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Dealer In Precious Metals

Macro Market Insights

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Consensus Delayed, or Broken

Markets have entered a state of flux. Without a doubt, one of the clearest trends in recent times has been the breakdown of the commodities super-cycle and a surging US dollar, a trend that now seems to be reversing. Further, the correlation and patterns witnessed in the markets over the last 9 to 12 months no longer seem to hold. Investors are without a clear safe haven as German Bunds, U.S. Treasuries, and the Dollar remain volatile, and tensions in the Middle East are maintaining a premium in the oil market. More importantly for investors, however, is determining their best guess for what the next action will be from the world's major central banks, particularly the US Fed.

As legendary investor Stanley Druckenmiller recently remarked, you have to "focus on central banks and focus on the movement of liquidity… most people in the market are looking for earnings and conventional measures. It's liquidity that moves markets."

Liquidity seems to be the major factor concerning those invested right now. Large gyrations in bond markets and even precious metals have led to some significant moves over the past week with silver rising 6.25 per cent. But it's the lack of liquidity that can see a wave of trades adjust prices significantly in a matter of minutes. The trend of a strong Dollar that witnessed steady appreciation with confidence the Fed would be first to tighten policy is currently on hold. And it continues to dissipate with the prospects for the US economy, which is looking questionable in the short term.

The probability of a June interest rate hike by the US Federal Reserve is diminishing with economic indicators that continue to show the US economy is failing to recover from the weak first quarter. The soft GDP indicators reported over the last few weeks and the mediocre payroll numbers reported for April have economists delaying their forecasts for when we finally begin to gain traction. As a result, the steam is coming out of one of the strongest US dollar rallies since the financial crisis, and before that, the tech bubble.

Ultimately, it is the lack of confidence south of the border that is affecting the resumption of the US dollar rally. If the economy, as now anticipated, is to pick up steam in the summer months and payrolls continue to advance with a jobless rate nearing 5 per cent, then talks will resume regarding a likely rate hike from the US Fed and the dollar rally can resume. However, if the US economy continues to exhibit mere mediocrity, uncertainty and directionless volatility seem the likely result. If so, this will be a benefactor for the precious metals, particularly with the lack of other safe haven opportunities.