The Primes

Research Department

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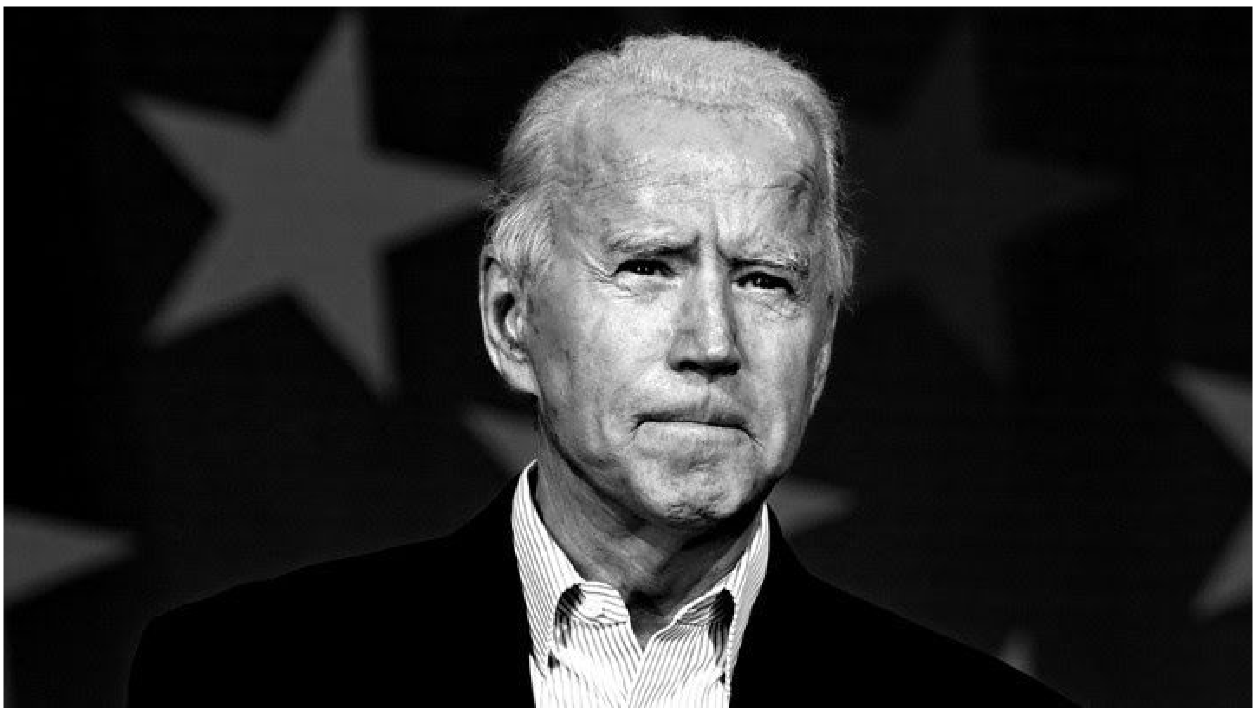
Biden effect?



Introduction

Futures in the US have decreased with respect to their margin after the passage of the mid week following comparable changes in Europe on the heels of an uninspiring week start. Anxiety was seen after the mess up in US Treasury yields where the 10 year reached a 12 month high. It has withdrawn today however an accelerated trend occurred in recent sessions which drive investors to be careful. Positive vibes regarding the recovery led to a boost in the stock market, however if yields start increasing at a fast rate, sentiments will change. Talks about a taper tantrum happening this year are circulating in the market. There is no pullback in equity markets so far but it is delaying and losses in the market might increase due to an increase in the yield spikes. Investors might be more insensitive to numbers with plenty of US data to come such as the producer price index numbers today. Surprising increases might lead investors to fear an increase in inflation throughout the year worsened by President Biden's stimulus plans that are on their way to complete their path through the congress.

The FX

The USD is exaggeratedly stronger in response to the higher US yields. Still, with risk sentiment turning green again, it should lend some discomfort to dollar bulls as the risk on-risk off is still one of the dominant directional impulses for the USD as differentials are just not high enough to thwart that USD bearish impulse. After the increase in the US yield, the USD became stronger. However, after the risk sentiment turned green again, it gave some anxiety to dollar bulls since the risk-on-risk-off is still a dominant directional impulse for the USD knowing that variances are not high enough to stop the bearish impulse. Moreover, the Fed's speech is still peaceful and encourages policy makers to let the economy run hot; hence the USD support will be decreased. With the withdrawal in the US treasury yields, EUR/USD pair increased to 1.2050. Since the markets are anxious about the negative virus lockdown restrictions impacting the Eurozone's economy, more increase seems to be vague. GBP/USD remains low around 1.3850 after London opens. Different signs of vaccines battle doubts of new covid strains. Lord Frost replaces Michael Gove as the minister for Brexit Britain. US dollars decrease from one week high as risks fade. USD/JPY short term decline attracted purchasers on Thursday and delayed correction from multi-month highs. Bulls might be affected by different factors that will stop them to put aggressive bets and cap gains for the USD/JPY pair. Dropping US bond yields weakened the USD and careful mood benefited from safe JPY. The AUD/USD still gives a moderate daily gain above mid-0.7700s even though it lacked any strong plan buying.

Infamous Gold

On Tuesday, Gold broke under the 1800 dollars point and different factors have pressured it. The increase in the vaccine release and the decrease in the numbers of infections triggered optimism over a global economic recovery. In addition to that, a massive US fiscal spending plan is expected and this increases investors' confidence which has damaged demand for the gold. Pricing is happening based on the expectations of the passage of the President's proposed 1.9 trillion dollars stimulus package. The yield on the benchmark 10 year US government bond has been increased to its highest level which is around 1.3% since February 2020 due to the expansion traded. The market has experienced a huge rally in the US T-bond yields which was an additional factor that led to the decrease in the price of gold.

Crude Oil

An increase in the oil prices is happening with the cold snap on Texas the latest bullish medium for crude prices. Having oil refineries closed a decrease in supply might be experienced for some days which lead to an increase in the restriction on the supply while demand is expected to increase once again. This only happens for the short run hence the market is not experiencing a major change in oil prices which started to show overbought signs. However, this was expected especially after the 70% rally since early November. The market may be prepared for a small correction due to the huge amount of optimism regarding the economic recovery.

Cryptos

Bitcoin has increased breaking through $51,700 on Wednesday morning as major companies accept it. It is up 76.5% since the start of January after gaining 300% last year. In the first rally the push in the bitcoin price came from retail speculators however this time it is due big companies are playing the role in increasing its price. Tesla announced its purchase of $1.5 billion of Bitcoin. This rise is also leading to an increase in PayPal, Square, and Mastercard after opening its network for crypto transactions. Ethereum is experiencing continuous bulls as the altcoin restores record high of $1,899 which is still rising. When the ETH/USD buyers dominate past-$1,960, the $2,000 psychological magnet will show on their radar.

Conclusion

Investors mostly feel unsettled when the yields witness a steepening incline. The increase in yields tends to draw off capital from the highly priced equity in the past years which may be a means for a major correction to happen although the stocks might wipe themselves off and increase with expansion. Note that all of that depends on time. The main question is whether and when will treasuries generate enough returns to merit changing assets.

