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Euro down – and European markets up. Is this a strictly FX trade? US economy is not about housing! Systemic risk from oil seen as easing – will this last? “Greek question” – we are once again talking about cash flow. Austrian election a grim warning!

European markets up on lower Euro and widening support for “remain” camp

European markets are rising this morning due to a lower Euro and polls showing a widening of the “remain” lead in the Brexit campaign. Euro weakness is being driven by prospects of a widening of the divergence trade with the US Dollar and continuing deflationary pressures pointing to further easing in the Euro Zone.

Euro Zone stocks proxy for FX – key to recovery export markets

We are seeing the primacy of FX over economic fundamentals with investors brushing aside a fall in German investor confidence and a recrudescence of the auto emissions scandal. The Euro Zone recovery is contingent on a strong increase in exports – there is little scope to refocus on domestic demand.

The US economy is not about housing!

With regard to US monetary policy the focus remains on macro data, with investors awaiting new home sales. While housing remains an important component of the US economy, it is no longer the driving force or carrier of systemic risk of the pre-crisis era. The “dominant strategy” is - do not collapse!

What is in a poll?

The UK referendum continues to drive sentiment with regard to both sterling and market sentiment. The pound is enjoying a moment of respite from recent pressures following a poll showing an almost 13 per cent lead for the “remain” camp.

Lead may be widening but hedging activity frenetic

We continue to see the referendum as not data but event dependent – a terrorist attack the day before the poll could upturn reassuring assumptions. Following the trusted maxim “better safe than sorry” businesses and investors are hedging their long sterling positions.

What is central bank independence when economic order is at stake?

The issue of central bank independence is again at the forefront. The Bank of England under attack for its forthright declarations on the consequences of a UK exit from the EU. The idea that a central bank should hold its fire ahead of a decision that could up-end the established economic order does not bear discussing.

Systemic risk from oil seen as easing

Oil prices are relatively firm. This is expected to staunch the wave of bankruptcies ripping through the marginal players and relieve some of the pressure on sovereign finances. The risk has now shifted from a systemic event to managing to a lower point in the cycle. Event risk in the form of OPEC conferences is starting to be subordinated to “natural wastage”.

We continue to see the oil market as still under potential pressure. The “re-balancing” strategy is taking far longer than expected, Iran is steaming ahead confounding the scoffers and there is no shortage of crude floating offshore.

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“The Greek question” – is there a solution?

Turning to systemic risk in the Euro Zone, the Euro Zone finance ministers are once again coming to grips with the “Greek question”. We are now looking at a three way fight – between the Greeks and the European creditors and the European creditors versus the IMF.

Will Greece receive the funds necessary to make its July payments? We see it as absurd to speak of growth when the stabilization – going concern phase has still not been achieved.

Austrian right loses presidential election but advances were considerable

On the political front, the loss of the presidential election in Austria by the candidate of the far right needs to be seen as an empty victory. While many are breathing a sigh of relief, the fact that the vote was so close shall be an encouragement to those in favor of “The closing of the European mind”.

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Research Highlights

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