

LE COIN TECHNIQUE

The Yen and the Copper to Gold ratio may be signaling a short market correction

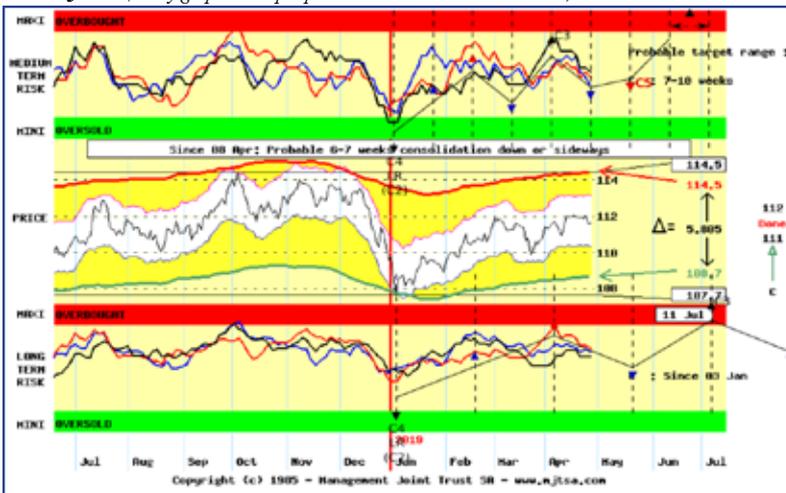
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Since rates bottomed in mid-2016, the Dollar has been pro-cyclical. This was especially true during H2 2016, and during most of 2018. Both periods saw the US Growth differential vs the rest of the world accelerating, the interest rates differential tagged along, and the US Dollar rose. Such strength was also seen year-to-date during the current risk asset rally. The Yen, on the other hand, remains very defensive. Hence, in general, USD/JPY is a great cyclical and risk-On/risk-Off indicator. In this short analysis, we compare it to another such ratio, the one of Copper (as cyclical metal) vs Gold (a defensive one).



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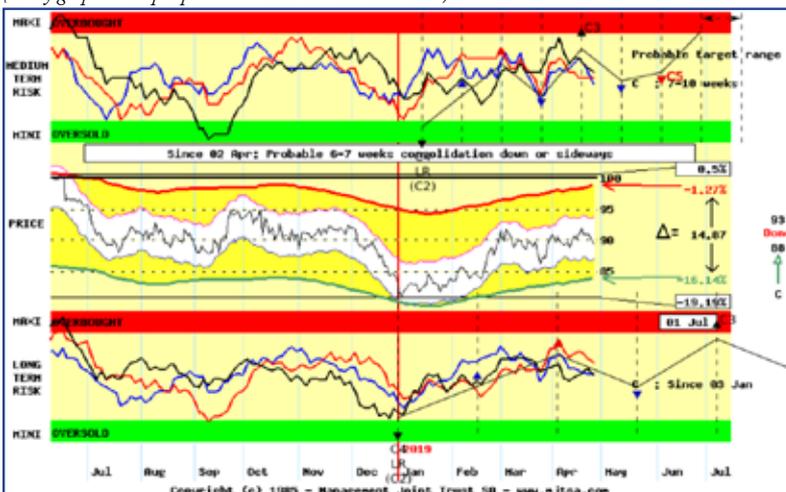
USD/JPY (Daily graph or the perspective over the next 2 to 3 months)



As equity markets are still making new highs, USD/JPY has been consolidating for a couple of weeks. Both our oscillator series (lower and upper rectangles) suggest that this period of weakness may continue towards mid, perhaps the 3rd week of May. Indeed, since it started to bounce early January (following its Flash Crash), USD/JPY has risen towards the resistance of our C Corrective targets to the upside around 111-112. For now, these levels seem to have halted its ascent, and we believe they could continue to do so over the next few weeks. Hence, while equity markets are still strong, USD/JPY is at least signaling some divergence. i.e. a loss of breadth, in the risk asset rally. From late May, USD/JPY then resumes higher into the Summer, probably retesting last year's highs.

Copper Spot, LME (USD/ton) vs Gold Spot (USD/Oz)

(Daily graph or the perspective over the next 2 to 3 months)



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The graph of the ratio of Copper to Gold is remarkably similar to the USD/JPY one above. Copper/Gold is often considered a reflationary/deflationary indicator. Usually, its ups and downs are also well coordinated with risk-On/risk-Off phases in risk assets. Here also, both our oscillator series are signaling some consolidation into mid/late May. The move may have already started, while again, equity markets are still making new highs. Similarly to USD/JPY, from late May, we then expect the Copper to Gold ratio to resume its uptrend into the Summer.

CONCLUDING REMARKS: The current equity rally seems stretched, and we believe its breadth is fading. Bellwether cyclical indicators such as USD/JPY or Copper to Gold have now started to consolidate. We believe they may

be anticipating a short equity market correction ahead, probably until mid/late May. Following that, both ratios could then reaccelerate up into the Summer. Equity markets will probably do the same.