2019

Perspectives

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Swissquote Bank

« Behind the headlines of Brexit, trade tensions and geopolitical risk, the global economy is performing well. »

Michael Ploog

Dear Reader,

As we head into 2019, it looks set to be another year of new challenges and potential opportunities. Our 2019 Perspectives represents Swissquote Bank's approach to taking a chaotic world and building a semblance of order, to better support our clients' investment decisions.

Dire predictions of a global economic slowdown are increasingly filling the airwaves. Looking at US yields curves, market pundits are predicting a recession at the end of 2019, or surely by 2020. While we suspect a moderate deceleration and do not rule out a possible US recession, we consider most of the hype to be the result of media filling in a 24/7 news cycle, designed to generate clickbait. Yes, average volatility is likely to increase as central banks move towards «normalisation» and economic data fluctuates. But all this is normal. A moderate pace of growth is still sufficient for corporate earnings to grow, and labour scarcity confirms that wages will also rise. Behind the headlines of Brexit, trades tensions and geopolitical risk, the global economy is performing well.

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I wish you all a healthy, happy and prosperous new year.

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Michael Ploog
CFO Swissquote

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Last year's right and wrong insights

Right

«We will likely see marginal wage acceleration in 2018, as the labour market tightens further. Global inflation is expected to grind higher, but at a pace unlikely to spook the central banks.»

«We believe we are still in the early expansionary period of economic growth. Healthy growth momentum and generous financial conditions will continue to support corporate earnings despite some negative factors, such as slowing business momentum (although still above the historical trend in some areas).»

«Of the big three, only the Fed is expected to creep towards normalisation in 2018, with higher interest rates and balance-sheet reduction. The Bank of Japan (BoJ) and European Central Bank (ECB) will likely do some fine-tuning-such as adjustments to quantitative-easing programmes-but this will have only a limited effect for markets, as balance sheets will continue to expand and no hikes are planned for 2018».

Wrong

«The People's Bank of China (PBoC) is expected to increase interest rates by only 25bp in Q4 2018.»

«Protectionism will continue to take room in the headlines, but real action will be limited, even out of President Trump's administration. Inter-EM trade will provide some protection against growth deceleration, a stronger USD and policy uncertainty in the US, EU and Japan.»

«Expectations for USD strength are low, as the greenback is expensive from a real-yield standpoint and traders are opting for low-volatility carry trades. Markets will use USD to fund EM high-beta carry trades, creating steady pressure on USD. In addition to yields, investors are driven by real growth dynamics that make the EM rally sustainable.»

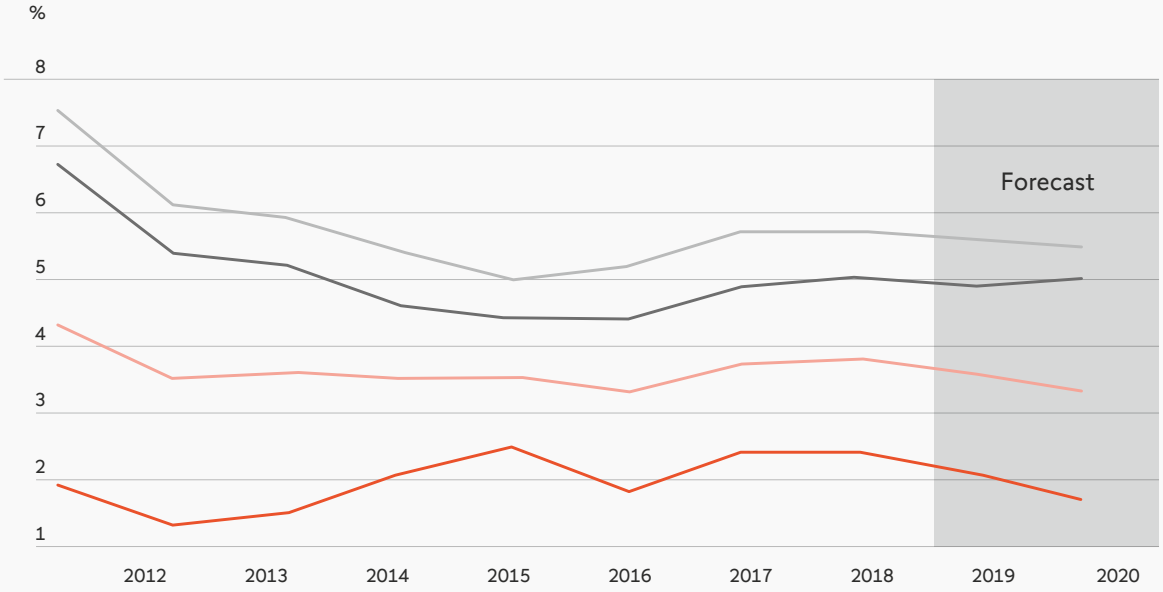
View from above

Global Growth expected to moderate but still solid

The final season of Game of Thrones will naturally inspire an eye-rolling «winter is coming» reference, yet this seems extremely pertinent. Cracks are clearly showing in the synchronised global growth and moderate inflation we have experienced for 18 months. The global outlook is cautious, as downside risks continue to mount, but as long as no shocks materialise, growth in 2019 will only come out slightly below 2018. Global trade growth remains the main driver of expansion, and has only slowed slightly, despite a full-frontal attack.

The global outlook is cautious, as downside risks continue to mount, but as long as no shocks materialise, growth in 2019 will only come out slightly below 2018.

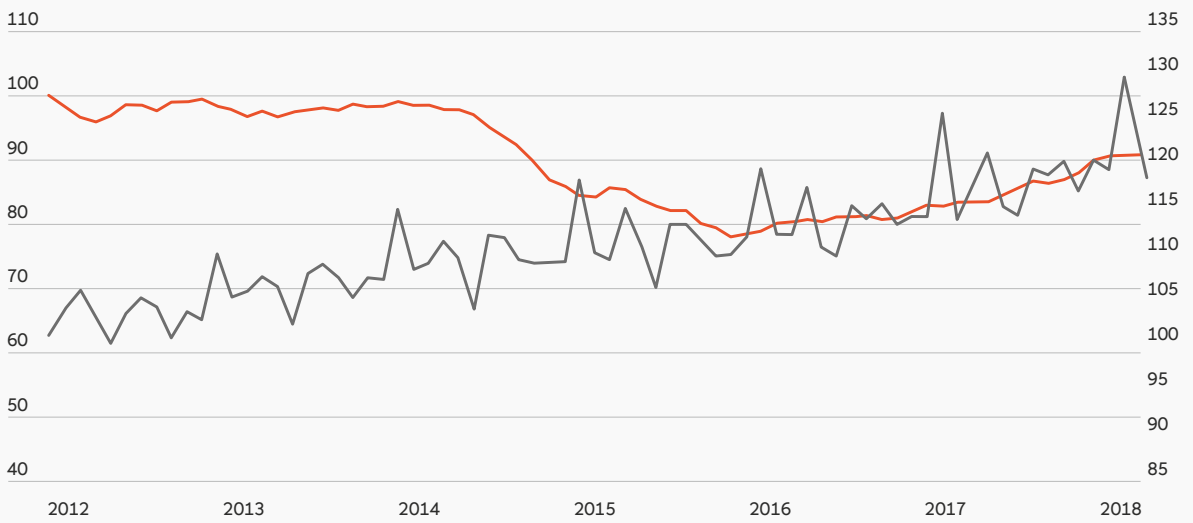
Moderation in growth outlook



Source: Swissquote Bank, Bloomberg

Developed Markets Real GDP
World Real GDP
Emerging Markets Real GDP
BRIC Real GDP

Sharp fall in activity suggests weakness in trade



Source: Swissquote Bank, Bloomberg

World Trade

Industrial Production

The Baltic dry index recovery continues, while export orders have been slowing, but remain strong. In addition, the global economy is running against capacity constraints, as unemployment is low and use of production capacity in manufacturing is high, specifically in Europe and the US. The US continues to post solid activity numbers, yet there is evidence that the boost from fiscal stimulus is fading. European and critically Chinese fundamentals have materially decelerated.

Unlike in the recent past, when an extremely loose monetary policy propped up weak regimes, financial conditions have tightened significantly.

The global trade war, which was thought to be a political ploy from President Trump, is escalating further, worrying consumers and investors alike. The fermenting full-blown trade war between China and the United States is the primary downside risk to the global economic outlook.

In 2018, a country's economic weakness was offset by healthier countries, and this year there will be fewer nations growing above trend. However, it is not unusual for economic growth to ebb and flow during expansion, and developed markets overall are in mid-late cycle. So despite dark clouds based on speculation and media hysteria, 2019 global GDP growth should come in at a respectable 3.6% (from 3.8%). Developed market growth will slow to 2.1%, from 2.3% in 2018. Emerging market growth fell to 4.8%, from 5.1%. With solid fundamentals and fuelled by fiscal stimulus, the US economy is expected to slow to 2.5%, from 2.9% in 2018. The European economy continued to cool off as growth declined to 1.7%, from 2.5%. In the UK, much depends on the outcome of the UK-EU Brexit negotiations, but barring a «hard Brexit» the economy should remain resilient, with growth of 1.0% in 2019.

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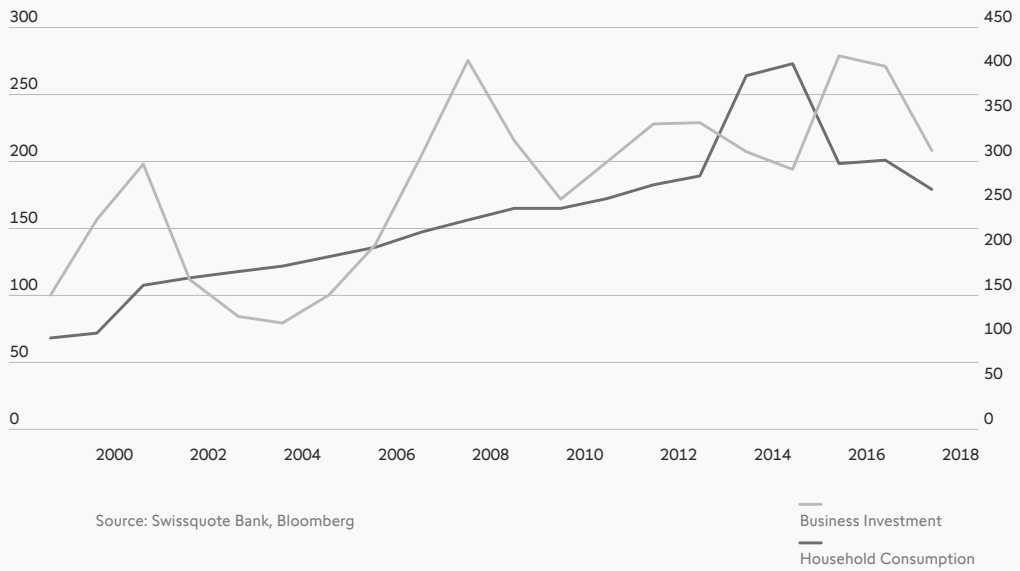
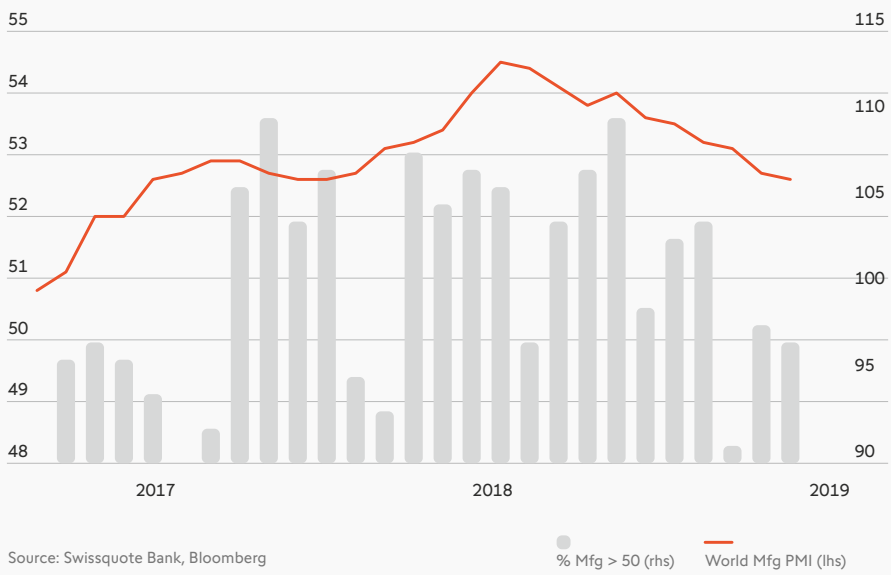
Global deceleration



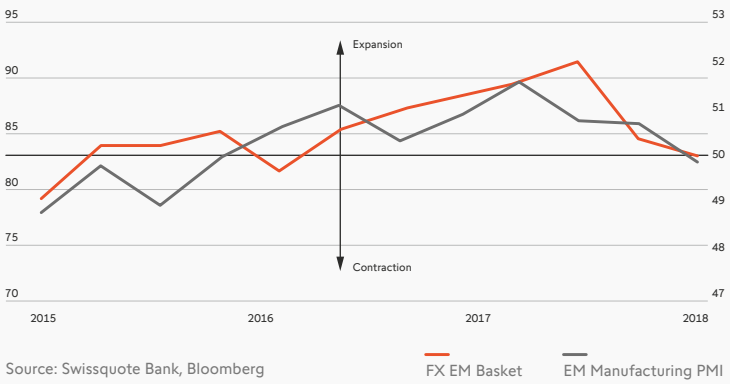
Source: Swissquote Bank, Bloomberg

Clear signs of fading momentum



Source: Swissquote Bank, Bloomberg

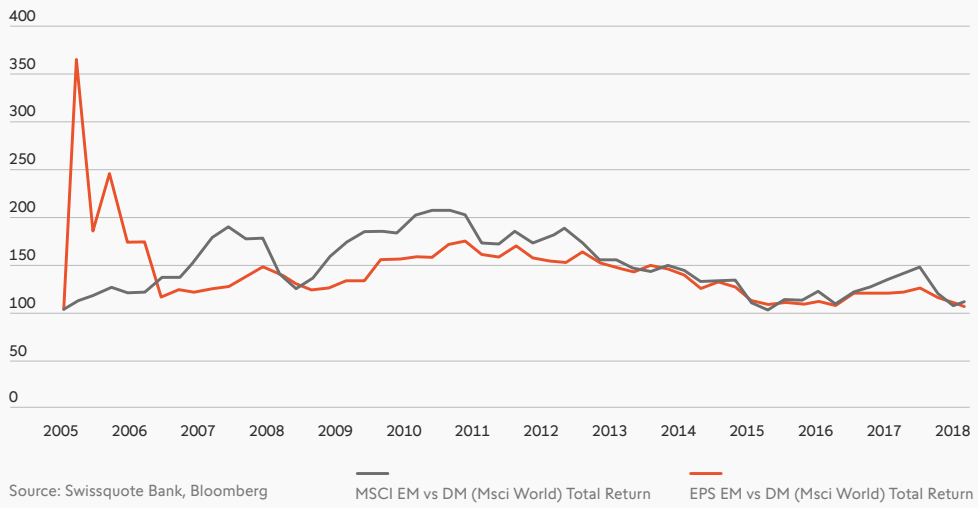
Growth weakness driving EM FX lower



Source: Swissquote Bank, Bloomberg

Emerging markets were expected to be the big trade in 2018, coming off a slingshot of positive tailwinds in 2017. Rising commodity prices, faster growth, subdued inflation and strong risk appetite driven by loose monetary policy set the stage for a banner year. However, EM nations suffered as a result of one negative development after the next in 2018. It seemed that all issues had a negative spillover onto emerging markets. There is now growing divergence between developed and emerging economies. Countries with relatively solid fundamentals driven by commodity exports should continue to see growth improve. However, with higher yields in the US and rising energy prices, countries with high exposure to foreign debt, oil-importing countries and those with persistent macro-imbalances will find 2019 challenging.

