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Q 02 / 2017

Quarterly Investment Review and Outlook

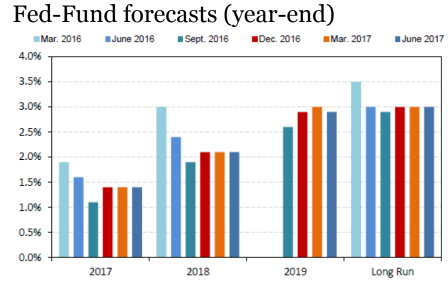
Quarterly Report – Q02/2017

At a glance

Review of 2nd quarter, 2017

- New highs in S&P500 despite a slowing US economy were registered,
- Upbeat sentiment in Europe; during the past 20 years, Europe has never as attractive as today,
- The reflation trade should continue to deliver a reasonable growth outlook which in turn is positive for global earnings outlook,
- A tighter US monetary policy in times of higher expected inflation could lead to PE multiple contraction, as would emerging doubts regarding the effectiveness of the Trump administration,
- Relative to fixed income vehicles, risk neutral strategies should continue to benefit in scenarios of reflation and stagflation,
- USA: 2017 GDP growth forecast got lowered from 2.3 to 2.2% on the back of weak Q1 figures.
- Surveys are less over-optimistic, “hard” data is difficult to improve: This should impact the federal budget for FY2018 and the monetary policy normalization is to be watched carefully,
- Q1/ 2017 GDP figures for Japan are in line with expected figures,
- Since beginning of 2017, active investment funds have massively invested in European Equities; however, during the last 2 weeks of June, the market rotation has slowed down.
- Every quarter % interest rate increase is reducing the purchase power of the average population by 2.7 %

Fed-Fund forecasts (year-end)



Outlook

- For equities we continue to have a positive outlook for US Banks, US Technology, Energy, EMU Banks, and Global Leaders of the 4th Revolution.
- USA:
    - One more interest increase this year and two increases in 2018,
    - USD money market funds have seen massive outflows during the first 2 quarters of 2017; this move is expected to continue and should be supportive for growth sectors.
- Euro zone:
    - Macron’s victory reduced the political risk for Europe,
    - Possible Italian elections in autumn raise uncertainty,
    - Sentiment is very upbeat across the continent,
    - Industrial production and retail sales accelerated throughout the continent. We upgrade our 2017 GDP forecast.
- Japan:
    - BoJ sticks to accommodative monetary policy.
    - New US-administration seems to accept weak JPY.
- Emerging markets:
    - Economic momentum and economic surprises suggest that growth may recover over the next few months
- Inflation:
    - US core inflation already at target.
    - US headline inflation will reach 2.75 % in 2017

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Quality over Performance

Index tilted investors do not always get a quality Portfolio! Provided a benchmark is well-crafted and one stays invested throughout an entire market cycle, the passive investor is to be worse off compared to an active investor seeking quality investments within a given universe. Cliff Asness and several other principals at AQR documented this effect in their paper, "Quality Minus Junk”. They found that stocks with high profitability, high dividend payout rates, low market volatility, and low fundamental risk have historically outperformed their less-advantaged counterparts.

Where is then the catch-22? While active investment managers are most of the time seeking absolute performance, passive investors are seeking returns in line with the market. In order to obtain the market return, passive investors accept, de facto, junk into their portfolio, because the index represents the average market. Active investors are seeking a particular segment of the index, based on a number of factors, data for which is being collected daily, weekly, monthly, or quarterly. Once the data is being compliant, a scoring process takes place. This process is working intensive and requires specific programming and IT science. This is not within reach for everybody.

So, expressed in simple terms, if one were to select the 100 companies from S&P 500 with the strongest quality characteristics, one should be better off than holding-on to an index that tracks the entire segment. Quality being measured by means of high return on equity (a measure of profitability), low financial leverage, and constant growth in net operating assets during the most recent year. Typically, such portfolio will hold on to securities like Philip Morris, MasterCard, Visa, Procter & Gamble, PepsiCo, Stryker, and the like. The types of quality are unlikely to offer eye-popping returns, and they could lag the market for an extended period, particularly during strong market rallies. So they are probably not attractive to aggressive investors, which could cause them to underperform the market, during a given period. However, these stocks should reward patient investors with a better risk/reward profile than the broader market over the long term.

