The Primes

Research Department

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Printing and Printing...

Introduction

The agenda of 2021's first week has been marked approximately each day by a major headline: Tuesday's US state of Georgia elections determining who will control the Senate, Wednesday's release of the latest FOMC gathering's minutes, Thursday's Eurozone CPI and Friday's US employment report affecting the Fed's decision in implementing a monetary policy as well as Canada's jobs data. Raising the inflation rate has been the latest major concern for the Federal Reserve. Before it becomes a serious problem, Jerome Powell and company believe that a slight increase in price levels could be done without causing any disruptions following it by a push down on inflation. However, the whole financial system would have to go through a significant and rough repricing to mirror hastening currency depreciation since the stock and bond markets are priced for low inflation. Economic sectors highly diverged in 2020 with, on one hand, the leisure and hospitality sectors crashing and, on the other hand, home improvement, e-commerce and the financial services industries thriving. In fact, it is due to the government's printing and handling of $3 trillion to Wall Street, small businesses and individuals as well as preparing $900 billion to be distributed in the coming weeks that 2020 did not witness the crash of the whole economy. We see consumers now ordering electronic gadgets online, refurbishing their homes as well as gambling on Wall Street instead of going out to eat, traveling and booking hotel rooms. Yet, the Fed's retreat on its monetary support remains the most prevailing risk in the short term. The eventual dialing back of QE could lead the markets into chaos despite Mr. Powell not increasing interest rates before 2023.

The FX

On Tuesday, the market's concerns about the coming US political and economic landscape change was reflected by the USD trading below all other major currencies. In fact, the control of the Senate was to be determined by two senate runoff elections in Georgia. With broad-based profits in high-beta currencies, Japanese Yen could significantly expand recalling the flash crash of USD/JPY from 108.90 to 104.80 in only few minutes on January 3,2019. Actually, in 2019's new year's week, USD/JPY sold off as it hovered near a 7-month high the day after Christmas. Currently, despite the absence of a trigger for a move, USD/JPY could squeeze higher with year-end flows in a low liquidity environment. Investors can finally move onto new 2021 themes as the US's political drama is finally coming to an end. In fact, a back seat to all these political developments will be taken by Wednesday's FOMC minutes. The Federal Reserve's dovish stance is well known with very little reason for it to change. Given the impressive coronavirus spread control and summer recoveries in Australia and New Zealand, the Australian and New Zealand dollars are well performing. Due to the USD weakening and German data strengthening, UER/USD increased exceeding 1.23. Actually, German retail sales and unemployment change exceeded expectations despite pandemic restrictions. On the other hand, neither Eurozone OMI revisions nor inflation data releases are expected to have a high impact on the EUR. Last but not least, also despite coronavirus lockdowns and highly transmittable variant of COVID-19 raging, sterling traded higher

Gold is Gold

Gold rushed to $1,900 to start the year with a softer dollar with the kick it craved given to the yellow metal. Overcoming that psychological resistance, strong momentum was gathered before running into the second resistance level of $1,945. Another run at $2,000 is expected as gold is heavily backed on that breakout and the outlook for the USD is not looking better either.

Crude Oil

With Russia calling for greater output and others proposing holding or even cutting production due to new pandemic restrictions, OPEC + talks stumbled over February policy, however, they resumed debate on Tuesday this week. Saudi Arabia, the oil giant, actually proposed a one-sided cut from February which strongly reveals its readiness to endure the resulting unpleasant situation and keep taps tight as well as its recognition of near term demand risk and willingness to safeguard its export prices by tightening supply.

Bitcoin doing what does best!

Within a few weeks of breaking the $20,000 level for the first time, cryptocurrency actually reached a significantly high level nearing $35,000. This is Bitcoin as we all recognize it, as was the unexpected and severe drawback it witnessed at the beginning of the year. Surely, an unexpected pullback of around 20% is quite the correction for any other asset class. As for cryptocurrency, it is nothing for it would not significantly worry Bitcoin bulls.

Conclusion

For the first time ever in interest rates history in the US, the 10-year treasury rate is seen below 1% with the Fed promising to retain interest rates low for years to come. Sustainable investors should be seen cheering by this fact solely. Not only are companies that are investing in cleantech solutions paying off years down the road, rewarded by low interest rates, but also other companies, having stranded assets or other assets that will be liabilities in the distant future, are penalized by it.