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All or nothing as markets ponder newsflow

Dollar blues, debt worries, Yen strength and oil re-think. Markets may be about to have one of their periodic re-alignments with many of the moves connected. Get one right, and you will probably get most of them right.

Signposts saying everything or nothing

The pause that refreshes?

Fears that the recent upswing in the EUR has taken it to oversold territory have seen it tread water in the last few days. But although we would argue that the current EUR surge has further to run (mainly because we haven't really begun to see the full extent of the unwind in the European government bond market) the next few days could see some two-way movement that makes caution sensible.

Most notably, the looming government shutdown in the US may not happen. These things tend to go right to the cliff edge before those involved remember they are afraid of heights (or of losing votes more likely) and pull back from the brink. This could see a short-term relief rally, including in equity markets, which have also begun to express concerns. However, politics is a murky business, and we view the whole shutdown fiasco is a coin-toss in terms of probability.

Then there is oil. The dollar and oil are negatively correlated. And both drive each other to greater and lesser degrees at times. The recent oil price surge also looks a bit overdone to us, amid soaring shale supply expectations and we may see oil prices fall in the coming weeks, which could provide a little short-term support. Obviously, OPEC is trying to maintain the fiction that it is still in control of this market, but that has not been true for years. The downswing is only a matter of time in this author's view.

Less clear is the JPY direction. Recent BoJ moves have spurred thoughts of some tinkering with QQE this year, and this is giving the JPY a lot of support. But for the BoJ, experimenting with exit positions is one thing, a surging currency entirely another and we may see some push-back from Japan's central bank if this move continues much further, even if (as we believe) the general proposition that they are looking to normalize policy is a good one. Today's machine orders data lend further support to the notion that Japan really is seeing a sustainable growth pick up.

We could throw cryptocurrencies into this mix. They are getting beaten up by monetary authorities worldwide right now. But blockchain technology has a long way to go, and most likely, one or more of the tokens that typically underpin transactions in this sphere will be carried along with it, perhaps to unthinkable highs. Right now though, their recent weakness is another reason to hold the alternative, and for most, that is probably the USD, given an excuse to do so.

Summing up, longer term, we like the EUR and the JPY more than the USD, we like oil prices a bit lower, and longer-dated bond yields higher, though mainly in the Eurozone. But in the shorter term, markets tend not to move in straight lines, and if we see a correction in one of these markets, we could well see a correction in them all. That's all it would be though.

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