EM countries vulnerable



Source: Swissquote Bank, Bloomberg

Inflation upward trend will continue

Inflation in developed markets will continue to rise modestly. Inflation in developed markets is inching towards its targets. But there is little evidence to indicate that a sustained inflation surge is about to occur. The result is that the expectation of tightening is driving rates and volatility higher without much concrete action from the central banks. Even the rate hikes we saw during the year were from a very low base level. EMs offer a mixed picture, with aggressive rate hikes from central banks in recent years, halting inflationary pressure. Yet for select countries, a strong US has generated inflationary impetus that must be challenged.

The net effect with modest price pressure in developed countries and easing pressure in EMs has created a balanced outlook for global inflation.

That said, the primary result of a tariff-driven trade war is to drive up prices, thus creating inflationary pressures. Firms are likely to pass higher import prices directly onto the consumer. In addition, should foreign firms leave the market, competition will become less intensive and give active firms more pricing power. We cannot over-emphasise the importance of how trade tensions will play out in 2019.

Central Banks on track but no hurry to «normalize»

The stop and start process of central bank policy in 2018 may have created the perception of inaction. However, key banks were steadily tightening the liquidity flow. In 2018, the Fed allowed $400bn to run off balance sheet. Having bought more than €2 trillion in government bonds, the ECB will wind down monthly asset purchases to zero, from €60 bn. Estimates suggest that the ECB's QE contributed 0.75bp to GDP growth, supporting the upturn in Eurozone activity over the last three years.

The BoJ has been conducting «stealth tapering» by limiting monthly purchases below $60 billion (purchase target of ¥80 trillion a year).

Finally, the BoE's asset purchase facility remained stable at €435 billion. The trend is for a deeper reduction of the central bank's balance sheet. These increased expectations for tighter financial conditions result in lower demand on fixed income markets and generate a ripple effect into other asset classes.

USD - The «Teflon» Currency

We give credit to USD bulls as they were able to stay focused on accelerating growth fundamentals, strong corporate earnings and widening rate spreads, discounting the noise which confused our forecasts. Short-term US yields have moved up further, while G10 yields have stagnated. The Fed is expected to continue to tighten policy, sending yields higher, while the ECB monetary policy adjustment has lagged.

The appreciation of the dollar was exaggerated against emerging market currencies, due to idiosyncratic problems in a number of economies.

With the dollar gains, our concern for EM economies is that currency mismatches will create problems for unhedged USD borrowing. However, we suspect that negatives will catch up with the USD in 2019. Surging public deficits and widening trade deficits will increase the supply of USD-dominated assets and damage the value of the dollar. Not to mention the chaos that is expected, as Donald Trump and the Democrat-held House of Representatives go toe to toe every day. The political gridlock, which we expected, will highlight the economic instability of the US model. Higher US interest rates have increased the cost of hedging USD exposure for international investors. The other primary factors are that the USD's main alternative, the Euro, should start to benefit for pent-up demand, and as the European Central Bank shifts towards normalisation, yields will naturally rise. As US economic data begins to disappoint, investors will search for higher growth rates in select emerging markets.

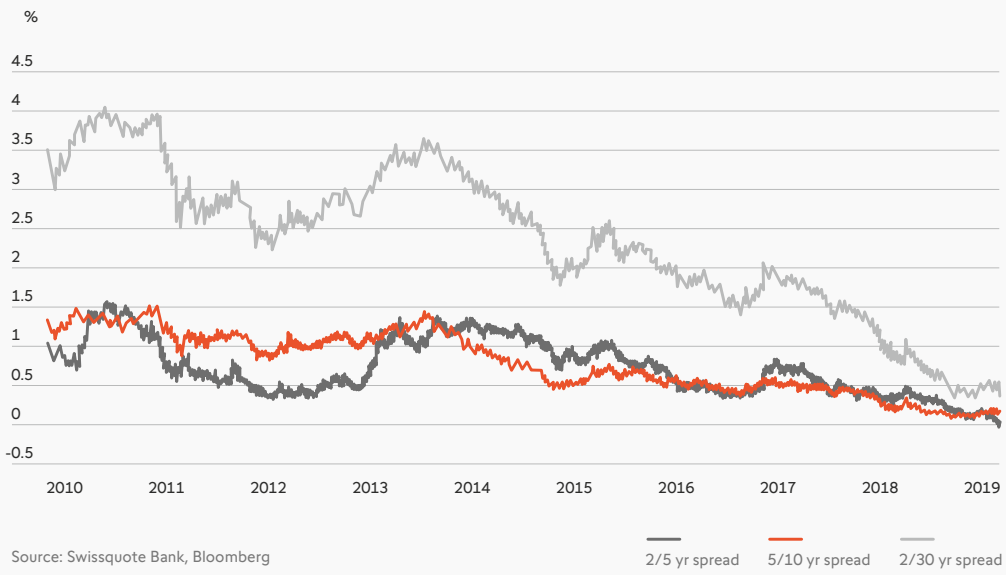
Market Suggests a Fed-Driven Recession

It seems the Buddhist path of middle ground is never the path of financial markets.

US President Donald Trump's fiscal stimulus was like throwing petrol on a fire.

The American economy is firing on all cylinders, with private consumption remaining the main driver. Business investments continued to grow steadily, seemingly unfazed by trade policy uncertainty and supported by deregulation and government spending. US economic expansion outpaced most other advanced economies in 2018, giving the late stage business cycle a zombie-like movement. Overheating labour markets and rising inflation drove the Fed to raise interest rates four times in 2018. This pushed financial conditions into restricted territory, with several cyclical indicators now pointing to a recession in 2019. Economic forecasts suggest the Fed will raise interest rates by 25bp three times this year. Yields on short and medium-term maturities have risen, but the overall result has been an extreme flattening of the yield curve. This is the most reliable indicator of recession risk. With the US economy accelerating and the President driving domestic expansionary policy, it is hard to image a substantial slowdown. Yet outside the «event» risk pattern (shock from trade war), the economic pattern has an historical precedent. Investors will further position themselves more defensively, as downside risk for equities and credit markets will increase in 2019.

Outlook worrying given US flattening turning negative



Source: Swissquote Bank, Bloomberg

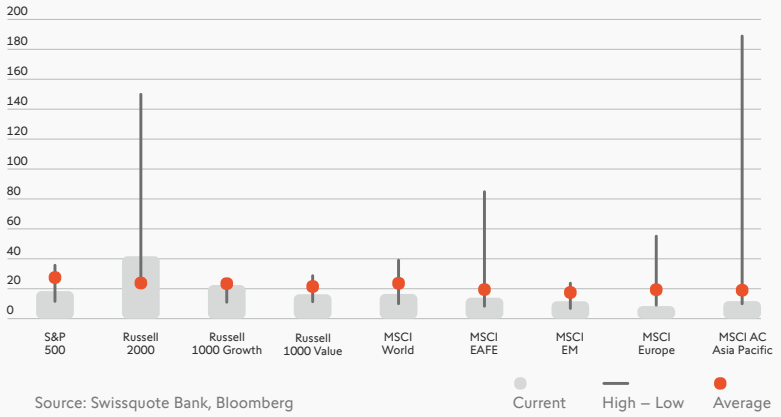
Valuations are good or bad depending on earning outlook

Volatility in stocks is a splash of cold water on sleepy investors. Our core thinking for 2019 is that equity markets will remain stagnant (limited upside), but bias to the downside. Global economic deceleration, higher real interest rates, escalating trade tensions forced a surge in volatility.

While tighter financial conditions are manageable, the trade risk has an unforeseen consequence on growth, but also geopolitical realties.

An end-of-year correction has created more attractive valuations, yet earnings growth will further slow alongside economic weakness. However, even if profit margins have started to come under pressure in some sectors, unless there is a major policy error or an inflation shock, we still expect to see healthy single-digit profit growth globally. Consensus forward P/E valuations remain high considering our outlook. Meanwhile, satisfaction over the valuation gap between growth and value stocks is a bad sign for future equity returns. The MSCI World Growth Index and its value counterpart reached their highest since 2001 this year, on a forward price-earnings ratio basis. Global growth shares are priced at 17.9 times projected 12-month earnings, against 12.9 times for value stocks. There is also the behavioural aspect of investors not wanting to miss the sell-off after 10 year of bullish momentum. Once again, European stock valuations look attractive compared with US markets. In general, Europe trades at discount versus the US, but the spread is now historically wide. The composition of major indices differs, with Europe weighted in traditional banking and the US in technology. The fast-growing tech sector generally demands a significant premium, yet in the context of slowing global growth and higher interest rates, the banks' outlook should improve.

Current valuations below average



Source: Swissquote Bank, Bloomberg

US Politics
the new «pig on acid»

As Bobby Axelrod in the TV show «Billions» once commented about forecasting, China is like a «pig on acid». We think the expression could be used to describe President Trump's agenda.

President Trump has proven that he can control the media cycle at any moment.

Events in 2018, no matter how important, had a hard time outshining the White House. With this administration embroiled in so many critical issues, it is unlikely that the narrative will shift. The split Congress increases the probability of political gridlock, but this is unlikely to prevent President Trump from making market-gyrating comments. Our four primary takeaways from the US midterm elections are first, that fiscal stimulus is now probably less. Although we see that should Trump need a political distraction, lobbing a middle-class tax break into Congress will surely do the trick. Second, the fiscal cliff, always a lingering topic of concern, as the US government regularly has to deal with debt ceiling extensions and funding deadlines. Slowing fiscal policy indicated that the Fed is unlikely to adjust its message away from «gradual» rate hikes. Finally, Trump will move away from areas that demand congressional approval, to areas that can be managed unilaterally, such as trade policy. We anticipate that his trade policy with China and historical allies will persist. That said, we should note the tail events that we think fall in the realm of possibility. The first is that Trump pivots on trade, soften positions with partners to allow for amendable agreements. Second, the Democrat demand to see Trump's tax return (which they have the right to do) and based on their findings manage to pass an impeachment of Trump in the House, which is then blocked in the Senate.

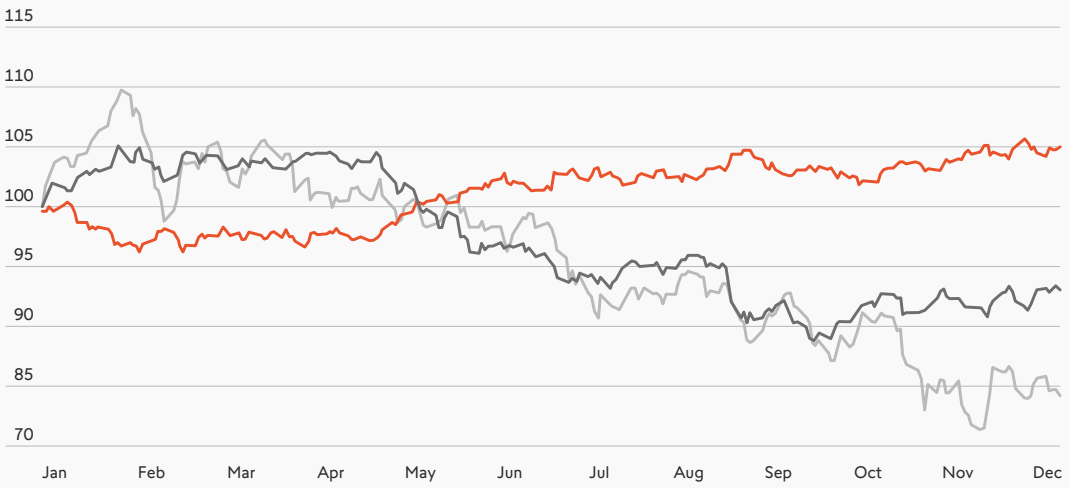
Global Debt Bubble?

Given our outlook and understanding of past trends, it is logical that alongside other macro investors, corporate debt levels will come worryingly into focus. Yes, we understand that approximately every five years, analysts start to worry about corporate and high yield bonds. Yet, after years of stellar earnings growth and artificially constricted borrowing costs, the market seemingly threw money at any paper with yields. US corporate debt hit an all-time high, at $6.3 trillion. Global debt also hit a record high earlier in 2018, reaching $247 trillion. Global debt to GDP is at an all-time high. This becomes an explosive situation when faced with an outlook of slowing growth, rising interest rates and declining risk appetite. The risk-free 10-year Treasury bond is at over 3.0% and forecast to head to 3.50%, a source of complexity not seen since 2011. Until late 2018, tight credit spreads failed to compensate for the build-up of credit risk that 2019 will bring.

Investors have already begun to rotate to higher credit quality in expectations that lower quality will have difficulty servicing debt.

It is important to remember that there is generally a significant lag between rising rates and defaults. The Warren Buffet quote comes to mind: «Only when the tide goes out do you discover who's been swimming naked». Outside corporates, African sovereigns that have borrowed abroad now face higher refinancing risks and a slow global erosion of current accounts.

Strong USD due to tightening global financial conditions



Source: Swissquote Bank, Bloomberg

DXY Index MSCI EM EM Debt (GBIEMXB)

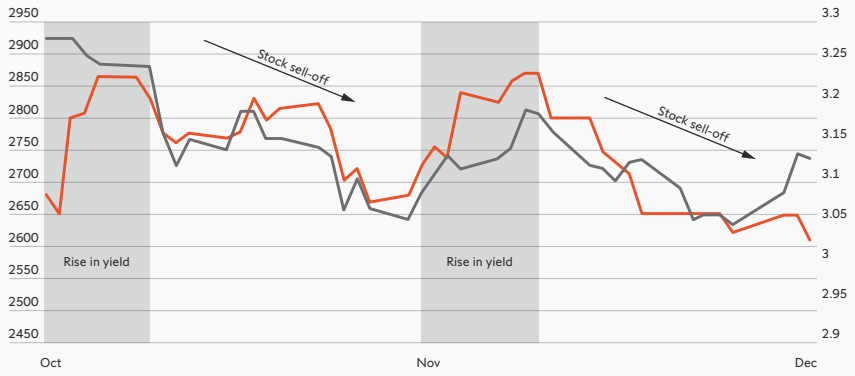
The return of volatility as growth & policy diverge

It's clear by the panic that results from every drop in equity prices, that investors are unaccustomed to volatility. And why not, given that after 10 years of central banks distorting risk premiums, the most negative events are quickly discounted? Now the path is besieged with potential threats, from trade tensions to political uncertainty. We expect volatility to remain high, with the VIX index hovering around 17, from 10.

We anticipate that stock market corrections would take significantly longer to recover from (if at all) in 2019.

The withdrawal of unorthodox, easing policies has been gradual, covered by alternative stimulus or divergence in monetary policies, with other central banks remaining in easing mode or on hold. This is likely to end in 2019, with the path towards normalisation clear, which will trigger higher daily average volatility. Already the shift in regimes has caused the US dollar to appreciate, hitting some developed and emerging markets. Economies with severe imbalances will continue to be exposed. We think that global capital flows are critical. Our strategy to discount Trump's trade policy by random «tweets» can no longer hold. US trade tariffs, on China and other countries, are clearly driving headwinds to global economic growth and producing rotation among industrial and consumer stocks. Finally, major risks that could foment uncertainty next year concern US foreign policy, particularly the broad US-China relationship, Brexit, and the stand-off between Italy and the EU. Without the central banks' backstop, the risk market will be free to correctly price in risk.

