All bets off for the weekend

The somewhat inexplicable "risk-on" attitude earlier in the week has given way to position-squaring ahead of a weekend of likely G-7 squabbling

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What goes up.....

They say that what goes up, must come down, and that certainly seems true of asset markets this week. Yesterday, I wrote that I didn't think the risk asset rally would last long, it didn't. But while guessing the direction of markets is a coin-flip, figuring out what makes them go up and down is a harder matter, as I confessed on TV yesterday.

Today, the mood is a distinctly more sombre one and the EM world is back under pressure, though the Turkish central bank is fighting back with another, and largely unexpected rate hike (not so much Brazil's central bank, and the rand is under pressure too). In the APAC region, the rupee's gains from the Reserve Bank of India's (RBI) surprise rate hike on Wednesday have come and gone and we can't just blame this on a stronger dollar. Against the Euro, the dollar still looks a little soft and the dollar index is broadly flat over the last 24 hours. EURUSD broke above 1.18, but then appeared to get a fit of nerves and is now sitting nervously just below the 1.18 level, looking for an opportunity to push into higher ground again. Next week's ECB meeting may provide that.

We can't blame the market jitters on rising bond yields either, as was the case some weeks ago. The 10Y US Treasury yield remains below 3.0%, currently at about 2.92% and down about 5bp from yesterday's yield.

There hasn't been much newsflow on the economic calendar either (and there won't be much today). So in the end, it just looks and feels as if, with the weekend looming, and the weekend's Quebec summit likely to highlight huge rifts between the US and the rest of the G-7 on trade, Iran, and the Paris Climate Accord, investors have decided to play it safe.

The calendar next week is full of potential pitfalls: FOMC, ECB, Trump-Kim meeting, so playing it safe may not be a bad way to proceed. After that, if these events and the G-7 come and go without any major disasters, then it should be safer for the risk rally to continue.

Beware the Swiss!

Another potential pitfall comes from the unlikely quarter of Switzerland. On June 10, the Swiss will go to the polls for a most unusual referendum. The "Vollgeld" referendum essentially asks the voting population whether they want to remove fractional banking powers from their banks and give money creation powers only to the central bank. For a more detailed explanation, there are two articles on our "Think" Website that are worth a look. The first looks at the behavioural science behind referendums such as this, or Brexit. The second provides a more in-depth explanation of the particular issues and market impacts of this vote.

To cut a long story short, if the Swiss do vote in favour of this policy, the Swiss franc will likely be sold hard (in the short-run - further out, is another matter). We don't think the vote will pass, but odd things seem to happen with alarming frequency these days, so don't rule it out.

Trade dominates the economic calendar in APAC

The Asian economic calendar is crammed with trade statistics today. Philippine trade data will be important given the premium investors are placing on balanced external accounts in the EM world. And they are expected to show a further widening today. Taiwan trade is important for other reasons. Taiwan is one of the pre-eminent electronics producers and exporters in the region. And with some doubts about the resilience of the global electronics sector, these figures could provide some clues relevant for other big producers in the region (Korea for example). And finally, Chinese trade numbers. With these, it's difficult to say what is a good and a bad figure, as too strong, and it could inflame trade tensions further with the US, but too weak, and it will have investors worrying about the Chinese growth momentum. A "Goldilocks" outcome would likely see the surplus slightly lower, than the CNY182.8bn recorded for April, but not much. The consensus expects a small rise in contrast. That's not too bad either, and will probably reflect front-running of trade ahead of tariffs.

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