N° 413
19 June
2017

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

STARK CONTRAST BETWEEN US AND UK MONETARY CONDITIONS

Highlights:

Disconnect between Fed and market

Quickening inflation in the UK

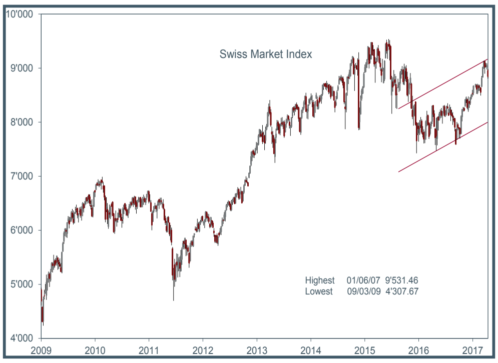
Overview

Equity markets are chalking up gains as investors turn the page on a week that featured a great deal of commentary from central banks. But before moving on, there are three key themes – concerning the US, the UK and Switzerland – that should retain our attention.

The Fed – as expected – announced a quarter-point increase in its key rate to a range of 1.00-1.25%. However, this fourth rate rise (since December 2015) has been accompanied by several signs conveying the Fed's difficulty in steering the US economy. First, tighter borrowing terms have done nothing to quell the euphoria on Wall Street; rather, bond yields have declined. At the same time, US equities have set a string of new records in recent quarters, raising the prospect of the market overheating. Secondly, investors are questioning the Fed's ability to influence the factors which they cannot control directly. Monetary conditions are loose around the globe, given the stimulus dolled out in Europe and Japan at the moment, which is dampening yields on the whole. Thirdly, continued normalisation of monetary policy will depend on inflation – something else over which the Fed does not have direct control.

In the UK, the picture is more contrastive than in the US. At its latest monetary policy meeting, the Bank of England expressed concerns over the state of the US economy. Following a tight vote, the BoE opted to hold its key rate despite the upswing in inflation and slowing economic growth. Inflation is not far from 3%, spurred on by the more-than-10% plunge in sterling. And inflation will turn up the pressure on Theresa May's minority government just as it begins Brexit negotiations with the EU.

Last but not least, the Swiss National Bank left its accommodative monetary policy unchanged. It stated that it will continue intervening in the foreign exchange market based on the franc's value against a range of currencies. In a nutshell, so long as the European Central Bank keeps its purse strings loose, the SNB will be in capable of raising rates.



The support at 8900 points held up because of the Friday roll date for quarterly futures. This week will be make or break for the SMI. Resistance 9150 points, 2nd support 8500 points.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI EMERGING MARKETS
Latest	0.97	1.09	8'963.29	3'543.88	12'752.73	5'263.31	7'463.54	2'433.15	6'151.76	19'943.26	1'003.12
Trend	➡	➡	➡	➡	➡	➡	➡	➡	➡	➡	➡
%YTD	-4.54%	1.72%	9.04%	7.70%	11.08%	8.25%	4.49%	8.68%	14.28%	4.34%	16.33%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

Nestlé
(ISIN: CH0038863350, price: CHF 83.45)

The share made handsome gains on Friday after the group announced plans to pull out of the US confectionary market. Even though this would be financially positive, what cheered markets most was the impetus imparted by the new CEO.

The Swiss group is reviewing business lines that have low margins or which are losing market share. A final decision regarding the US confectionary unit (whose operating margin of close to 14% is among the thinnest group wide) is due before the end of the year.

Mark Schneider, Nestlé's new CEO, spent 13 years heading up German healthcare group Fresenius before joining Nestlé. His plans include bolstering high-growth business lines such as coffee and animal nutrition. He also wants to develop a healthcare strategy at the group, which as we know is a dominant theme in the Swiss equity market (Roche, Novartis and now Nestlé medical nutrition). Healthcare is already a heavyweight in the SMI and this phenomenon is only going to increase.

Hold with a target at CHF 87.

Amazon
(ISIN: US0231351067, price: USD 987.70)

The group on Friday announced that it was buying Whole Foods, a US retailer selling fresh and organic foods.

The agreed all-cash deal amounts to USD 13.7bn (USD 42 per share), making it the biggest in Amazon's history. It is expected to be finalised in the second half of 2017 if everything goes to plan. The deal will probably be financed through borrowing.

Fresh food retailing is a cut-throat business with fierce competition for market share. Whole Foods is a respected banner with about 460 stores. Its operating margin is around 5%.

For now, there has been little indication on how the target will be slotted in. After Amazon Fresh, this marks a further step forward for boosting Amazon's food sales – an area in which more and more customers are buying goods online. Measures will most probably be taken to reduce costs and, as a result, selling prices, and to attract more low- and mid-income households.

Hold with a target at USD 1,100.

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