AMPLIFY

FlowTrader Simulation

PRIMARY RESEARCH DOCUMENT

A global macro economic research report to assist you in making informed investment decisions during the FlowTrader simulation

FLOWTRADER SIMULATION SALES AND TRADING

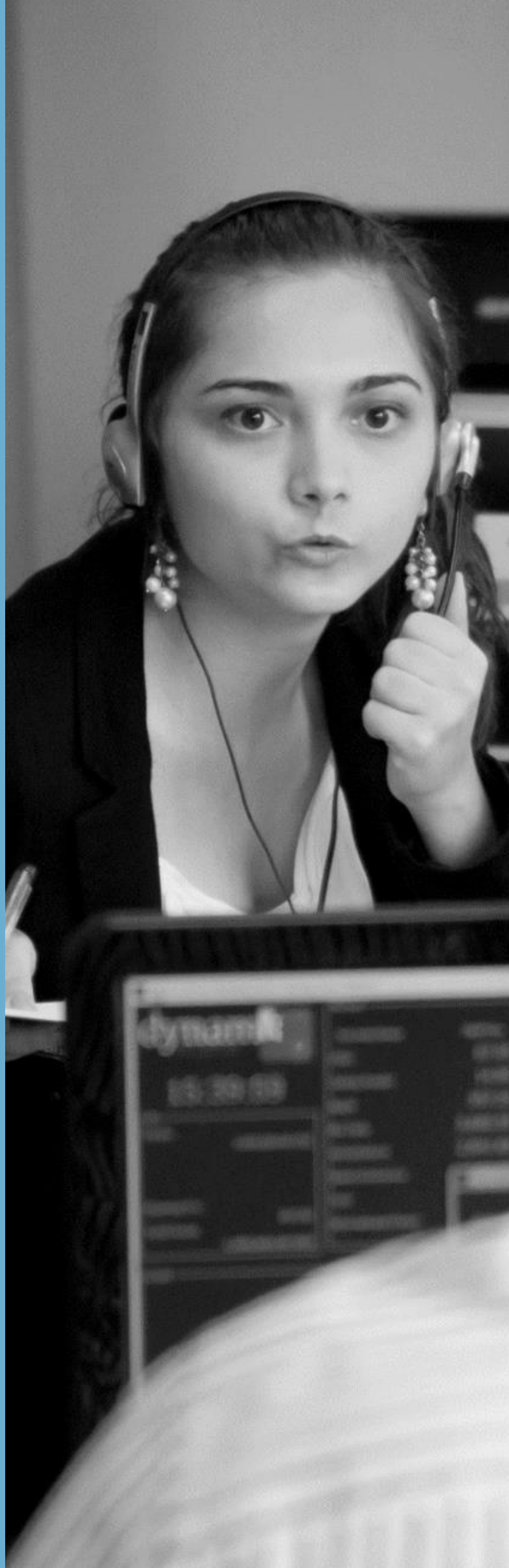
The following pages contain global macro economic research for you to use to make investment decisions during the Sales & Trading FlowTrader simulation.

After an initial lecture on bank roles and objectives the simulation begins and is divided into three sessions for participants to experience both sell-side and buy-side roles.

Participants will gain a unique practical experience of how the industry really works by operating in teams to carry out different trading floor activities.

BUY SIDE CLIENT:
Players take the dual role of portfolio manager and trader to plan and execute block trades in order driven and quote driven products through the sales trader or quote board of the investment bank.

SELL SIDE BANKS:
Teams compete to facilitate client flow as they make market prices through direct conversation with the client, or by adjusting spreads on the quote board.



