The Weekly Market View

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Swiss National Bank's currency move crazy or confidence booster?

The Swiss National Bank (SNB) will no longer unlimitedly buy euros at 1.20 Swiss francs. As a result the Swiss franc is now up 17% versus the euro and the Swiss stock market is down 15%. The US dollar also further strengthened on the news, while US Treasury yields further dropped only to recover on Friday. The SNB's move will inevitably carry hardship for Switzerland's economy. Yet, by de-pegging from an emergency measure that was introduced in the midst of the euro-crisis, it also signals a return to normality, thus a vote of confidence in the resilience of the Swiss economy and implicitly – but more important for global investors – the capacity of the oil price drop to mitigate the incipient global slowdown..

Watch global PMIs and ECB announcement: time to buy Swiss equity?

The US and the Euro-zone PMI indicators are expected to score relatively well, which should lead to some stabilization in equity markets and yields, possibly also in the oil price. The QE announcement by the ECB might be slightly disappointing. Thus the euro should recover a bit. If global growth will not be derailed in 2015, Swiss equities present an interesting buying opportunity.

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Past week global markets' performance

Index Snapshot (World Indices)

Index	Latest	Weekly Chg %	YTD %
S&P 500	2,019.4	-1.2	-1.9
Dow Jones	17,511.6	-1.3	-1.7
Nasdaq	4,634.4	-1.5	-2.1
DAX 40	10,167.8	5.4	3.7
Nikkei 225	16,864.2	-1.9	-3.4
FTSE 100	6,550.3	0.8	-0.2
Sensex	28,121.9	2.4	2.3
Hang Seng	24103.5	0.8	2.1
Regional Markets (Sunday to Thursday)			
ADX	4564.0	0.1	0.8
DFM	3889.1	4.6	3.1
Tadawul	8458.7	2.1	1.5
DSM	11924.9	-3.6	-2.9
MSM30	6585.35	4.2	3.8
BHSE	1429.9	0.2	0.2
KWSE	6619.6	1.7	1.3
MSCI			
MSCI World	1,675.2	-1.3	-2.0
MSCI EM	957.5	-0.1	0.1

Global Commodities, Currencies and Rates

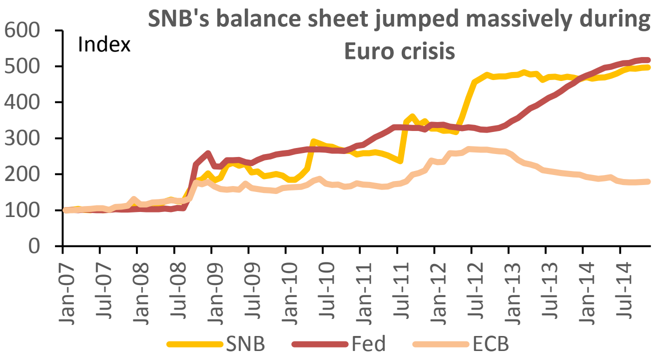
Commodity	Latest	Weekly Chg %	YTD %
ICE Brent USD/bbl	50.2	0.1	-12.5
Nymex WTI USD/bbl	48.69	0.7	-8.6
OPEC Baskt USD/bbl	43.1	-4.5	-17.0
Gold 100 oz USD/t oz	1280.5	4.7	8.1
Platinum USD/t oz	1267.1	2.7	4.9
Copper USD/MT	261.7	-5.0	-7.4
Alluminium	1840.25	2.6	0.4
Currencies			
EUR	1.1567	-2.3	-4.4
GBP	1.5150	-0.1	-2.7
JPY	117.51	-0.8	1.9
CHF	0.8587	-15.3	15.8
Rates			
USD Libor 3m	0.2566	1.0	0.4
USD Libor 12m	0.6099	-2.6	-3.0
UAE Eibor 3m	0.6771	0.0	0.0
UAE Eibor 12m	1.0157	0.0	0.0
US 3m Bills	0.0152	-42.0	-57.2
US 10yr Treasury	1.8368	-5.6	-15.4

Please refer to the disclaimer at the end of this publication.

Time to buy Swiss equities?