Surge in yields causing sell-offs of stocks



Source: Swissquote Bank, Bloomberg

US 10yr yields S&P 500

What to watch for in 2019

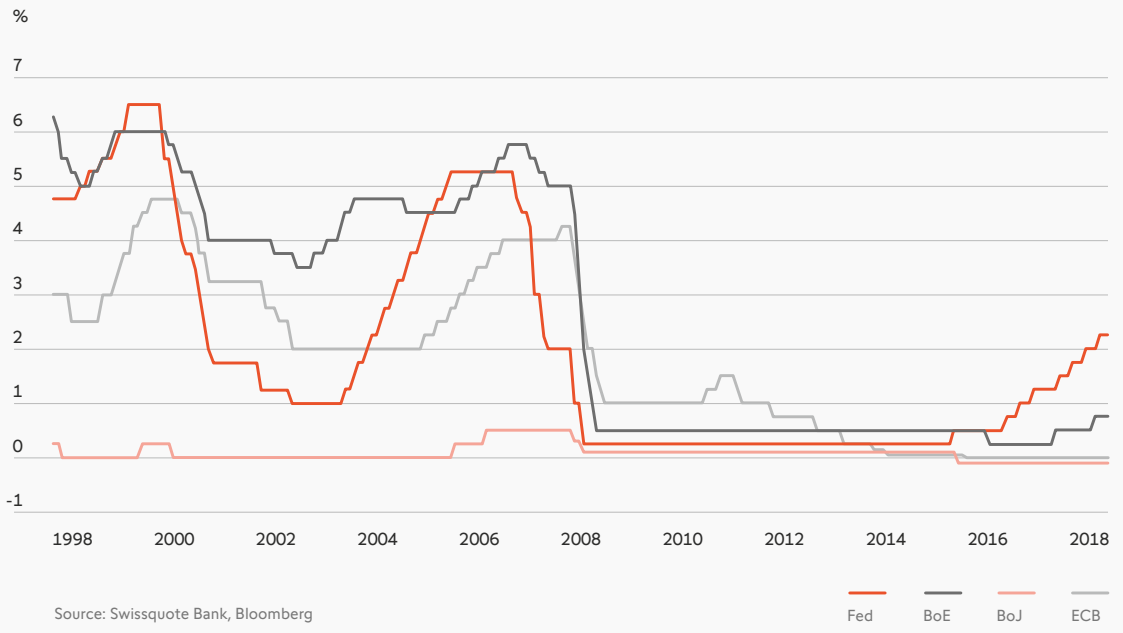
Diverging Monetary Policy Cycle (net result is steady tightening)

The central banks of the global economy are now out of synch. 2019 will bring further adjustments to monetary policy. For the past ten years, financial conditions have been historically loose. This has driven the frantic search for yields, as excessively loose monetary policy resulted in the misallocation of capital. We have shifted into a period where individual nations are moving independently, even within one country, we see expansion and tightening simultaneously. They are either driven by the growing recovery or the desire to «normalise».

Loose financial conditions have driven the frantic search for yields, as excessively loose monetary policy resulted in the misallocation of capital.

While the Fed will tighten further and ECB will begin raising rates, the BoJ and PBoC will keep policy loose. Divergences in global growth will drive changes in policy rates and asset purchase paths. While changes in interest rates generally attract most of the market's attention, asset tapering is a primary source of volatility in our view. A contracting set of buyers exacerbates the shock of fundamental events. The attempt to normalise generates financial disruption, especially after a decade of extremely unorthodox loose policy. It is difficult to quantify the risk but the probability of a policy misstep, forecasted versus implied, or an extreme over-reaction, is significant. Bad policymaking has already triggered crisis in several emerging markets. While potential for senseless trade policy would have global ramifications on growth.

Global «normalization» has started



Source: Swissquote Bank, Bloomberg

Emerging markets caught in the storm

What was expected to be a continuation of the «goldilocks» environment for emerging markets has become extremely challenged. Turkey and Argentina saw their currencies plunge, as markets fretted over their large current account deficits and high dependency on access to global capital markets.

The outlook for EMs has shifted decidedly downwards, with both domestic and macro risk threatening. Stagflation is the dominate forecast, with growth affected by trade tensions and deceleration in key anchor (BRICS) EM economies. Inflationary risks are meanwhile growing.

The macro risk to EMs comes in the form of a rising USD, escalating trade tensions and weakness in China's economic performance.

Capital flows have not reversed, but have slowed considerably. With a strong USD and real interest rates low compared to advance economies, inflows are drying up.

A fact that threatened Turkey's economic stability in 2018. The lack of capital will depress growth and drive inflation higher, creating a vicious cycle. China is taking aggressive measures to prevent a «hard landing».

The net effect on China's outlook is debatable however, with a spillover into the remaining EMs of lower growth rates. While we do not anticipate a correlated EM crisis, the predicted economic resilience has been scary at times; we could see idiosyncratic risk expose certain nations. The relationship between current account deficits and FX has been quite weak, yet this could easily snap back. The rising USD and yields have historically hurt currencies of countries most reliant on borrowing in hard currency with large external deficits. Remember that while EMs' economic fundamentals have improved, social and/or political issues can easily become destabilizing.

Trade is heading in the wrong direction

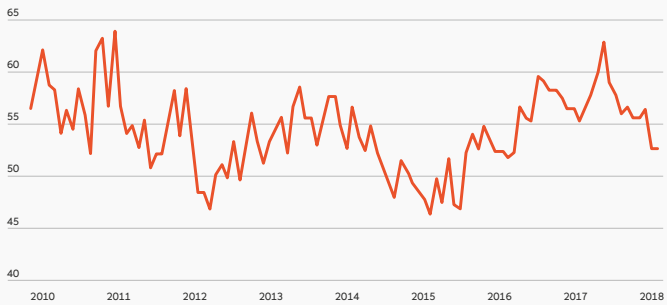
Trade will remain a dominate market driver in 2019, yet barring a shock, tariffs will not derail global growth.

US protectionism now tops our list of key risks to the global economic outlook.

We are not prepared to pronounce this a «trade war», a definition reserved for when global trade shrinks comparatively to global economic activity, as countries look inward. The unfolding trade war between US and China seemed innocent enough, with tariffs on solar panels and washing machines. Subsequently, more seriously shots were fired by the US, hitting Chinese imports as well as those from other countries such as Canada, Mexico and the EU.

In our view, President Trump's war on trade has had a profound effect in a broad array of areas. We didn't anticipate the aggressiveness of Trump policy, but near-term and long-term risks have developed. We suspect that data has not registered the effect of $200bn in trade tariffs and the psychological effect, but watch 1Q 2019 data. Despite periodic bright spots, the risk of further escalation remains high. In the near term, the focal point will remain US-China tensions, with a high risk of asymmetrical response by either actor. We are doubtful that an open economy and a centrally planned one can see eye to eye on critical issues. Therefore, any agreement is likely to be temporary. The escalation of US-China tensions will reverberate through the global economy. It would hit the supply chains of South-East Asian economies first, before rippling through transnational trade. Supported by strong domestic consumption, the US is likely to survive early shocks, yet the inflationary impact will be real. The improvement in global demand has been primarily driven by trade, so threats will not be quickly discounted.

Despite Trump's optimistic hype, US exports are declining

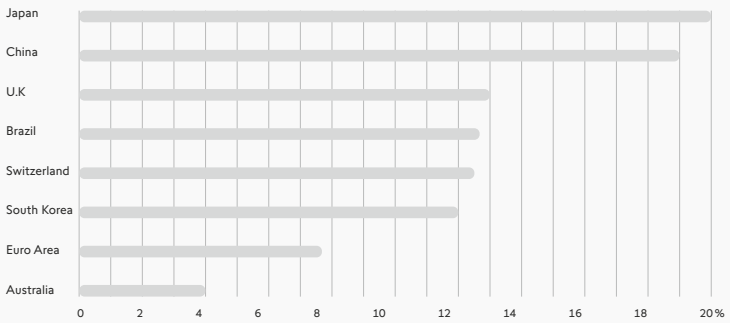


Source: Swissquote Bank, Bloomberg

US ISM Export Orders

Globally, we also expect regional trade partnerships to come under scrutiny under the new normal, as nations address perceived disparities. This long-term reality means that any pivot in Trump's trade policy or a US-China agreement is unlikely to end trade tensions. The risk is that the dollar value of Chinese imports to the US eligible for taxation will rise from $250 billion to over $500 billion, as the President has suggested, and/or tariff rates are jacked from 10% to 25% as scheduled.

Countries most exposed to US protectionism (not including Mexico & Canada)



Source: Swissquote Bank, Bloomberg

Exports to USA as % of Total

European politics overshadow economic gains

We viewed that Catalonia's failed independence bid was an existential crisis for Europe, which having survived, will embark on a path towards deeper unification. But heading into 2019, we see new cracks emerging. From populist movements to the removal of monetary stimulus, dark skies are gathering above investors in Europe. Europe's institutional weakness is at the core of this situation. Policy initiatives and events such as Brexit continue to test long-term stability. There must be a dedicated effort to introduce institutional reforms within the Euro area, rather than temporary patches.

The ECB's asset purchase programme is a good example of a simple solution becoming risky, with the likelihood of a boom-bust-bailout cycle between Europe's central banks and underlying nations increasing.

The starting point would be fiscal reforms, but that would need political will, which continues to waiver. Resolving this will require self-restraint and cooperation between member states. However, as with politics in other advanced nations, elections are increasingly difficult to predict, and prone to wide shifts. Evolutionary ideological development has disappeared and been replaced by sematic shifts. There are no signs that the conflict between the EU and Italy will ease quickly. For this reason, the EU is soon likely to initiate an «excessive deficit procedure» against Italy, and the markets are likely to remain anxious. Higher risk premiums will gradually weigh on the Italian economy, and cooperation is doubtful before the European elections due in May 2019. The last Europe elections were in 2014, and kicked off the current political turmoil, which means the 2019 elections could renew the phase. Yet despite the trials ahead, Europe's relative value has increased, with opportunities in regional fixed income and equity markets.

China's evolution critical to new world order

According to core thinking, President Trump's policy both in trade and foreign relations would send China's evolution from economic growth engine to global superpower into hyper-drive. The China Belt and Road Initiative (BRI), which consists of the Silk Road Economic Belt and the Maritime Silk Road, got a boost as American action destabilised historical partnerships. The deceleration of investment and trade resulted, and China had to solve its own internal issues, before rebalancing the economy. 2019 will see easing measures focused on domestic over foreign spending, with easing supporting domestic assets. China will further focus on Asia, reflecting the key strategic initiative to build a resilient Sino-centric regional economy. Despite economic uncertainty, we doubt the

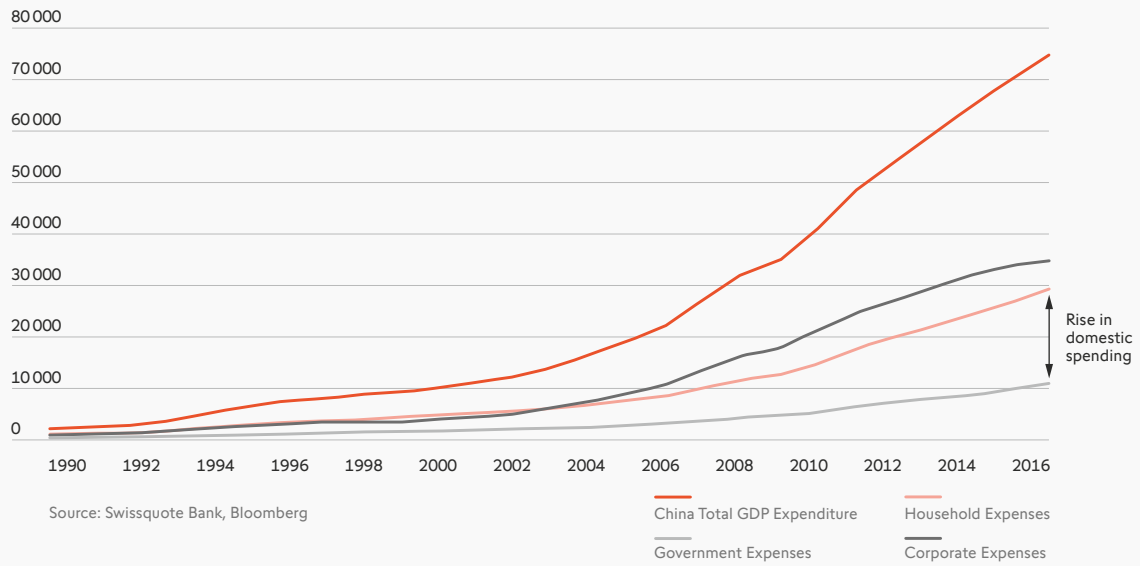
progress that China has made in Asia and globally will slow. This will provide a massive barrier for the US in reclaiming the international «goodwill» it so critically relies on.
China aims to improve quality above faster growth. This involves rebalancing economic activity away from investment-intensive manufacturing and onto consumption. In addition, reform was focused on financial de-risking and slower credit growth.

This transition has been tricky, and the world has had to adjust to a slower but more sustainable Chinese growth rate.

Yet worrying signals has forced the PBoC and the government to abandon efforts to secure falling growth. Even if China's economic growth is slowing, authorities are using fiscal, monetary and regulatory devices to safeguard stability. They have announced a number of measures, including selectively re-opening credit valves. As an investor, we would like to see further stimuli to spur an acceleration in growth next year. Growing monetary policy divergence with the US is likely to drag on China's currency and equities.

Finally, the US-China relationship will remain fundamental to the global equilibrium.
If the relationship crashes, that could send the global economy into freefall and destroy asset valuations.

China's rebalancing starting to bear fruit



Source: Swissquote Bank, Bloomberg

Growth discrepancy will complicate forecasts

The acceleration fuelled by US fiscal stimulus made the US the growth driver for the G7 in the last 18 months. Yet the effect is now fading, increasing the probability of downside surprises. The final months of 2018 have seen some encouraging news for the US economy. While consumer demand is resurgent, the boost failed to spark capex, suggesting that we can now not avoid cyclical downside. In our view, fears of economic overheating and resulting inflationary pressures prompting a quicker pace of Fed tightening are unlikely to become a reality. However, there is a probability that a Trump middle-class tax break gets approved. While there are clear signs of slowing and hardly a «miracle», US growth looks solid, meaning that expansion will likely extend at least through 2019. However, the constructive growth outlook is becoming uncertain particularly in the European Union and China, compared to last year. On the one hand these, critical economies should be supported by lower interest rates and weaker currencies. But geopolitical risks, such as Brexit and trade tensions, have led to a decline in these open economies.

Protectionism has also disrupted the outlook for many EMs, especially those with large USD debt.

EM weakness, which is centred on, but not exclusive to, China, harms Europe, then the US, considering the region's volume of trade with developing economies.

Brexit remains a massive «known - unknown»

The process of separation between the UK and the EU has been mind-bending, and dizzying in terms of the change in political direction.

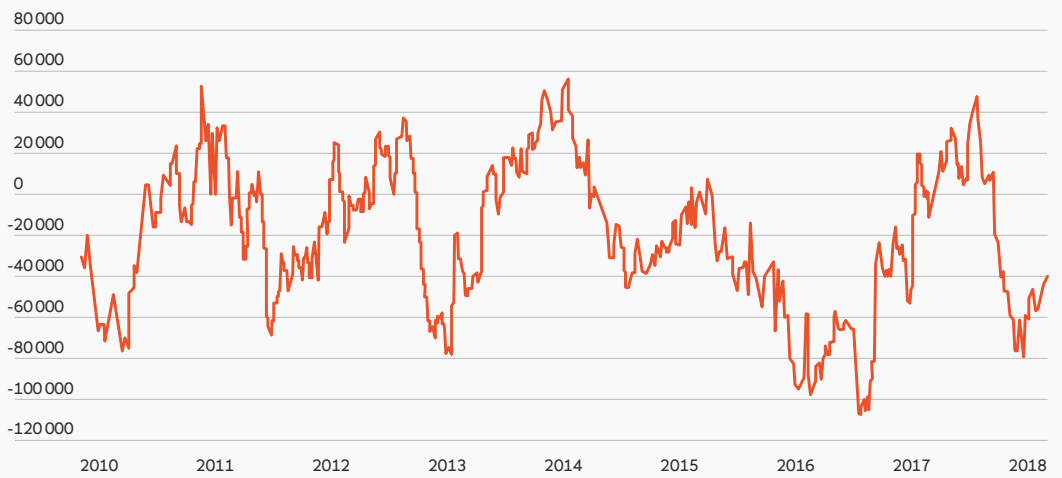
It's very likely that before we publish, a political declaration outlining UK-EU relations post-March will be decided, making this note obsolete.

What happens next is about as clear as the day after the referendum vote. Markets have a way of trading towards the highest probability (which is why it has a hard time forecasting tail events), which would be a «soft» Brexit. But given the slow pace of developments and each side's entrenchment in their positions, we find it difficult to see anything but a «hard» scenario. Regardless of the outcome, uncertainty will continue to hamper the UK's economic performance. While the UK economy has recovered strongly from a weak 1Q, subdued business and investments continue to weigh on growth. In addition, historical low household saving is constricting consumption, even though wage and salaries are growing above trend due to a tight labour market.

