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6 August
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BONHÔTE
BANQUIERS DEPUIS 1815

FLASH
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JAPANESE STOCK MARKET OVERTAKES CHINA

Highlights :

Japan equity market snatches second place

Yuan continues to head south

Overview

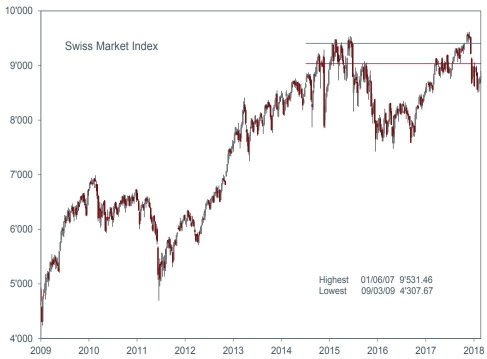
The Chinese stock market recently lost its number-two spot to Japan. Following a downswing, Chinese equities now have a total market value of USD 6.09 trillion, whereas Japan's figure is USD 6.17 trillion, according to data compiled by Bloomberg. The US is the world's deepest equity market based on a total value slightly above the USD 31 trillion mark. China snatched its second place – from Japan – in late 2014; its market value subsequently peaked at an all-time high of USD 10 trillion, in June 2015.

Chinese equities have been hit hard by the brewing trade conflict with the US. But that is not the only reason why they've been underperforming. China is currently in the process of reducing its debt levels, as reflected by attempts to cool blistering growth in those lending segments most prone to overheating. Borrowing terms have been tightened this year. In short, the situation is under control: if the Chinese government can open the tap, it can also reduce the flow.

Year to date the Shanghai composite index is down by 16%, which places it among the laggards in a global comparison. Industrial and tech stocks have been poor performers. The Chinese politburo, made up of 25 high-ranking members of the Chinese communist party, last week announced that the political powers-that-be would be focusing more energy on cutting debt levels.

This loss of second place is a reminder that even though China has a weighty role to play in global equities, it is no powerhouse. The yuan has slipped by 8% relative to the dollar over the past six months. Moreover, there is little sign that the central bank has waded into the currency market. Last week marked the yuan's eighth consecutive week on the slide – its longest losing streak since China began its transition towards a modern exchange-rate regime in 1994. Seven yuan to the dollar is considered a key benchmark, as it represents the point at which China is expected to enter the market in support of its currency in order to avoid fire sales and huge capital outflows.

Our view is that the yuan and Chinese equities are oversold. It is merely a matter of time before China regains its second place in the global equity rankings.



The SMI looks to be strongly poised to continue rising. Last week it paused for breath but did not need to drop to the 9000 support to firm up. This sets the scene for appreciation towards resistance at 9400 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	0.99	1.15	9'158.00	3'482.40	12'615.76	5'478.98	7'659.10	2'840.35	7'812.02	22'525.18	1'073.33
Trend	➡	➡	⬆	➡	➡	➡	➡	⬆	➡	➡	➡
%YTD	2.02%	-1.68%	-2.39%	-0.62%	-2.34%	3.13%	-0.37%	6.24%	13.16%	-1.05%	-7.35%

(values from the Friday preceding publication)

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SPOTLIGHT ON STOCKS

Swatch Group AG
(ISIN: CH0012255151, price: CHF 443.30)

Times are tough for the share of the global number-one watchmaker, which has closed down eight times in a row for no apparent reason.

On 17 July, the group reported encouraging figures that crowned a first-half of the year of previously unseen proportions. Revenue shot up by 14.7% and net profit surged by 66% versus the prior-year period. Even though growth is set to slow in the second quarter because of tough prior-year comparison, it's sunny skies ahead for Swatch Group. Swiss watch exports reveal a market that is growing strongly, especially into Asia.

But in every session since 23 July, the opening price has been the highest and selling has cascaded during the day to leave the share setting a new low each time at the closing bell. Thinner market liquidity during the holiday season also makes this kind of event more likely.

We see this correction as unwarranted. The current price is a good place to buy into the share.

We have a buy recommendation and a target price of CHF 495. Swatch is part of our recommended list.

Apple
(ISIN: US0378331005, price: USD 207.99)

Apple's results for its third quarter beat expectations, with revenue rising by 17% versus the prior-year period to USD 53.3 billion. The rosy outlook on sales and margins for the fourth quarter thrilled investors, who then catapulted the market capitalisation past the legendary one-trillion mark.

Unit sales of Macs and iPhones slowed, as was expected, but these business lines have an upscale focus. The IPhone X is the model most in demand within the iPhone range, and that has led to a higher average selling price overall. Apple may have cornered only 15% of the global smartphone market, behind Samsung (Korea) and more recently Huawei (China), but it accounts for 50% of revenue and 87% of profit. The brand is especially strong in Asia, with 31% of its revenue stemming from the region.

Apple's business model aims to increase the proportion of steady revenue streams as supplied by services (+31% to USD 9.5bn), subscriptions and software. Apple has USD 240 billion in cash and has announced a mammoth USD 100 billion buyback. A higher dividend has also been announced.

Investment recommendation: share still has upside.

Auteurs :

Jean-Paul Jeckelmann,
CIO, CFA

René Morgenthaler,
MBA

Françoise Mensi,
Ph.D in Economics.

Pierre-François Donzé,
M. Sc. in Economics

Julien Stähli,
MBF Boston University

Valentin Girard,
CFA

Contact:

Banque Bonhôte & Cie SA
2, quai Ostervald
2001 Neuchâtel / Switzerland
T. +41 32 722 10 00
info@bonhote.ch
www.bonhote.ch

facebook.com/
banquebonhote

linkedin.com/company/
banque-bonh-te-&-cie-sa

twitter.com/
alexnvincent