It is tough difficult to square the best quality stocks that have an attractive background, seemingly attractive characteristics, below-average risk profile, and which should command in the future higher valuations while maintaining the same level of risk during the quarters ahead. Valuations ratios matter and quality stocks are not necessarily good investments at any price and at any time. Not surprisingly, the relationship between profitability and future stock returns is stronger after controlling for differences in valuations.

How do we perform the portfolio construction for our active managed certificate?

To construct the certificate’s asset allocation, the process assigns a composite quality score to each stock in the investment universe based on its ratios on value, growth, risk, momentum, and social media reputation. The top 30 stocks are then selected for the actual investment, each selected equity is being attributed an initial weight between 1 and 2.5 %, pending market outlook when rebalancing is taking place. The certificate applies a cash buffer of about 20 % to cover buying opportunities while market uncertainties.

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Outlook 2017/2018

1. **Highly positive foundation for a risk-on model**
   - Under current conditions, risk-on strategies are expected to outperform market-neutral and defensive strategies.
2. **Fading conviction in the reflation trade has generated an about-turn in global equities**
   - Despite solid fundamentals, the upside of the market continues to exist.
3. **Markets could easily see a 5-10% decline**
   - Any correction may be considered a healthy technical adjustment
4. **Oil's effect on inflation expected to turn negative by June**
   - Inflation rate to flatten out temporarily, while still maintaining a rising tendency.
5. **S&P 500 faces key support at 2,300 and 2,250**
   - Because of solid fundamentals, strong conviction call on US equities is being maintained.

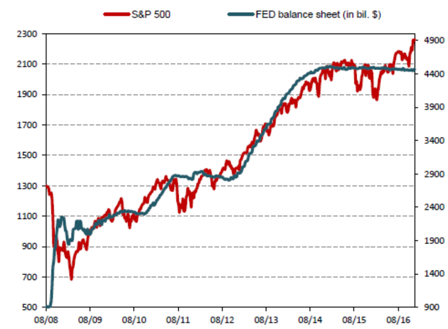
The 3 months ahead

The economic agenda of US President Donald Trump is targeting a massive change in the tax system for corporate. If exercised at the announced level, it will most probably result in massive unfunded tax cut. In turn, everything else being equal, it is expected to boost US GDP growth. Therefore, our core scenario of global stable growth remains in favor of equities. In addition, "earnings revisions" are still strong.

However, the outlook for an expansive monetary policy in the next few months is less favorable than before. In our base case scenario, we will see one more rate hike in the US this year and two in 2018. With the Japanese and the European central banks starting to discuss a tapering of their quantitative-easing programmes, a supportive argument for equities could be at risk.

Our themes within the equity space remain US banks, US technology, Eurozone banks and energy firms. We are also positioned in global leaders in the 4th economic revolution.

FED balance sheet vs. S&P500



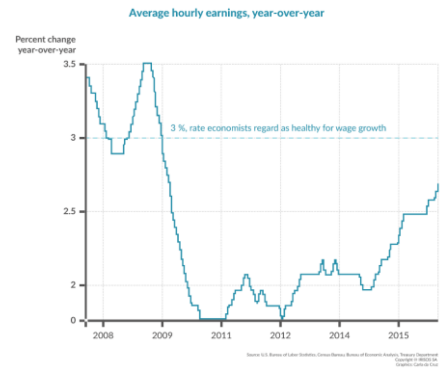
What do investors need to look out for?

The victory of Emmanuel Macron reduced political risks in Europe significantly. The accelerating industrial production and retail sales together with a very upbeat sentiment were supporting for equity markets. A raising probability of Italian elections in autumn raises the uncertainty a little bit, especially for the Italian banking sector. With the UK and the French elections completed, and the ECB meeting concluded, important political events are off the agenda for 2017.

