INVESTMENT SOLUTIONS & PRODUCTS

Investment Alert

Investment horizon: 3-6 months, 20/07/2017

Foreign exchange

FX forecast update: More Eurozone-US divergence – now neutral USD

- We neutralize our formerly positive tactical view on the USD against the EUR and CHF as economic divergence between positively surprising European and lackluster US data has been more persistent than expected. We revise our EUR/USD forecasts upwards, to 1.15 in three months, and to 1.12 in 12 months.
- Neutral on EUR/CHF as strength above 1.10 is likely to meet selling from hedging interests. Our three-month EUR/CHF forecast is 1.09, in line with our 12-month view.
- Reflecting a softer USD profile, positive Chinese data surprises, and a less dovish RBA, we also neutralize our negative AUD/USD view. AUD is also now supported by a more positive technical momentum.
- The undervalued JPY can benefit further if pressures on easy BoJ policy eventually build amid strengthening fundamentals. We stay negative on USD/JPY, leaving forecasts unchanged.
- Within our overall neutral view on emerging market currencies, we turn positive on the MYR and ZAR.

Joe Prendergast
Head of Financial Markets Analysis

Tim Sprissler
Investment Strategist – Foreign Exchange Strategy

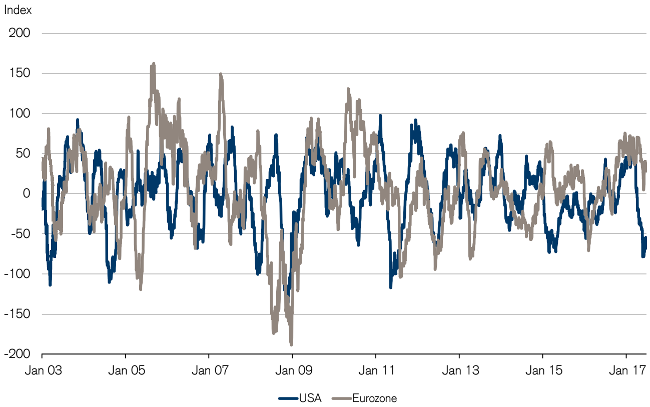
Irena Mark
Investment Strategist – Fixed Income Strategy

EUR/USD: Economic divergence persists, driving the EUR higher and undermining our negative view

The EUR appreciation from the bottom to the top of its range versus the USD since mid-April has been fueled first by a declining European political risk premium post-French elections and more recently by the strong recovery in the Eurozone economy and the simultaneous and surprising slowdown in US growth and inflation. While some rebound in the EUR was always likely in the wake of a market-friendly French election result, the persistence and scale of the economic divergence seen has given this move far more momentum than we anticipated.

Economic divergence between Eurozone and the USA persists

Citi Economic Surprise Indicators: USA versus Eurozone

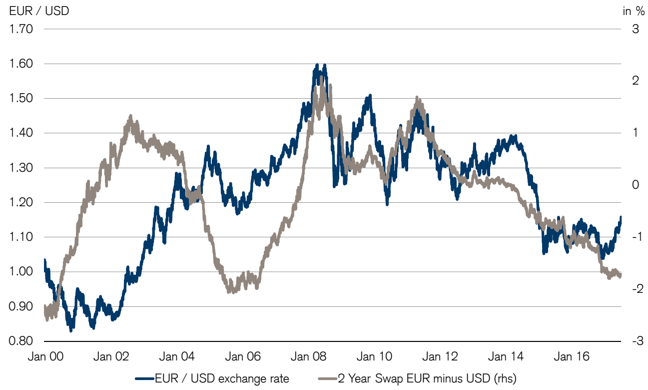


Last data point: 18/07/2017. Source: Bloomberg, Credit Suisse / IDC

The result of these developments has been the triggering of critical technical signals, turning our technical momentum readings from bearish to bullish as the EUR challenges the top of its medium-term trading range. At the same time, the persistent fundamental divergence weakens conviction that the next interest rate differential movements will again be in the USD's favor. Our Eurozone GDP forecast for 2017 has been moved from 1.7% to 2.0%, now equaling our expectation for the US economy this year (assuming no revival of hopes for fiscal stimulus).

Short-term spreads still stable but risks now both ways

EUR / USD and 2Y Swaps



Last data point: 19/07/2017. Source: Datastream, Credit Suisse / IDC

In short, the chances for EUR/USD to resume its downtrend in the coming months have faded significantly and our Investment Committee has decided to close our negative EUR/USD view. We are neutral on EUR/USD and move our forecasts to a flat 1.15 in three months and 1.12 in 12 months. In our latest Investment Monthly, we had already moved the EUR/USD three month forecast to 1.10 (from 1.05), so the scale of the forecast adjustment is unusually large, reflecting the scale of the surprising economic divergence. Our 12-month forecast was previously 1.05.

Looking ahead, the risks extend in both directions. To be sure, the EUR could see further upside if the economic divergence persists, but equally we are vulnerable to either some slowdown in the Eurozone data or some re-acceleration in the USA. The latter is our core scenario, and indeed without this, it is questionable how far the Eurozone recovery can independently extend. This is reflected in the still negative bias to our 12-month view, but the US data must start to pick up in the coming months for this view to be sustained.

What to do?

The switch to a neutral EUR stance recognizes that the chances of a strong USD rebound have faded alongside the persistent underperformance of recent US economic data. If this divergence between US and Eurozone data continues, the EUR could appreciate further, and so we favor reducing unnecessary exposure to the USD while the spot rate is still within the EUR/USD range of the past two years.

