room for further technical correction and the Nasdaq could go back to test its breakout level at 5'450.

EQUITY

Developed countries

Total return - 1 Week

SMI	↑	1.6%
Euro Stoxx 50	↑	0.2%
DAX	↓	-0.2%
FTSE 100	↓	-0.3%
S&P 500	↑	0.1%
Dow Jones	↑	0.4%
Nikkei 225	↑	1.3%

Developing countries

Russia/Micex	↑	0.7%
India/Nifty 50	↑	0.2%
China (HK)	↓	-0.6%

↑ - Upward move ↓ - Downward move

FIXED INCOME

Developed countries

	2-year Yield	10-year Yield
USA	1.3%	2.2%
UK	0.1%	1.0%
Germany	-0.7%	0.3%
France	-0.5%	0.6%
Italy	-0.3%	1.9%
Spain	-0.3%	1.4%
Switzerland	-0.9%	-0.2%

Developing countries

	2-year Yield	10-year Yield
Russia	2.0%	4.1%

COMMODITIES

Total return - 1 Week

Crude Oil	↓	-13.3%
Gold	↓	-0.9%

CALENDARS

Economic Events

Date of release	Domicile	Event	Period	Actual	Estimated
22 June 2017	US	Initial Jobless Claims	17 June 2017	240k	237k
22 June 2017	MX	Overnight Rate	22 June 2017	7.00%	6.75%
23 June 2017	CA	CPI YoY	May	1.50%	1.60%
26 June 2017	GE	Ifo Business Climate	Jun	--	114.60
27 June 2017	IT	Manufacturing Confidence	Jun	--	106.90

Company Earnings

Date of release	Domicile	Company Name	Period	Estimate EPS
21 June 2017	US	Oracle Corp	Q4 17	0.78
22 June 2017	US	Accenture PLC	Q3 17	1.52
28 June 2017	US	Monsanto Co	Q3 17	1.78

Contacts

Geneva – Headquarters

Hinduja Bank (Switzerland) Ltd

Place de la Fusterie 3bis
1204 Geneva, Switzerland
Tel. +41 58 906 08 08
Fax +41 58 906 08 00

Branches

Zurich

Florastrasse 7
8008 Zurich, Switzerland
Tel. +41 58 906 05 05
Fax +41 58 906 05 06

Lugano

Viale Serafino Balestra 5
6900 Lugano, Switzerland
Tel. +41 91 910 43 43
Fax +41 91 923 55 73

Representative Offices

London

Amas Investment &
Project Services Ltd
Room no: 117,
First Floor, Regus,
100 Pall Mall,
London SW1Y5NQ
Tel. +44 20 7321 5642

Paris

Rue Galilée 33
75116 Paris, France
Tel. +33 1 44 43 52 36
Fax +33 1 40 70 03 79

Subsidiaries

Switzerland

Berafina AG
Münchensteinerstrasse 43
4001 Basle, Switzerland
Tel. +41 61 225 45 45
Fax +41 61 225 45 25

Rowena AG

Grenzstrasse 24
9430 St Margrethen, Switzerland
Tel. +41 71 747 49 59
Fax +41 71 747 49 51

Dubai

Hinduja Bank (Middle East) Ltd
Dubai International Financial Centre
Building GV 10, 2nd Floor, Unit 5
Dubai, UAE 506783
Tel. +97 14 436 65 88

Mauritius

Hinduja India Mauritius Holdings Ltd
HBS Trust Services (Mauritius) Ltd
1st Floor, Manor House Cr. St. James
Chazal Street Port Louis, Mauritius
Tel. +230 208 75 75
Fax +230 208 75 74

USA

Hinduja Capital Advisors Inc
520 Madison Ave., 34th Floor
New York, 10022, USA
Tel. +1 212 355 07 55
Fax +1 212 752 73 12

UK

Amas Investment & Project Services Ltd
Room no: 117,
First Floor, Regus,
100 Pall Mall,
London SW1Y5NQ
Tel. +44 20 7839 4661
Fax +44 20 7839 5992

India

Paterson Securities Pvt Ltd
Bhavani Mansion 3, 4th Lane
Nungambakkam High Road
Chennai - 34
India

Cayman Island

Hinduja Bank & Trust (Cayman) Ltd
c/o P.O. Box 2407GT
Grand Cayman
Cayman Islands

Publisher

Hinduja Bank (Switzerland) Ltd

Place de la Fusterie 3 bis

1204 Geneva, Switzerland

Tel. +41 22 906 08 08

Fax +41 22 906 08 00

www.hindujabank.com

info@hindujabank.com



Disclaimer

The information in this publication was developed using data which Hinduja Bank (Switzerland) Ltd assumes to be accurate; nevertheless, Hinduja Bank (Switzerland) Ltd accepts no liability and offers no guarantee. The availability of such information does neither constitute a recommendation nor a solicitation to buy or sell any of the products and services discussed herein. Statements made in this publication can be changed without prior notice. The Bank or its subsidiaries or affiliates cannot be engaged in any legal action, claim or dispute for any result, performance, losses or any other reason linked to any information provided in this document. Moreover, the content is not intended for individuals (or entities) who (which), by reason of their nationality or domicile or for any other reason, are subject to foreign regulations prohibiting access to banking services or investment instruments via one or several distribution channels, or prohibiting or restricting the use of any information provided in this document.

© Hinduja Bank (Switzerland) Ltd, Geneva 2017