N° 513
17 June 2019

BONHÔTE
BANQUIERS DEPUIS 1815

FLASH BOURSIER

CHINA DOESN'T WANT A WEAK YUAN

Highlights:

Slower growth in Chinese industrial production

Customs duties starting to hit the US as well

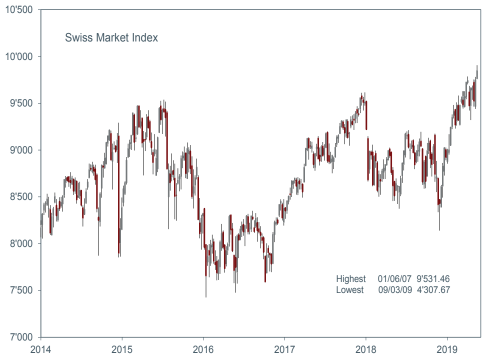
Overview

China's latest industrial-production stat fell short of estimates, rising by only 5% compared with the 5.4% growth rate expected. That also marked the slowest increase in the past 17 years. To counter the economic slowdown resulting from its trade tiff with the US, the Chinese government plans to start investing in infrastructure again while supporting provincial governments financially so that they can in turn embark on huge development projects.

The yuan is down by more than 3.5% against the dollar since the tariff war began. Usually, a weaker currency would be a boon for exporters, but the Chinese government does not see things in the same light, having already threatened speculators that any attempt to short the yuan would expose them to huge losses. Stability in the currency is of paramount importance to the government as a sharp downtrend in the yuan would encourage capital flight. Additionally, Beijing has made no secret that it wants to see its currency acquiring reserve-currency status. Yuan stability is therefore a long-term goal that takes precedence over any short-term advantage that a weaker currency could secure for China's exports.

The Trump's administrations trade tariffs are starting to have an impact not only on Chinese but also on US firms. More than 600 US companies, including majors such as Walmart (the world's leading retailer), have written to their government to criticise the levying of these duties and highlight the damage being done to their businesses. Walmart is also the largest private-sector employer in the US. It estimates that all further customs duties could endanger close to 2 million jobs in the country. It has also calculated that the customs duties will cost the average family-of-four some $2,400 every year. The pressure is mounting on President Trump ahead of next year's election.

Accommodative talk from central banks continues to support equity markets. The bond market now puts the probability of a Fed rate cut at 88% by the end of July. However, Fed chief Jerome Powell is likely to keep his rate-cutting powder dry so that he does not run out of ammunition too soon, should the US economy one day really need a bout of monetary stimulus.



Uptrend continues on the SMI and has legs to rise further. Our focal point is still 10000 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	1.12	9'847.61	3'379.19	12'096.40	5'367.62	7'345.78	2'886.98	7'796.66	21'116.89	1'015.08
Trend	→	→	↑	→	→	→	→	↑	↑	→	↑
%YTD	1.72%	-0.53%	16.83%	12.59%	14.56%	13.46%	9.18%	15.16%	17.50%	5.51%	5.10%

(Daten vom Freitag vor der Publikation)

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SPOTLIGHT ON STOCKS

SWATCH GROUP

Swatch Group AG (ISIN: CH0012255151, price: CHF 258.30

The share price of Swatch Group is feeling the heat, but buying at the current level would make sense.

Export statistics from the Swiss Watch Federation for April were a mixed bag. Total unit sales (number of timepieces exported) fell 17% year on year. However, the value of these exports dipped by only 0.4% (to CHF 1.75 billion) – a sign that entry-level and mid-range watches are suffering the most.

Swatch is significantly exposed to Chinese consumers, which represent approximately 45% of its sales. Any negative news affecting the region is likely to have an impact on the group's share price. Most recently, the turbulence in Hong Kong – Swatch's most profitable market – has dampened investor morale even though the protests do not have a direct impact on the economy.

The stock's valuation is attractive from several angles. The forward P/E ratio is 14.3x, well short of the 17x average of the past decade. Enterprise value/sales ratio is at 1.6x – an all-time low and leagues below 2.5x average of the past decade. The Swatch share is also attractive relative to other companies in its industry. Indeed, the forward P/E ratio is 45% below that of European peers. Compared to Richemont, the discount is 35%, which represents another historic low.

The threats hanging over the stock in the short and mediums terms have been priced in, we think. The best things come to those who wait.

The share is part of our recommended list.

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