In case today's European Central Bank (ECB) meeting, which reflects some ECB sensitivity to EUR strength in the form of a statement that further stimulus may be executed as required, eventually results in some correction or consolidation of the EUR, we would ideally reduce short EUR/long USD exposure. Investors with significant illiquid short EUR/long USD exposure should consider risk reversal style strategies, buying EUR calls/USD puts while selling equivalent maturity and delta EUR puts/USD calls, which would limit losses on underlying positions if the EUR/USD spot rate rises further, at the cost of curbing recovery potential if the spot rate were to fall.

CHF: Less pressure on the SNB, but the CHF is not so vulnerable on fundamental grounds

EUR/CHF has been rising as global yields rise, Eurozone data remains strong and the political risk premium falls. While this makes immediate sense, we see the robust Swiss economy, strong external surplus and carry and hedging economics as a significant constraint on CHF weakness. EUR/CHF strength above 1.10 is likely to meet selling from hedging interests in our view. Our USD/CHF forecasts thus move directly with the EUR/USD revision, meaning 0.95 and 0.97 in three and 12 months time, respectively (from 0.99 and 1.04). We move our three-month EUR/CHF forecast to 1.09, in line with our 12-month view. This reflects the easing of pressure on the Swiss National Bank (SNB), but the strengthening economy, large external surplus and rebound from deflation suggest that the CHF should not decline significantly.

While the CHF would likely reflect further generalized EUR strength, we see limited upside potential for EUR/CHF as long as the ECB is signaling caution in exiting its quantitative easing policy and that rates will not rise until "well after" that policy has ended. EUR/CHF rallies toward 1.11 are likely to be seen, but we see limited potential to sustain such strength without more decisive ECB action.

JPY: We stay positive on the JPY

Like the SNB, the Bank of Japan (BoJ) is reluctant to enter into any pre-emptive tightening of monetary policy, despite very strong economic growth in H1. But unlike the CHF, the JPY is estimated to be undervalued, having depreciated substantially from its post-crisis peak. Any sign that the BoJ could allow Japanese government bonds to follow the rise of global yields could thus result in a significant JPY surge. That looks unlikely in the very near term but is a risk as growth continues and inflation rises in the second half of this year. Also, any phases of risk aversion in response to tighter central banks in general would be a JPY positive. Our USD/JPY forecasts remain unchanged at 108 over 3 months and 105 over 12 months.

GBP: Political uncertainty creates volatility
High uncertainty about where Brexit talks will lead, unfavorable rate spreads, and the large UK current account deficit are all burdens on the pound. Yet, much depends on the stability of the new government and its ability to pass Brexit-related legislation. We prefer to stay neutral on the GBP vs. the USD and leave our forecasts at 1.28 over 3 months and 1.30 over 12 months. In line with our now neutral EUR/USD view, we turn from negative to neutral on EUR/GBP.

CAD: Neutral but cyclicals improving
The CAD has appreciated on the more hawkish outlook for the Bank of Canada (BoC). Canadian fundamentals are improving along with a robust labor market, and the BoC looks likely to tighten monetary policy further in the coming months, which, however, seems discounted by rate future markets. The technical momentum picture now looks positive for the CAD. As the CAD's recovery has extended relatively fast, we prefer to stay neutral on USD/CAD for now and assess incoming data. We move our forecasts from 1.37 to 1.30 over 3 and 12 months.

AUD: Neutralize negative view as the AUD is supported by technicals
The cyclical drivers of our negative AUD/USD view have been reversing against our expectations in the broader, soft USD environment. Chinese data such as Q2 GDP figures as well as production and trade data for June have recently surprised to the upside. Also, iron ore and coal prices have modestly rebounded from their sharp correction earlier. The spread between Australian and US interest rates has widened in the AUD's favor on disappointing US economic data and a less dovish Reserve Bank of Australia (RBA). Even though the RBA is expected to follow monetary normalization elsewhere only with a lag, these factors rather speak for a neutral cyclical outlook. As the technical momentum picture has recently turned positive for the AUD, we see our formerly negative AUD/USD view as vulnerable in the near term and turn overall neutral on the AUD versus the USD. We raise our forecasts from 0.73 to 0.79 over 3 months and from 0.73 to 0.77 over 12 months. For investors with AUD short positions, we favor closing into AUD weakness toward the USD 0.78 level – the previous resistances which should now act as support. Alternatively, simple bullish risk reversal strategies could act as a risk control mechanism.

NZD: Neutral with upside capped by tighter Fed
The latest GDP figures show that that the country's economy is expanding at a slower pace than projected. If the Reserve Bank of New Zealand views the latest GDP figures as indicative of weakness in the economy, it could delay its rate normalization plans. Similar to the AUD, further US monetary tightening caps upside in NZD/USD. NZD/USD trades close to its fair value, supporting our neutral view. We maintain our neutral overall view for NZD/USD. We raised our 3M forecast from 0.69 to 0.71 and left our 12M forecast unchanged at 0.70.

NOK and SEK: Tactically positive on the SEK
The NOK has recently appreciated on a moderate rebound in oil prices. We think the NOK recovery can go further from still relatively cheap levels versus the CHF and EUR and remain positive on the NOK from a cyclical perspective in line with our constructive view on crude oil. We keep our EUR/NOK forecast at 9.00 in 3 months and at 8.80 in 12 months.

Despite its recent strength, we still see more upside for the SEK. Valuation remains attractive for the SEK against the EUR and CHF, and the cyclical outlook has turned positive as well, in our view. Given strong economic growth in Sweden and the return of inflation toward target, the Riksbank is likely to cautiously move toward normalization, probably even slightly ahead of the ECB. We turn overall positive on the SEK against the EUR and CHF and adjust our EUR/SEK forecasts over 3 months from 9.60 to 9.45 and leave it at 9.20 over 12 months.