In the US we observe a slowing down of the positive economic dynamic despite a new all time high in the S&P500 at 2'440.23. On June 14, the FED increased its interest rates by 0.25 %; this was a fully accounted element. Future market volatility will come from political events such as the dismal of the FBI director James Comey.

Economic momentum and economic surprises in Emerging markets suggest that growth will most likely start recovering over the next months. On the basis of these market circumstances, we stick to our previously published investment topics and introduce one new topic.

Telecommunications equipment providers: We like the defensiveness of this sector and the attractiveness of its undervaluation taking into consideration its dividend yield, its free cash flow yield and the potential for the start of a positive earnings revision cycle. Additionally, with the gearing up for the introduction of the 5G wireless spectrum, new infrastructures will experience heavy demand. This could turn out to be solid secular growth trend well into 2022, which is about the present target time frame for a full roll-out of the 5G business model.



Strategy matters

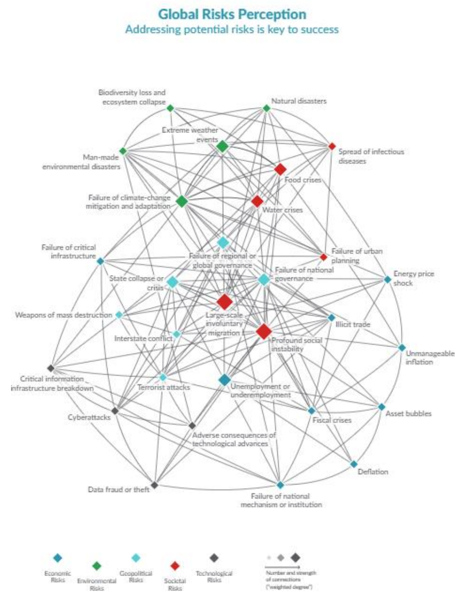
The best reporting season in Europe since 2010

How do we read the 1Q17 reporting season? This quarterly reporting season has provided positive surprises across the board, both in terms of sales and EPS. In Europe, we have to go back to 4Q10 to see such a high number of companies reporting EPS above or in line with consensus expectations (73% according to Bloomberg). Japanese firms had a good quarter, after bottoming out in the summer of last year. In the US, the strong set of results has pushed S&P 500 EPS momentum (3m change in 12m forward EPS consensus) into positive territory, catching up with the rest of the world.

Where do we stand in terms of valuation? Looking at forward valuation ratios, we note a strong rise over the past few months on the back of higher EPS growth expectations. The S&P 500 P/E of 17.7x is close to an all-time peak, while P/S (1.9x) and P/B (2.8x) ratios are already at historical highs. The Eurozone does not seem cheap vs the 10y average, but it is just bottoming out from a lost decade since the 2008 crisis. The current Eurozone P/E of 14.7x is still 10% below the 2015 peak, the P/B of 1.6x and P/S of 1.0x are respectively 26% and 14% below their 2007 peaks. We find more value in Japan and EM (P/Es of 14.0x and 12.1x respectively), where valuation ratios are actually in line with their respective 10y averages.

We favor the Eurozone and Japan equity markets, due to stretched valuations in the US. In our view, the Eurozone benefits from improving macros, fading political risk (momentum for Renzi's party is picking up), slowly normalizing inflation expectations, and a still-accommodative ECB policy. Margin and earnings cycles are improving, with earnings still 25% below the 2007 peak vs. 11% above in the US. Expectations in the Eurozone seem less at risk, with forward EBITDA at 16% vs. almost 20% in the US (a level never before reached there). In Japan, labor reform is reviving the Third Arrow, earnings are growing, balance sheets are healthy, and BoJ policy remains loose.