Fears of a post-Brexit economic collapse have been unfounded, yet the longer the uncertainty drags on, the more we see its effects on activity. Despite the weak pound and strong global growth, UK growth lags behind that of the EU. Conservative estimates (although predictions vary wildly) suggest that a failure to secure a deal with the EU will reduce GDP growth by 1% for the next 15 years, while the immediate effect is likely to be to drive the UK into recession post-March.

The transition period refers to the time after 29 March, when the UK leave the EU, and is set to extend at least until 2020. During that period, the UK and the EU will negotiate the second phase of the Brexit procedure, which covers future trade relations. This continued uncertainty will further hinder economic performance. According to officials on both sides, over 90% of the deal is completed. What still needs to be decided is how future trade agreements would work and how the border between Northern Ireland and Ireland would remain open in practical terms if the UK leaves the customs union. These are complex problems, with passions running high. Given current information, a deal needs to be done by early January in order to give the UK and European Parliaments time to approve the agreement. Failing this, the UK will crash out of the EU in March in a no-deal scenario.

Optimism over a deal is rising, but from low levels



Source: Swissquote Bank, Bloomberg

IMM GBP Positioning

Italy providing plenty of headlines but no real threat to EU

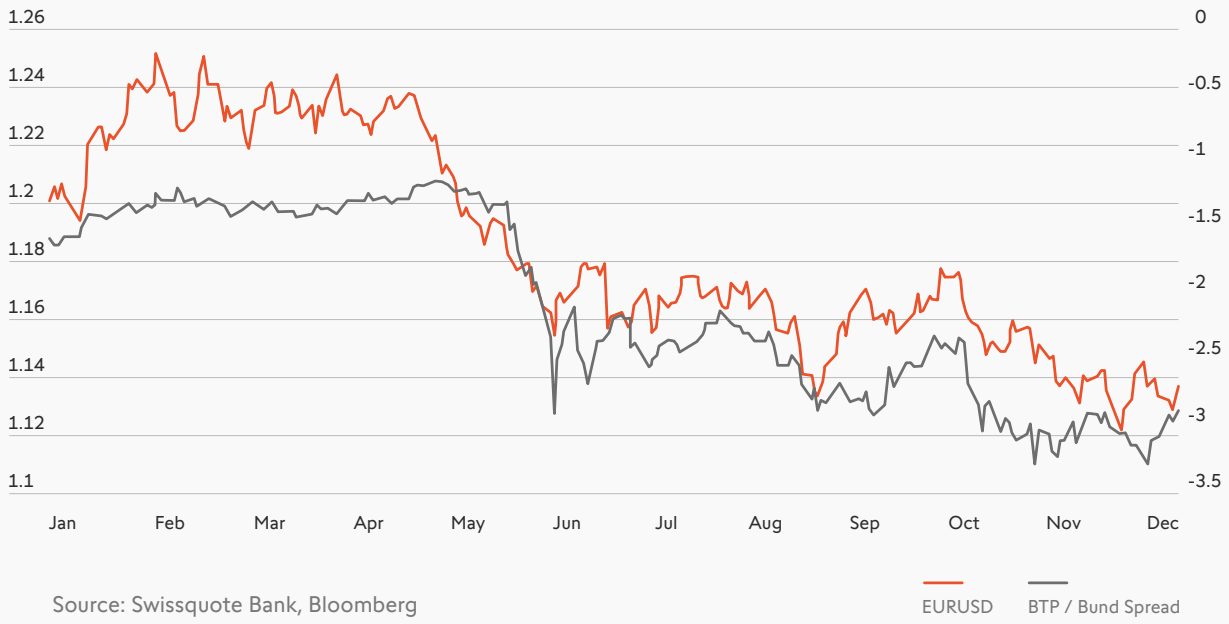
Italy will remain a source of volatility and media headlines, but we don't expect much more. Our core thesis remains that Europe is moving towards deeper unification (with or without the people's support). This suggests that idiosyncratic risk from a single nation will be unlikely to derail Europe as a whole. Despite objections from Brussels, Italy's anti-establishment government plans to kick-start growth with an ambition fiscal stimulus plan, expected to increase the public sector deficit to 2.4% of GDP. We would discount a rising risk premium. First, we doubt that markets care about deficits, since the EU has indicated that bailouts are available (see Greece 2010). Second, alone, Italy's debt-to-GDP ratio is a massive 170%, yet standing with the EU, it is a mere 81% Italy is not leaving the safety of the EU. Finally, outside of the well-publicised rising government debt, weak banking system and lack of competitiveness, there are bright spots. Italy is running a trade surplus and net external debt is only marginally negative, while outstanding government debt is held domestically. Recent developments are manageable.

Bond yields are well below euro-crisis peak levels and should further moderate, as the probability that Italy will withdraw for the Eurozone remains low (Rome has made this clear).

Moody's has downgraded Italian government debt, while S&P has left its rating at BBB (with negative outlook), which allows the ECB to continue to purchase Italian government debt. The rejection of Italy's budget for the first time will hardly force Italy to back down, suggesting that some moderation of positions and fancy accounting will ease the pressure and enable both sides to save face. We doubt Italy will create a situation which demands a bailout programme, or that financial market disruption will dictate policies.

Our core thesis remains that Europe is moving towards deeper unification (with or without the people's support).

Low German and high Italian yields weigh on the euro



Source: Swissquote Bank, Bloomberg

What keeps us up at night?

1 Geopolitical risk

Geopolitical risk indicators are all in the red as in this post–Cold War phase, framed by so-called «New World Order» thinking, everything is shifting. Fears directly reduce household and business confidence, which inhibits spending and slows growth. Actions by the US over the last two years, including withdrawing from the Iran nuclear deal, have created a rift between traditional allies. China's drive towards regional economic integration is dislodging the comfortable relationship. Tensions in Europe are increasing due to challenges from Italy and the UK. The intensification of nationalist and strong-state narratives are generating risks both domestically and internationally.

2 Trade War Propagation

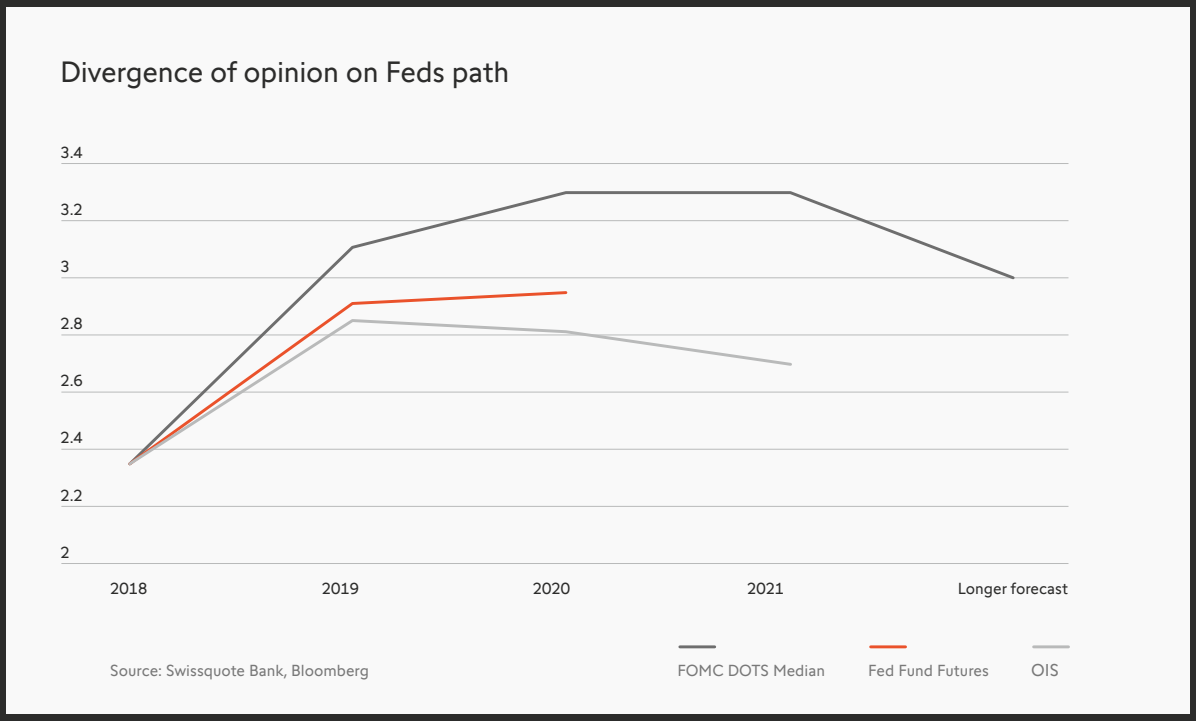
US President Trump's attack on free trade has spread like wild fire, permanently damaging the relationship with its competitors and historical allies alike. The US-China fight has been focused on tariffs, but could easily escalate to other counter-measures. Currently, the US has been the source of much trade fiction, but this could easily change, with other nations adopting its protectionist model.

3 Financial market free-fall

Given the trade risk, equities have held up surprisingly well. This is primarily due to still positive financial conditions and strong earnings. However, a slightly more aggressive weakening in demand could easily lead to stagflation or recession (which has a high probability of occurring in the US in 4Q 2019), damaging high corporate earnings and profitability levels. The role of central bank policy is also critical. Stealthy central banks are either winding down the printing presses or essentially burning money. This highlights the end of quantitative easing for the Bank of Japan and the ECB, and the start of quantitative tightening in the case of the Bank of England and the Fed. In our view, the speed of «normalisation» will have profound effects on equity prices. Despite the controlled pullback late in October and in November, there is still scope for a full correction (decline over 20%). A fall on European and emerging markets showed the correlation of global markets.

4 Fed Misstep

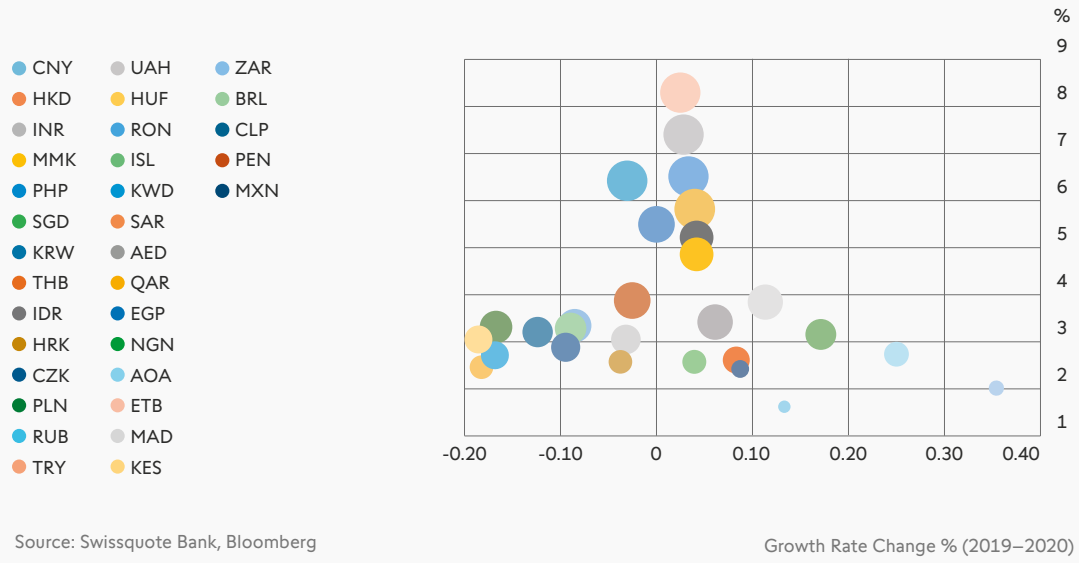
There is plenty in current US data to be worried about if you are a Fed member. The Fed is now confronted with unique challenges to manage the ramifications of Trump's trade war, the inflationary effects of fiscal stimulus and threats to its independence. The Fed might have a tough choice to make. It may have miscalculated, given rising inflation and the lagging effect of trade on demand. With financial markets forecasting a global slowdown, Fed hikes would have destabilising effects.



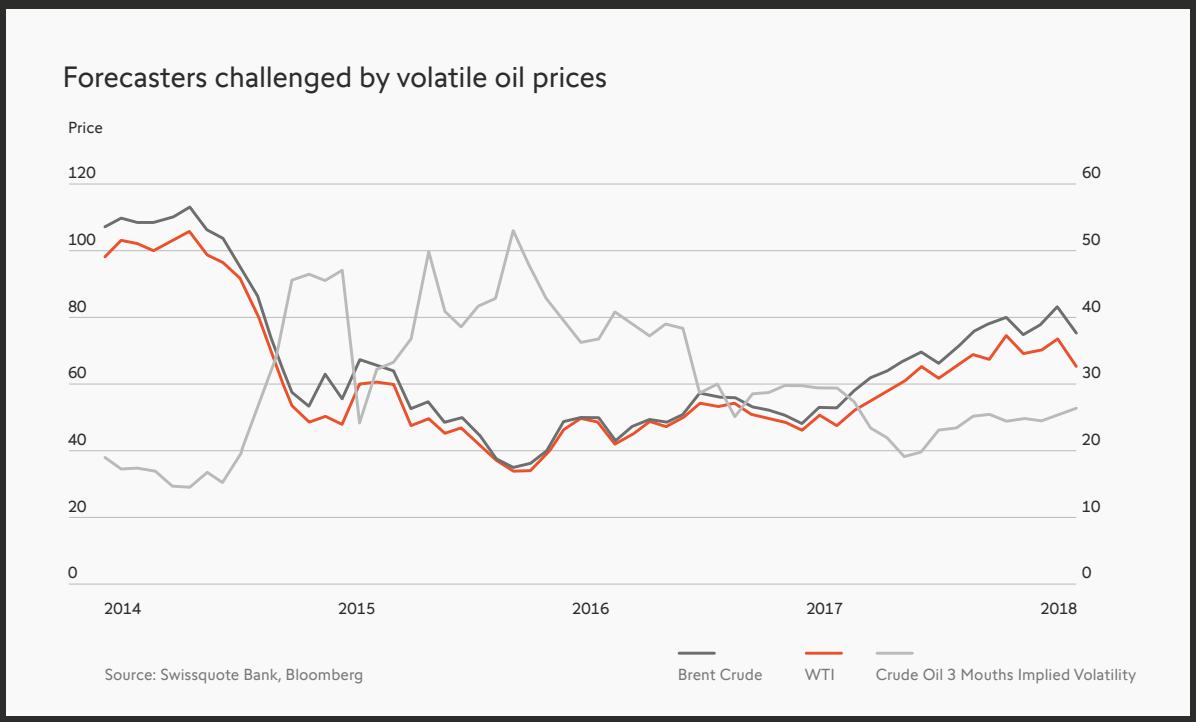
5 China «Hard» Landing

We see Chinese GDP growth coming in at 4.5% to 5.0%, consistent with the concept of a «hard» landing. With Chinese policymakers unable to engineer a methodical slowdown (swapping faster growth for more sustainable growth), a shrinkage in demand for imports, a fall in investment spending and a sharp correction in commodity prices would result. A deceleration of this magnitude would have a profound effect on the global supply chain. Especially in a region such as China, accounting for anywhere from 10% to 25% of exports and substantial private Chinese foreign direct investment, the impact from any protracted slowdown would be painful. Of course, weak demand from these Asian nations would be felt via a global ecosystem of demand.

EM momentum over next two years



Source: Swissquote Bank, Bloomberg



6 Crude Volatility

Supply factors remain the dominant oil price driver. With significant supply supported by the US becoming the world's largest producer, OPEC's control has been further reduced despite substantial cuts. Any improvements in demand are quickly covered. However, a huge portion of oil comes from conflict areas, increasing the probability of the supply suddenly being withdrawn. China's oil security is also driving tensions in the South China Sea. Finally, the «Peak Demand» theory is gaining traction, and service-oriented economies are not as dependent on oil as they were in the past, while renewable sources are coming online. Oil prices have an immediate and profound effect on growth, meaning that forecasts need to be adjusted accordingly.