Emerging markets: Turn positive on the ZAR and MYR against the USD
Emerging markets (EM) have continued to show improvements in economic fundamentals, although at a more moderate pace than in Q1. At an aggregated level, EM FX valuations are still supportive, but the recent increase in core rates and a more volatile commodity market have led to a deterioration in investor risks sentiment that weighed on some high-yielding EM exchange rates. In terms of market views, we now expect the ZAR to strengthen against the USD now that the market positioning has cleaned up. Valuations remain strongly positive as improvements in the current account deficit suggest that the external position will remain robust. Moreover, stable inflation expectations and a weaker fiscal performance suggest little room for the South African Reserve Bank (SARB) to ease monetary conditions further. As a result, we have revised our USD/ZAR forecast to 13.0 in 3M and 12.4 in 12M. We are turning positive on the MYR versus the USD on the back of its attractive valuation. Also, a pick-up in domestic consumption has improved the macro picture, while rising capital inflows partially offset a below-trend current account balance. We expect the MYR to appreciate against the USD and forecast USD/MYR at 4.20 in 3M and 4.0 in 12M.

(20/07/2017)

Exchange rate forecasts for G10 currencies

	7/19/2017	3M		12M	
	spot	new	(old)	new	(old)
EUR/USD	1.15	1.15	(1.10)	1.12	(1.05)
USD/CHF	0.95	0.95	(0.99)	0.97	(1.04)
EUR/CHF	1.10	1.09	(1.07)	1.09	(1.09)
USD/JPY	112	108	(108)	105	(105)

	spot	new	(old)	new	(old)
EUR/JPY	129	124	(113)	118	(108)
EUR/GBP	0.89	0.90	(0.82)	0.86	(0.79)
GBP/USD	1.30	1.28	(1.28)	1.30	(1.30)
EUR/SEK	9.58	9.45	(9.60)	9.20	(9.20)
EUR/NOK	9.28	9.00	(9.00)	8.80	(8.80)
AUD/USD	0.80	0.79	(0.73)	0.77	(0.73)
NZD/USD	0.74	0.71	(0.69)	0.70	(0.70)
USD/CAD	1.26	1.30	(1.37)	1.30	(1.37)

Source: Bloomberg, Credit Suisse

Exchange rate forecasts for Asia

	19/07/2017	3M		12M	
	spot	new	(old)	new	(old)
USD/SGD	1.37	1.42	(1.42)	1.44	(1.44)
USD/THB	33.61	34.70	(34.70)	35.00	(35.00)
USD/IDR	13321	13800	(13800)	14200	(14200)
USD/PHP	50.85	50.50	(50.50)	51.50	(51.50)
USD/TWD	30.42	30.50	(30.50)	31.00	(31.00)
USD/KRW	1121	1180	(1180)	1200	(1200)
USD/INR	64.28	65.00	(65.00)	67.00	(67.00)
USD/HKD	7.81	7.78	(7.78)	7.76	(7.76)
USD/CNY	6.75	6.70	(6.70)	7.20	(7.20)
USD/MYR	4.29	4.20	(4.20)	4.00	(4.00)

Source: Bloomberg, Credit Suisse

Exchange rate forecasts for EMEA/Latin America

	19/07/2017	3M		12M	
	spot	new	(old)	new	(old)
EUR/PLN	4.21	4.15	(4.15)	3.80	(3.80)
USD/TRY	3.52	3.50	(3.50)	3.35	(3.35)
USD/RUB	58.89	61.62	(61.62)	66.64	(66.64)
USD/ZAR	12.92	13.01	(13.01)	12.37	(12.37)
USD/BRL	3.15	3.40	(3.40)	3.55	(3.55)
USD/MXN	17.58	18.13	(18.13)	16.00	(16.00)

Source: Bloomberg, Credit Suisse

Glossary

Risk warnings

Market risk	Financial markets rise and fall based on economic conditions, inflationary pressures, world news and business-specific reports. While trends may be detected over time, it can be difficult to predict the direction of the market and individual stocks. This variability puts stock investments at risk of losing value.
Bond risks	Investors are exposed to interest rates, currency, liquidity, credit market and issuer fluctuations, which may affect the price of bonds.
Emerging markets	Emerging markets are located in countries that possess one or more of the following characteristics: a certain degree of political instability, relatively unpredictable financial markets and economic growth patterns, a financial market that is still at the development stage or a weak economy. Emerging market investments usually result in higher risks as a result of political, economic, credit, exchange rate, market liquidity, legal, settlement, market, shareholder and creditor risks.
Hedge funds	Regardless of structure, hedge funds are not limited to any particular investment discipline or trading strategy, and seek to profit in all kinds of markets by using leverage, derivative instruments and speculative investment strategies that may increase the risk of investment loss.
Commodity investments	Commodity transactions carry a high degree of risk and may not be suitable for many private investors. The extent of loss due to market movements can be substantial or even result in a total loss.
Real estate	Investors in real estate are exposed to liquidity, foreign currency and other risks, including cyclical risk, rental and local market risk as well as environmental risk, and changes to the legal situation.
Currency risks	Investments in foreign currencies involve the additional risk that the foreign currency might lose value against the investor's reference currency.
Equity risk	Equities are subject to market forces and hence fluctuations in value, which are not entirely predictable.

