Weekly Update

C0 | EXTERNAL PUBLICATION

China – Xi who must be obeyed

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Once again, Xi Jinping has proved to be one of the boldest Chinese leaders in recent history, seeking to extend his reign indefinitely. At its next meeting starting on March 5, the National Party Congress (NPC) will be asked to abolish the limit of two 5-year terms for the President, allowing Xi to remain in power beyond 2023.

This move stands in stark contrast with Deng Xiaoping's legacy of gradual transmission of power by way of promotion of new generations at party congresses. Never since Mao has a Chinese leader gathered so much power: Xi Jinping currently rules his Party, the military and government.

A less apparent – but no less significant – shift is the Party's increased meddling in state affairs, which further concentrates power in Xi's hands and gives him more leeway to suppress any opposition. Since he assumed power in 2013, Xi has steered Chinese politics towards greater Party control, reduced freedom of speech online, and a more assertive stance on the global stage.

In addition, China has recently cracked down on some Chinese tycoons who had launched aggressive buyouts overseas. This reflects both the authorities' concerns about the impact of high leverage and weak regulations on corporate stability as well as the Party's tightening grip on the economy.

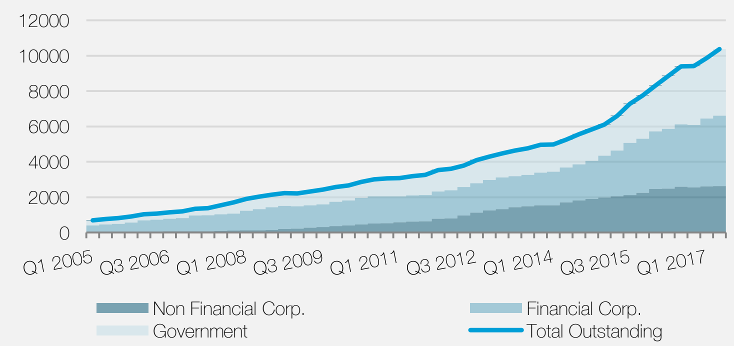
While this more autocratic approach could prove effective, it also increases the risks of missteps. On one hand, it should help reduce excess corporate leverage and move the economy up the value chain. On the other, it makes the decision-making process more dependent on the whims of single man, reducing the role of checks and balances embedded in the Party.

Donald Trump's unilateral decision this week to impose tariffs on steel and aluminium imports may well trigger a response from China, even if the country is not a large exporter of either metal to the US. A tit-for-tat spat between the two superpowers is the last thing the global economy needs at present. It would exacerbate tensions within the World Trade Organisation but also on financial markets. China has already threatened to cut US Treasury bond purchases, and could also seek to weaken the yuan.

While the storm on trade could still blow over, the weather is turning cloudier in China and the authoritarian drift should encourage a little more caution on Chinese assets.

Debt inflation recorded in all sectors

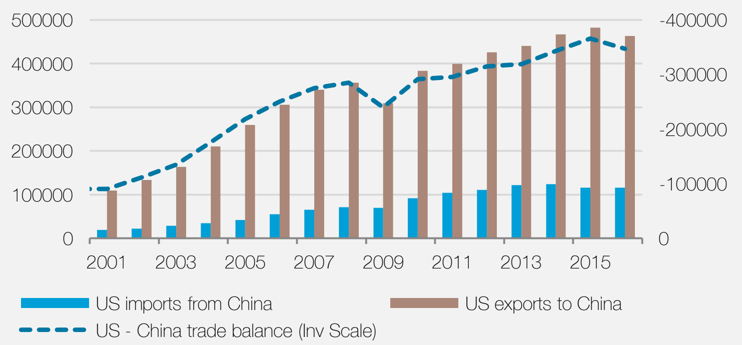
China debt per sector (USD billion)



Sources: SGPB, Thomson Reuters Datastream, 02/03/2018

Trade deficit continues to grow

US - China Trade (Million USD)



Sources: SGPB, Bloomberg, 02/03/2018

This week and next

EUROZONE

- Eurozone inflation continued to slow down in January, with 1.20% YoY versus 1.40% in December.
- Consumer confidence eased down from 1.40 to 0.1 in February. However, the index remains above its historical standards.
- Alike most economies, the eurozone is seeing manufacturing confidence ease down. The index eroded from 60.60 in January to 58.6 this month. Expectations were initially for a sharper correction.

