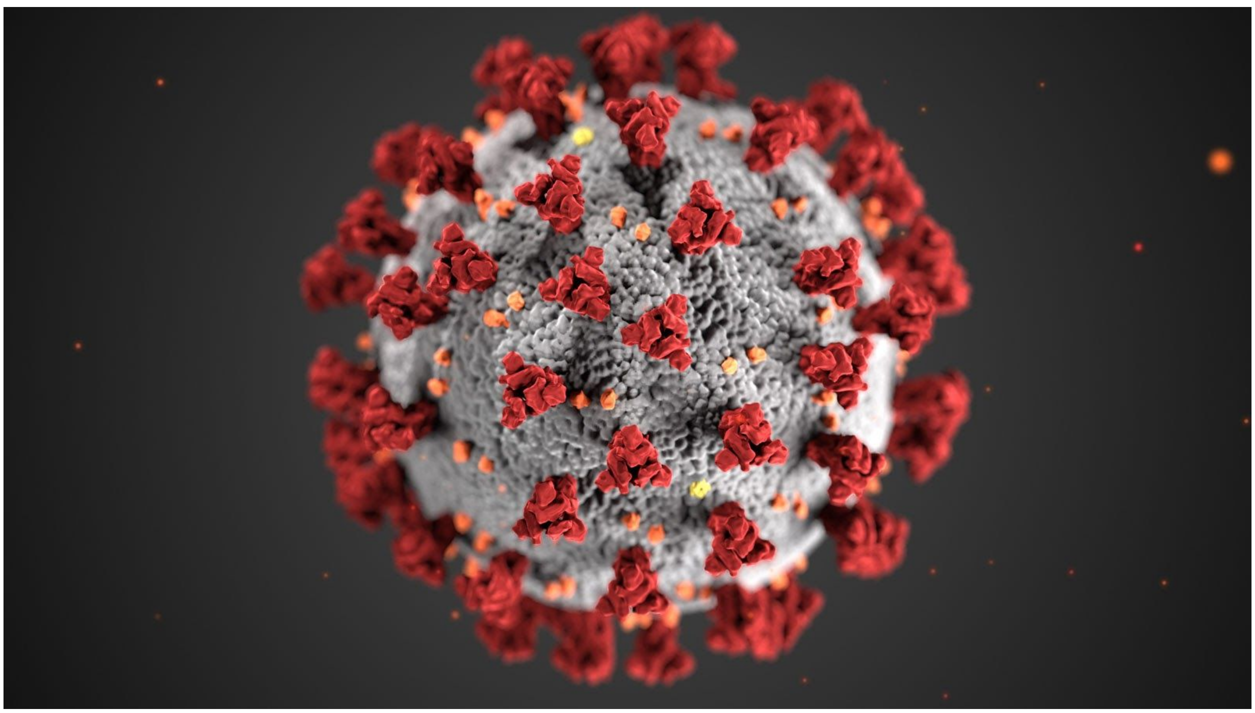
The Primes

Research Department

Directors of Department Mr. Younan - Mr. Choucair

October 29th,, 2020

The COVID “syndrome”



Introduction

As the probability of a fiscal aid from Washington before the presidential election was reduced and as coronavirus cases rose threatening the global economy, U.S. equities collapsed along with European shares. Among the worst performers on the S&P 500 Index were energy and materials companies. In Europe, after German software maker SAP SE jumped 20% following a cut to its revenue forecast and notices that business will be hurt mid-2021 by the pandemic, a scale of tech stocks fell the most since March. Even though there is not much time left before the election to be able to finish an aid package, investors still wait for a U.S. stimulus deal. After U.S. infections reached a record for the second day, the World Health Organization's director general declared that some countries are witnessing a "dangerous moment" in the northern hemisphere. In addition to that, restrictions on business were tightened in European countries.

The FX

As equities drop on risk-aversion providing support to the greenback, the EUR/USD pair is threatened to further drop. The negative sentiment is fueled by poor US and German data. The level to break to put the EUR/USD pair in the bearish path is 1.1770 which became the pair's immediate support level. Brexit is actually back with the EU and the UK continuing, at various intensity levels, phone negotiations rather than face to face ones. Despite posturing, the pound bid has been kept by this ongoing communication. With the annunciation of resumed formal and intense talks from both sides and with a new deadline set in mid-November, Sterling surged. The pound has been weighted by every move toward the policy of setting sub-zero borrowing costs for long months which is actually encouraged by the BOE. With bulls building up the momentum further beyond the key psychological mark of 105.00, the USD/JPY paid have refreshed daily tops. The top boundary of a near one-week-old ascending trend-channel has been marked by the previously mentioned level which will be a new trigger for bullish traders if cleared decisively. At the same time, over the past two weeks or so, the positive move on the AUD/USD pair has failed repeatedly near a multi-day-old ascending trend-line resistance. Gains for the AUD/USD pair seems to be stopped by expectations of further easing by RBA in November.

The Commodities

As the main euro area economies implement new lockdowns restrictions to control the second wave of the COVID-19 spread, the rising demand concerns for oil and its products undermines the sentiment around the black gold that prevails despite the pullback. At the same time, on Sunday, the US witnessed the largest single day surge in the case. According to Reuters, on Friday, the force majeure of National Oil Corp, the Libyan state giant, on exports from two key ports was ended by them saying production would reach 1 million barrels per day (bpd) in four weeks. Consequently, investors became worried of forecasts of an increase in supply adding to the pain of the US oil. Furthermore, the decrease in the WTI barrel was further strengthened by broad-based USD strength, courtesy of the laid-back market mood and the US fiscal stalemate. For foreign buyers, US-denominated oil becomes more expensive with stronger greenback. From both sides of the Atlantic we notice alert on the sentiment on Wall Street and updates in virus data for fresh trading impetus on the higher-yielding oil. Precious metals continue to trade within a narrow range as we get closer to the election on November 3 which suggests that price support is staying strong. After the election, Gold and Silver possible downside risks are believed to be relatively short-lived. Support for precious metals touched a “battle line” with the Dow Jones’s drop exceeding 700 points causing a broad market decline on October 26; and Gold and Silver barely budging throughout the selloff. Gold and Silver are expected to witness an upside down breakout after the election with the 1900 support levels holding up until then. Fear of the unknown mainly drives the appreciation in precious metals despite the hedging performed by global traders and investors on their portfolios to try and eliminate risks.

Precious metals will start to shine when the global markets become unsettled and traders’ vision of a forward perspective unclear.

Conclusion

Coronavirus concerns are renewed and forecasts of extra fiscal stimulus deals are fading and these issues are threatening both US stock futures and government bond yields. This week’s rush of the second wave of COVID-19 spread across Europe and the US has weakened the risk sentiment. To be able to control the virus’ spread, lockdown measures are being imposed in some nations in the Eurozone. These restrictions will be painful on the economy and could disrupt the fragile global economic recovery despite being less severe than the ones imposed previously this year in April and May. Consequently, yields are dropping due to the shift of investors from risk assets to traditional safe havens such as treasuries. US President Donald Trump declared on Tuesday that it is after the elections on November 3 that coronavirus economic relief will occur which pressured even more, in a bearish manner, on the yields.