Explanation of indices frequently used in reports

Index	Comment
Australia S&P/ASX 200	S&P/ASX 200 is an Australian market-capitalization-weighted and float-adjusted stock index calculated by Standard and Poor's.
BC High Yield Corp USD	The US Corporate High Yield Index measures USD-denominated, non-investment grade, fixed-rate and taxable corporate bonds. The index is calculated by Barclays.
BC High Yield Pan EUR	The Euro Corporate Index tracks the fixed-rate, investment-grade, euro-denominated corporate bond market. The index includes issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays.
BC IG Corporate EUR	The US Corporate Index tracks the fixed-rate, investment-grade, dollar-denominated corporate bond market. The index includes both US and non-US issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays.
BC IG Corporate USD	The IG Financials Index tracks the fixed-rate, investment-grade, dollar-denominated financials bond market. The index includes both US and non-US issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays.
Canada S&P/TSX comp	The S&P/TSX composite index is the Canadian equivalent of the S&P 500 Index in the USA. The index contains the largest stocks traded on the Toronto Stock Exchange.
Consumer Confidence Indices	Consumer Confidence Indices (CCIs) are based on surveys of consumers' spending intentions and economic situations, as well as their concerns and expectations for the immediate future.
CS Hedge Fund Index	The Credit Suisse Hedge Fund Index is compiled by Credit Suisse Hedge Index LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The index reflects performance net of all hedge fund component performance fees and expenses.
CS LSI ex govt CHF	The Liquid Swiss Index ex govt CHF is a market-capitalized bond index representing the most liquid and tradable portion of the Swiss bond market excluding Swiss government bonds. The index is calculated by Credit Suisse.
DAX	The German Stock Index stock represents 30 of the largest and most liquid German companies that trade on the Frankfurt Exchange.
DXY	A measure of the value of the US dollar relative to the majority of its most important trading partners. The US Dollar Index is similar to other trade-weighted indices, which also use the exchange rates from the same major currencies.
Eurostoxx 50	Eurostoxx 50 is a market-capitalization-weighted stock index of 50 leading blue-chip companies in the Eurozone.
FTSE EPRA/NAREIT Global Real Estate Index Series	The FTSE EPRA/NAREIT Global Real Estate Index Series is designed to represent general trends in eligible real estate equities worldwide.
Hedge Fund Barometer	The Hedge Fund Barometer is a proprietary Credit Suisse scoring tool that measures market conditions for hedge fund strategies. It comprises four components: liquidity, volatility; systemic risks and business cycle.
Japan Topix	TOPIX, also known as the Tokyo Stock Price Index, tracks all large Japanese companies listed in the stock exchange's "first section." The index calculation excludes temporary issues and preferred stocks.
JPM EM hard curr. USD	The Emerging Market Bond Index Plus tracks the total return of hard-currency sovereign bonds across the most liquid emerging markets. The index encompasses US-denominated Brady bonds (dollar-denominated bonds issued by Latin American countries), loans and Eurobonds.
JPM EM local curr. hedg. USD	The JPMorgan Government Bond Index tracks local currency bonds issued by emerging market governments across the most accessible markets for international investors.
MSCI AC Asia/Pacific	The MSCI All Country Asia Pacific Index captures large and mid cap representation across 5 developed market countries and 8 emerging markets countries in the Asia Pacific region. With 1,000 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI AC World	The MSCI All Country World Index captures large and mid cap representation across 23 developed markets and 23 emerging market countries. With roughly 2480 constituents, the index covers around 85% of the global investable equity opportunity set.
MSCI Emerging Markets	MSCI Emerging Markets is a free-float-weighted Index designed to measure equity market performance in global emerging markets. The index is developed and calculated by Morgan Stanley Capital International.
MSCI EMU	The MSCI EMU Index (European Economic and Monetary Union) captures large and mid cap representation across the 10 Developed Markets countries in the EMU. With 237 constituents, the index covers approximately 85% of the free float-adjusted market capitalization of the EMU.
MSCI Europe	The MSCI Europe Index captures large and mid cap representation across 15 developed markets countries in Europe. With 442 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European developed markets equity universe.
MSCI UK	The MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market. With 111 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK.
MSCI World	MSCI World is an index of global equity markets developed and calculated by Morgan Stanley Capital International. Calculations are based on closing prices with dividends reinvested.
OECD Composite Leading Indicators	OECD Composite Leading Indicators (CLIs) are designed to provide early signals of turning points in business cycles with components that measure early stages of production, respond to changes in economic activity, and are sensitive to expectations of future activity.
Purchasing Managers' Indices	Purchasing Managers' Indices (PMIs) are economic indicators derived from monthly surveys of private-sector companies. The two principal producers of PMIs are Markit Group, which conducts PMIs for over 30 countries worldwide, and the Institute for Supply Management (ISM), which conducts PMIs for the United States. The indices include additional sub-indices for manufacturing surveys such as new orders, employment, exports, stocks of raw materials and finished goods, prices of inputs and finished goods, and services.
Russell 1000 Growth Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the US equity universe based on 1000 large-cap companies with higher price-to-book ratios and higher forecast growth values.
Russell 1000 Index	he Russell 1000 Index is a stock market index that represents the highest-ranking 1,000 stocks in the Russell 3000 Index (encompassing the 3,000 largest US-traded stocks, with the underlying companies all incorporated in the USA), and representing about 90% of the total market capitalization of that index. The Russell 1000 Index has a weighted average market capitalization of USD 81 billion and the median market capitalization is approximately USD 4.6 billion.
Russell 1000 Value Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe based on 1000 large-cap companies with lower price-to-book ratios and lower expected growth values.
Switzerland SMI	The Swiss Market Index is made up of 20 of the largest companies listed of the Swiss Performance Index universe. It represents 85% of the free-float capitalization of the Swiss equity market. As a price index, the SMI is not adjusted for dividends.
UK FTSE 100	FTSE 100 is a market-capitalization-weighted stock index that represents 100 of the most highly capitalized companies traded on the London Stock exchange. The equities have an investibility weighting in the index calculation.
US S&P 500	Standard and Poor's 500 is a capitalization-weighted stock index representing all major industries in the USA, which measures the performance of the domestic economy through changes in the aggregate market value.

