



Linear Talk – Macro Roundup – 18th July 2017

June was a relatively muted month for financial markets with stocks making fractional new highs for the year. Bond markets saw yields increasing moderately in line with the more hawkish tone of Central Bankers in the US and Europe. Whilst Oil and Gold both saw weakness.

Stocks

The Nasdaq 100 continued to lead the US stock market higher. It made a new all-time high at 5898 on 9th only to fade towards month end. It is worth noting that it closed lower than the opening on the month at 5647 – a negative technical signal. The S&P 500 followed in its wake, hitting a new high of 2454 on 19th. The higher highs are growing more reluctant as momentum continues to diminish.

The German DAX imitated the US market, making a new high at 12,952 on 20th but it closed the month just off its lows at 12,325, amid concern about the direction of ECB policy and another increase in the value of the Euro.

The Nikkei 225 also made new highs for the year, testing 20,318. It closed above 20,000 but still needs to break the August 2015 highs at 20,950 to be in break-out mode, from a technical perspective.

Currencies

The weakness of the US\$ continues. The US\$ Index opened at 97.36 but weakened to close the month at 95.42 just off its low for the month – the index is down 8% since January.

EURUSD mirrored this pattern, from a low of 1.1117 on 20th it rallied to the highest level since May 2016 on 29th and closed the month just off the highs at 1.1426. A Fed rate hike out of the way and the ECB President taking a hawkish tone, spooked markets into anticipating an end to ECB QE.

USDJPY remains relatively range-bound. It closed at 112.38, the upper end of its range but a long way below long-term technical resistance at 118.69.

Bonds

US 10yr Bonds had priced the Fed rate hike to perfection. They opened at 2.21% and traded in a 21bp range all month, although they closed at the upper end of that range at 2.30%. This is still more than 30bp below the highs seen in January and December 2016 – 2.64% is a key level and, with growth being revised down globally, inflation may not be as big an issue as the Fed fears.

German Bunds were more interesting. They closed the month at 0.465% just off their highs of 0.48%. These are the highest yields seen in Germany since 2015. Interestingly Italian BTPs also saw an increase in yields to 2.30% on 7th only to fall to 1.85% on 22nd anticipating the first state sponsored bank bailouts which were announced on Sunday 25th. This, first bailout, was a drop in the ocean at Eur17bln but it has angered EU partners, especially Germany, since it contravenes EU rules forbidding state bailouts of private corporations. I believe we will see much more of this type of activity if Europe is to avoid insolvency.

JGBs attempted to ignore higher yields in Germany and the US but closed at the top end of their recent 10bp range at 0.09%. Only time will tell if the BoJ really can control their government bond yield curve.

Commodities

Brent Crude Oil prices weakened from the start of the month when they tested \$51.45/bbl. By the 21st they had declined to \$44.35/bbl. They Baker Hughes Rig Count continued to rise, although it dipped from 758 on 23rd to 756 on 30th – the first weekly decline since 13th January.

Gold also began the month at its highs - \$1299/oz. By month end it had fallen to \$1240/oz. Not much sign of a flight to safety here.

Cryptocurrencies

Perhaps of more interest, during the past couple of months, has been the Cryptocurrency, Bitcoin. It made a new all-time high last month at \$3000 on 12th, having begun the year at \$973. It has gained additional credence from legal recognition by the Japanese authorities since 1st April. The chart below, from bitcoincharts.com, shows the price changes since that date:-

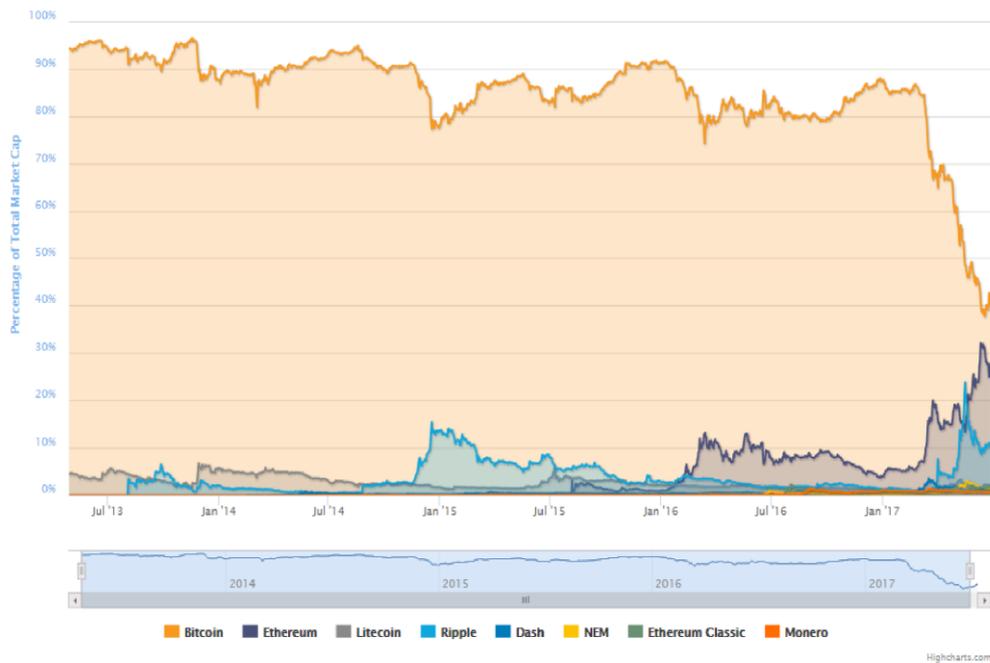


Source: Bitcoincharts.com

The largest buyers have been from China, where fears of confiscation of assets by the authorities may be higher than elsewhere. This follows a pattern of purchases of precious metals and other stores of value over several years.

The value of Bitcoin has fallen by around 16% from its mid-June highs but as the chart below from Coinmarketcap.com shows, Bitcoin is far from the only Cryptocurrency. Ethereum - which has the

second largest market capitalisation at around \$19bln versus Bitcoin's \$38bln - has been grabbing market share during the last few months even as Bitcoin gains legitimacy:-



Source: Coinmarketcap.com, Highcharts.com

Cryptocurrency markets are volatile and illiquid but with more than 100 currencies to choose from it looks like they are here to stay.