Conclusion:
Invest with our AMC Digital Age Transformation to ride the wave of upward earnings revisions of digitally connected companies that are driving greater returns than those still lingering in the hard-wired world of investment. Since launch of the strategy (April 28, 2017), it has outperformed the S&P500 by 2.1%.



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What are our preferences?

Key takeaways for 2017/2108

General:

1. Interest rates on the rise in developed markets,
2. US-driven economic revival, however signs of fatigue being noted in the US economy,
3. For the first time since 2006, there will be no big easing of monetary policy in G7-nations,
4. Inflation will most likely surprise to the upside,
5. No particular tail-risk

Americas:

6. US interest rates to rise initially to above 2.5 percent,
7. Tightening financial conditions and drag on the economy could lead the FED to reverse the intended course of action,
8. US Equities are expensive, but still on a positive trajectory because of ongoing solid economic fundamentals,
9. 2017 GDP growth to accelerate to 2.4%, up from 1.5% in 2016,
10. USD to be expected to lose some of present attractiveness.

Asia:

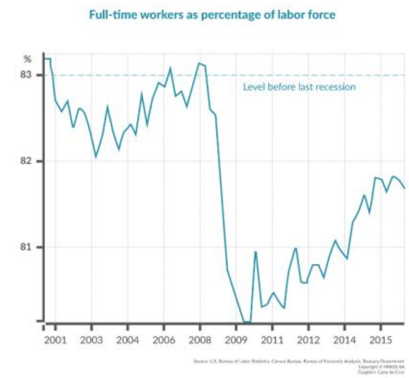
11. China’s excess industrial capacities pose a real challenge for the country and the broader region,
12. A US-initiated U.S.-China trade protectionism conflict will not have any significant impact in China,
13. Real unit labor costs are poised to provide positive stimulus to local economy. However, this is also a threat, as Chinese companies become less attractive for export purposes. To maintain their own growth and profitability prospects, they are now compelled to develop production sites in Africa.

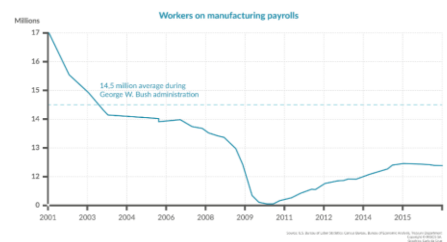
Europe:

14. European banks have completed healing process,
15. Domestic consumer confidence is on the rise,
16. Unemployment to start declining in the last strongholds of high unemployment rates (France and Italy),
17. Structural un-employment rates relatively high in France and Italy, i.e. 8.8 % in France and 9.5 in Italy, so reaching full-employment is possible relatively soon,
18. The ECB will kill its € 60 billion per month QE program, prior 2018,
19. Elections: Anti-establishment support crystallized an interesting future for France.

Uncertainties:

20. Polarized views to gain traction—but how much, where and when?
21. Productivity growth remains at ultra-low levels,
22. Some economic activities are highly subsidized or benefit from strong government support. As government debt becomes more expensive moving forward, can these economies sustain over the longer term?





Sector Analysis

Basic Materials

Investor sentiment towards material sector shifted dramatically in 2016; better economic fundamentals triggered an earnings upgrades and subsequently commodity prices started to increase too. Today, rising inflation expectations are positive for commodity-focused stocks but negative for price sensitive for consumer chemicals.

Within the different subsectors, we believe that some capital and work intensive segments still show some considerable under-valuations. There are pockets of buying opportunities in the mining sector, especially in the light o China's demand adjustments, improving global growth, and evidence of greater global supply and price discipline by the key producers.

In the sub-sectors of chemicals, the recent HuntsmanClariant-merger represents best the overall trend; With raising input costs and as margins are at very low levels, the sustainability of an operation can only be maintained by ever increasing market share. Earnings upgrades will be needed to support further performance, which can occur either through M&A, or the announcement of large cost savings programs or share backs.

