The Primes

Research Department

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FDA approval?

Introduction

Pfizer declared lately an antibody or vaccine for COVID-19 which was 90% effective in its tests. This resulted in an upside reaction for global stocks. As for the next step, an emergency authorization for this vaccine should be issued by regulators including the FDA

(Food and Drug Administrator), however, worry prevails concerning the safety of the vaccine. In addition to that, the FDA stated yesterday that it gave Eli Lilly authorization for its monoclonal antibody for treating the coronavirus. Consequently, the US witnessed a 115 points increase in the Dow Jones futures and Europe a 1% increase in the FTSE 100 and CAC 40 index.

The FX

With the USD entering a corrective mode on Tuesday, markets have slightly stabilized after Monday's enthusiasm. Yet, the USD is holding against major rivals near weekly highs hence remains the strongest. However, with traders reacting to the newest UK jobs numbers, the British pound rose against the USD. In fact, the ONS (Office of National Statistics) reported 29.8k people in October filing jobless which was actually against expectations. Reuters analysts expected the number of claims to increase by 50k however, it was actually better than September's increase of 40.2k. Furthermore, in September average earnings without bonus witnessed a 1.9% increase while wages with bonuses increased by more than 1.3%. Moreover, unemployment rate increased by 0.3% from August (4.5%) to September (4.8%). After yesterday's COVID-19 vaccine declaration, there has been a severe rally for risk. An outbreak in USD buying and EUR/USD suffering from profit-taking was generated from the USTs being sold off. Note that usually, the EUR/USD pair flourishes in a risk-positive environment. Levels around the 1.18 handle are considered by some market participants as a good entry point for EUR/USD long positions. That might actually prove to be true if the 1.1770 level holds. Japanese data were mixed between the Eco Watchers Survey on the present situation stating an improvement in October less than expected printing at 54.4 from 49.3 in September and the September Trade Balance printing a surplus of ¥918.4 billion exceeding anticipations. In the meantime, the USD/JPY pair was prevented from advancing due to the ease in US Treasury yields. Yet, the risk-on mode prevails in the markets.

Infamous Gold

Yesterday's COVID-19 vaccine declaration caused Gold's severe selloff. As Gold and equities have been somewhat significantly positively correlated over the past few months, it is not utterly clear that Gold should suffer too much from this declaration. In fact, the extent of the selloff was further backed up by the extended long speculative positioning. There has consequently been fast money selling and real money buying forming a decent unpredicted inflow.

Crude Oil

Even though Oil prices' reaction this week was not based on real fundamentals concerning contracts trades but on the uncertain promise of a vaccine for COVID-19, market sentiment seems actually as important as supply and demand. However, this makes the market less predictable and less stable. Note that the continuing emotions after the U.S. presidential election has had little effect on this week's movement. Oil is still consolidating its recent impressive gains. However, if oil continues to trade sideways, momentum will face even though OPEC+ continues to make noises about modifying the production cut agreement to backup prices. Oil will be hence left exposed to a potential downside correction, with several long positions probably entered at the top of the latest range.

Conclusion

While still being in the midst of a pandemic that brought chaos to the economy, there are several factors that helped stocks to get near record highs. The first factor would be the "Fed put", resulting from the Fed's willingness to support the economy, where investors think that the central bank will rescue them if things don't go their way and buy on dips. According to FactSet, analysts have been increasing their Q4 earnings assessments for SPX companies which explains economic data's gradual improvement during October and hence forming the second factor. In fact, according to the financial data provider, analysts increased EPS estimates for the first month of Q4 2020 opposing what they typically do in the first month of a quarter. Finally, the COVID-19 vaccine’s declaration as well as potential gridlocked Congress are major factors taking the market higher.