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LE COIN TECHNIQUE

Flight to quality – Where's the best place to hide?

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One thing we can say about the early February financial assets sell-off is that it was difficult to find any place to hide. Equities were down, Bonds were down, Oil and other Commodities were down, even Gold was down. One asset that did bounce, vs. most assets and other currencies was the U.S. Dollar. **When considering the eventuality of another risk-off period, which could materialise over the next month or so, we would probably turn to the U.S. Dollar again for safety, vs. most currencies** *(except perhaps the Japanese Yen)*. **Yet, this time around we would probably also consider the U.S. Treasuries.**

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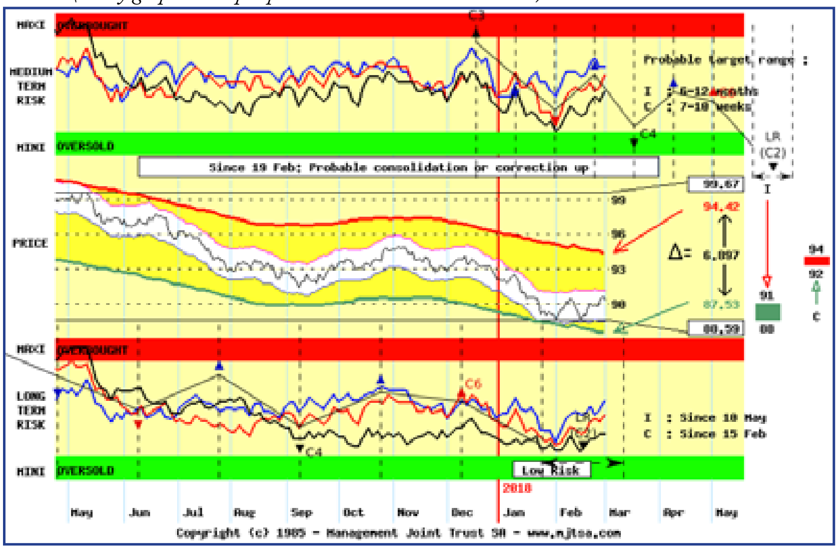
DXY *(Daily graph or the perspective over the next 2-3 months)*



On the Daily graph of the U.S. Dollar Index, our long term oscillators (lower rectangle) are Oversold ("Low Risk"). Indeed, the U.S. Dollar initiated its bounce on the financial assets sell-off early February. Since then, except for the March 1st 2018 steel and coal tariff sell-off, it has been trending opposite to equities. Our medium term oscillators (upper rectangle) would suggest one last sell-off, probably into next week, or perhaps early the following week (perhaps during an equity relief rally). Yet at this stage, the downside on the U.S. Dollar is currently limited (I Impulsive target range down between 91 and 88). From here, we are hence in 'Buy-the-Dips' mode on the U.S. Dollar over the next two weeks, especially if risk-off considerations take center-stage. The bounce could last into April and revisit the 92-94 range. Following that, the U.S. Dollar may retest down into the Spring.

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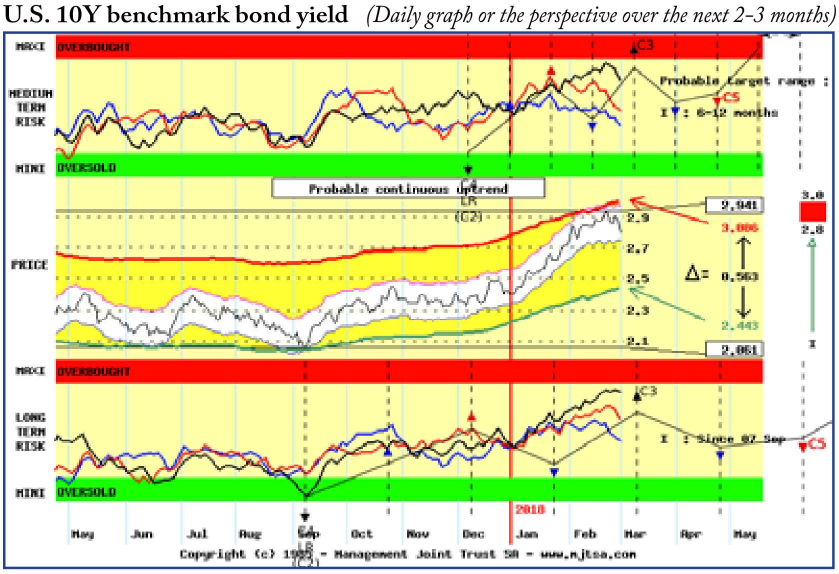
U.S. 10Y benchmark bond yield *(Daily graph or the perspective over the next 2-3 months)*



Rising inflation expectations and rising yields, along with extended equities, are seen as the main reasons behind the early February sell-off. The short term catalyst was also a flash unwinding of the VIX short trade. Today, much of this heat has probably been taken out of the market. Hence, any further decline will probably be more classical in nature, and may be accompanied by a correction down in long term yields. Indeed, on both our oscillator series (upper and lower rectangles), we are reaching an intermediate top on the U.S. 10Y benchmark bond yield. The sequences we project would imply that it corrects down from early March, into late March, perhaps mid April. Given our current level of historic volatility ("Delta" at 56.3 basis points; right-hand side; middle rectangle), this correction may amount to between 28 and 45 basis points (or 0.5 to 0.8 times "Delta"). Following that, we would expect U.S. long term yields to resume up and retest highs into late Spring.

Concluding Remarks: Our projections this month are quite short-term *(until late March, early April)* **and are meant to address the eventuality of a further financial assets sell-off over the next month or so. Indeed, it seems that both the U.S. Dollar and long-term U.S. Treasuries could make an intermediate bottom during the 1st half of March. This may indicate a more classical risk asset correction, where equities move lower while the U.S. Dollar and long-term U.S. Treasuries move up, possibly towards late March, perhaps mid April.**