The Primes

Research Department

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Introducing - Yellen

Introduction

Major US stock indexes closed at new all-time highs on Wednesday as Joe Biden became the 46th president of the United States, fueling investor wagers that more generous coronavirus relief aid will be unleashed under his new administration. After Biden's announcements, the stock and gold increased in value while the dollar have decreased in value. The rates are unchanged due to the BOC and the BOE's Bailey is set to speak. In addition to all the above, the COVID-19 have never reached a dead end and pandemic continues erupting.

Lawmakers are encouraged to go big by Janet Yellen, the Treasury Secretary nominee, when she acted in front of the Senate's Finance Committee for her confirmation hearings. Taking into consideration the strong dollar policy, the former Federal Reserve Chair ended the concerns of debt and encouraged the dollar exchange rate that is determined by the market. The markets have encouraged the stimulus positive vibes considering the safe-haven dollar. The scene indicates a supportive whole picture for now with a 10-year rate benchmark at 1.1%. The latest rally in rates have increased worries among traders regarding inflation, triggered by the proposal incentive, that might lead to an increase in bond yields ending the rally in equities and a discouragement for lawmakers from increasing the deficit. However, bonds were set on relief after last week's CPI reading which was 1.4% (below the Fed target: 2%). In addition to that, the fact that the 10-year has withdrawn its recent highs and has remained at these levels shows a support to risk flows.

The FX

On Tuesday, the US Treasury Secretary encouraged a heavy fiscal relief package since she believes that the benefits of increased spending outweigh the costs related to the higher debt burden. This comment has increased major US stock indices. From one side the stock market reached high records, and on the other side the anti-risk dollar lost ground with respect to the euros and other major currencies.

Another increase in price pressure made on the EUR/USD pair is the German Zew survey that was released last Tuesday. After the United Kingdom's CPI reached 0.6% in December, the GBP/USD pair reached 1.3650. Bailey's speech and the increase in the vaccine campaigns supported the sterling. Moreover, expectations regarding the rate cut are decreasing and the BoE prefers not to decrease to a negative rate even if the short run position is negative especially if the vaccination programs help to keep recovery hopes alive. The Bank of Canada kept its rates down until the economy experienced relaxation. The bank will continue longing at least five billion Canadian dollars of government bonds per week knowing that it will adjust buying whenever needed. An optimistic vibe is expected to be seen after the bank's governor speech suggesting the bank's preparation to take additional measures whenever needed. In July, the Bank of Canada's Balance Sheet increased to about 27% of GDP (which is approximately 540 billion Canadian dollars) which then became stable after the increase in bond holdings offsets the maturing policy. The USD/JPY declined slightly after the relatively dovish BOJ interest rate decision

Infamous Gold

For the second consecutive session the gold reached higher levels. The decline in the US bond yields have damaged the government note and benefited the gold. Increase in price expectation might lead to higher gains for the golf. After the Democratic bend in the US Senate elections in Georgia, investors based their pricing strategies on expectations of a more aggressive US spending. The bullish tone remained encouraged by the hopes for global economic recovery which contributed to cover the upside for the Gold.

Crude Oil

Over the last two and a half months, oil prices have increased due to supply decrease and demand increase simultaneously. The price of the oil became less than half what it was recently, and the U.S. shale producers faced challenges in breaking even in the past year. The OPEC nations and Russia expect to increase oil prices by managing its supply. It is expected that oil prices increase even more when the pandemic finally ends as well as when economic growth becomes sustainable.

Bitcoin again

According to a Bank of America fund manager survey, the number of long trades by investors have increased significantly on Bitcoin making it the most crowded long trade.

According to the reflation trade, the sharper yield curve has boosted the bitcoin having 3.7 billion dollars in Bitcoin bullish options having an expiration date on January 29.

Conclusion

In 2020, the supply of money has increased by the Fed by around 3 trillion dollars (70 %) and the GDP has decreased by 600 billion dollars leading the velocity to decrease sharply. Although the GDP is recovering its decrease, it hasn't recovered the whole 600 billion dollars yet and the Fed is planning to increase the money supply by 15%. Hence, the velocity will decrease and balance the growth in money supply. Even if inflation is not one of our main concerns today, it is important to provide protection for the future. The Fed and Treasury's actions may lead to dangerous outcomes. If consumers aren't able to save anymore and they begin to consume their savings, and the government keeps on borrowing and spending remarkable amounts, velocity can pick up rapidly.