USA

Growth comes back to reality

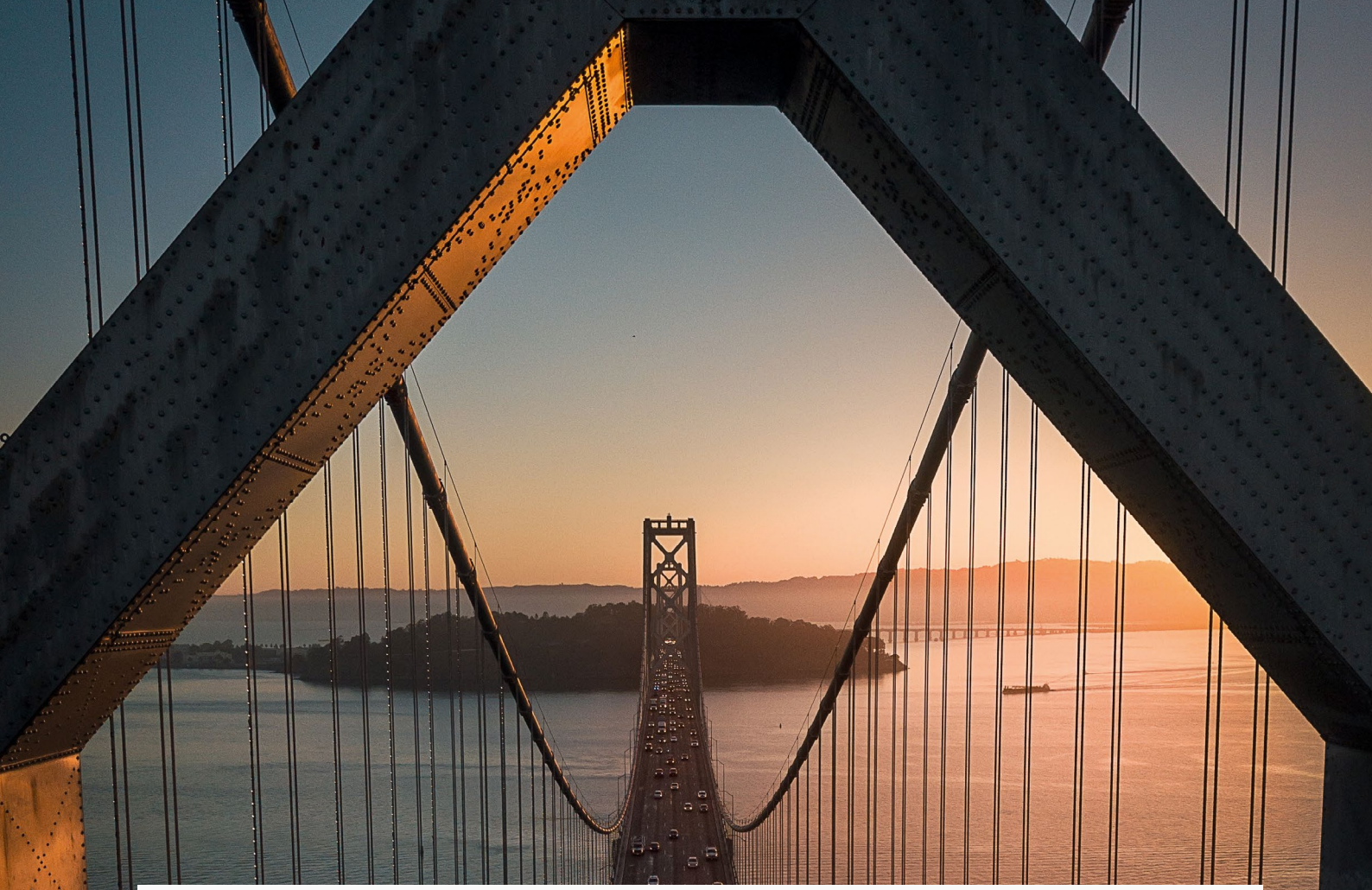
Heading into 2019, the US economy is firing on all cylinders, despite President Trump's divisive administration. The broad-based economic momentum should shield the economy from a steep, sudden slowdown, and instead we should see controlled late-stage cyclical deceleration. However, solid fundamentals do not completely insulate the country from a policy misstep, which has become the primary risk to the global outlook. Escalation in trade tensions and/or faster interest rate hikes driven by the synthetic effect of fiscal stimulus could bring the good times to an end. Baring a policy «shock» following the fastest growth since 2005, household and business confidence will moderate only marginally.

Growth

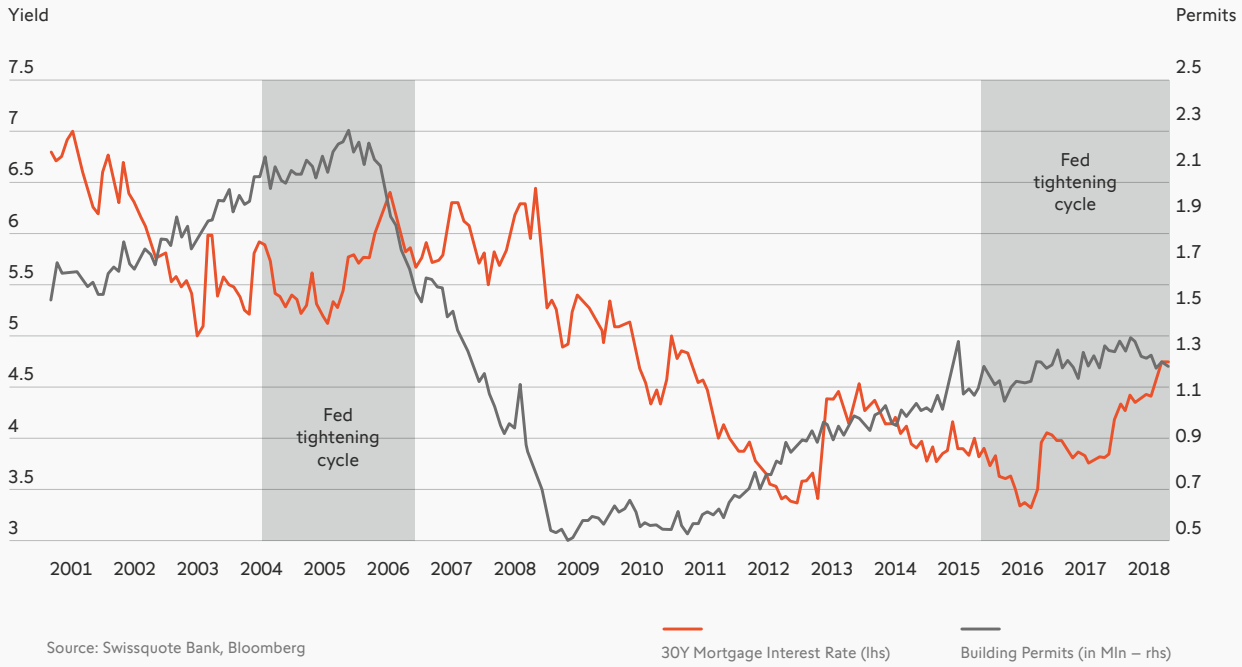
Private consumption remains the primary growth driver, which is positive considering the burgeoning risk. Since 4Q 2017, tax cuts and higher spending have given growth a positive boost. Business investment in the sector has been fuelled by fiscal stimulus and higher energy prices. While momentum remains strong, most likely 2Q marked the cycle peak. As the lagging effect of tax cuts dissipate and oil prices decline, trade tensions and a strong USD will weigh on export competitiveness, suggesting a marginal slowdown. Yet domestic demand remains a bright spot, and should continue to prop up the US economy. Underpinned by a very tight labour market, private consumption is projected to expand by 2.6%. Unemployment has dropped to its lowest levels since 1969 and employment growth spans diverse sectors. Wage growth is also positive, supporting further consumer spending.

Inflation

Reports of inflation's demise have been premature, it is just lagging. The inflation environment has continued to improve in 2018, with wage pressures now pushing inflation higher. The Fed's preferred measure of inflation has been near its 2% target since March. Inflation is expected to hover around 2.1%, with a cooling economy releasing the pressure. However, wage growth momentum will trend higher, encouraging the Fed to continue to tighten interest rates.



Higher rates slowing construction



Source: Swissquote Bank, Bloomberg

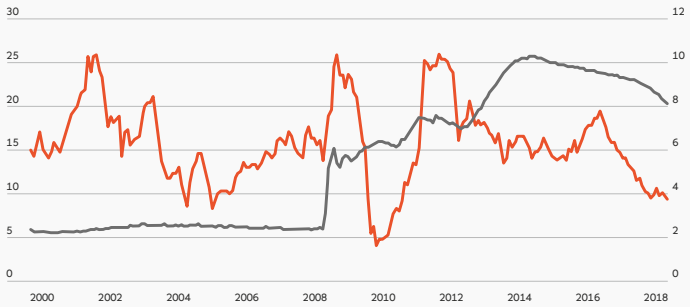
Monetary policy

The Federal Reserve will continue to tighten monetary policy to keep inflation rate at the 2% target. Rising global market volatility, partly due to monetary policy expectations, has not discouraged the Fed from maintaining its hawkish tone. Importantly, despite controversial criticism from Donald Trump, the Fed has continued to demonstrate its independence. Interest rates will start the year in a range between 2.25% and 2.50%. We have anticipated two 25bp hikes in 2019. Based on the most recent Federal Open Market Committee projections, the Federal Funds rate will likely peak in the 3.25% to 3.5% region. Monetary conditions remain loose, and the steeper interest rate path risks cooling the economy in late 2019. But a significant positive is that higher interest rates and a lighter balance sheet give the Fed more tools to cope with the next economic downturn.

While the markets tend to focus on interest rates, the reduction of the balance sheet will be an important factor to monitor. This money burning, or QT, is officially called «balance sheet normalisation». The balance sheet now totals $4.140 trillion, down a mammoth $360 billion over the last 13 months. Another $50 billion is scheduled to be rolled off each month through 2020. Analysts estimate every $600 billion of balance sheet reduction is roughly equivalent to a 1.0% hike in the Fed Funds rate. In addition to the rate hikes of 3.5% from 2015-2020, there is another 3.0% of implied hikes from QT. This is increasing the risk that balance sheet reduction is happening too aggressively, and concurrently, hiking too quickly. The assumption that the US economy can handle higher rates with slower money supply growth represents a massive shift in Fed philosophy. The recent bull rally in bonds, yields and risk premiums dropped simultaneously, driven in part by quantitative easing. Immense bond buying programmes have forced investors to seek quality, resulting in most asset class delivering a high performance. It's logical to have expected the reverse, of rising yields and widening spreads. The rise in interest rates has been manageable so far, but the risk of surging front-end yields is growing. Increasing supply and rising risk premiums factoring in rising inflation could send yields higher rapidly, especially in the context of the shrinking balance sheet.

Fiscal policy, the «Trump bump», is creating counter pressure, pouring fuel on an economy already on fire. It is also taking away tools to stimulate the economy, should the late cycle turn into a recession.

Pace at which Fed unwinds its balance sheet will have significant effect on rates



Source: Swissquote Bank, Bloomberg

Fed Balance Sheet Reserve as % of GDP

Fed M2 Money Supply YoY (rhs)

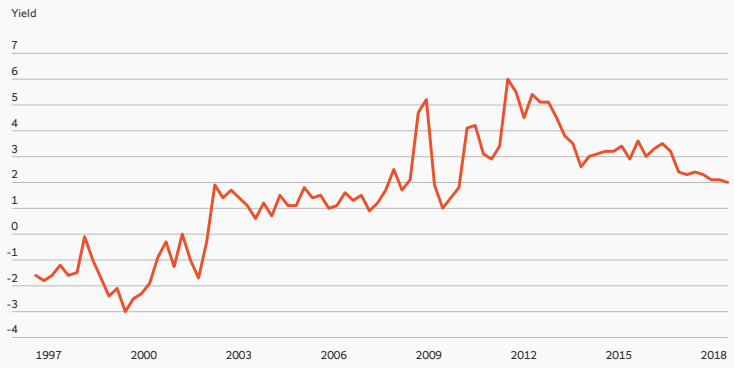
Sturdy economic growth, low unemployment and surging stock markets have helped reduce the fiscal deficit, but Trump's massive tax cut and rising public spending are increasing it. The fiscal boost has accelerated GDP growth, but not to a level that will hold the deficit in check, with expectations of the gap widening to 4.5% of GDP in 2018. In addition, the expansionary fiscal policy is driving inflationary pressure, pushing the Fed to act more aggressively and marginally offsetting the positive effect on GDP. We continue to believe that late 2019 will be challenging for the US. With less fiscal headroom and higher debt levels, the government's options to support the economy are weakened, resulting in a deeper economic downturn.

X factor

While the economic outlook remains positive, the uncoordinated but integrated fiscal, monetary and trade policies increase the likelihood of a policy misstep. The Democrat's soft «blue wave» was enough to take back the House of Representatives. Political discourse will likely be ratcheted up to a whole new level of volatility, but the Democrats now have the platform to check President Trump's authoritarian rule. We anticipate that the Democrats will start to challenge Trump in 2020. They will mainly push for incremental, broadly popular changes, while fighting against parts of Trump's agenda. They are expected to leverage their new majority to wield Congress' oversight powers. They could demand Trump's tax returns (very likely in our view), subpoena his Cabinet members and investigate suspected ties to Russia. They can block the president's legislative priorities, whether funding for a wall along the US-Mexico border or limits on entitlement programmes.

Trade policy remains the highest risk to the US and global outlook. Newly minted tariffs are already having a negative impact on exports. The USMCA lowers risks associated with Mexico and Canada. However, issues with the EU and Switzerland have re-emerged. With regards to China, which is getting the vast majority of attention, the risk of retaliation and escalation remains. The introduction of trade measures shows that targeting specific sectors such as technology and agriculture could damage individual indicators or firms.

Equities barely cheaper than bonds



Source: Swissquote Bank, Bloomberg

Spread (SPX – UST)

Eurozone

Rumors of political and economic demised are exaggerated

Despite a clear end-of-year economic deterioration, fundamentals in the Eurozone remain decent, supported by a loose policy mix and a weaker currency. With European parliamentary elections, Brexit and typical national threats to the European experiment, existential threats remain effervescent, however. Global trade has been a primary booster to the European economy, but threats form a negative cloud over the continent. With disorder comes opportunity, and Europe is uniquely positioned to fill the void left by the USA. Yet policy makers must ensure their domestic objectives do not come undone, while developing international relations. Not an easy ask.

Growth

The Eurozone hit a rough patch in 2H. The slowing momentum was partly due to one-offs, such as harsh weather and strikes. The softening of the European Sentiment Indicator and composite PMI in recent months indicates that the pace of growth will slow for a longer period. Foreign trade has slowed the most, with weak net exports causing a decline in growth. The fall in external sectors reduced GDP growth by nearly 0.7%, with the 2018 figure coming out at 1.9%. Weakness in emerging markets had an asymmetrical effect on European trade. We think that the Trump-derived trade shock, trade policy by tweet, clearly caught the world off guard, but will fade in coming quarters. In addition, the weaker euro has proven to be a primary contributor to European growth. The real effective exchange rate of the euro is now falling. Growth is likely to re-accelerate over the coming quarters. We should see a marginal softening of the above-trend rate of 1.8% in 2019, as long as domestic risks (hard Brexit, Italian budget, European elections) do not spiral out of control. Bank lending further expanded in 2018, yet remains close to historical lows, suggesting that a marginal improvement (driven by rising housing prices, solid income prospects and low interest rates) would support economic activity. Despite the headline-grabbing issues, we see risks as evenly balanced. Should Europe maintain a level of stability (and trade tensions do not escalate), this rate of expansion will bring unemployment down further and drive a further recovery in core inflation. More jobs and quickening wage growth, which hit 2.2% y/y in July, its highest since 2009, indicates higher household spending, which has only just begun to recover. Domestic demand, which was the main engine of growth in 2018, could be the swing factor in 2019.

