Ardmore Systems Trading
LLC

June 2016 Brexit Aftermath

Now that Britain has voted to leave the EU I think it is worthwhile to consider how this may impact our trading markets after the dust has settled in the wake of this historic decision. The initial market reaction has been a rally in US treasury bonds, Japanese Yen, gold and the US dollar as the safe haven investments and commodities have initially weakend as a risk off mentality has taken hold and global equity markets have plunged lower.

The next 3 months will be a bit of a vacuum as Britain decides on a new prime minister following David Cameron's resignation and then invokes article 50 of the EU constitution nearer October 2016 which will begin the formal process of negotiation for exit from the EU over the following 2 years. During this timeframe and possibly as early as late 2016 to early 2017 Britain is expected to slip into recession which will have an impact on european economic growth and possibly global growth. What is interesting is the global central banks response to this prospect as declared over the last few days. The Bank of England has talked of lowering interest rates to support the economy and making 500 billion pounds available as an initial stimulus package to support the UK economy. The EU has declared it will introduce it's own stimulus package to support the EU economy and Mario Draghi is promoting a co-ordinated central bank analysis and stimulus response to what may come down the road. In the meantime the US Fed Reserve Bank is unlikely to raise interest rates unless we have stellar economic numbers over the next few months and the Bank of Japan appears to be preparing a monetary stimulus package to weaken the yen currency and promote a more competitive environment for Japan's export products.

All of this in my view is setting the stage for a macro inflationary play that is bullish commodities. Central banks cannot afford to have a global contraction of economic growth and if that is the prognosis they will do what they have always done and provide monetary stimulus to counteract this. In the meantime US treasuries may well remain the best safe haven investment of all and continue to rise higher and approach even closer to a negative interest rate environment. Low interest rates, monetary stimulus and cheap money is not a bearish backdrop for commodities and if the individual commodites themselves have an underlying story it could be quite a bullish environment.

The first evidence of this was earlier this year in 2016 when we saw the initial capital flows out of equities and into commodities on the early nervousness about a possible Brexit. Now that this event has happened I would be of the view that central banks policies maybe about to set the platform for a global macro inflationary environment and a further continuation of this flow of capital into commodities .

Best Regards,

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