Most markets have seen limited price outcomes lately. Given most people tend to extrapolate the past to the future, many envisage a calm period for the time being. This is one of the options, but we believe the limited price fluctuations are mainly the result of uncertainty about what will occur in the period ahead. This concerns the interest policy of the central banks in particular.

**Stock Markets**

It is almost certain the Fed will raise its rates further by 0.25% in June. However, the major question is what will happen next. The central bank itself mentions six more hikes before the end of 2018, yet the markets are not convinced of this at all.

Draghi admits the European economy has performed well lately, while emphasising he does not have a growth target but an inflation target. He expects this inflation to remain low for now. However, the chief economist of the ECB implies that, if growth remains at constant levels, the central bank might raise its rates sooner than was anticipated until recently. Due to these uncertainties, the markets are currently struggling to choose a direction. As for the US economy, consumer income has increased fairly rapidly of late. The most likely scenario is therefore that the US economy continues to grow by approximately 2.5% for the time being. This would be sufficient for the Fed to raise its rates further virtually every quarter in the period ahead. However, a number of major uncertainties are at issue.

This first concerns political developments. As the political situation at the White House continues to weaken, it becomes more and more likely that tax reductions will not materialise for the time being – due to widespread division among the Republicans in Congress.

Furthermore, oil prices are under considerable downward pressure (not so much due to too little demand but mainly because of excessive supply). If oil prices continue to fall substantially, the US industry will soon downscale its investments, while the latter has actually been a major growth engine up to now.

Another uncertain factor is the situation in China. The enormous debt mountain that has accumulated could cause problems in the future.

In short, the prospects for the US economy are favourable, but it is easy to conceive of scenarios in which growth will be disappointing for a long period to come. In this case, the Fed will hike its rates at a pace that is far slower than it currently indicates it intends to do.

Growth in Europe has recently been better than expected. This is a surprise in itself because the general impression was that businesses and consumers would spend less money on the eve of the elections in the Netherlands and France – and following Brexit as well. The outcome of the elections has turned out positively now, but the sentiment is that it is still too early to give the all-clear signal. Macron might still face considerable opposition from a parliament that disagrees with him, while in Italy all sorts of things may still go awry in the next elections – to be held by next spring at the latest. So it is unclear whether the ECB’s policy will incline towards Draghi or towards the chief economist.

The US economy should continue to grow sufficiently fast to push down unemployment to lower levels. As a result, one could expect additional wage increases emerging before the end of the year, followed by rising inflation not long afterwards.
The current US administration seems no stranger to the front cover of international news recently. Trump and his actions are never far from the headlines and constantly, if only by a small impact on occasion, effecting USD pricing now negatively. Initially, following the election of the new POTUS, the USD gained, mainly because FX investors opined that new measures would be implemented to fuel growth, thus impacting inflation, and finally causing the Fed to hike interest rates. However considering the negative political backdrop in the US, focus is taken away from tax reforms and infrastructure spending which in turn weighs on USD performance. The USD has presently lost its allure and the Euro is rapidly taking its place.

Friday saw the USD further extend recent losses on the back of weak retail sales and consumer prices data. Confidence is waning for momentarily for the green back as the market decides whether the US economy can weather the weak first quarter. Interest rate expectations still prices a 97% probability of a further 25bps hike by the FOMC. This will ultimately provide a floor for the USD. Technically the USD index trades defensively following the key reversal of trend last week. Momentum looks set to drag the USD back to 97.80/70 support levels before a recovery can take place. USD bulls need to show patience before assuming new upside risk.

**CHF**

USD/CHF has suffered over the past four sessions and having initially stalled on pivotal support at 0.9880 has lost more ground lower towards 0.9820. We see prices extending a little lower towards pivot support at 0.9805/.9785 where we suggest buying on the long term trend line dating back to the January 2015 de-peg. On the 240min chart, USDCSF has overextended to the downside marking a 13 consecutive bearish candle. This normally suggests exhaustion in prices, with a retracement to follow. Those looking to profit for a quick 50 pips may well buy at 0.9825 area for a potential retracement back to 0.9880 and eventually to the 200 mda at 0.9960. The risk for CHF is that we see a break through 0.9800 which may signal a potential double top formation suggesting a further 2.90% decline to 0.9550/60.

