The Primes

Research Department

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Introduction

The worst is over for 2020. Stock markets and oil rose, the USD dropped and the US yield steepened. These classical signs suggest a significant shift from defensive to accelerated growth positioning, in one night. Financial markets are desperate to look past 2020's crisis. In fact, this is revealed by three main elements: markets' acceptance of the appointment of former Federal Reserve Chair Janet Yellen as Treasury Secretary under a Biden presidency, transition funding and vaccine progress. However, for the global recovery story, the United States' escalating coronavirus cases is neglected. It is actually hard to argue given the USD PMI data's outperformance this week in both services and manufacturing. Recently, Initial jobless claims, Personal Income and Durable Goods and the 2nd estimate for Q3 has been released in the US with Initial jobless claims the most important out of them having deteriorated last week. In fact, the US GDP will be entirely neglected, particularly if it does not fit what the market wants to hear, for we are near the end of November with only two months to go before the end of 2020. Note that more bullish frenzy will be triggered in the buy everything global recovery trade if Initial claims were to fall.

The FX

Lows of two and a half years continue to be sieged in the dollar index. In fact, earlier this week, the recovery from 92 was unsustainable as one would anticipate from the USD's growth on solid macro data. Not that EUR/USD is nearing 1.19 one again as GBP/USD is nearing 1.3350. In fact, long positions in these pairs have been opening from increasingly higher levels since the beginning of November. As an argument to sustain the momentum of longing risky assets, the likeliness of a sequence of trivial pullbacks occurring sooner rather than later is high despite growth impulses previously resting on resistance.

Compared to the trading range the EUR/USD has been seen at in recent months, the pair is currently trading at the upper end. In fact, earlier than previously expected, the EUR could appreciate against the dollar as it has been suggested by the somewhat earlier improvement in the environment. By the end of the first quarter of 2021, we anticipate to see a noticeable movement while it should flatten out as the year progresses for the situation in the two currency areas will not essentially diverge. Actually, both currencies show a solid economic recovery from the second quarter at the latest as well as interest rate hikes remaining a distant overlook.

The likelihood of an end to COVID-19 pandemic in 2021 has increased with the positive news of the first promising coronavirus vaccine candidates. This will have optimistic consequences for the global economic outlook. However, in this environment, Safe-haven assets such as the yen typically are pressured and suffer. Hence, in the coming months, we expect yen's longer-term downtrend against the EUR to continue as it previously started in June.

The market action is likely to remain passive with thin trading conditions and AUD/USD could spread its sideways grind as solely, the Australian economic docket will feature the Private Capital Expenditure for the third quarter in the remainder of the week.

Infamous Gold

Escalating commodity market prices as well as rich liquidity at very low government bond yields fuel the interest in gold hence, its weakening might not last long. In fact, this week, from the $1800 mark, gold witnessed a short-covering move. Now, with the correlation with stock markets actually broken, gold may be re-established as a safe haven for strong gains for it might be capitalized by the Coronavirus vaccine optimism. Although the USD is not performing mainly well, the main culprit is actually the steepening yield curve. In that sense and depending on how the Fed responds, life may become challenging in the short-term for gold.

Oil

Oil prices earlier in the pandemic, when the market was struggling with both, vicious nationwide lockdowns around the world and a price war between two of the world's main producers, and currently primary associates in the OPEC cartel, are seen once again. In fact, as traders start to feature in a spike in demand induced by the vaccine, producers will feel a lot more at ease with the balance of the markets especially with Brent now within a fraction of USD50 and WTI above USD45.

Given that prices have recovered more than 30% from its stressful levels, a question arises: will members of the OPEC+ group still consider postponing output increases in January? It's true that this rally might also be factoring in a deferral and the group will want to be cautious not to cause an undesirable shock in the markets, however, a healthy and mounting buffer and further gains could as well be on the cards.

Is it Bitcoin?

On Tuesday, as profit-taking kicked in once again, Bitcoin pulled back after coming within a whisker of new highs. Will another higher explosion be catalyzed by new highs? And if that were to actually happen, how far can it go? Either case, it will definitely be an interesting watch for bitcoin which previously showed the ability to make stunning gains in a short period of time back in uncharted territory.

Conclusion

Lifted valuations by 13% made it the best month on record for global stocks nearing the highest in about 20 years. Yet, with the continuing virus spread in Europe and the US, the sentiment remains fragile especially with economic recoveries wavering. In fact, despite having considerable logistic challenges for COVID-19 vaccines, investors are pinning their hopes to it.

