The Primes

Research Department

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The Sentiment

Introduction

Agitations among the ranks of investors finally began to be sensed as the U.S. President Election is only in three weeks which will be the most dramatic presidential race in recent history. Investors became suspicious of the polls that show Joe Biden in the lead for they remember being burned in 2016. Hoping that some type of stimulus would be approved before or shortly after the election, equities and currencies rallied over the past few weeks. Yet, it is currently looking more and more unlikely. The pessimism of Treasury Secretary Steve Mnuchin sparked stocks' sell-off. He said, after another conference call with Pelosi, that there are still disagreements on certain issues and that it is hence difficult to get something done before the election. That being said, it seems that he will push harder to get the Congress to allow the government to tap unused Paycheck Protection Funds. In the meantime, it is becoming even more difficult for the recovery to withstand as fresh aid from Americans are further withheld. Data and Fed are solely left to speak as scheduled catalysts by the unpredictability of incentive headlines. Inflation, retail sales, manufacturing data and the University of Michigan Consumer Sentiment report due for release are scheduled on the US calendar for this week in addition to daily speeches of Federal Reserve Presidents. Advancement of recovery in spending is expected despite the fact that, in September, the wage growth slowed. Similar advancement is expected for manufacturing while inflation remains low. Consumer sentiment of confidence could be affected by the abysmal performance by both Presidential candidates at their first debate and Trump's contraction of COVID-19 despite the stocks' rally.

The FX

USD traded higher against most of the major currencies with economic data, mainly summarized as spending, exceeding expectations. Between states keeping businesses open and new records of COVID-19 cases, uncertainty prevails over the overall level of demand. In fact, the overall strength of the stock market is behind the surprising improvement in consumer sentiment despite the tension of the upcoming US election, fiscal stimulus and coronavirus uncertainty. However, headlines about the election will be the main driver of dollar flows and are to be observed. Meanwhile, the October 15 Brexit deadline passed with no agreement. Hence, with the risk of a no-deal Brexit growing along with COVID-19 restrictions in London, GBP/USD should be trading much closer to 1.28 than 1.30. Similarly, the EUR is expecting further losses with coronavirus cases surging across the Eurozone. It is only a matter of time before EUR/USD falls to 1.16. While the New Zealand and Canadian dollars traded higher, the Australian dollar extended its drop as RBA dovishness was strengthened by weaker labor data. In contrast, the PMI index rose from 51 to 54 indicating a growth in the manufacturing activity. Canada expects stronger retail sales next week due to recent labor market improvement despite a weak manufacturing sales report.

The Commodities

As Coronavirus intensity increases in Europe and the US, crude prices do not stand a chance of rising. In fact, Europe is forced by this pandemic to reestablish restrictions to control the virus spread which drives the dollar to an increase and cripples the short-term forecasts of crude demand. Each time OPEC meets, their outlook is downgraded for it seems that the oil market will not complete its recovery anytime soon. Anemic demand will force a delay on easing oil production cuts while the upcoming coronavirus lockdowns will not be as severe as they were before. WTI crude prices are forecasted to be significantly higher in 2021 due to an improvement of several million-bpd in demand. Yet, for the next couple of months, oil prices will remain low due to the virus spread and the lack of stimulus being two severe current headwinds. The significant rise in coronavirus cases in Europe slowed the strong dollar which caused the modesty of gold prices' decrease. The fact that the dollar gets to wear its crown for a while should not be confused with the start of a new trend. Currently, gold is inversely related to the dollar, however, this might not be the case in the future. Fresh stimulus across all major central banks will stem the next major gold bullish catalysts. In Europe, America and few regions in Asia, the outlook is witnessing a deterioration. Rate cuts and increase of asset purchase programs will be resumed in the G-10 central banks. Gold seems to consolidate at its current level of $1,900 until the end of the US presidential election. Before November 3, fiscal stimulus is less likely and Biden's infrastructure spending plan, if the election yields a blue wave, will negatively affect the US dollar i.e. positively affect gold. Gold prices are expected to reach $2,000 in the coming half year with a possible rush towards uncharted territory.

Conclusion

Backing up the economic recovery from the Coronavirus pandemic, US retail sales exceeded expectations in September. Nevertheless, it has been debated for weeks now between Republicans and Democrats that for the continuity of this recovery another stimulus package is needed in the US.