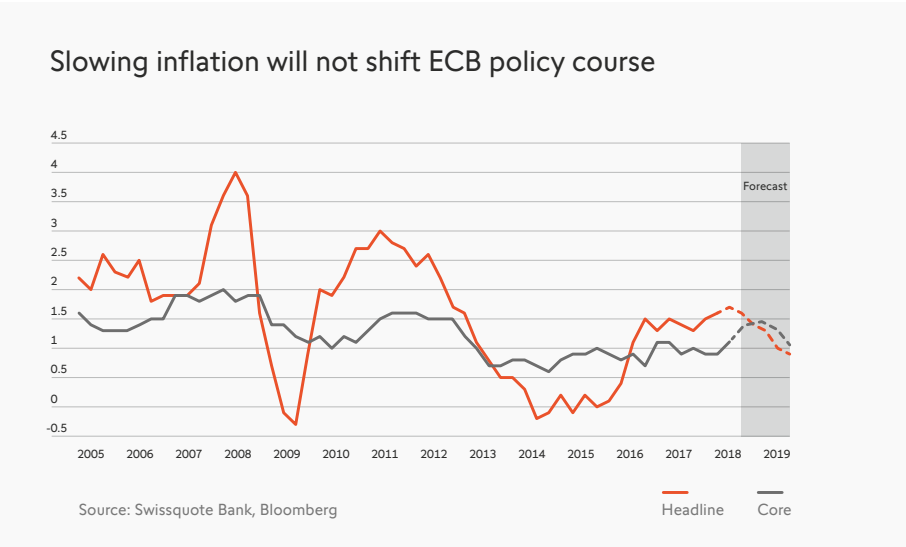

EU data has plenty of room for upside surprises
150
100
50
0
-50
-100
-150
1
0.5
0
-0.5
-1
-1.5
-2
-2.5
-3
2016
2017
2018
Source: Swissquote Bank, Bloomberg
Euro data surprise index
EURUSD 1 year risk reversal

Inflation

The decelerating growth outlook will equate to stable inflation. The current rise in headline inflation was largely driven by energy prices, which left core inflation trending sideways. The fall in crude prices should keep inflation contained around 2.0% for most of 2019, with a slight slowdown at year-end as growth softens. Oil prices have been a primary inflation driver recently, so our expectation of $60-$65 a barrel is likely to provide a headwind for stronger price pressures. However, core inflation should gradually pick up as wage growth improves. A strong improvement in wage growth, especially in Germany where the labour market is the tightest, could be the catalyst for higher than expected inflation. Straggler countries with spare capacity such as Ireland, Italy and Spain could see faster wage growth (France's expected labour reforms will keep wages subdued). Core inflation is expected to hit 1.5% in 2019 and 1.6% in 2020. While our inflation forecast does not breach any thresholds (it stays on target for «below, but close to 2% over the medium term»), it will be sufficient for the ECB to remain on its normalization course.

Policy

Make no mistake, the ECB is intent on normalisation. Draghi & Co understand the risks of having an ultra-loose policy should the Eurozone economy demand support. This reality will override small divergences in data or headline-grabbing comments. «Watch what they do, not what they say» should be the view taken for the year. The ECB ended its monthly asset purchases under the extraordinary monetary stimulus programme. However, the ECB will reinvest the principal payments from the maturing securities, safeguarding liquidity and «ample degree of monetary accommodation.» In clear terms, the Governing Council indicated that key interest rates would remain at current levels through the summer of 2019, which in our mind, clears the way for the first hike of 20bp in September 2019 (also lifting refi and marginal lending rates), with depo rates reaching 0.5% by end-2020. As we stated earlier, balance sheet management will be critical. Annual reinvestment will likely reach €200bn, which will give the ECB plenty of stealth firepower to handle rises in rates even after QE has ended. This will make the path for the depo rate ceremonial more than anything else. In our view, there would need to be a significant shock (Fed stops hiking, Hard Brexit, credit crisis in Italy) to shift the ECB from its normalisation path.



X factor

It has been well telegraphed that protectionism could cripple the Eurozone. We are less concerned about the direct effect on Europe (US-levied import tariffs on steel and aluminum) than the spillover from weaker growth in emerging markets. The meeting between Donald Trump and Jean-Claude Juncker averted further escalation, and indicated that the size of the EU matters in negotiations. EM countries with high current account deficits and foreign denominated debt have seen a sharp deprecation in local currency, and are likely to see a deeper growth showdown. EMs will have a difficult time defending themselves from the collateral effects of decisions taken by the superpowers. Trump's divisive policy hit EM growth and FX in 2H 2018, and this was quickly reflected in European data, as Europe depends on this export destination.

We remain committed to our theory that Europe is heading towards integration, and challenges would be short-term. However, it has been shaken by events in Italy and the surge in yields. Weak economic growth, high public debt, a shaky banking sector with high levels of debt combined with an anti-establishment government (populist Five-Star Movement and the far-right League) make for a volatile situation. Its growth performance following the financial crisis has been weak at 0.2% per year since 2010, leading to the highest dissatisfaction rate in Europe. However, Italy's new populist government has indicated that leaving the EU and EMU is not an objective. The government's budget is expected to increase the deficit to 2.4% of GDP, triggering a sharp reaction from the European Commission and the financial markets. What happens next depends on perspective. A debt-to-GDP ratio at 170% will become unsustainable and pose a threat to the banking sector (potentially to the whole of Europe, as with Greece). However if you consider closer integration with the Eurozone, it is a manageable 81.6%, which is how we see the situation.

Switzerland

What happens next depends on external factors

Switzerland, a small open Alpine economy, is on the front line of two massive risks: trade protectionism and the UK-EU Brexit negotiations. Both will have a profound effect on Switzerland's economy, but there is not much to do but watch. The Swiss economy is in a «goldilocks» state, but threats from abroad and worries over global cooling are starting to take their toll.

Growth

Along the lines of Europe, Swiss growth is showing signs of moderating after a period of solid expansion. The decline in unemployment is supporting consumption, while rising export growth has been supported by the weaker CHF. Switzerland's KoF leading indicator has been trending downwards since the start of the year, despite strong GDP figures supported by record exports to China, the US and Germany, which allowed the value of Swiss exports to rise overall. The rise in exports could have been a bit of front-loading ahead of tariffs. In addition, major sporting events had a positive impact on GDP, but forecasting really depends of external events. Barring a «shock», growth is expected to moderate to 1.8%, from a strong 3.0% in 2018.

Inflation

Higher energy prices, the weaker franc, more expensive imports and solid economic growth have pushed inflation higher over the past two years (bottoming out in autumn 2015). Yet, despite a healthy economy, the outlook for inflation remains subdued. Consumer Price Inflation is trending above 1.1%, the highest level since 2011. Core inflation has had a more challenging environment, and has decelerated for most of 2018. We don't see much improvement in the inflationary backdrop, with headline inflation to be stuck around 1%, especially if our views on weak energy prices are correct, and core inflation comes out slightly higher than the current figure of 0.6% for 2019. In other advanced economies, wage growth remains weak, limiting pressure on prices. Yet an inflation rate of 1% is well within the SNB target range. Finally, the CHF has been gaining during periods of stress in Europe. With expectations for risk especially in 1H 2019 from Europe, it is likely that the franc's safe-haven status will cause the currency to appreciate and limit strong price pressure. The SNB will keep a close eye on developments of the franc and its effects on inflation.


Signs of coming deceleration in growth
70
65
60
55
50
45
40
115
110
105
100
95
90
85
Expansion
Contraction
2012
2013
2014
2015
2016
2017
2018
Source: Swissquote Bank, Bloomberg
PMI (Left)
KOF (Right)

Inflation will trend into SNB comfort zone

Source: Swissquote Bank, Bloomberg

Monetary Policy

Currently the SNB is satisfied, with no impetus to adjust anything. Even its wording remains static. However, inflation is now around its historical average, and the growth outlook looks positive. The SNB's own inflation forecast for 2% by mid-2021 suggests that the process of normalisation will begin in 2019. The foreign exchange outlook, the SNB's true focus, remains challenging. External risks like Italy, Brexit, European Parliamentary elections and regional trade tensions, could quickly send investors into the regional safe-haven. Critically for the SNB's policy path, we currently expect none of these risk scenarios to reach crisis levels, forcing the ECB to delay monetary policy normalisation. It's important to remember that the CHF is sensitive to risk events in Europe, which can drive safe-haven flows. However, by year-end, most of these risk events will have passed, giving a clear view of FX volatility. Following the ECB hiking path, rather than Swiss inflation trajectory, we see the first SNB policy adjustment taking place in December (three months after the ECB). As with other advanced economies, central banks' extreme policy actions have left the SNB with few tools to fight another crisis or economic downturn. Despite the EUR/CHF falling to 1.12, the increase in sight deposits and balance of payments indicate that the SNB has not intervened in fx markets (last intervention mid-2017), a positive step towards normalisation. With policy rates at -0.75% and a massive balance sheet at 120% of GDP, its ability to react via monetary stimulus is limited. The desire to normalise in order to reload its firepower will prompt the SNB to move from negative rates. With higher rates in Europe, spreads will limit excess EUR/CHF deprecation. We would like to see EUR/CHF above 1.20, which would give the SNB the green light to follow the ECB in raising interest rates.

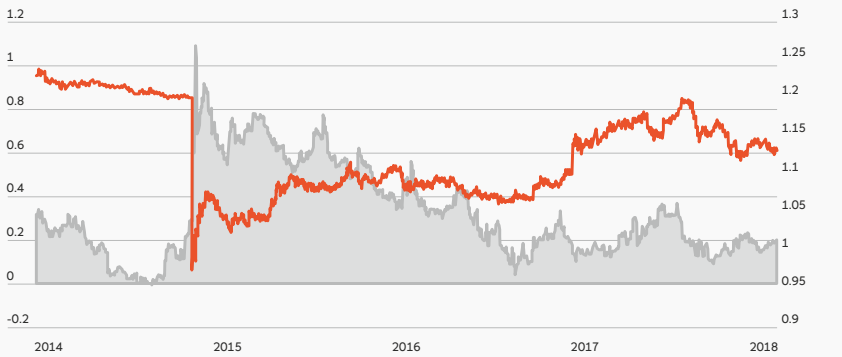
X factor

Switzerland is extremely exposed to the result of the UK-EU negotiations. Switzerland has its own intricate bilateral deals with Brussels, agreed over two decades, after the Swiss decided in 1992 not to become a member of the EU. The economic relationship between Switzerland and the UK is grounded in bilateral agreements between Switzerland and the EU. A hard Brexit would end these agreements. Even after a softer Brexit, the Swiss cannot secure their own trade, customs or movement of people agreements directly with the UK until the UK has come to an agreement with the EU. Switzerland and the UK are among each other's largest trading partners. The UK is Switzerland's 5th largest overseas market with exports of over CHF 11bn. UK exports to Swiss are valued at CHF 28bn. Informally, talks cleverly dubbed «Mind the Gap» has been happening for years, to minimise potential trade disputes. Yet nothing can be finalised without EU permission, which suggests a level of disruption should things turn bad between the UK and the EU. In addition, the threat of Brexit has brought forward the immediacy of the EU and Switzerland negotiating a framework agreement to formalise their relationship and replace the 120 different treaties that exist currently. The EU framework will be more restrictive than it is now, so Switzerland-EU relations aren't seen as an example for countries looking to leave the EU. Newsflow from meetings suggests that negotiations are at a stalemate and probably an agreement in the near term is unlikely. Not surprisingly, disagreements over the free movement of people are a critical issue. A hard Brexit could see the Swiss lose a major trading partner and force the EU to make stringent demands for further access to the single market.

The economic relationship between Switzerland and the UK is grounded in bilateral agreements between Switzerland and the EU. A hard Brexit would end these agreements.

Nothing can be finalised without EU permission, which suggests a level of disruption should things turn bad.

Switzerland's rate in relation to German rates matters

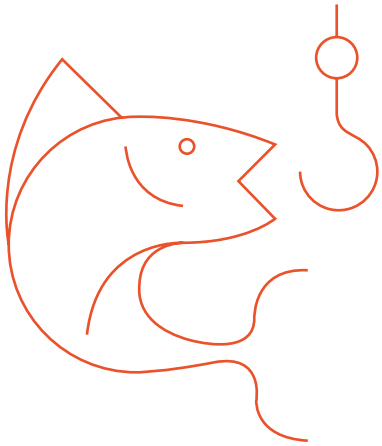


Source: Swissquote Bank, Bloomberg

EURCHF CURNCY

German 2 yr / Swiss 2 yr yield spread

Supertrends 2019 in the Spotlight



Trend 1

Cannabis

Growth in this blooming industry is coming faster than you think

Highly volatile due to its emergence in the financial sphere, the cannabis industry is gaining traction, as larger actors are assessing its viability across their respective value chains. Besides sound medicinal characteristics that have broadly been approved across the medical community, cannabis is also building its reputation in the beverages industry, where large sector players have been investing in it in order to benefit from first-mover advantage. Following Canada's legalisation of recreational cannabis in October 2018, the industry is set to expand further, as industry actors are engaging in transnational activities based on the reform of national legislation.

Trend 2

Norwegian Fishing

A consumption-driven theme with promising opportunities

For most societies, salmon has become one of the most essential food ingredients in unforgettable culinary experiences. In addition to its generous nutritional properties and the fact that the world human population is expected to reach 8.1 billion by 2025, the growing demand for salmon will necessarily strengthen its rarity, which will ultimately weigh on prices. For these reasons, the price premium of investing in Norwegian salmon fishing, recognised for its high quality and in demand all over the world, is justified.

Trend 3

African Consumer

A tailor-made investment opportunity focusing on targeted consumer goods

As one of the high-growth potential continents in the world, Africa is showing interesting consumption figures. With 40% of its total population set to be of working age and producing income in less than a decade, African society is ready to make the jump into the big league. According to estimates, the size of Africa's working-age population is set to surpass those of India and China in less than a decade. Accordingly, despite a slowdown in consumer spending across the continent, due in part to currency depreciation and a slowdown in growth-exporting countries, demand for food and beverages remains the largest consumption category within African household expenditure; this is rather good news for this investment trend, which has proven to be resilient over time.

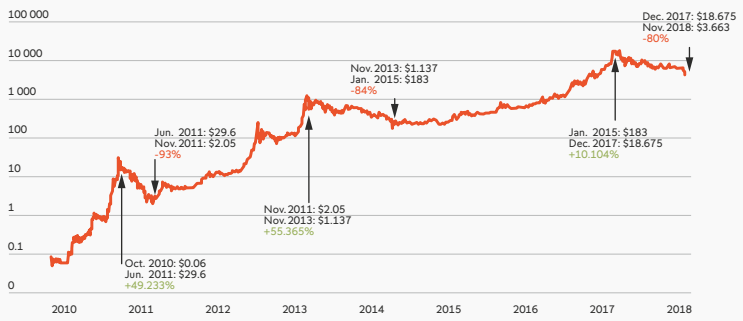
Cryptocurrencies 2019 Analysis

It has been a rough year from crypto investors, as the valuation of Bitcoin and other digital assets continued to fall. The atmosphere in the crypto market is quite different from a year ago, when investors were ready to sell everything they owned to buy tokens of the latest highly disruptive start-ups. At its peak, the total market capitalisation reached $822.8 billion (7 January 2018, according to coinmarketcap.com). At its all-time high, a single Bitcoin would have cost you around $19'900, while you would have to pay a little more than $1'500 to get Ether. At the time of writing this report, total market capitalisation stands slightly above $172 billion, as Bitcoin and Ether prices have fallen 73% and 90% respectively. At the end of the third quarter of 2018, Bitcoin stabilised above the $6'000 mark, which suggested at the time that the worst was over and that a recovery was approaching. Unfortunately, it didn't happen that way, Bitcoin resumed its downward trend and slowly slid towards the $5'000 level. The picture was not much brighter for Ethereum, as the price of Ether fell to $150, the lowest level since mid-July last year. Overall, the total market capitalisation of the crypto market continued to melt like snow under the sun, and this process didn't seem to be nearing an end.

Twelve months ago, it was becoming obvious that the bubble had to burst eventually. What was unknown was the magnitude of the correction. Is a 70% correction fair? Or maybe 80%? Why not 90%? By way of comparison, when the dot-com bubble burst, the Nasdaq collapsed by 78% and the bear market lasted for two and a half years. More than five years were needed to trim that loss to only 45%. Ultimately, investors had to wait until the Fed started to flood financial markets with liquidity through its quantitative easing programme, before again seeing the highs of March 2000. Both the dot-com bubble and the crypto bubble are perfect illustrations of speculative mania linked to technology and innovation. Both were driven by promising new disruptive technologies that were difficult to evaluate properly at the time. However, beyond that, they do not have much in common. The rally, and then the sell-off that followed, lasted years for the Nasdaq, while for Bitcoin, and cryptos in general, the time span is much shorter – less than a year. Does this mean that we could reasonably expect a quick recovery? Nothing could be less certain. Therefore, it would be hazardous to extrapolate behaviour from tech stocks to cryptos. Especially since the regulatory environments have nothing in common, but we will come back to this later on.

