

The Primes

Research Department

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It's all about the elections - Part 2



Introduction

This coming week, data should not largely move the market for U.S. assets including the USD. Wednesday's FOMC minutes is the only arranged US release worth viewing aside from Monday's service sector ISM report which ticked higher. Actually, two out of nine policy-makers wanted the Federal Reserve to use stronger language to describe their commitment to last month's decision to not raise interest rates in the next three years. Note that inflation running below target and unemployment at historically high levels were the backbones of such a decision. Reinforcement of the central bank's dovish bias is expected from the FOMC minutes which may be more negative than positive for the greenback. Instead, the headlines on President Donald Trump 's COVID-19 progression,

coronavirus talks and comments from Fed President Jerome Powell will be the primary driver of the USD's flows. To the relief of the markets, Trump escaped the worst on Monday by leaving Walter Reed hospital. In fact, Trump will be pushing harder for a deal before the election, as he is lagging in the polls, which will be another stimulus package. A way for a deal could be paved by a White House more appealing approach. Currencies and equities will climb if there is any signal that an agreement is close for investors are positioning for a deal based on how stocks are trading.

The trading area

On the first day of a new trading week, supported by a combination of factors, the GBP/USD pair gained some strong follow-through traction. After the UK Prime Minister Boris Johnson and the European Commission President Ursula von der Leyen arranged in a phone call on Saturday the step up of negotiations on a post-Brexit deal to close substantial gaps related to fisheries and government subsidies, optimism was renewed over a possible Brexit deal which underpinned the British pound. Against the 55.1 preliminary estimates, the UK Services PMI finalized its upward revision at 56.1 for September which benefited the sterling. Also, on the first day of the new trading week, the EUR/USD pair regained strong position traction and was assisted by the risk-on flow that undermined the USD perceived safe-haven status. Encouraging data from the Eurozone further supported the shared currency. While the CAD remained unchanged, the AUD and NZD finally broke after a continuous rise. Despite these declines, the AUD and NZD are expected to preserve their outperformance as they ease rather than upsurge virus restrictions. Notwithstanding the supporting factors, amid some repositioning trade ahead of the Australian budget, AUD/USD witnessed a turnaround and struggled to capitalise on its early uptick.

Commodities

After surging over 5% on Monday in the commodity market, oil prices have sustained their bullish stance supporting the energy sector. Amid a predicted tropical storm that is about to hit the US gulf coast once more and a strike in Norway's energy industry, concerns of supply disruptions drive crude prices. In fact, WTI has gained 0.15% to \$39.29, and Brent

has added 0.22% to \$41.37. Additionally, Trump's return to the White House positively impacted oil prices. Yet, as the number of new coronavirus cases continue to rise globally, the rally is overlaid by fear of decreasing demand. As investors are focusing on stocks and risk assets, Gold is losing ground. Despite the fact that metal dropped by 0.27%, it is still consolidated above the \$1,900 mark, a hence reliable support level, with a value of \$1,915. Gold's behavior is still to be observed during the election period. Usually, the precious metal has generally benefited during prior US elections. The fact that Trump warned that he would not transfer power peacefully in case he loses elections strengthens the bullish case. He strongly believes that upcoming elections will surely not be exempt from frauds. Demand for refuge assets like Gold increases amid weighted financial markets by the uncertainty related to the transfer of power. This scenario is more likely given that the polls are led by a margin by democrat candidate Joe Biden.

Conclusion

As usually observed in October, the equity and currency markets were highly unpredictable with highly volatile stocks. However, the market's ability to overlook major critical developments is impressive. Investors are looking past upcoming political competition to the stimulus package that will arise ultimately, which solely explains the 500-point move in the Dow. U.S. President Donald Trump declared on a tweet his readiness to sign a stand-alone stimulus bill, and returned to work in the Oval Office. A question arises: how many businesses will survive until the major stimulus package that will arise regardless of who wins the election. Thinking that the House will agree on stimulus checks without a broader agreement or that the US economy will avoid further economic pain without stimulus before the end of the year is highly optimistic. Equity and currency traders are responding to every single contradictory headline from the White House, which will probably continue until November 3.