



FLASH BOURSIER

PLENTY GOING ON

Overview

Highlights:

Eurozone QE to be clipped from January

China looking to make a bigger splash globally

All eyes were on Mario Draghi last week. He had promised to sketch the contours of the ECB's monetary policy in the coming months after the governing council meeting on 26 October. And the result came as no surprise. In an effort to keep everybody happy, Mario Draghi announced a reduction in the scale of the quantitative easing package, from January, by reducing monthly bond purchases to EUR 30 billion until September 2018. But he also tacitly extended his pledge of keeping interest rates low for at least another year. Liquidity is therefore set to remain abundant in Europe until late-2018, at a time when US monetary policy is expected to continue becoming more restrictive. As could be expected, the euro has weakened quite sharply against the dollar – a move expected to continue in the coming months. Another reason fuelling euro depreciation is news that US GDP growth for the third quarter held steady at 3% despite the impact of hurricanes Harvey and Irma. This score conveys the solid state of the US economy and heralds a strong employment trend from the job figures to be released this coming Friday.

The 19th Party Congress in China ended with three key ideas for the future development of the country: mastering the latest in artificial-intelligence technology, completing the modern-day Silk Road project and assuming a major role in climate change issues. This

programme will probably have only a limited impact in the short term, but it shows that China is aiming to gain more clout internationally by positioning itself massively in the areas that will mark society in the coming decades, i.e. AI, trade and ecology. While these subjects differ little from the concerns of Western countries, it should not be forgotten that the dirigiste political system in China makes it possible to move much faster than elsewhere. The innovative capacity of this country of more than a billion inhabitants should not be underestimated.

Closer to home, we will be keeping a close eye on the SNB's nine-month financial results, which are due out tomorrow. The SNB is on the verge of winning its wager since the euro has now risen above CHF 1.15 while the dollar is close to parity with the franc. Therefore we can expect exceptional results from the SNB, especially since nearly 20% of foreign exchange reserves are invested in equities and markets have appreciated in the last quarter.



The SMI has lost a few points and is nearing support at 9000 points. In the event of a breach, retracement to 8800 remains possible.

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	1.00	1.16	9'183.42	3'652.23	13'217.54	5'494.13	7'505.03	2'581.07	6'701.26	22'008.45	1'110.22
Trend	↑	➔	➔	↑	↑	↑	➔	➔	↑	↑	➔
%YTD	-2.13%	8.10%	11.72%	10.99%	15.12%	12.99%	5.07%	15.29%	24.49%	15.14%	28.76%

(values from the Friday preceding publication)



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SPOTLIGHT ON STOCKS



LafargeHolcim (ISIN: CH0012214059, price: CHF 56.85)

The group reported third-quarter results in line with market expectations. Sales were up 4.1% adjusted for one-off factors. Margins were increased slightly as a result of stringent cost controls and merger synergies (between Lafarge and Holcim). Quarterly synergies have lately risen to nearly CHF 100 million.

We note the downward revision to full-year growth guidance – the first personal touch by the new CEO, Jan Jenisch. Following the scandal involving bribes paid to Daech in Syria and the resignation of his predecessor, Jenisch is injecting a fresh dose of credibility into forecasting. He has a reputation for under-estimating, meaning a correspondingly low risk of upsets at the time of earnings publications.

Summing up:

- Respectable reported figures and a more cautious managerial approach to guidance
- Business capitalising on positive megatrends such as growing urbanisation and rising population levels in emerging economies

Consequently, we advise buying the share, which has been consolidating between CHF 52 and 60 for almost a year.

Buy aiming for target around CHF 68.



Microsoft (ISIN : US5949181045, prix : USD 83.80)

Microsoft a while ago decided to refocus around Azure, its enterprise cloud platform, and Office 365 as its key growth drivers. This has definitely paid off.

The group has reported earnings per share of USD 0.84, busting Street estimates (USD 0.72), for its first fiscal quarter of 2018. Most segments beat estimates, helped by strong demand for Azure, which generated a 14% rise in revenue to USD 6.92 billion. Enterprise cloud services have come to represent 28% of total revenue.

Despite a sluggish PC market, sales of Windows and Office licences also showed encouraging growth. Home and enterprise subscriptions to Office 365 increased sharply over the period.

The outlook on profit margins for fiscal 2018 has improved thanks for a prospective increase in operating profit and robust cost controls. Potential for buybacks and dividend increases (over USD 20 billion/year available) is also likely to buoy the share price.

Buy with a target at USD 90.

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