Switzerland does not want to become an unofficial member of the Euro-zone

By declaring that it would buy unlimitedly euros at 1.20 Swiss francs, the Swiss National Bank (SNB) has stacked up – during the worst Euro-crisis months preceding Draghi's "Whatever it takes" speech – hundreds of billions of euros. Over the last two years the threat had worked and was no longer being tested by the market. As such the SNB's balance sheet had stabilized at slightly above 500 billion Swiss francs (which was still more than 80% of the country's GDP).



Source: Bloomberg

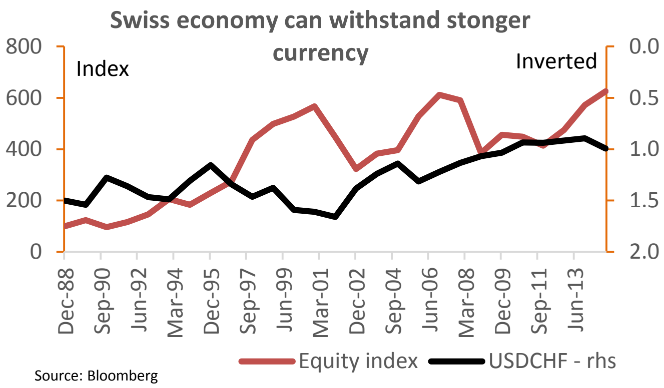
In some way the SNB had no option but to act

Critics argue that by allowing the Swiss franc to float, the SNB – after having booked a massive loss on its euro reserves – will now paradoxically be forced to buy more euros since there is no longer a credible floor below which speculators were unwilling to test the Central Bank. It is indeed true that the SNB believes that the Swiss franc is right now overshooting. It is, in fact, overvalued in real terms, albeit to a lesser extent than in 2011. At some stage the SNB will want to prevent an excessive appreciation of the Swiss franc. Yet, one could argue that imminent ECB QE – combined with US dollar strengthening against the euro – would anyway have exercised upward pressure on the Swiss franc against the euro. At least now speculators must do so at a higher cost, also because the SNB has further raised its already negative rates. The SNB could not and would not – at least not without violating its mandate – eternally peg to the euro and become a subsidiary of the ECB, just for the purpose of protecting its export industry.

Switzerland and its export industry will survive

The fact is that Switzerland has a remarkable history of harnessing – indeed fostering – exchange appreciation through continuous productivity improvements. The stronger exchange rate has thus continuously forced the country's economy to innovate and specialize in high value-added goods and services. The now abandoned temporary barrier of 1.20 Swiss franc against the euro had to be seen in the context of a drop from 1.60 and an unprecedented confidence crisis in the Eurozone that was flooding the small alpine economy with safe haven capital flows.

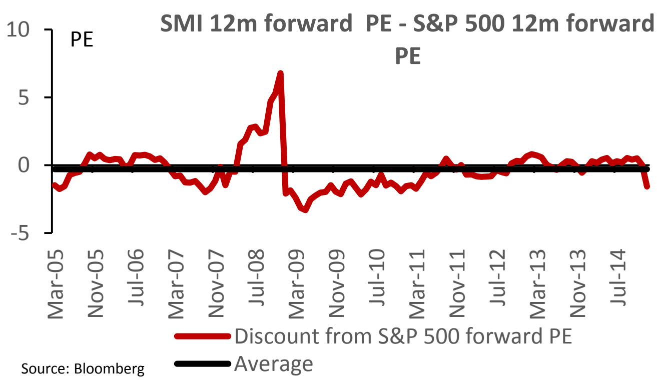
This temporary barrier has given some respite to Swiss exporters. Yet, history shows that Swiss exporters can cope with a stronger currency, without forcing the country to abandon its independent monetary policy.



Source: Bloomberg

Mr. Jordan's (implicit) medium-term bet on Swiss equities

It seems to us that SNB President Mr. Jordan is betting that – also thanks to imminent QE by the ECB – Eurozone spreads will stay low or further come down. As such the massive "total panic" safe haven flows into the Swiss franc should be contained. At the same time he is confident that overall Swiss competitiveness can somehow be preserved thanks to the stronger US dollar. The basic underlying assumption of Mr. Jordan's medium-term scenario is that a lower oil price will mitigate the incipient global economic slowdown. If he is right, then this is a good time to buy Swiss equities.