Next week's key events		Per.	Prev.	Cons.
5 Mar	Composite PMI	Feb	57.5	--
5 Mar	Retail sales, MoM	Jan	-1.1%	--

UNITED KINGDOM

- GDP continued to slow down, printing at 1.4% in Q4 versus 1.7% in Q3 mainly because of higher imports and weaker exports.
- Manufacturing confidence declined in February, from 55.3 to 55.2.

Next week's key events		Per.	Prev.	Cons.
5 Mar	Composite PMI	Feb	53.5	--

UNITED STATES

- New houses sold fell from 643k to 593k in January after having peaked at 696k in November – a level last seen in 2007.
- Initial jobless claims beat surveys last week, printing at 222k while expectations were for 230k.
- The leading indicator still bodes well for the US economy, with 1.0 in January versus 0.6 in December.
- US GDP growth hit 2.50% QoQ in Q4.

Next week's key events		Per.	Prev.	Cons.
5 Mar	Factory orders	Jan	1.7%	-0.4%
7 Mar	Trade balance (in bn$)	Jan	-53.1	-52.5

ASIA & EMERGING COUNTRIES

- In Japan, retail sales disappointed, ending January at +1.6% versus an expected +2.4%. Industrial production printed at 2.7% versus a consensus of 5.3% in January.
- In China, manufacturing confidence fell from 51.3 in January to 50.3 in February.

Next week's key events		Per.	Prev.	Cons.
5 Mar	Japan: GDP, YoY	Q4	0.5%	1%
5 Mar	China : Trade balance (in bn$)	Feb	20.34	--

Sources: Datastream, Bloomberg, 2 March 2018, Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month, P = preliminary figure, A = advanced figure, F = final figure, seasonally adjusted, ECB = European Central Bank

Our 6-month targets

CURRENCIES & COMMODITIES

	Thursday close	6mth target
EUR/USD	1.23	1.25
GBP/USD	1.38	1.28
USD/RUB	56.8	60
AUD/USD	0.78	0.72
EUR/CHF	1.16	1.18
USD/CNY	6.36	7.1
USD/CAD	1.28	1.37
USD/JPY	106	118
Brent	$63.8	$55
Gold	$1305	$1225

No change to our 6-month targets this week.

Forecast figures are not a reliable indicator of future performance

Question time

Past performance should not been seen as a guarantee of future returns.

%

COUNTRY VIEW
What is the outlook for Germany and will it benefit Switzerland?

The German economy accelerated last quarter with GDP up 2.9% YoY, the fastest pace since 2011.

Germany has benefited from a combination of internal and external factors.

- Growth has been boosted by the global environment – 40% of German GDP is derived from exports of goods and services making the country extremely sensitive to global demand. In comparison, exports only represent 16% of GDP in Japan, which is often considered an export powerhouse.
- Around one half of GDP growth last year came from consumer spending – domestic demand is increasingly driven by households. Consumer confidence is strong – the recent GfK survey showed the highest level since 2011 – helped by falling unemployment, down to a post-reunification low at 5.4%.
- Business confidence is also strong: January's IFO survey was the strongest on record, as was the Markit Composite Purchasing Managers Index. Recent data, however, have come below expectations – the February IFO and PMI both slipped somewhat, although still at levels consistent with strong expansion.

We expect that 2017 may have marked the cycle high and that growth will slow this year. However, we still anticipate real GDP growth above 2%, which is twice its potential rate.

Inflation is expected to continue to rise gradually. Low unemployment will add to the wage pressures seen in recent wage rounds between the IG Metall union and employers – the settlements have included cutting the working week and increasing wages by over 3% on average over the next 2 years.

Regarding politics, the corporate sector and financial markets have not really been affected by the time it has taken to form a coalition. This is nothing new for Germany, although discussions have dragged on longer than previously.

Regarding Switzerland, it is important to note that the country is even more reliant than Germany on exports of goods and services – they represent 65% of GDP. And given that Germany is Switzerland's largest trading partner for both exports and imports, the robust health of the German economy is good news for Switzerland. In this context, the slide in the Swiss Franc against the euro over the past twelve months will provide an additional boost to the competitiveness of Swiss exporters.

Market performance

Past performance should not been seen as a guarantee of future returns.