**EUR**

EUR/USD has traded well since last week, benefitting on the weaker USD story to break through trend channel resistance at 1.1070, levels not seen since November 2016. The USD's yield premium over the euro has now eroded to its lowest level following the US election. Bund yields sit at the top of a 6 month trend circa 0.43% and the US stuck at its 'Rubicon' 2.35% area. This convergence of yields is supporting the cross. EZ CPI is released Wednesday morning which will draw attention from markets considering the large uptick in the April data. Technically this latest upswing should start to run into headwinds at 1.1075/85, this level marking the 76 % Fibonacci retracement of the Nov/Jan move. However broader picture the common currency has broken north of the larger May to Dec 2016 down move into a newer uptrend. More negative political news from the US has pushed EUR closer to 1.1300. Markets are seeing a definitive change in trend. We are still a buy on dips investor for EUR/USD. With such expectations of a June FOMC hike the market is leaving itself open to dangerous tail risk.

**GBP**

In April UK CPI inflation rose to 2.7% y/y, up from 2.3% y/y the previous month, higher than market expectations but in line with the BoE staff forecast from last week's May Inflation Report. The biggest contributor to the rise was a 18.6% increase in airfares. For the remainder of 2017 we recommend buy on dips whilst prices remains above the 200 mda at 1.2580. The market seems content to slowly unwind Brexit related tail risk as the UK’s disentanglement from EU unravels in an orderly fashion despite both sides digging their heels in. GBP has moved sideways against the USD this week, but lost ground against the Euro. EUR/GBP has traded higher to the 200 mda and 61.2 % Fibonacci level at 0.8595/.8605.

**JPY**

USD/JPY has started to pare recent gains from April. The upswing stalled last week on the weaker economic data from the US. Over the medium term we see USD/JPY higher but will wait for pullbacks to trend and pivot support at 112.20/00 before buying. US Treasury yields continue to rotate around 2.35/30%, contributing to the headwinds for the cross. Yields are resilient however down here at this level having weathered lower oil prices and a higher S&P.
S&P was up 0.2% on the last week, with a slight increase of the volatility, the VIX being back above the 10 mark. The market was sustained by home entertainment software up 9% and by the semiconductors. On the down side we find department stores down 16%, apparel retail and apparel accessories both down 6% on the week.

In the US, the focus this week will be on the Philadelphia Fed Index released on Thursday. After the disappointing Empire State manufacturing Index of Monday, with a drop to -1 from +5.2 when the economists were anticipating +7.5, the market players will watch the Philadelphia Fed Index carefully. Economists expect it to come out at 18.5 for May versus 22 for April.

S&P 500: The index is still moving sideways around its 2400 resistance. A break above this 2400 level will lead toward 2500 before 2600.

On the downside 2350 is the first support before 2325, below this level 2250 is the most probable target of any downward move.

Eurostoxx 50: The index has moved sideways but remains on track toward its 3700 target as long as 3600 is support. The first support is standing at 3600 with a possible extension to 3525.

### EQUITY

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<thead>
<tr>
<th>Developed countries</th>
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<tbody>
<tr>
<td>SMI</td>
<td>↓ -0.4%</td>
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<tr>
<td>EuroStoxx 50</td>
<td>↓ -0.2%</td>
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<tr>
<td>DAX</td>
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<tr>
<td>FTSE 100</td>
<td>↑ 1.8%</td>
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<tr>
<td>S&amp;P 500</td>
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<tr>
<td>Dow Jones</td>
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<tr>
<td>Nikkei 225</td>
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<tr>
<th>Developing countries</th>
<th>Total return - 1 Week</th>
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<tr>
<td>Russia/Micex</td>
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<tr>
<td>India/Nifty 50</td>
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<td>China (HK)</td>
<td>↑ 1.4%</td>
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- Upward move - Downward move

### FIXED INCOME

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<th>Developed countries</th>
<th>2-year Yield</th>
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<td>Switzerland</td>
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<table>
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<tr>
<th>Developing countries</th>
<th>2-year Yield</th>
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### COMMODITIES

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<tr>
<td>Crude Oil</td>
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<td>Gold</td>
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### Economic Events

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<th>Date of release</th>
<th>Domicile</th>
<th>Event</th>
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<th>Actual</th>
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<td>JN</td>
<td>GDP SA QoQ</td>
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<td>May</td>
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### Company Earnings

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<th>Estimate EPS</th>
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<tr>
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<td>US</td>
<td>Wal-Mart Stores Inc</td>
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<td>0.97</td>
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<td>US</td>
<td>Lowe's Cos Inc</td>
<td>Q1 18</td>
<td>1.06</td>
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</table>
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