THE IFA's Wealth Gram

LA TRIBUNE MENSUELLE DES MEMBRES DU GSCGI
wealthgram@gscgi.ch • www.gscgi.ch
Vol. VII - N° 79 - Septembre 2018

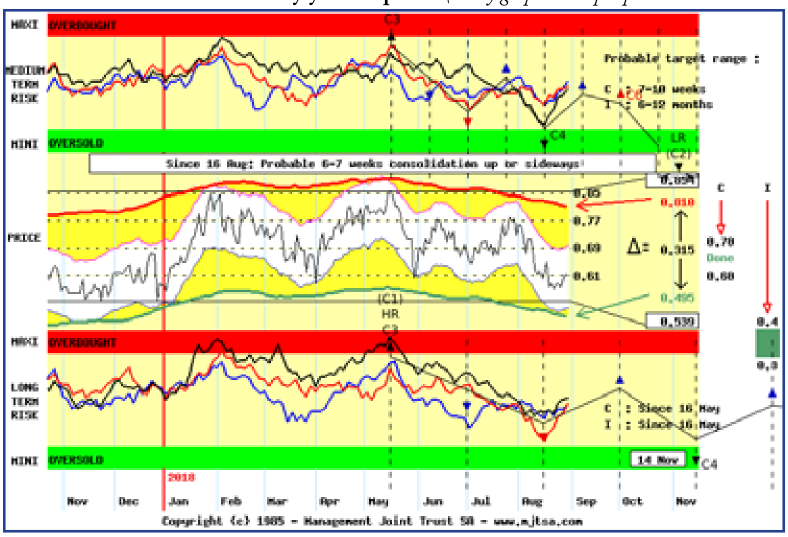
The Flight to US Treasuries Safety is accelerating – a telling graph

...article de Jean-Francois Owczarczak - CEO, Management Joint Trust SA - jfo@mjt.ch

www.mjtsa.com

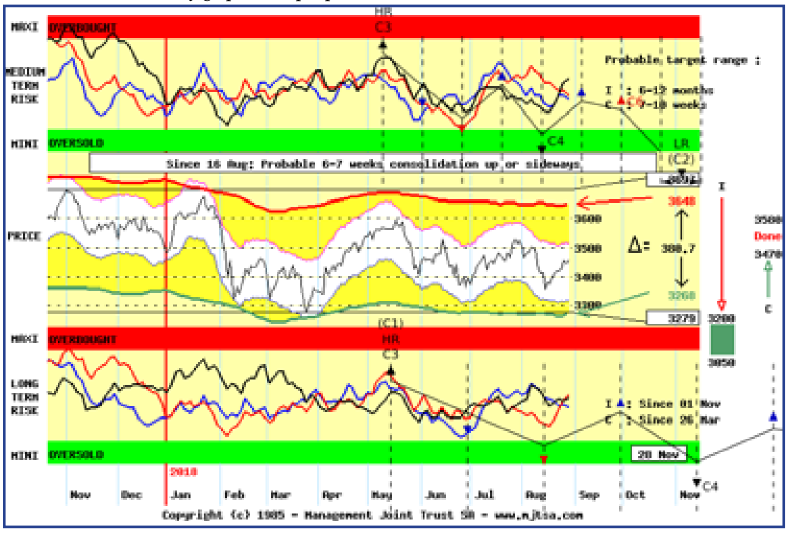
We note that currently one graph stands out as a very precise indicator of risk-on and risk-off dynamics. Indeed, after having been bid up since mid last year, the yield spread between 3-years and 3-months Treasuries topped out in May and may be on the verge of breaking down. This reversal on the shorter end of the US yield curve is particularly telling as it is happening despite the planned 1bn USD/month increase in 2Y to 5Y Treasury issuance *(which would usually bid yields up)*. In our view, it highlights an acceleration of the Flight to Safety flows from risk assets into the very liquid US Treasury market.

US 3Y – US 3M US Treasury yields spread *(Daily graph or the perspective over the next 2-3 months)*



Since January, the US3Y-US3M yield spread has been a great proxy to monitor the risk-ON / risk-OFF relationship in financial markets. It shot up in January on inflation concerns, lower USD and the related US equity market melt up, corrected down with equity markets into March, rebounded with them towards mid May, sold off on the Italian political crisis, following a relief rally sold off again with the acceleration of the Chinese devaluation, followed cyclicals up during July and sold off again with equities in early August. It is currently attempting to rebound. Our oscillators sequences (upper and lower rectangles) suggest that the current bounce dies out early September and that by late September, the spread starts accelerating down again towards our I Impulsive targets to the downside 30 to 40 basis points below current levels (right-hand scale). One could even spot a Head & Shoulder pattern and a current retest of the neckline. The long end of the US Yield curve has already flattened substantially, the short term end is now getting ready to catch up as investor flee to the security of short to medium term Treasuries, while FED fund rates continue their relentless rise.

EuroStoxx 50 *(Daily graph or the perspective over the next 2-3 months)*



The configuration of our oscillators in the chart (on left) can currently be found in numerous risk assets. Usually, the ones that have been less strong than the buoyant US equity market, yet stronger than the weaker Emerging markets, such as US 10Y yields, US Diversified Mining (a US sector, yet very much influenced by China), TIP to Treasuries break-evens, Oil or European markets. On this chart of the EuroStoxx 50, you can spot the resemblance. On both our oscillator series (lower and upper rectangles), we are also expecting here that the current bounce dies out early September and that, at the latest late September, the downtrend resumes into November. Our I Impulsive targets to the downside (right-hand scale) are quite scary.

Concluding Remarks: As the FED continue to raise rates, investors are gradually fleeing to the safety of the US Treasury market. We expect this flow to accelerate in coming months, which in our view should imply a strong increase in risk-OFF dynamics. The process will probably start between now and late September and see a first leg down into mid/late November. Our Weekly graphs would suggest that the trend then continues into next Spring at least.