The Primes

Research Department

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Fed & Volatility

Introduction

The Labor Department reported this week that the jobless claims in the United States have decreased to 793,000 however it re-increased weeks ago to 812,000 which shows the slight improvement in the labor market. It was expected by the economists analyzed by Dow Jones that the weekly claim to aggregate to 760,000 last week. These claims have decreased by 145,000 however it remained at the highs of 4.5 million emphasizing the Federal Reserve Chairman Jerome Powell's expectations regarding the labor market's challenge resulting from the pandemic. The managing director, investment strategy at E-Trade Financial claimed that the jobs numbers prove the chairman's remarks on the challenges and that the inactivity highlights the need for more relief.

Equities

Analysts believe that the global equity was driven by the expectations that the Congress will provide an additional fiscal stimulus package alike in size to that of the President's 1.9 trillion dollars proposal. The calm in the United States inflation data on Wednesday have decreased the fears regarding the possibility that the Fed will remove the monetary stimulus earlier than expected due to an increase in prices. The stock benchmarks in the United States have increased in the past week which resulted in new high records since investors have processed weekly data on jobless claims and analyzed corporate earnings reports. All three benchmarks were up this week and on their route for gains for the coming week and for the end of February having the small market cap Russell 2000 outperforming the S&P 500 for the week, month, and the year.

FX

After 5 repeated day to day bounce backs from latest weekly lows in the 90.30/20 band, the dollar index increases at the end of the week. Until now, the 90.30 line of 2021 is still in a solid position for the USD bears. At the same time, the risk-associated world has granted investors profits while lending a short-term support to the greenback. However, the sentiment around the money depressed is expected to stay due to the strong recovery in the global economy after the vaccine release. The downward corrective action of the dollars reached the support near 90.20 during the week. Short periods strength in the US yields are the main driver of bullish efforts in the buck facilitated firm growth expectations and fast vaccine injection versus its G10 peers. The continuous decrease in dollar resembles the scenario against the setting of a weak outlook for the currency in the medium/longer-term, and within the present monetary stimulus in the US economy, the "lower for longer" attitude from the Fed and expectations of recovery in the global economy which might result in the extra need of riskier assets. The AUD/USD pair trades under 0.775 by stretching the correction from the monthly highs of 0.771 within the negative market atmosphere. Concerns are still raised regarding the implications of Biden-Xi call and the pandemic lockdown in Victoria. GBP/USD remains at the lows of 1.36 even with the optimism in UK 4th quarter GDP numbers. Even though the USD's bounce back might be lagging the cable's weakness, the EU-UK fears over the NI border and of the extended pandemic lockdown in the UK. Market actors expect a full economic schedule in the UK with the release of the earliest estimations of the fourth quarter GDP. With this, comes the industrial productions figures and trade balance data for December. Within the positivity regarding the UK's advantage in the issue of the coronavirus vaccination that could decrease the lockdown restrictions, negative reactions to depressing readings will be calmed. Moreover, declining chances for the BoE interest rate cut might strengthen the British pound and limit the decrease for the EUR/USD bulls who have been at the mercy of falls in dollar knowing that that might change finally. Encouraging developments in the old continent may push the currency pair upward regardless of the decline and follow in the US yields.

OPEC

OPEC on Thursday reduced its expectation for the bounce back in the global oil demand in 2021. OPEC declared in its monthly reports that it expects the demand to increase by 5.8 million barrels per day during 2021 less by 100,000 barrels a day from the last forecast it did in January; to have an average of 96.1 million barrels per day. OPEC said that the demand has decreased in 2020 by 9.7 million barrels which average to 90.3 million barrels per day hence it decreased its estimate by 30,000 barrels per day. The union reported that the expectations for non-OPEC supply growth in 2021 have decreased by 200,000 barrels per day to show an increase of 700,000 barrels a day to reach an average of 63.3 million barrels per day. Even if OPEC+ plans to maintain its production amount until the end of March, ministers may decide at their meeting early next month to decrease production from April. It is important to note that an increase in oil production will help increase GDP mechanically keeping in mind that an increase in output in the mining sector lifts economic recoveries in the Gulf.

Precious Metals

After their return, the increase in the fold and silver prices has made gains and the expectations of a bullish market are strengthening day by day. What is important in this case is the sectoral internals and the decoupling from increasing Treasury yields. Keep in mind that patience is compensated with stellar gains.

The Crypto

Tesla's BTC investment resulted in the increase in total crypto market value especially after its announcement in a filing with the SEC that it purchased 1.5 billion dollars of the Bitcoin. Tesla said in the filing that the crypto investment is part of its new treasury policy. Before this increase the crypto market value was 1 trillion dollars in January and the Bitcoin reached the first high of 37000 dollars while the ETH passed $1100 for the first time. Recently Bitcoin reached a new high of over $48000 and ETH hit the $1800 for the first time.

Conclusion

During his speech for the Economic Club of New York regarding inflation, Jerome Powell raises concerns about the economy's situation and knowing that increase in inflation will be an important problem in the future, he guaranteed that the Fed will handle such issues using its own prepared tools. His main concern right now is unemployment, which even after its decrease to 6.3% last week and the NFP number increasing by 49000, Americans are still in need for financial support after losing their jobs. Powell also pointed out that most of the loss in jobs happened among low-income workers where employment decreased by 17% at this stage since March 2020. However, employment fell only about 4% among high income earners. Powell guaranteed that the Fed will maintain a cooperative monetary policy to assist the economy and avoid past mistakes.