Abbreviations frequently used in reports

Abb.	Description	Abb.	Description
3/6/12 MMA	3/6/12 month moving average	IMF	International Monetary Fund
AI	Alternative investments	LatAm	Latin America
APAC	Asia Pacific	Libor	London interbank offered rate
bbl	barrel	m b/d	Million barrels per day
BI	Bank Indonesia	M1	A measure of the money supply that includes all physical money, such as coins and currency, as well as demand deposits, checking accounts and negotiable order of withdrawal accounts.
BoC	Bank of Canada	M2	A measure of money supply that includes cash and checking deposits (M1) as well as savings deposits, money market mutual funds and other time deposits.
BoE	Bank of England	M3	A measure of money supply that includes M2 as well as large time deposits, institutional money market funds, short-term repurchase agreements and other larger liquid assets.
BoJ	Bank of Japan	M&A	Mergers and acquisitions
bp	Basis points	MAS	Monetary Authority of Singapore
BRIC	Brazil, Russia, China, India	MLP	Master Limited Partnership
CAGR	Compound annual growth rate	MoM	Month-on-month
CBOE	Chicago Board Options Exchange	MPC	Monetary Policy Committee
CFO	Cash from operations	OAS	Option-adjusted spread
CFROI	Cash flow return on investment	OECD	Organisation for Economic Co-operation and Development
DCF	Discounted cash flow	OIS	Overnight indexed swap
DM	Developed Market	OPEC	Organization of Petroleum Exporting Countries
DMs	Developed Markets	P/B	Price-to-book value
EBITDA	Earnings before interest, taxes, depreciation and amortization	P/E	Price-earnings ratio
ECB	European Central Bank	PBoC	People's Bank of China
EEMEA	Eastern Europe, Middle East and Africa	PEG	P/E ratio divided by growth in EPS
EM	Emerging Market	PMI	Purchasing Managers' Index
EMEA	Europe, Middle East and Africa	PPP	Purchasing power parity
EMs	Emerging Markets	QE	Quantitative easing

EMU	European Monetary Union	QoQ	Quarter-on-quarter
EPS	Earnings per share	r.h.s.	right-hand side (for charts)
ETF	Exchange traded funds	RBA	Reserve Bank of Australia
EV	Enterprise value	RBI	Reserve Bank of India
FCF	Free cash flow	RBNZ	Reserve Bank of New Zealand
Fed	US Federal Reserve	REIT	Real estate investment trust
FFO	Funds from operations	ROE	Return on equity
FOMC	Federal Open Market Committee	ROIC	Return on invested capital
FX	Foreign exchange	RRR	Reserve requirement ratio
G10	Group of Ten	SAA	Strategic asset allocation
G3	Group of Three	SDR	Special drawing rights
GDP	Gross domestic product	SNB	Swiss National Bank
GPIF	Government Pension Investment Fund	TAA	Tactical asset allocation
HC	Hard currency	TWI	Trade-Weighted Index
HY	High yield	VIX	Volatility Index
IBD	Interest-bearing debt	WTI	West Texas Intermediate
IC	Credit Suisse Investment Committee	YoY	Year-on-year
IG	Investment grade	YTD	Year-to-date
ILB	Inflation-linked bond	Personal Consumption Expenditure (PCE deflator)	An indicator of the average increase in prices for all domestic personal consumption.

Currency codes frequently used in reports

Code	Currency	Code	Currency
ARS	Argentine peso	KRW	South Korean won
AUD	Australian dollar	MXN	Mexican peso
BRL	Brazilian real	MYR	Malaysian ringgit
CAD	Canadian dollar	NOK	Norwegian krone
CHF	Swiss franc	NZD	New Zealand dollar
CLP	Chilean peso	PEN	Peruvian nuevo sol
CNY	Chinese yuan	PHP	Philippine peso
COP	Colombian peso	PLN	Polish złoty
CZK	Czech koruna	RUB	Russian ruble
EUR	Euro	SEK	Swedish krona/kronor
GBP	Pound sterling	SGD	Singapore dollar
HKD	Hong Kong dollar	THB	Thai baht
HUF	Hungarian forint	TRY	Turkish lira
IDR	Indonesian rupiah	TWD	New Taiwan dollar
ILS	Israeli new shekel	USD	United States dollar
INR	Indian rupee	ZAR	South African rand
JPY	Japanese yen		

Important information on derivatives

Pricing	Option premiums and prices mentioned are indicative only. Option premiums and prices can be subject to very rapid changes: The prices and premiums mentioned are as of the time indicated in the text and might have changed substantially in the meantime.
Risks	Derivatives are complex instruments and are intended for sale only to investors who are capable of understanding and assuming all the risks involved. Investors must be aware that adding option positions to an existing portfolio may change the characteristics and behavior of that portfolio substantially. A portfolio's sensitivity to certain market moves can be heavily impacted by the leverage effect of options.
Buying calls	Investors who buy call options risk the loss of the entire premium paid if the underlying security trades below the strike price at expiration.
Buying puts	Investors who buy put options risk loss of the entire premium paid if the underlying security finishes above the strike price at expiration.
Selling calls	Investors who sell calls commit themselves to sell the underlying for the strike price, even if the market price of the underlying is substantially higher. Investors who sell covered calls (own the underlying security and sell a call) risk limiting their upside to the strike price plus the upfront premium received and may have their security called away if the security price exceeds the strike price of the short call. Additionally, the investor has full downside participation that is only partially offset by the premium received upfront. If investors are forced to sell the underlying they might be subject to taxing. Investors shorting naked calls (i.e. selling calls but without holding the underlying security) risk unlimited losses of security price less strike price.
Selling puts	Put sellers commit to buying the underlying security at the strike price in the event the security falls below the strike price. The maximum loss is the full strike price less the premium received for selling the put.
Buying call spreads	Investors who buy call spreads (buy a call and sell a call with a higher strike) risk the loss of the entire premium paid if the underlying trades below the lower strike price at expiration. The maximum gain from buying call spreads is the difference between the strike prices, less the upfront premium paid.