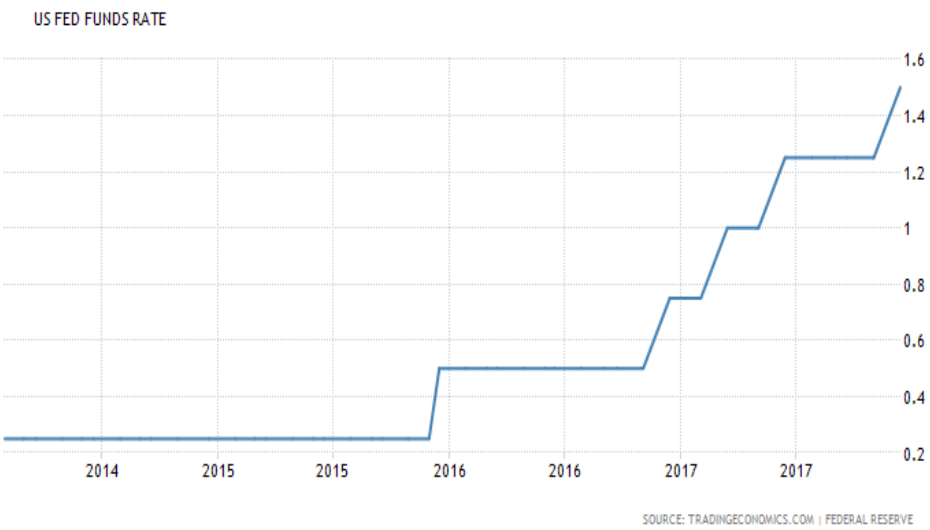
US | Macro Overview

Economic Outlook

US economic growth continues to pick up pace with GDP reaching levels unseen since 2015. In addition to this, the change in US non-farm payrolls has showed consistent growth and the unemployment rate has declined to 4.2%, a 17 year low. US President Donald Trump has managed to push through his corporate tax deal resulting in US equity markets reaching new all-time highs, with companies prospects looking bullish.

In response to this economic optimism, the Federal Reserve Chair Janet Yellen, alongside the Federal Open Market Committee (FOMC), have increased interest rates three times in 2017, inline with the Fed's projections, but 2018 sees a key difference in the composition of the FOMC; it turns more Hawkish this year, and Yellen is being replaced by her colleague Jerome Powell. To understand the Fed's plan for the months ahead, the market will need to look at inflation as the deciding factor of the speed of monetary tightening. The Fed has remained steadfast that inflation will start picking up only if the wage data start increasing.

We predict a solid start to the year for the U.S. Dollar and S&P500 as we see a return to 'normal' economic conditions in the U.S. We think positive U.S. economic data in conjunction with a steady level of inflation and continued low interest rates represents a bullish scenario for U.S. equities. Our risk to the S&P 500, is if the Federal Reserve becomes more aggressive with its tightening. This will materialise if inflation reaches and exceeds the 2% threshold.



US | Apple | Amazon | S&P500

Apple

Apple has looked very strong recently, it's share price almost 80% higher over the last two years. Apple's earnings have continued to outperform, with the latest earnings report expected soon. The expectations are for Earnings Per Share of $3.6, a 15% increase Year on Year, and quarterly revenues expected at $80billion, an all-time record. There is some speculation that Apple is spending cash to overhaul iOS – Apple's operating system.

Amazon

Jeff Bezos, Amazon's founder & CEO, is now the world's richest man, due to the stellar performance of Amazon. Amazon's recent increase in revenues has come on the back of the AWS – Amazon's cloud computing service, as well as their new flagship home product 'Alexa', which has sold over 50 million products in it's first year. For their latest earnings report, expectations are for Earnings Per Share of $1.82, and revenue of $47billion

S&P500

With US Economic Growth picking up pace, as well as the permanent tailwind of accommodative monetary policy, the S&P500 finds it self at all-time highs. While valuations are stretched, confidence in the US economy remains strong. Risk are more prominent to the individual stock names rather than the index. The main index risk, remains the possibility of higher-than-expected inflation. If wages and inflation pick up, the Federal Reserve might be forced to raise rates aggressively.

Bonds and FX| GBPUSD | EURUSD| US Treasuries

GBPUSD

GBPUSD has recently regained some strength. This is due to two main reasons. First, in an effort to fight imported inflation, the Bank of England have recently hiked interest rates, for the first time in a decade. Secondly, the Brexit adverse impact seems to be softer than expected. The market is now on the lookout for further developments and an agreement of a transitional deal between the two negotiators, David Davis and Michel Barnier

EURUSD

EURUSD remains strong, as the European Central Bank, has began the process to taper its Quantitative Easing program. With the taper now already in place, and expected to proceed for the next 12 months, EURUSD is now more vulnerable to news pertinent to the US Dollar.

US 10year Treasury Note

The yield of the 10 year US government bond is trending higher in the last few months, but a very low yield by historic standards. With inflation still in check, and interest rates still at subdued levels, treasury yields are finding it difficult to crack to the upside. Analysts are expecting US government bond yields to only break higher in the presence of (a) higher inflation, or (b) higher interest rates.
Reminder: Yields move inverse to price.

Commodities| WTI Crude Oil | Gold

WTI Crude Oil

WTI crude finished the previous year on the front foot following the speculation for OEC and Non-OPEC members to cement their agreement to cut global supply further. The speculation of this new production cut totalling 2 million barrels a day, has kept investors bullish as the oversupplied nature of the crude market continues to worry investors. OPEC & Non-OPEC members will meet in the following months to discuss this. There are two short term risks in the crude oil price outlook. (a) The DoE Report due soon, and (b) The strength of the US Dollar.

Gold

Recently, Gold has been ranging between $1200 - $1350 / t oz. Having seen little action in the last few months, investors are generally expecting a pick-up in trading activity in gold. Main drivers over the medium-term will be the strength of the US Dollar, the market's sentiment regarding risk, and as most importantly, inflation and the Federal Reserve's reaction to it.