Consumer Discretionaries

The macroeconomic backdrop for consumer discretionaries is more favorable than at any time since the financial crisis. By far the most important factor supporting consumer spending is the improvement in the labor market. On both side of the Atlantic, the unemployment market has reached or is reaching relative quickly full employment. Structural employment remains a key issue, especially in some European countries such as France and Italy. The growth in labor income provides the fuel to keep consumer spending growing, and improving labor market conditions have helped to lift consumer confidence.

Overall, we expect consumer spending to rise at least as fast as income, and income should continue to increase at a robust pace. In our opinion, innovation will once again come to the forefront as most companies relied on lower pricing last year to remain competitive. Companies that engage in the long-term secular growth trend of sales are expected to benefit most. We duly note that technology investments are no longer limited to production companies only, but rather grasp now the attention of forward thinking management teams of any kind of consumer facing entities. In other words, the number of sectors that aren't exposed to the threat of e-commerce and IOT where technology shy investors were hiding out up to now is melting down like snow in the desert.

For now, some sub-sectors are clearly entering into a late-cycle stage (Automobile, EOM, and Components). Recently, there was much hype about OEM advancements in autonomous driving, ride-sharing and electrification. These developments are however still some 5 to 7 years away and therefore are not sufficient strong to keep to positive development experienced in the last 3 years going.

We agree that the prospect of technological disruption to this industry sector is truly exciting! However, we believe it is unlikely to cause the OEM stocks to outperform the consumer discretionary sector benchmark over a 12-month investment horizon.

Key figures for Europe:

Target values:
Present fair value (DJStoxx600): 361
E12 month's value (DJStoxx600): 420
Upside potential: +16%

Key economic ratios:

P/E 2017 (E):	14.9
P/E 2018 (E):	13.5
Div. Yield 2017:	3.2
Div. Yield 2018:	3.5

Most likely next short-term move:

DJStoxx600	flat/down
DJStoxx50	flat/down
SMI	flat/down
DAX	flat/down

Key names to look at:

Strong intellectual property:
- Roche
- Novartis
- Amadeus

High competitiveness:
- Siemens
- Daimler
- Richemont
- Swatch

Sustainable dividends:
- Crédit Agricole
- Imperial Tobacco
- Altria
- Philip Morris

At present, it is Media which attracts our views. The digital transformation is tremendous and the pace is accelerating, content ownership is the key to success and our preference is to own media companies that produce tremendous content with scale.

Consumer Staples

A seismic shift took place! On Friday June 16, 2017, Amazon announced the acquisition of Whole Food Market, the leading natural and organic foods supermarket retailer in the US. In the past, Amazon was leading the disruption of the book, music, and all kind of consumer staples. Today, the same company is catching up with the food retail distribution business. These markets were previously controlled in a dominant manner by Wal-Mart, Ahold, Carrefour, Tesco, and the like. For Amazon and AmazonFresh, the take-over of Whole Food Market opens up access to fully fledged retail network which it needs to increase consumer loyalties which in turn should increase recurring sales.

For Wal-Mart and the like, the penetration of Amazon into their market spells trouble. The deal is to intensives competition within the industry segment. While retailers have invested substantially into their online presence, the actual service was up to now lacking pertinence and profitability. Lastly we note that longer-term,

a) traditional retailers came even under higher pressure to accelerate their online developments ,and
b) if the take-over generates the expected outcome, follow-up operations in Europe could take place.

General view: Over the past years, consumer based sales growth was driven by improving employment conditions and lower interest rates. As these economic conditions should stay on, the overall conditions for the sector remain supportive. EU consumer staples trade at higher multiples compared to US operators as they are outgrowing the market. Conversely, a general acceleration in economic activity could lead to faster like-for-like growth and an acceleration of M&A activities.

Technology

Despite the recent re-rating, IT companies continue trade on an attractive basis. While historically IT companies trade with premium of 10 to 15 %, today, they are valued with a small premium hence there is more relative upside potential. The best opportunities can presently be found in the fast-growing industries like internet, cloud, and security.

On the short-term higher input prices could weight on margins for consumer IT strong entities. However, with product life-time cycles relatively short and strong end consumer demand these effects are expected to be set off.