Interest rates

Interest rates	Last	1wk		3mth	YTD	12mth
EONIA (EUR)	-36 bp	1 bp	➡	-7 bp	-2 bp	-1 bp
3mth Euribor (EUR)	-33 bp	0 bp	➡	0 bp	0 bp	0 bp
3mth Libor (USD)	202 bp	8 bp	⬆	53 bp	33 bp	93 bp
3mth Libor (GBP)	58 bp	2 bp	⬆	6 bp	6 bp	23 bp
10-year US Treasury bond	280 bp	-11 bp	⬇	44 bp	39 bp	34 bp
10-year German bond	64 bp	-1 bp	⬇	34 bp	22 bp	36 bp
10-year French bond	80 bp	-7 bp	⬇	29 bp	13 bp	-14 bp
10-year UK bond	149 bp	-8 bp	⬇	23 bp	26 bp	37 bp

Credit

Credit	1wk		3mth	YTD	12mth
BAML EURO Corp. IG	0.2%	⬆	-0.8 %	-0.3 %	1.9 %
BAML EURO Corp HY	0.1%	⬆	-0.4 %	-0.3 %	4.5 %
BAML GBP Corp IG	0.4%	⬆	-0.7 %	-1.6 %	2.0 %
BAML US IG	0.4%	⬆	-1.8 %	-2.2 %	3.1 %
BAML US HY	0.0%	➡	-0.2 %	-0.5 %	3.6 %
JPM Global EM Sov. Plus	0.0%	➡	-1.1 %	-2.0 %	6.4 %

Exchange rates

Exchange rates	Last	1wk		3mth	YTD	12mth
EUR/USD	1.23	-0.5 %	⬇	3.2 %	2.1 %	16.3%
EUR/CHF	1.16	0.5 %	⬆	-0.5 %	-1.3 %	8.6%
GBP/USD	1.38	-1.3 %	⬇	2.3 %	2.0 %	12.0%
USD/JPY	106	-0.5 %	⬇	-5.2 %	-5.7 %	-6.6%
USD/BRL	3.25	0.0 %	➡	-0.2 %	-1.8 %	5.2%
USD/CNY	6.36	0.1 %	⬆	-3.9 %	-2.3 %	-7.6%
USD/RUB	56.8	0.7 %	⬆	-3.5 %	-1.5 %	-2.5%

Government bonds*

Government bonds*	1wk		3mth	YTD	12mth
United States (3-7yr)	0.4 %	⬆	-1.4 %	-1.2 %	0.0 %
United Kingdom (3-7yr)	0.3 %	⬆	-0.9 %	-1.0 %	-1.3 %
Germany (3-7yr)	0.2 %	⬆	-1.2 %	-0.6 %	-1.8 %
Japan (3-7yr)	0.0 %	➡	0.0 %	0.0 %	-0.1 %

Equities*

Equities*	Last	1wk		3mth	YTD	12mth
MSCI AC World	512	-1.2 %	⬇	2.1 %	0.1 %	17.0 %
Eurostoxx 50	3 399	-1.0 %	⬇	-3.3 %	-2.7 %	3.6 %
DAX	12 191	-2.2 %	⬇	-5.2 %	-5.6 %	1.0 %
CAC 40	5 263	-0.9 %	⬇	-0.8 %	-0.9 %	9.5 %
S&P 500	2 678	-0.9 %	⬇	1.8 %	0.5 %	14.0 %
FTSE 100	7 176	-0.9 %	⬇	-0.8 %	-5.9 %	1.1 %
SMI	8 792	-2.0 %	⬇	-5.2 %	-6.3 %	5.2 %
Topix	1 740	-0.3 %	⬇	-3.0 %	-4.2 %	14.4 %
IBOV Brazil	85 378	-1.5 %	⬇	18.2 %	11.8 %	27.5 %
MICEX Russia *	2 298	-1.7 %	⬇	9.1 %	8.9 %	11.6 %
MSCI EM	1 192	-0.7 %	⬇	7.3 %	3.2 %	30.3 %
SENSEX 30 India	34 047	0.7 %	⬆	3.8 %	0.8 %	19.0 %
Hang Seng (H-K)	31 044	0.3 %	⬆	7.0 %	4.0 %	35.5 %
Shanghaï Composite	3 274	0.2 %	⬆	-1.3 %	-1.0 %	0.8 %

Commodities

Commodities	Last	1wk		3mth	YTD	12mth
Brent	$64	-3.9 %	⬇	-0.4 %	-4.3 %	12.5 %
Gold	$1 305	-1.8 %	⬇	1.7 %	0.1 %	4.8 %
Silver	$16.3	-1.9 %	⬇	-0.6 %	-4.1 %	-11.5 %

Source: Datastream, on 2 March 2018. 1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7 year returns. Figures are rounded.

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