

S&P Futures
2,281.00
-8.00 (-0.35%)

Dow Futures
19,951.00
-61.00 (-0.30%)

Nasdaq Futures
5,144.75
-17.75 (-0.34%)

U.S. Markets open in 7 mins.

What Trump Could Mean For Currencies And Commodities?

YAHOO! Zak Mir
Yahoo Finance UK January 24, 2017



What Does Trump Mean For Currencies And Commodities?

One of the unintended consequences of the actions taken by central banks in order to quell the effects of the Global Financial Crisis in 2008 – apart from an asset bubble, feeble economic growth, deflation, massive social inequality, economic migration and arguably the election of Donald Trump, was (wait for it!) zombie financial markets.

Ultra low interest rates, QE and the draconian over regulation and fines for investment banks may have ended casino banking, but they killed liquidity in everything from cocoa futures to the most holy of holies – Pound / Dollar.

Whatever the whitewash investigation into what caused the flash crash of Cable in October, those in the know who I have spoken to have told me (on the condition of secrecy) that the brief tumble below \$1.20 was less to do with rookie traders, but a total lack of liquidity which left malicious traders with an open goal to profit from on the short side.

Since then, as is usually the case with flash crashes (like the one in the Dow in 2010), they represent a so called selling climax in which with all the sellers flushed out the market in question can normally only recover.

This has been the case for Sterling / Dollar which now has a de facto floor just under \$1.20. In the same way we have so far seen repeated resistance at €1.20 (or 83.3p) for Pound / Euro on repeated occasions.

Indeed, for those who are looking for parity versus the Euro this is unlikely to happen unless we see a clear sign of European Union break up – something that only France leaving could really deliver. At the same time the latest moves by the new United States administration to put the UK at the front of the queue as far as trade deals has underpinned Sterling, and should continue to do so.

The only cloud on the horizon is if US interest rates veer towards normal levels above 3%. So far the rally in the US Dollar since Trump was elected has been too severe to allow more than one interest rate cut. Only if President Trump's massive infrastructure and corporate tax cut plans – which have put a rocket under the prices of industrial metals – come to nothing, would one fear the greenback would tumble.

But while Forex traders might be obsessing over the Pound, US Dollar, Euro and Yen, we should not forget Trump's war of words with China. Patrick Tsang, Chairman of Hong Kong based Tsang's and Co said, "Depending on whether a full blooded trade war develops between the world's two largest economies, it could very well be the case that the Yuan will get weaker as China allows its currency to devalue to "trump" the US President's new America First fiscal policy."

The good news is that the beginning of the end of the "death of volatility" in the financial markets came with the surprise referendum vote on June 23, topped off of course by the way the was cat fully thrown amongst the pigeons with the election of Donald Trump in November. This means that for currencies and commodities we have been woken from the type of slumber Rip Van Winkle would have been proud of, to what has already been a white knuckle ride.

The best illustration of this came for Gold in the immediate aftermath of the US vote in the early hours of November 9. There was a brief \$50 rally followed by a \$200 decline over the next 6 weeks. However, this is likely to be the worst we see for the yellow metal.

According to Ian Williams, Chairman & Chief Investment Officer of Charteris Treasury Portfolio Managers, "Bullish conditions for precious and base metal commodities were already in place long before the US polling day. With Trump's election, prospects look even brighter as likely tax cuts and a promised large US infrastructure investment programme should goose demand for key inputs such as copper and iron. Precious metals, already in a multi-year bull market, also benefit from a rise in inflation expectations. The only major exception is oil which looks vulnerable to price decline if Trump goes ahead with his threat to launch a major expansion of America's fossil fuels industry."

Quote Lookup

Recently Viewed >

Your list is empty.

What to Read Next

Trump says Delta, protesters caused airport problems

Reuters

Winfrey Speechless: Employee Quits Job In 30 Days

TheViralBuzzing Sponsored

Victoria Beckham Shares Adorable Pic of David Beckham With Their Four Kids: 'I Think They Love Him!'

Entertainment Tonight

8-year-old Yemeni girl 'shot in neck' and dies in Trump's first foreign operation

International Business Times UK

Trump advisor Kellyanne Conway: Media is misinforming public about temporary immigration ban