The IT sector has reached an important bifurcation point: There are the companies that clearly focus on new products and services such as IOT, Cloud, digital and mobile services, etc and there are the companies which are unable to reach that point and will eventually be required to focus outgoing legacy services and products. The global economic recovery lead by the US, Asia, and Europe, should accelerate this evolution during the coming quarters. Because of H1B visa restrictions, we also see an acceleration of the relocation of IT development site, away from the US to Europe (because of its high-end competences) and Asia (because of low labor costs).

Energy

Has OPEC lost the price war?
Mid June 2017, the barrel price dropped to a seven-month low after US oil inventories rose unexpectedly by 6.4 million barrels. In the past, such development would have indicated that future economic prospects are negative; however this time round, it represents the inability of oil producing countries to deal with and implement production cuts. Yet, this recent development is though irrelevant for the longer-term picture of the oil price.

There a few key factors to look at:

- The reduction in R&D between 2015 and now, will result in a delay to exploit currently available resources starting 2018
- World-wide oil consumption increases annually by about 2 %; this represent about one week of full production,
- In a best case scenario, only about 25 % of the presently fossil energy requirements can be replaced by electricity. Expressed in simple terms, this represents about the oncoming new requirements of the next 10 years. So, provided the adjusted demand will stay at the same level, there is not overcapacity and no under-capacity, but the remaining resources more difficult to access and exploit.

So, all in all, a highly positive long-term outlook for the industry.

While the market has turned bearish on the oil price on the short-run, it is leaving room for a rebound toward USD 60/bbl for Brent in the second half of this year as OPEC and Russia remain determined to do "whatever it takes to balance-out global oil inventories."

Financial Services

Given the better economics and improving inflation, the sector is enjoying valuation expansion as the market anticipates the positive impact of future rate hikes. After the strong performance recorded by US banks in recent months, investors may well start asking who will benefit next from economic and inflation recovery. EU banks are a possible candidate.

Throughout the sector, we see mid-single-digit earnings growth in the next two years. However, assuming positive macro trends, we expect the top-down view to remain the driver of performance in the early stages of inflation and economic growth. EU banks could still be underpinned by the hope of higher future earnings, overshadowing actual results impacted by restructuring and the final write-offs, and allowing for higher valuation multiples.

The main tool banks currently have to improve profitability is cost containment, mainly through digitalization and creating leaner branch footprints. However, this is a multi-year process rather than a short-term achievement. This secular shift in the customer facing process, away from paper and physical contact in favor of cards and digital deeply reorganizes the way the sector worked and operated. In other words, there is a clear shift from active to passive, which ultimately will impact first costs and then, in a second phase, profitability.

Considering all the above, we favor the sector and particularly focus on banks that are already able to generate superior profitability or their investment risk/reward is particularly compelling. We also like consumer lenders, payment processors as well as select asset management companies.

Key figures for USA:

Target values:
Present fair value S&P 500: 2340
E12 months value S&P 500: 2450
Upside potential: +4.7%

Key economic ratios:

P/E 2017 (E):	17.9
P/E 2018 (E):	16.0
Div. Yield 2017:	2.1
Div. Yield 2018:	2.2

Most likely next short-term move:

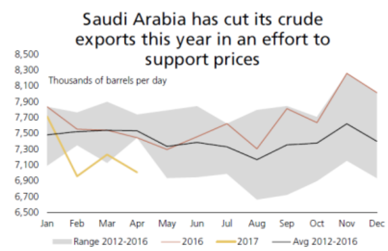
S&P 500	down
Nasdaq	down

Key names to look at:

Strong intellectual property
- VISA
- MasterCard
- Nvidia

Technology:
- Microsoft
- Micron Technology
- Nvidia
- Apple
- IBM

Financials:
- VISA



Industrials

American consumers haven't been putting their money where their mouths are – with high confidence but only tepid spending growth. Along with the recent string of weak growth and inflation readings, concern is mounting that the US economy may be losing steam. There could be some seasonal weakness, and we expect an upswing for the summer months. Additionally, we do not see any alarm bells going off as US labor market remains overly strong with US continuing jobless claims are at the lowest level since 1988.