Selling naked call spreads	Selling naked call spreads (sell a call and buy a farther out-of-the-money call with no underlying security position): Investors risk a maximum loss of the difference between the long call strike and the short call strike, less the upfront premium taken in, if the underlying security finishes above the long call strike at expiration. The maximum gain is the upfront premium taken in, if the security finishes below the short call strike at expiration.
Buying put spreads	Investors who buy put spreads (buy a put and sell a put with a lower strike price) also have a maximum loss of the upfront premium paid. The maximum gain from buying put spreads is the difference between the strike prices, less the upfront premium paid.
Buying strangles	Buying strangles (buy put and buy call): The maximum loss is the entire premium paid for both options, if the underlying trades between the put strike and the call strike at expiration.
Selling strangles or straddles	Investors who are long a security and short a strangle or straddle risk capping their upside in the security to the strike price of the call that is sold plus the upfront premium received. Additionally, if the security trades below the strike price of the short put, investors risk losing the difference between the strike price and the security price (less the value of the premium received) on the short put and will also experience losses in the security position if they owns shares. The maximum potential loss is the full value of the strike price (less the value of the premium received) plus losses on the long security position. Investors who are short naked strangles or straddles have unlimited potential loss since, if the security trades above the call strike price, investors risk losing the difference between the strike price and the security price (less the value of the premium received) on the short call. In addition, they are obligated to buy the security at the put strike price (less upfront premium received) if the security finishes below the put strike price at expiration.

Risk warning

Every investment involves risk, especially with regard to fluctuations in value and return. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income.

For a discussion of the risks of investing in the securities mentioned in this report, please refer to the following Internet link:
https://investment.credit-suisse.com/gr/riskdisclosure/

This report may include information on investments that involve special risks. You should seek the advice of your independent financial advisor prior to taking any investment decisions based on this report or for any necessary explanation of its contents. Further information is also available in the information brochure "Special Risks in Securities Trading" available from the Swiss Bankers Association.

Past performance is not an indicator of future performance. Performance can be affected by commissions, fees or other charges as well as exchange rate fluctuations.

Financial market risks

Historical returns and financial market scenarios are no guarantee of future performance. The price and value of investments mentioned and any income that might accrue could fall or rise or fluctuate. Past performance is not a guide to future performance. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income. You should consult with such advisor(s) as you consider necessary to assist you in making these determinations.

Investments may have no public market or only a restricted secondary market. Where a secondary market exists, it is not possible to predict the price at which investments will trade in the market or whether such market will be liquid or illiquid.

Emerging markets

Where this report relates to emerging markets, you should be aware that there are uncertainties and risks associated with investments and transactions in various types of investments of, or related or linked to, issuers and obligors incorporated, based or principally engaged in business in emerging markets countries. Investments related to emerging markets countries may be considered speculative, and their prices will be much more volatile than those in the more developed countries of the world. Investments in emerging markets investments should be made only by sophisticated investors or experienced professionals who have independent knowledge of the relevant markets, are able to consider and weigh the various risks presented by such investments, and have the financial resources necessary to bear the substantial risk of loss of investment in such investments. It is your responsibility to manage the risks which arise as a result of investing in emerging markets investments and the allocation of assets in your portfolio. You should seek advice from your own advisers with regard to the various risks and factors to be considered when investing in an emerging markets investment.

Alternative investments

Hedge funds are not subject to the numerous investor protection regulations that apply to regulated authorized collective investments and hedge fund managers are largely unregulated. Hedge funds are not limited to any particular investment discipline or trading strategy, and seek to profit in all kinds of markets by using leverage, derivatives, and complex speculative investment strategies that may increase the risk of investment loss.

Commodity transactions carry a high degree of risk and may not be suitable for many private investors. The extent of loss due to market movements can be substantial or even result in a total loss.

Investors in real estate are exposed to liquidity, foreign currency and other risks, including cyclical risk, rental and local market risk as well as environmental risk, and changes to the legal situation.

Interest rate and credit risks

The retention of value of a bond is dependent on the creditworthiness of the Issuer and/or Guarantor (as applicable), which may change over the term of the bond. In the event of default by the Issuer and/or Guarantor of the bond, the bond or any income derived from it is not guaranteed and you may get back none of, or less than, what was originally invested.

Investment Strategy Department

Investment Strategists are responsible for multi-asset class strategy formation and subsequent implementation in CS's discretionary and advisory businesses. If shown, Model Portfolios are provided for illustrative purposes only. Your asset allocation, portfolio weightings and performance may look significantly different based on your particular circumstances and risk tolerance. Opinions and views of Investment Strategists may be different from those expressed by other Departments at CS. Investment Strategist views may change at any time without notice and with no obligation to update. CS is under no obligation to ensure that such updates are brought to your attention.

From time to time, Investment Strategists may reference previously published Research articles, including recommendations and rating changes collated in the form of lists. All Research articles and reports detailing the recommendations and rating changes for companies and/or individual financial instruments are available on the following internet link:
https://investment.credit-suisse.com

For information regarding disclosure information on Credit Suisse Investment Banking rated companies mentioned in this report, please refer to the Investment Banking division disclosure site at:
https://rave.credit-suisse.com/disclosures

For further information, including disclosures with respect to any other issuers, please refer to the Credit Suisse Global Research Disclosure site at:
https://www.credit-suisse.com/disclosure

Global disclaimer / important information

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject CS to any registration or licensing requirement within such jurisdiction.

