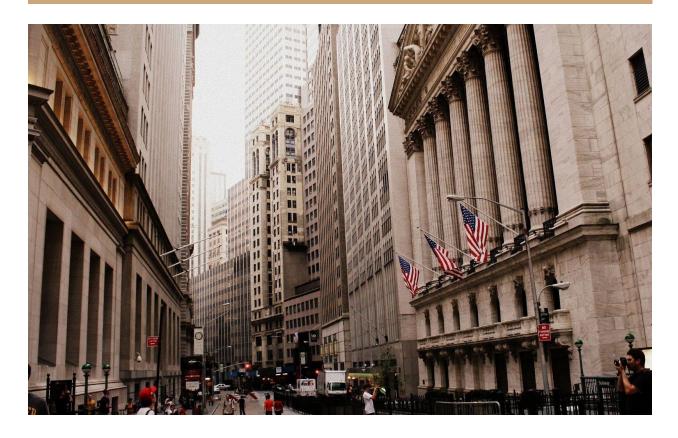
# **The Primes**

# **Research Department**

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# **Yields**



### Introduction

The increase in the yields have benefitted the U.S. dollar. At the beginning of the new year the trend of the increase in the 10-year bond yields in the U.S. from 0.91% to the high of 1.56% have started and took a huge momentum in the past weeks. The move was being fought by currency and equity traders at the beginning with stocks strengthening to reach highs and the USD continuing its trend, however investors began to take into consideration the consequences of increasing interest rates. Consumer rates are affected by the spike in yields. For instance, mortgage rates have increased to their highest point since August that

might end the refinancing boom. It is important to note that the optimism of investors led the yields to increase. Investors expect a strong recovery and that prices increase after demand increases. Hence, bond yields should increase no matter what the Fed decides to do with interest rates.

#### The FX

The long- term nominal bond yield evolution is expected to be closely monitored by European Central Bank officials. EUR/USD is expected to trade lower since the ECB is more eager to react on increasing rates than the Fed. All currencies have decreased hard today except the EUR/USD; it remained stable, however it is expected to decrease soon. The increase in USD has hit the AUD the hardest and this was expected because the currency is impacted by the performance of the stocks. For example, whenever the market experiences a big sell-off, AUD/USD and AUD/JPY experience a sell-off as well. The NZD sold off aggressively as well but its decline was maintained by a downwardly revised consumer confidence report. The USD/CAD experienced its strongest one day rise since Jan,27 and it is expected to be followed by continuation however it was held back due to the rise in oil prices. Sterling was the second worst performing currency after its drop to 1.4. Given the amount increase in GBP/USD this month, gains were long been expected. Knowing that the GBP/USD is a trending currency, the biggest one day drop since October is expected to be continued by a further decrease.

#### Infamous Gold

Gold is negatively affected by the increase in bond yields especially that it is decreasing as borrowing costs continue to spike. Expectations aren't high for gold and it is reaching key support levels at \$1765. An uncertain block can't be proven since the yellow metal isn't in need for momentum. Moreover, the run in yield isn't expected to slow down. Knowing that central banks won't stop the increase in yields any time soon, the gold isn/t expected to rebound. This move can be accepted when it is seen as a response to a strong recovery environment.

## **Crude Oil**

The increase in crude oil is expected to continue since the market is still on the bullish favoritism. Negotiations before the next OPEC meetings or higher US yields are marking a negative impact as expansion effects are finding a repeat in speculative movements that remain controlled to the metal as the global economy is on the right path. Oil demand is expected to highly increase throughout the year after the effect of the vaccination strengthens the natural COVID curve crushing data from the lockdowns. In turning a day perfect for who expects the price to increase, Chair Powell continues to transfer policy on maximum overuse, all but assuring the continuation of the US to be the world's supreme oil consumer.

# Cryptocurrencies

Bitcoin is still at its highs of \$50K with no ability to decline. Yet the ability to stay up for such a long time brings positive vibes to the crypto market. Aside from a recent all-time high, the correction for \$60K levels have stopped. Even if Bitcoin capitalization has declined to under \$1 trillion, it is still close to that round level. The whole crypto market capitalization is greater than \$1.5 trillion. Bitcoin's index has been supreme at around 61% for around a month. On the other hand, Glassnode (an analyst firm) determined that Bitcoin's giants are selling assets where they sold a \$6.7 billion worth of bitcoins (140K BTC) in February. It is important to take such information into consideration since companies like MicroStrategy are not able to balance the sellers' pressure. Moreover, asset holders began to move the assets on wallets that were there for 10 years which could also give mixed signals in the market.

#### Conclusion

The reaction of the USD to the 10% spike is explained by the fact that currencies are impacted by interest rates. Stock acts like currencies. Increase in the yields increases borrowing costs and impacts the flexible consumer income. The stocks and USD took some time to the 0.5% increase knowing that it is low on the absolute basis but the market can observe a multi-day increase in the greenback and an equivalent trend in equities. Ten-year German bond yields are also experiencing an increase to their highest level in 11 months. On the other hand, NASDAQ and S&P seem to have another negative weekly performance while the DOW could have a positive performance out another advance. However, and despite the bond yield spike, the strength in the major indices kept them all positive for February going into the final month's session.