In Europe, industrials have been supported by a strong earnings season. Companies met high expectations, resulting in a decent performance. The difficulty to grasp is whether we already have reached the peak of positive momentum for the sector. We don't think so as political fundamentals have never been so good in Europe for the last 10 to 15 years. While we should expect short-cycle names to repeat such strong positive surprises in the second quarter, the majority of the companies should perform well, however with low digit EPS and profit expansions.

Healthcare

The long-term fundamentals for the sectors are excellent. While in DM there is an ever aging population requirement more and better healthcare treatments, EM population is raising aspirations to get the first fully cycle treatments. Short-term challenges for the sector are: continued pressure on drug prices, pressure from insurance companies and pharmacy benefit managers' actions, and ever more restrictive authorization processes.

Large pharmas tend to be high cash generators and offer fairly predictable earnings and profit growth, their performance is sustainable, but can be lacking over time, especially when a company is approaching a patent expiry of a blockbuster. Biotechnology, specialty, and generic pharma are slightly less predictable in terms of operational results. Yet, the lower visibility comes with a higher longer-term performance.

Overall, Biotechs and Pharma have presently a strong pipeline and patent expiries are better managed now than in the past. For instance, patent expiries affect biologics (natural sourced large molecules) differently than drugs (chemically-derived small molecules) in that branded biologics will not face competition from generics, but rather from biosimilars, look-alike versions that are not as easily substitutable for a biologic brand as a generic is for a drug. For this reason, biologics can be more valuable than pharmaceuticals.

At present, valuations are below historical averages as the sector has been disregarded by investors due strengthening economic growth and rising interest rates other sectors, mainly cyclical sectors, offered better earnings growth and relative momentum. This and the fact that headlines about healthcare and drug prices will evaporate some time ahead, offers investors solid entry points.

Key figures for Asia:

Target values:
Present fair value MXAPJ: 585
E12 months value MXAPJ: 625
Upside potential: +6.8 %

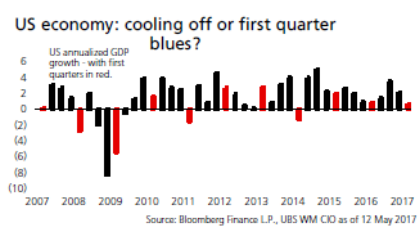
Key economic ratios:

P/E 2017 (E):	13
P/E 2018 (E):	11
Div. Yield 2016:	2.6
Div. Yield 2017:	2.9

Most likely next short-term move:
MXAPJ down

Key names to look at:

-



Telecommunication

YTD, the Telecom sector has largely lagged the average market, especially in the US. The telecom business is highly competitive and capital intensive. Yet, there are pockets of services where gross margins are extremely high. For instance, the wireless sector returns growth margins in the mid-60% range. Given this ratios, there is room for further price cuts.

5G is coming! Yet, the investment community remains unsure about the timing of the 5G wireless technology introduction. Obviously, the deployment of this new technology is huge and dependent of many exogenous factors, for instance the disponibility of a rich fiber network and access to 28 GHz and 39 GHz wireless range. It can be expected that the network rollout is to begin in the course of 2019 and the deployment of the services in 2020/2021. In the forerun of these changes, companies providing networking services will benefit from these transformational technologies.

The deployment of the 5G technology is about the only tangible reason to invest in a sector that is subject to regulatory changes that will weigh on profitability, overcapacities, consumer saturation, peaking wireless revenues, and the entrance of well-funded competitors.

In the short-run the sector looks attractive because of its strong dividend yield of around 5% versus 2 % of the broader market. Longer-term, this situation may change with raising interest rates, fixed income investors which were appealed with a relatively safe yield pick-up may pull-out from these investments. An asset rotation, similar to the one of last August / September could take place in the coming quarters.