The blockchain technology is seen as revolutionary and is set to disrupt many industries, ranging from banking to healthcare or even supply chain management. The question is today: do cryptocurrencies stand a chance becoming a new standard? In light of the recent developments, it is now clear that this won't happen overnight, and not in the next few months, as many obstacles stand in the way. Regulation, resistance to change and choppy price actions act like a drag on mass adoption; however, there is still some hope!

A little "bit" of perspective – Bitcoin (log scale)



Source: Swissquote Bank, Bloomberg

It is moving in the right direction

It would be unfair to state that no good development has taken place in the crypto space in the last year. The picture is not rosy, but is moving in the right direction. As a starter, it is worth mentioning that the lightning network has really picked up in the last year, as it grew exponentially. The number of nodes increased from around 50 in January 2018 to around 1'900 in late November. The number of channels passed the 11'000 mark, while the total network capacity reached $1.5 million (340 BTC). As a reminder, the lightning network was designed to solve Bitcoin's scalability issue by creating a layer that sits on top of Bitcoin. Let's take a quick example to illustrate how it works: two users often make Bitcoin transactions between them. Rather than broadcasting each of those transactions to the blockchain, they can open a payment channel and make transactions on that channel without impacting the blockchain every time; eventually, they would close the channel to settle the net amount on the Bitcoin blockchain. This solution allows the number of transactions that Bitcoin can handle to be increased significantly, making it a fast and cheap solution. It is difficult to say whether Bitcoin will one day reach mass adoption, but it is definitely a step in the right direction.

Innovative tech follows similar patterns – Nasdaq (log scale)

Source: Swissquote Bank, Bloomberg

Established businesses are also embracing blockchain technology. The Swiss Stock Exchange (SIX) announced it would launch a digital exchange (SDX) in mid-2019, and this will operate in parallel to the current SIX platform. «The SIX Digital Exchange will be the first market infrastructure in the world to offer a fully integrated end-to-end trading, settlement and custody service for digital assets», we can read on the SIX's website. In addition, the SIX listed the first multi-crypto exchanged-traded product (ETP) in late 2018. The Swiss start-up Amun AG, which is based in the «crypto valley» in Zug, is behind the new product that will trade under the ticker HODL on the SIX exchange.

Across the globe, the Australian Securities Exchange (ASX) announced it would implement a blockchain-based solution to replace its Clearing House Electronic Subregister System (CHESS) - its current system for processing equity transactions. The launch date has been delayed by a year amid stakeholder concern over the implementation window, and it is now set for April 2021. Even though it is good news, as it shows that attitudes towards blockchain are changing, it won't be of any help in democratising the use of Bitcoin or other cryptocurrencies. Indeed, the new system will be operated on a permissioned private network (i.e. ASX determines who can act as a transaction validator on the network). Therefore, it won't push crypto prices higher.

On the other side of the Atlantic, the SEC (Security and Exchange Commission) is keeping the crypto community on their toes, as they still haven't approved a Bitcoin-based ETF (exchange traded fund). The launch of a Bitcoin ETF should supposedly attract many investors, especially institutional ones that have largely stayed away from crypto assets against the backdrop of an unclear regulatory outlook and lack of security. The SEC rejected many ETF proposals last year and does not seem ready to approve one yet. Investor protection is at the centre of the SEC's rhetoric, and as long as Jay Clayton (SEC's chairman) is not convinced that investors are safe from fraud and market manipulation, no ETF will see the light of day. However, it sounds reasonable to expect a Bitcoin-based ETF in the US in 2019.

One of the hottest pieces of news from last year came from ICE (Intercontinental Exchange), the owner of the New York Stock Exchange and several future exchanges across the globe, as it announced it would launch the Bakkt ecosystem. Bakkt plans to propose an open platform that encompasses several cryptocurrency services, ranging from trading to warehousing and even payment solutions. The main idea behind Bakkt is to connect existing market and merchant infrastructure to the blockchain. It is a big project, and we should not expect the full package to be delivered in one go in 2019. The first component of the Bakkt offering will take the form of physical Bitcoin futures that would be quoted against the USD, GBP and EUR. There is a high expectation that the set-up of futures contracts with physical delivery would prop up Bitcoin prices – and therefore the entire crypto market – but also that it would help speed up mainstream adoption.

But still a long way to go

Just like any major innovation, there is always some resistance at the beginning. People want to stay in their comfort zone and are afraid of any kind of change. It is easier to stick to what you already know and have mastered. In the company world, things are slightly different. We do see some resistance to change. Nevertheless, this is not the sole reason. Companies that are set to be disrupted by the DLT (distributed ledger technology, i.e. the technology behind Bitcoin) would also be prone to try to slow down adoption in order to buy time. They need to adapt. Therefore, it is not surprising to see executives from those «to be disrupted» companies talking down crypto currencies, calling Bitcoin a fraud or a Ponzi scheme, while at the same time working on improving their business model with a blockchain-based solution. At the same time, criticising is good as it allows areas of improvement to be precisely targeted. And yes, Bitcoin, and cryptos in general, will have to go through many rounds of improvement before being able to reach mass adoption.

One of the first things that comes to mind is the steep learning curve. Let's face it, at present, interacting with cryptos is not easy. Tech-savvy investors have no issue with buying, storing, trading and sending cryptocurrency from one wallet to another. They know how and when to switch from hot storage to cold storage. They are aware of all the differences in features, drawbacks and advantages between ETH, NEO, ADA and EOS, and know how to set up a master node to protect some of their coins against dilution (inflation). For the rest of us, the complexity is just another reason to walk away. Therefore, the industry needs to spend some time on developing a proper user interface and a user experience that feels natural, as well simplifying global understanding of the technology.

The second necessary improvement is one of the most important: security. Initially, cryptocurrencies didn't suffer much from hacking, as only a little money was circulating in the crypto space. Over the last two years, things have changed dramatically. The total market valuation has increased exponentially, so has hackers' interest in crypto assets. In addition, users' average knowledge has decreased as new users have entered the market, making it easier for hackers. Mainstream users are not the only targets, as crypto exchanges suffered numerous attacks last year. However, even when hackers target an exchange and manage to steal funds, it is always the end-user that pay the bill. Separately, occasional investors lose their funds without the «help» of hackers. Indeed, one common mistake is to lose access to either your hot or cold wallet – i.e. losing the seed of your hardware wallet (keystore file), forgetting your mnemonic phrases or simply losing your unencrypted private key. Indeed, this is one of the key differences compared to fiat currencies. When you lose access to your e-banking account, you still have the possibility to call customer care at your bank to retrieve your credentials. The same is true if you transfer money to the wrong account. In the crypto world, none of this is possible. Once it is done, it is done; there is no «cancel» button.

There is a long way to go before the mass adoption of crypo assets but the good news is that developers are already working on solving most of these issues. Indeed, during the last annual

Ethereum Conference (Devcon 4) that took place in Prague, between 30 October and 2 November 2018, the UX/UI challenges were taken seriously, while obviously, scalability remained centre stage. On the institutional side, the main hurdle remains the regulatory aspect, as proper guidelines and a proper regulatory framework would allow trust to be earned from investors.

What to expect in 2019

Today, there are more than 2000 crypto assets (according to coinmarketcap.com) out there. Many start-ups are offering to solve the same issue. There are around a dozen crypto exchanges, supply chain management solutions, Dapps platforms, payments solutions, and so on. The crypto market has already started its consolidation process, as first movers are slowly launching their solutions; the major clean-up, during which «duplicate» projects will be eliminated, has also already started and could only accelerate over time as competition picks up. It would therefore be a landmine for investors, as most cryptocurrencies will simply die. Picking up the good ones will be the main challenges. Despite the fact that we are convinced that blockchain technology and therefore cryptocurrencies are here to stay, a key point to keep in mind when allocating your money.

As you may have observed, banks and central banks have clearly shown that they would rather develop their own blockchains than using an existing one. At first glance, this may look like a good idea. Unfortunately, the cryptocurrencies they would develop would be missing a key element: decentralisation. Indeed, when Christine Lagarde says that countries and central banks could manage cryptocurrencies more effectively and eliminate the issues of trust, she actually means that they would control the supply and be the only one allowed to validate new transactions. The solution they are proposing is completely at odds with Satoshi Nakamoto's vision. The original idea was precisely to get rid of centralisation and to protect the common interest from central banks' hazardous monetary experiments. The solution proposed by the IMF's managing director is rather a way to fulfill one of their dreams: to get rid of cash and embrace digital money. By issuing their own cryptocurrency, central banks would benefit from the transparency and traceability offered by blockchain technology, while at the same time being able to maintain full control of the total supply. This is indeed the main reason why central bankers, such a Benoît Coeuré (ECB), Mark Carney (BoE) and Augustín Carstens (BIS), have to date made negative remarks about Bitcoin and cryptos.

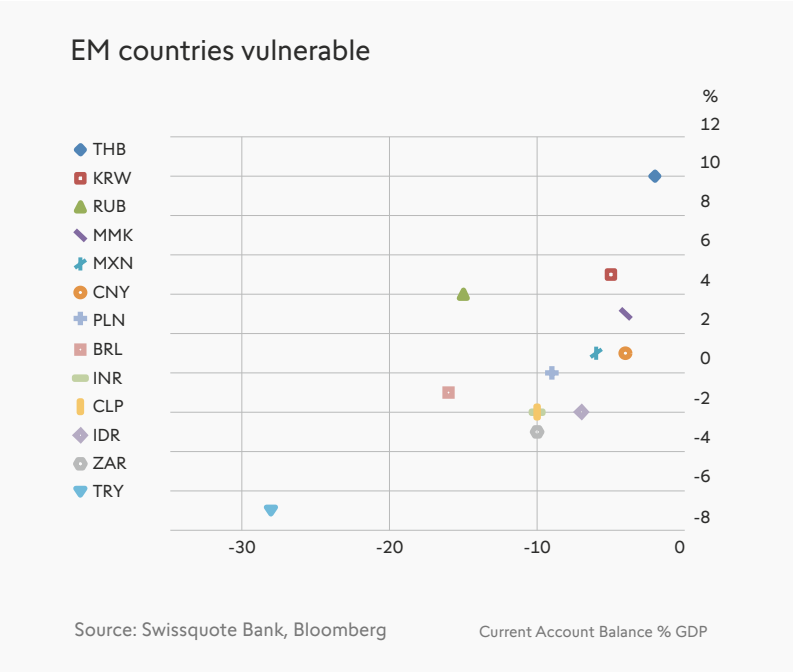
Against such a backdrop, it becomes obvious that cryptocurrencies do not all have the same opportunities to flourish. Payment tokens (Cryptocurrencies that only develop the functionality to become a payment solution, e.g. Bitcoin, Litecoin, Dash, etc. The case of Bitcoin could be debatable as smart contracts are now possible. See Rootstock's Bitcoin-powered smart contracts) will likely be the ones that would suffer from such a development; while utility tokens, such as Ethereum, NEO and EOS, would most likely be spared. Finally, crypto start-ups that are trying to "disrupt" existing industries will face additional challenges as those companies try to develop their own DLT solution. Therefore, it seems wiser to crypto start-ups that are proposing a completely new product or service. Having said all that, invest safely!

Asset Classes

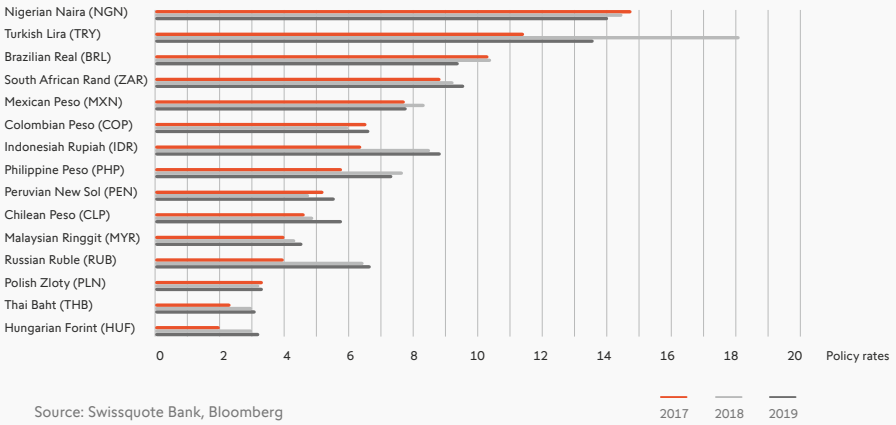
FX- End of USD Rally

Our 2018 outlook got a bit twisted, as US growth accelerated and central banks on developed markets have become cautious in their pursuit of normalisation. The USD recovery was also supported by rising risks, albeit self-generated. Yet in reality, the greenback boost was based on temporary factors such as fiscal stimulus, the slowdown outside the US, typical risk-off factors and the escalation in trade tensions. Volatility triggered by these issues, especially aggressive market disruption due to the rotation out of EM assets, limited the effect that monetary policy divergence had on foreign exchange pricing.

Like the 2013 Taper Tantrum, which was mirrored in 2018, stress on regional currencies has mainly been a function of how much the economy is dependent on external financing to meet its borrowing and current account requirements. While the trade war and volatility in the developed market still command the market narrative, the disorder that battered EM assets appears to have diminished. The US fiscal and current account deficits should continue to worsen which according to history, will be bearish for USD. Moving forward, we believe much of the fuel for the USD recovery will fade.



Direction of interest rates will drive FX markets



Source: Swissquote Bank, Bloomberg

In fact, the resilience the USD has shown as the Fed has continued its tightening will make the shift even more dramatic. The Fed is near the end of its hiking cycle, indicating that the USD yield advantage has peaked, and at the same time political risk in Europe is in decline (Brexit solution, EU Parliamentary elections). The US late economic cycle and high USD valuations are likely to weigh on the currency mid-year, as other G10 central banks move further towards normalisation. Yields will remain the primary driver over growth differentials. Real yields globally remain flat, so even only minor shifts in money market curves will have a profound impact. The single currency will be critical in defining the trends in FX. Should domestic political risk subside and the ECB stays on course for September's rate hike, a USD decline seems inevitable. In addition, China's monetary and fiscal stimulus should help reduce the probability of a hard landing, lowering global risk, stabilizing growth expectations and increasing demand for EM currencies (which remain undervalued due to heavy end-of-year selling). Finally, liquid, low/negative yielding currencies, like the CHF and the JPY, will provide the ideal funding vehicle for most of the year, but find buyers near year-end as the SNB and BoJ prep the market for normalisation. The JPY is expected to remain in a constricted range, yet downside is getting heavy. While negative interest rates damage the JPY, the credibility of the BoJ further weakening the currency can be challenged. Furthermore, the JPY's secured position as the regional safe haven trade will support the JPY as volatility increases. Switzerland's domestic back drop has less to do with pricing the CHF than European political risk and the ECB's normalisation path. The CHF remains overvalued, so as the ECB creeps toward the exit, the EUR/CHF should strengthen.

Commodity currencies should have a strong year, as low commodity prices, the risk of a trade war and fears of a Chinese deceleration are already largely priced in. The BoC hiking cycle is likely to give CAD a quick boost. The RBNZ has presented a dovish outlook, but with fundamentals improving, it is unlikely to last the full year. The fate of the AUD is explicitly linked to China. Its current cheap valuation suggests that any improvement in China will quickly translate into a strong AUD. Finally, the GBP depends completely on the outcome of Brexit and political risk (pretty obvious). There is no real point in guessing what the UK will look like after 29 March. The so-called Withdrawal Agreement is likely to provide only temporary relief for the GBP. With risk significantly high, downside risks look likely.