Source: Bloomberg

Summary market outlook

Global Yields	Contrary to expectations US Treasury 10-yr yield last week touched their lowest level since May 2013. The deteriorating global deflationary outlook and stronger dollar, combined with disappointing retail sales, have pushed Fed rate hike expectations lower. Fed funds future for 6-12 months have jumped back from their lows, reflecting market expectations for less (or no) Fed rate hikes later this year. It is likely that the yield will remain under 2% in the current week.
Stress and Risk Indicators	The VIX index is likely to remain elevated as equity markets will further digest SNB shock. Moreover, the ECB decision on QE could also be a factor for the volatility index. Sovereign CDS spreads remained largely contained; the Greek spread witnessed a decline of 126 bps.
Precious Metals	Will remain volatile as long as Federal Reserve will not become more explicit about rate hikes.
Local Equity Markets	A sharp recovery in the oil price towards the end of last week started local markets on positive note on Sunday. Movement later in the week will largely depend on the oil price trajectory.
Global Equity Markets	Global equity markets could be volatile during the week as SNB action filters through. Moreover, the possible QE announcement from ECB on 22nd Jan could be a trigger on either side, depending on the size of the asset purchases announced. Flash PMIs from major developed markets would be another factor.
Energy	Crude prices witnessed sharp volatility last week, closing almost flat for the week. It is difficult to have a near term outlook in the current volatile market environment. Going beyond the shorter horizon, we see a stabilization and a pick-up in prices.
Industrial Metals	The China-driven secular downward trend will continue, but the pace might stall to the extent that US dollar strengthening might have a "technical" pause.

Currencies	**Commentary**	**Critical levels**
EURUSD	In a general trend of weakening euro, the market considered the SNB action as a harbinger of a QE announcement from the ECB on 22nd Jan. This resulted in a rather sharp depreciation in the euro towards end of last week. A pull back is possible especially if the ECB disappoints the market on the size of QE.	R2 - 1.1600 R1 - 1.1585 S1 - 1.1559 S2 - 1.1548
GBPUSD	Cable moved in a small range (1.51-1.5250) over the last week. Balancing acts of deferred rate hike expectations in the two countries (US and UK) are expected to keep the cross largely range bound this week.	R2 - 1.5180 R1 - 1.5170 S1 - 1.5150 S2 - 1.5140
USDJPY	In line with the global equity markets decline, the Japanese yen firmed up. As we expect a relatively volatile week for equity markets, the yen could see a further appreciation.	R2 – 121.71 R1 – 120.12 S1 – 117.49 S2 – 116.45

Forthcoming important economic data

United States

	Indicators	Period	Expected	Prior	Comments
01/21/2015	Housing Starts	Dec	1040k	1028k	Relatively light data week in the US. Housing sector data expected to show improvement.
01/21/2015	Building Permits	Dec	1060k	1035k	
01/23/2015	Markit Mfg PMI	Jan P	54	53.9	
01/23/2015	Existing Home Sales	Dec	5.08m	4.93m	
01/23/2015	Leading Index	Dec	0.4%	0.6%	

China

	Indicators	Period	Expected	Prior	Comments
01/19/2015	Fixed Assets YTD YoY	Dec	15.7%	15.8%	GDP growth in the last quarter is expected to slow down. Any negative surprise could trigger an equity market reaction
01/19/2015	Retail Sales YoY	Dec	11.7%	11.7%	
01/19/2015	Industrial Production YoY	Dec	7.4%	7.2%	
01/19/2015	GDP YoY	4Q	7.2%	7.3%	
01/22/2015	HSBC Mfg PMI	Jan P	49.5	49.6	

Euro zone

	Indicators	Period	Expected	Prior	Comments
01/20/2015	ZEW Survey Expectations	Jan	NA	31.8	The market will focus on the ECB meeting and the quantum of the QE announcement
01/22/2015	ECB Meeting	QE announcement expected			
01/23/2015	Markit Mfg PMI	Jan P	51	50.6	
01/23/2015	Markit Srvc PMI	Jan P	52	51.6	

Sources

All information in this report has been obtained from the following sources except where indicated otherwise:

1. Bloomberg
2. Wall Street Journal
3. RTTNews
4. Reuters
5. Gulfbase
6. Zawya

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