Utilities

Because of changing consumer behavior, new market entrants (renewables), and the requirement for heavy infrastructure upgrades, make the medium term outlook for the utility sector unattractive. In the short-term, we see a recovery potential for some operators; for instance EDF is set to benefit from better structural support and much of the bad news is in the price at current levels. The dividend payments across the sectors are supportive.

With the risk of higher interest rates, no impact from potential tax reforms, and no growth drivers we believe there is more downside than upside to the total return prospect.

Foreign exchange

Currencies

- USD: Support for US dollar is likely to fade in the next few months, in particular if the ECB starts reducing the monetary stimulus in early 2018

- CHF appreciation pressure is likely to ease a bit further in a Euro friendly environment. We remain confident regarding NOK and SEK as we a continued economic recovery in these countries. Our positive oil-price outlook also supports the case for NOK.

- JPY: Yield-curve control in Japan in combination with rising yields elsewhere should undermine the yen in the next few months

- EM currencies should remain well supported as the growth outlook is improving, real yields are relatively high, current account balances decreased in recent quarters and currencies are undervalued. Political risks (US protectionism, North Korea, Brazil and Turkey) and growth deceleration in China remain the biggest risks for Emerging Markets

Energy

The crude oil inventory build-up has shaken beginning of last month the oil market and has impacted negatively the share prices of oil major and their service providers. This event occurred on the background of Canada and Iraq sending more capacities to the US market.

US oil inventories have increased by about 6.4 million barrels – which reflected the WTI decline of 5.1 % on Wednesday June 07, 2017. Even with the renewed OPEC-brokered production-cut deal, US crude inventories remain roughly 25% above their five-year average (see chart).

This number does not necessary result in a fundamental change of the oil-market dynamics as the arrival of single large tanker, with a load of over 2 million barrel of oil, can impact statistics. But this does not signal a turn in oil-market dynamics, in our view. Finally, the build up of large inventory in other major regions like Europe, Japan and Singapore reflects a tightening global supply while Middle East tensions increase.

The most recent decline was not insignificant. It's only the second time in the last year that WTI has fallen more than 5% in a single day. But oil is by nature a skittish asset class – with implied volatility near 30%, compared to around 10% for the S&P. Globally, the oil market is now in a deficit that stands to grow in the coming months. At the same time, current prices won't incentivize US shale production expansion, which should become increasingly apparent early next year. We expect crude prices to recover in the near term. Our six-month WTI and Brent forecasts are USD 58 and USD 60 per barrel, respectively.

Target values in 3 months:
EUR/USD: 1.100 - 1.1500
GBP/USD: 1.2500 – 1.3000
USD/CHF: 0.9750 – 1.00

Target values in 12 months:
EUR/USD: 1.20 – 1.25
GBP/USD: 1.15 – 1.20
USD/CHF: 1.00 – 1.05

Purchase power parities:
EUR/USD: 1.25
GBP/USD: 1.58
USD/CHF: 1.00
EUR/CHF: 1.25

Most likely next move:
EUR/USD: down
GBP/USD: down
USD/CHF: down

Target values in 3 months:

Oil:	$50-55
Gold:	$1,250

Target values in 12 months:

Oil:	$60-65
Gold:	$1,350

Upside potentials:

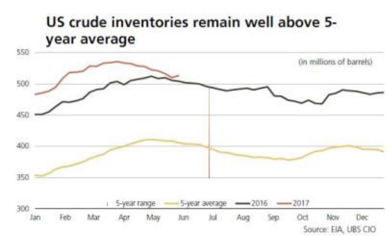
S&P GSCI:	Down
Oil:	Flat
Gold:	Up

Next most likely move:

S&P GSCI:	Flat
Oil:	Up
Gold:	Down

Commodity related stocks:

-



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Sources:
Analysis and comments: Bloomberg, Reuters, various (specifically mentioned)
Data and graphical items: Bloomberg, Datastream, Dolefin, various (specifically mentioned)

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