Stocks - Challenging year ahead

2019 will be a challenging year for stocks, following the trends set in 2018. There are increasing signs that late-stage cyclical stock market patterns are entrenching. Suboptimal conditions, slowing global growth, higher yields, the prospect of tighter monetary policies and the prospects of a trade war have shaken investor confidence. 2019 is likely to mirror 2018. There will be periods of higher volatility due to disappointing growth data and decreasing risk appetite. Historically, nearly every stock market correction has corresponded to a clear economic downturn and Fed interest rate hikes. Considering our balanced expectation for the growth outlook over the next few years, downside should be limited. The same can be said of the global stocks, with the continued gradual improvement in corporate earnings. The slight pullback has made valuations more attractive. Volatility and market divergence between market segments are expected to continue.

Investors have made portfolios more defensive, adopting cautious positions, as can be seen from capital outflows from emerging markets into US equities.

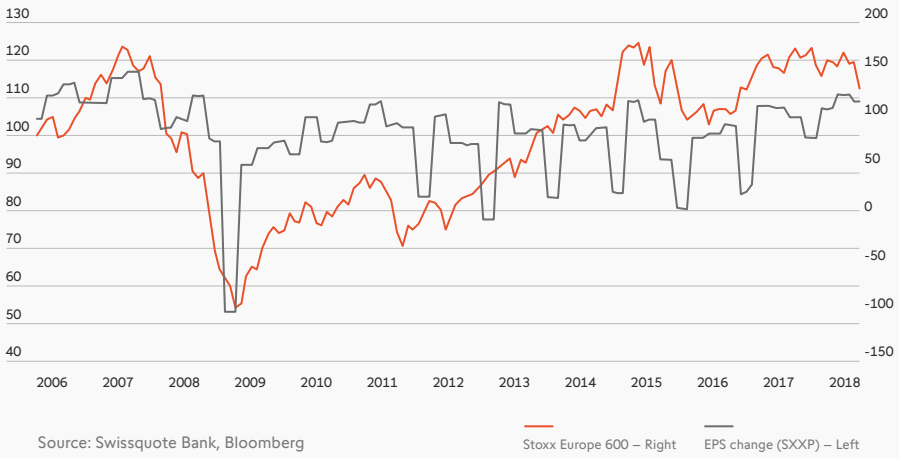
Growth-oriented positions that were popular in early 2018 have now become the most underweighted categories. Fund managers have lowered their growth and earnings expectations, yet in broad terms, portfolios are not overly negatively positioned. Interestingly, short-term stock market sentiment indicators are so suppressed, so there is room for a rebound.

Much depends on the earnings environment. Given current earnings forecasts, current valuations are reasonable. Rising profits and weak share prices have pulled down price/earnings (P/E) ratios from high levels. In January, the MSCI World Index P/E stood at 16, versus 14.5 today. Currently, with consensus forecasts of US earnings growth slightly below 10%, valuations should continue to improve. However, should growth decelerate, forecasts will be revised downwards, leading to lower share prices and multiples. We believe that peak valuations have likely passed but we do not expect a sharp reduction in corporate earnings. Heading into the New Year, data indicates that US companies are in a strong position, and not only propped up by tax cuts, but by healthy consumption. American companies have seen sales rise 8.5% and earning increase by 27%. Softer European economic conditions have dragged down earnings despite the FX advantage. Asian companies are expressing caution, due to uncertainty around trade. That said, a shift in the economic cycle risks triggering a disappointment in earnings. As sales slow and order books decline, forecast revenues are called into question. Currently US and European profit margins are historically high, and US margins are above past cyclical peaks. While US profit margins have been trending around the same elevated level, European margins are catching up. This suggests that without a significant boost in revenues, European corporate profitability can show some improvement, suggesting European stocks are undervalued.

While US profit margins have been trending around the same elevated level, European margins are catching up.

We see two primary threats to our expectations for stable to slightly weaker stock performance. The first is the ongoing trade war, which could easily disrupt corporate performance from a revenue standpoint. However, any escalation will likely have winners and losers, and we should not just assume all corporates will lose. The second threat is rising global interest rates. The extended period of ultra-low rates sent yield-starved investors into equites and credit. With rising rates, in the US in particular, and expectations of higher rates in Europe, investors will rotate back into bonds. Against a backdrop of weaker growth, solid corporate earnings will make bonds attractive to equity investors. The general consensus is that if the US 10-year treasury yield climbs above 3.50%, we should see meaningful flows.

Decline in European stocks not fully justified by earnings



Source: Swissquote Bank, Bloomberg

Commodities - Driven by over production and falling demand

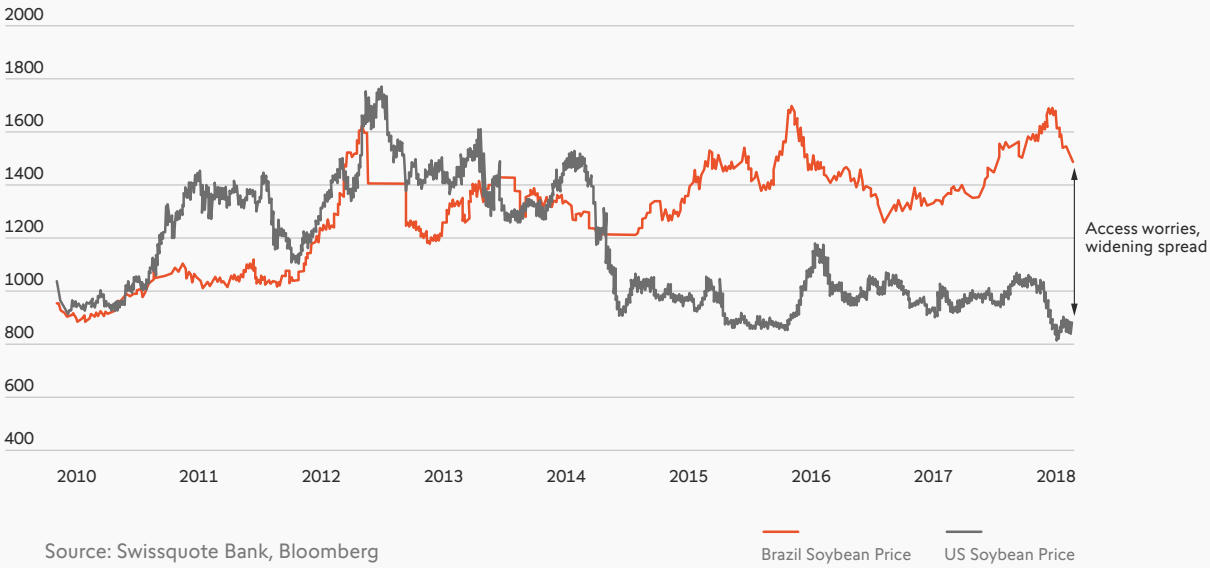
The outlook for the commodities sector looks dim. Upbeat expectations generated against the backdrop of favourable conditions in 2018 have given way to nearly opposite forecasts for 2019. 2018 saw a steady improvement in demand that was able to reduce the supply gluts weighing on prices. Commodity demand is very closely related to global economic conditions. Higher GDP growth is positively associated with demand for commodities. Trade has an added effect on commodity price growth, with stronger growth in global trade driving demand for a variety of dissimilar commodities. Global trade growth is around 50% slower on a 6-month moving average basis than a year ago, indicating a clear deceleration. Looking forward, the Sino-American trade war and slowdown in China are creating headwinds for price growth.

Chinese exports subject to tariffs will become less competitive due to China's significant import concentration.

In addition, Chinese demand is slowing faster than expected, further limiting demand. The growth slowdown is also hitting commodity users in India, Argentina, Brazil and Turkey, increasing the pressure on commodity demand. In addition, the rising value of the USD and the decrease in value in many emerging currencies will also support weakness in 1H 2019.

Future metal prices are weaker despite the announcement of Chinese policy measures in the face of less constructive fundamentals and stronger weakness in global demand. Iron ore has held up surprisingly well considering the developing risk. Ore prices moved steadily higher over the summer, Chinese imports of high-quality iron ore actually increased, as Chinese steel mills were required to cut emissions. Chinese environmental regulations to cut pollution triggered weakness in prices. Trade tensions prompted the Chinese steel industry to announce production cuts in order to avoid accusations of dumping in light of the US introduction of 25% tariffs. Steel inventories are running low, as prices peaked in 3Q 2017. Worries about Chinese dumping did not come to anything, but steel prices in major markets are divergent, due to trade war concerns. The full impact of a trade war and the potential for further escalation will still drive the market. The threat to the outlook will keep commodity prices moving sideways, and uncertainty remains high.

Trade-war causing distortion in commodity prices



Source: Swissquote Bank, Bloomberg

Macro Forecasts

Zones		2017* (period end)	2018* (period end)	2019*
Global	Real GDP	3.6	3.8	3.6
	CPI	2.5	2.9	2.8
USA	Real GDP	2.3	2.9	2.5
	CPI	2.1	2	1.8
	Policy Rate	1.5	2.5	3.25
Eurozone	Real GDP	2.3	2.5	1.7
	CPI	1.5	1.7	1.6
	Policy Rate	-0.4	-0.4	-0.25
Japan	Real GDP	1.6	1.3	1.2
	CPI	0.5	1.2	1
	Policy Rate	-0.1	-0.1	-1
UK	Real GDP	1.5	1.2	1
	CPI	2.7	2.6	2.1
	Policy Rate	0.5	0.75	1.25
Switzerland	Real GDP	0.9	1.8	1.7
	CPI	0.5	0.6	1
	Policy Rate	-0.75	-0.75	-0.25
Canada	Real GDP	3	2.2	1.8
	CPI	2.4	2	1.8
	Policy Rate	1	1.5	2
Australia	Real GDP	2.3	2.8	2.9
	CPI	2	1.8	2.4
	Policy Rate	1.5	1.5	2
New Zealand	Real GDP	2.6	3.2	3
	CPI	1.9	1.9	1.6
	Policy Rate	1.75	2	2.5
Norway	Real GDP	1.9	2.2	2
	CPI	1.9	1.7	1.9
	Policy Rate	0.5	0.75	1.25
Sweden	Real GDP	3.1	2.8	2
	CPI	1.8	1.3	2.6
	Policy Rate	-0.5	-0.5	0

*Forecasted
Forecasts generated using Bloomberg consensus & Swissquote internal methodology

Zones		2017* (period end)	2018* (period end)	2019*
Emerging Markets - AXJ				
China	Real GDP	6.8	6.7	6.5
	CPI	1.6	2.3	2.2
	Policy Rate	4.35	4.6	4.85
Hong Kong	Real GDP	3.7	2.9	2.7
	CPI	1.5	2.5	3
	Policy Rate	1.75	2.5	3
India	Real GDP	6.4	7.5	7.7
	IND	3.2	4.6	4.5
	Policy Rate	6	6.25	6.75
South Korea	Real GDP	3.1	3	2.8
	CPI	2	1.9	1.8
	Policy Rate	1.25	1.75	1.75
Singapore	Real GDP	3.4	3.4	3.1
	CPI	0.6	1.4	1.7
	Policy Rate	-	-	-
Indonesia	Real GDP	5.1	5.3	5.5
	CPI	3.9	3.8	3.8
	Policy Rate	4.25	4.75	4.75
Malaysia	Real GDP	5.8	5.3	5.2
	CPI	3.8	3	2.5
	Policy Rate	3	3.5	3.5
Philippines	Real GDP	6.6	6.4	6.2
	CPI	3.2	3.6	3.2
	Policy Rate	3	3.5	3.5
Thailand	Real GDP	3.8	3.9	3.7
	CPI	0.7	1.9	1.5
	Policy Rate	1.5	1.5	2

*Forecasted
Forecasts generated using Bloomberg consensus & Swissquote internal methodology

Zones		2017* (period end)	2018* (period end)	2019*
Emerging Markets - CEEMEA				
Russia	Real GDP	1.8	2.3	1.9
	CPI	3.7	3.7	4
	Policy Rate	6	5.2	5
Poland	Real GDP	4.3	3.8	3.5
	CPI	2	2.3	2.5
	Policy Rate	1.5	2	2.5
Czech Republic	Real GDP	4.4	3.3	2.9
	IND	2.4	2.2	2
	Policy Rate	0.5	1.25	2
Hungary	Real GDP	3.7	3.5	3.1
	CPI	2.3	2.7	3
	Policy Rate	0.9	0.9	0.9
Turkey	Real GDP	5.7	3.7	3.9
	CPI	11	9	8
	Policy Rate	8	8	8
Israel	Real GDP	3.2	3.3	3.1
	CPI	0.4	0.8	1.1
	Policy Rate	0.1	0.25	0.5
South Africa	Real GDP	0.8	1.5	1.4
	CPI	5.3	5.2	5.3
	Policy Rate	6.75	6.5	6.75
Emerging Markets - CEEMEA				
Brazil	Real GDP	1	3.1	3.4
	CPI	3.7	4.1	4.3
	Policy Rate	7	7.5	8
Mexico	Real GDP	2.1	1.8	2.4
	CPI	6	4.2	4
	Policy Rate	7	7.5	8.5

*Forecasted
Forecasts generated using Bloomberg consensus & Swissquote internal methodology

Global Currency Forecasts

Zones	4Q 18	Current	1Q 19	2Q 19	3Q 19	4Q 19
G10 Currencies vs. the USD Dollar						
Euro	1.2	1.13	1.14	1.2	1.25	1.27
British Pound	1.34					
Japanese Yen	106	113	114	110	108	106
Swiss Franc	1	0.99	1.02	0.98	0.96	0.92
Canadian Dollar	1.26	1.32	1.3	1.28	1.25	1.2
Australian Dollar	0.84	0.71	0.73	0.76	0.79	0.8
New Zealand Dollar	0.72	0.67	0.66	0.68	0.7	0.74
Danish Krone	6.08	6.55	6.65	6.42	6.3	6.21
Norwegian Krone	8.1	8.54	8.65	8.2	8.11	7.78
Swedish Krona	8.1	9.09	9.2	8.77	8.63	8.2
CEEMEA						
Hungarian Forint	260	286	295	281	269	260
Icelandic Krona	104	124	127	122	116	116
Polish Zloty	3.55	3.79	3.82	3.72	3.58	3.2
Russian Ruble	58	67	68	64	61	57
Turkish Lira	3.75	5.24	5.5	5.1	4.75	4.45
Israel Shekel	3.45	3.71	3.75	3.68	3.61	3.56
South Africa Rand	14.8	13.87	14.52	13.32	13	12.23
AXJ						
Chinese Renminbi	6.52	6.94	6.98	6.88	6.81	6.79
Hong Kong Dollar	7.8	7.82	7.82	7.82	7.82	7.82
Indian Rupee	64	70	72	69	68	66
Philippines Peso	53	52.4	53	52	51	51
Singapore Dollar	1.37	1.37	1.36	1.36	1.36	1.36
South Korean Won	1080	1129	1140	1120	1110	1107
Taiwanese Dollar	29.8	30	31	30.5	30.3	29.9
Thai Baht	32	33	33.3	32.5	32.3	32
LatAm						
Brazilian Real	3.25	3.88	4	4.1	3.8	3.8
Mexico Peso	16	20.5	21	20	19	18.5

Economic Calendar

Jan

22-25

World Economic Forum Annual Meeting in Davos

23

Bank of Japan Meeting

Feb

24

Thailand General Elections

Mar

03

ECB Monetary Policy Meeting

19-20

Federal Reserve Meeting

29

Brexit

Apr

12-14

2019 Spring Meetings of the World Bank Group and the IMF

25

Bank of Japan Meeting

May

1

Swissquote Annual General Assembly

23-26

European Parliament Elections

TBD *

South Africa General Elections

Jun

06

ECB Monetary Policy Meeting

18-19

Federal Reserve Meeting

Jul

22

Nato Summit

30

Bank of Japan Meeting

Aug

06

Swissquote H1 2019 Results

25-27

G7 Summit

28-29

14th annual summit of leaders of the Group of 20

Sep

12

ECB Monetary Policy Meeting
World Bank Group and the IMF

17-18

Federal Reserve Meeting

Oct

20

Swiss Federal Elections

TBD *

Greece Parliamentary Elections

31

Bank of Japan Meeting

Dec

10-11

Federal Reserve Meeting

12

ECB Monetary Policy Meeting

* No firm date provided

The Fed listed accompanied by press conferences. ECB meeting accompanied by press conference & macroeconomic projections. The BoJ events shown are accompanied by the publication of central bank's outlook report.

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