



FLASH
BOURSIER

CONTINUITY THE WATCHWORD AT THE FED

Overview

Highlights:

US at full employment

SNB reports top-flight results

The nomination of Jerome Powell as the new Fed president has reassured markets about the continuity of US monetary policy in the coming years. Janet Yellen's successor has been a member of the FOMC since 2012 and has, to date, voted consistently in the same direction as his boss. This means that he concurs with the idea of a very gradual increase in interest rates and a slow tapering of the Fed's balance sheet, all the while ensuring that financial markets are not left short on liquidity. He is also favourable to some unshackling of the banking industry – a theme dear to Donald Trump. However, he does not go as far as the president in the matter, which is certainly not to the dislike of investors (who hardly like swings to extremes).

The nomination followed the schedule Fed governors' meeting in which they reaffirmed plans to raise the key rate by a quarter point next month. Two days later, on Friday, the release of firm employment figures were a further sign that the US economy remains in good shape. The rate of unemployment fell further, to 4.1% – a level tantamount to full employment in the US. Following this data print, the probability attached to a December rate hike has increased to 92%.

While the Fed nomination monopolised media attention last week, there were still plenty of other headline-grabbing stories around the globe. One such new item was Venezuela's

announcement that it wants to bring together creditors to discuss a possible restructuring of the national debt. Venezuela's foreign exchange reserves have melted away and the country has been struggling to meet its obligations since the price of crude oil has halved in recent years. A default by Venezuela would be a low-impact event but would still serve as a poignant reminder that financial markets are not risk-free zones.

As we expected, the SNB's nine-month results were outstanding. While the central bank's bottom line tends to fluctuate because of the balance sheet's size, the CHF 33.7 billion in profits pocketed in the first nine months of 2017 combined with the CHF 84 billion in equity held by the SNB as at 31 December 2016 to produce equity in excess of CHF 100 billion – which provides a solid safety cushion for the Swiss National Bank. It is also excellent news for the federal government and the cantons, who will be able to count on generous pay-outs in the future (even though amounts are capped out to 2020).



The SMI bounced back firmly over the week, nearing the first resistance at 9500 points. Support remains at 9000 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	1.00	1.16	9'322.05	3'689.96	13'478.86	5'517.97	7'560.35	2'587.84	6'764.44	22'548.35	1'126.18
Trend	↑	➡	➡	↑	↑	↑	➡	➡	↑	↑	➡
%YTD	-1.89%	8.38%	13.41%	12.14%	17.40%	13.48%	5.85%	15.59%	25.66%	17.97%	30.61%

(values from the Friday preceding publication)



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SPOTLIGHT ON STOCKS



Credit Suisse (ISIN: CH0012138530, price: CHF 16.14)

One week after UBS, Credit Suisse has reported its quarterly results. Net profit was nearly 8% higher than estimated but the most impressive performance was on the cost-cutting front. Credit Suisse was able to reduce operating expenditure more quickly and more markedly than had been expected. The target to reduce costs below CHF 18.5 billion is largely within reach, and the CHF 17 billion focal point by the end of 2018 is looking increasingly realistic.

Management is proving that the new strategy is not only paying off but has credibility over the long term as well, as reflected in the group's narrowing historical discount in its share price relative to UBS. It should however be noted that inflows of new money (though higher than UBS as a percentage) came partly at the expense of margins.

The 25% gain the share price since June and the narrow correlation that CS and UBS show with the 10-year bond yield indicate that further upside is limited, especially with no increase in long-term rates in sight.

With limited space on the upside, we advise revisiting the share for a possible buy trade if it falls marginally below CHF 14.



Samsung (ISIN: US796058882, price: USD 1,252)

Third-quarter earnings more than doubled following a strong showing by chip sales. Net profit climbed to USD 10 billion – the best quarterly result in its history.

Demand for the Galaxy S8 and Note 8 remained solid but the semiconductor division stole the show. Over the quarter, 70% of operating profit derived from this business unit.

The group is now the largest global producer of NAND and DRAM.

The surge in data volumes processed by smartphones and cloud services has fuelled the need for flash memory in connected devices and data servers. Storage requirements are set to continue rising as artificial intelligence and self-driving cars become more prevalent in society.

The share has been firm, putting on more than 65% year to date.

As things stand, we recommend pocketing some of the profits.

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