References in this report to CS include Credit Suisse AG, the Swiss bank, its subsidiaries and affiliates. For more information on our structure, please use the following link:
http://www.credit-suisse.com

NO DISTRIBUTION, SOLICITATION, OR ADVICE: This report is provided for information and illustrative purposes and is intended for your use only. It is not a solicitation, offer or recommendation to buy or sell any security or other financial instrument. Any information including facts, opinions or quotations, may be condensed or summarized and is expressed as of the date of writing. The information contained in this report has been provided as a general market commentary only and does not constitute any form of regulated financial advice, legal, tax or other regulated service. It does not take into account the financial objectives, situation or needs of any persons, which are necessary considerations before making any investment decision. You should seek the advice of your independent financial advisor prior to taking any investment decisions based on this report or for any necessary explanation of its contents. This report is intended only to provide observations and views of CS at the date of writing, regardless of the date on which you receive or access the information. Observations and views contained in this report may be different from those expressed by other Departments at CS and may change at any time without notice and with no obligation to update. CS is under no obligation to ensure that such updates are brought to your attention. **FORECASTS & ESTIMATES:** Past performance should not be taken as an indication or gurantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. To the extent that this report contains statements about future performance, such statements are forward looking and subject to a number of risks and uncertainties. Unless indicated to the contrary, all figures are unaudited. All valuations mentioned herein are subject to CS valuation policies and procedures. **CONFLICTS:** CS reserves the right to remedy any errors that may be present in this report. CS, its affiliates and/or their employees may have a position or holding, or other material interest or effect transactions in any securities mentioned or options thereon, or other investments related thereto and from time to time may add to or dispose of such investments. CS may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investments listed in this report or a related investment to any company or issuer mentioned. Some investments referred to in this report will be offered by a single entity or an associate of CS or CS may be the only market maker in such investments. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading. **TAX:** Nothing in this report constitutes investment, legal, accounting or tax advice. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax advisor. The levels and basis of taxation are dependent on individual circumstances and are subject to change. **SOURCES:** Information and opinions presented in this report have been obtained or derived from sources which in the opinion of CS are reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for a loss arising from the use of this report. **WEBSITES:** This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this report. Accessing such website or following such link through this report or CS's website shall be at your own risk.

Distributing entities

Except as otherwise specified herein, this report is distributed by Credit Suisse AG, a Swiss bank, authorized and regulated by the Swiss Financial Market Supervisory Authority. **Australia:** This report is distributed in Australia by Credit Suisse AG, Sydney Branch (CSSB) (ABN 17 061 700 712 AFSL 226896) only to "Wholesale" clients as defined by s761G of the Corporations Act 2001. CSSB does not guarantee the performance of, nor make any assurances with respect to the performance of any financial product referred herein. **Austria:** This report is distributed by CREDIT SUISSE (LUXEMBOURG) S.A. Zweigniederlassung Österreich. The Bank is a branch of CREDIT SUISSE (LUXEMBOURG) S.A., a duly authorized credit institution in the Grand Duchy of Luxembourg with address 5, rue Jean Monnet, L-2180 Luxemburg. It is further subject to the prudential supervision of the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF), 110, route d'Arlon, L-2991 Luxembourg, Grand Duchy of Luxembourg as well as the Austrian supervisory authority, the Financial Market Authority (FMA), Otto-Wagner Platz 5, A-1090 Vienna. **Bahrain:** This report is distributed by Credit Suisse AG, Bahrain Branch, authorized and regulated by the Central Bank of Bahrain (CBB) as an Investment Firm Category 2. Credit Suisse AG, Bahrain Branch is located at Level 22, East Tower, Bahrain World Trade Centre, Manama, Kingdom of Bahrain. **Dubai:** This information is being distributed by Credit Suisse AG (DIFC Branch), duly licensed and regulated by the Dubai Financial Services Authority ("DFSA"). Related financial services or products are only made available to Professional Clients or Market Counterparties, as defined by the DFSA, and are not intended for any other persons. Credit Suisse AG (DIFC Branch) is located on Level 9 East, The Gate Building, DIFC, Dubai, United Arab Emirates. **France:** This report is distributed by Credit Suisse (Luxembourg) S.A., Succursale en France, authorized by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) as an investment service provider. Credit Suisse (Luxembourg) S.A., Succursale en France is supervised and regulated by the Autorité de Contrôle Prudentiel et de Résolution and the Autorité des Marchés Financiers. **Germany:** This report is distributed by Credit Suisse (Deutschland) AG which is authorized and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Guernsey:** This report is distributed by Credit Suisse (Channel Islands) Limited, an independent legal entity registered in Guernsey under 15197, with its registered address at Helvetia Court, Les Echelons, South Esplanade, St Peter Port, Guernsey. Credit Suisse (Channel Islands) Limited is wholly owned by Credit Suisse AG and is regulated by the Guernsey Financial Services Commission. Copies of the latest audited accounts are available on request. **India:** This report is distributed by Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India as Research Analyst (registration no. INH 000001030), as Portfolio Manager (registration no. INP000002478) and as Stock Broker (registration no. INB230970637; INF230970637; INB010970631; INF010970631), having registered address at 9th Floor, Ceejay House, Dr.A.B. Road, Worli, Mumbai - 18, India, T- +91-22 6777 3777. **Italy:** This report is distributed in Italy by Credit Suisse (Italy) S.p.A., a bank incorporated and registered under Italian law subject to the supervision and control of Banca d'Italia and CONSOB, and also distributed by Credit Suisse AG, a Swiss bank authorized to provide banking and financial services in Italy. **Jersey:** This report is distributed by Credit Suisse (Channel Islands) Limited, Jersey Branch, which is regulated by the Jersey Financial Services Commission for the conduct of investment business. The address of Credit Suisse (Channel Islands) Limited, Jersey Branch, in Jersey is: TradeWind House, 22 Esplanade, St Helier, Jersey JE4 5WU. **Lebanon:** This report is distributed by Credit Suisse (Lebanon) Finance SAL ("CSLF"), a financial institution incorporated in Lebanon and regulated by the Central Bank of Lebanon ("CBL") with a financial institution license number 42. Credit Suisse (Lebanon) Finance SAL is subject to the CBL's laws and regulations as well as the laws and decisions of the Capital Markets Authority of Lebanon ("CMA"). CSLF is a subsidiary of Credit Suisse AG and part of the Credit Suisse Group (CS). The CMA does not accept any responsibility for the content of the information included in this report, including the accuracy or completeness of such information. The liability for the content of this report lies with the issuer, its directors and other persons, such as experts, whose opinions are included in the report with their consent. The CMA has also not assessed the suitability of the investment for any particular investor or type of investor. Investments in financial markets may involve a high degree of complexity and risk and may not be suitable to all investors. The suitability assessment performed by CSLF with respect to this investment will be undertaken based on information that the investor would have provided to CSLF and in accordance with Credit Suisse internal policies and processes. It is understood that the English language will be used in all communication and documentation provided by CS and/or CSLF. By accepting to invest in the product, the investor confirms that he has no objection to the use of the English language. **Luxembourg:** This report is distributed by Credit Suisse (Luxembourg) S.A., a Luxembourg bank, authorized and regulated by the Commission de Surveillance du Secteur Financier (CSSF). **Qatar:** This information has been distributed by Credit Suisse (Qatar) L.L.C, which has been authorized and is regulated by the Qatar Financial Centre Regulatory Authority (QFCRA) under QFC No. 00005. All related financial products or services will only be available to Business Customers or Market Counterparties (as defined by the Qatar Financial Centre Regulatory Authority (QFCRA) rules and regulations), including individuals, who have opted to be classified as a Business Customer, with liquid assets in excess of USD 1 million, and who have sufficient financial knowledge, experience and understanding to participate in such products and/or services. **Saudi Arabia:** This document may not be distributed in the Kingdom except to such persons as are permitted under the Investment Funds Regulations. Credit Suisse Saudi Arabia accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries that to the best of its knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Capital Market Authority does not take any responsibility for the contents of this document, does not make any representation as to its accuracy or completeness, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document.**Spain:** This report is distributed in Spain by Credit Suisse AG, Sucursal en España, authorized under number 1460 in the Register by the Banco de España. **Turkey:** The investment information, comments and recommendations contained herein are not within the scope of investment advisory activity. The investment advisory services are provided by the authorized institutions to the persons in a customized manner taking into account the risk and return preferences of the persons. Whereas, the comments and advices included herein are of general nature. Therefore recommendations may not be suitable for your financial status or risk and yield preferences. For this reason, making an investment decision only by relying on the information given herein may not give rise to results that fit your expectations. This report is distributed by Credit Suisse Istanbul Menkul Degerler Anonim Sirketi, regulated by the Capital Markets Board of Turkey, with its registered adress at Yildirim Oguz Goker Caddesi, Maya Plaza 10th Floor Akatlar, Besiktas/Istanbul-Turkey. **UAE:** This document, and the information contained herein, does not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The services are only being offered to a limited number of sophisticated investors in the UAE who (a) are willing and able to conduct an independent investigation of the risks involved in an investment in such services , and (b) upon their specific request. The services have not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. The document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof). No transaction will be concluded in the UAE. **United Kingdom:** This material is issued by Credit Suisse (UK). Credit Suisse (UK) Limited, is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The protections made available by the Financial Conduct Authority and/or the Prudential Regulation Authority for retail clients do not apply to investments or services provided by a person outside the UK, nor will the Financial Services Compensation Scheme be available if the issuer of the investment fails to meet its obligations. To the extent communicated in the United Kingdom ("UK") or capable of having an effect in the UK, this document constitutes a financial promotion which has been approved by Credit Suisse (UK) Limited which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority for the conduct of investment business in the UK. The registered address of Credit Suisse (UK) Limited is Five Cabot Square, London, E14 4QR. Please note that the rules under the UK's Financial Services and Markets Act 2000 relating to the protection of retail clients will not be applicable to you and that any potential compensation made available to "eligible claimants" under the UK's Financial Services Compensation Scheme will also not be available to you. Tax treatment depends on the individual circumstances of each client and may be subject to changes in future.

UNITED STATES: NEITHER THIS REPORT NOR ANY COPY THEREOF MAY BE SENT, TAKEN INTO OR DISTRIBUTED IN THE UNITED STATES OR TO ANY US PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE US SECURITIES ACT OF 1933, AS AMENDED).

17C010A_IS

Imprint

Investment horizon: 3-6 months

Publisher
Nannette Hechler-Fayd'herbe
Head of Investment Strategy
+41 44 333 17 06
nannette.hechler-fayd'herbe@credit-suisse.com

Information about other Investment Solutions & Products publications
Credit Suisse AG
Investment Publishing
P.O. Box 300, CH-8070 Zürich

Internet
https://investment.credit-suisse.com

Intranet (for employees only)
https://isr.csintra.net

Subscription (clients)
Please contact your customer advisor to subscribe to this publication

Subscription (internal)

For information on subscriptions please visit:
https://isr.csintra.net/subscriptions

Authors

Joe Prendergast
Head of Financial Markets Analysis
+41 44 332 83 18
joe.prendergast@credit-suisse.com

Tim Sprissler
Investment Strategist – Foreign Exchange Strategy
+41 44 333 29 42
tim.sprissler@credit-suisse.com

Irena Mark
Investment Strategist – Fixed Income Strategy
+41 44 334 60 47
irena.mark@credit-suisse.com