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Rational Markets?

Introduction

The $1.9 trillion COVID relief plan of President Joe Biden was accepted by the U.S. Senate on Saturday and opened the doors for an additional round of stimulus checks and an extra help for workers and business. The legislation constitutes direct payments of $1,400 to most Americans and a jobless aid of $300 per week through Sept 6. Democrats are looking forward to the above-mentioned latest rescue package after an unlimited number of amendments before the deadline to renew unemployment benefits (March 14). U.S. jobs have increased by 379,000 in February while January's total was reviewed higher which indicates the recovery of the labor market with COVID-19 vaccines and ease in business restrictions. Last month the unemployment rate decreased to 6.2% from 6.3%. Even if the Labor Department reports the recovery in hiring, around 10 million jobs are still unaccounted for since the economy removed 22 million from the economy last spring.

The FX

After the no concern given by Jerome Powell, the Federal Reserve Chairman, about the latest spike in yields, the USD increased in value in front of the major currencies. The Ten-year Treasury yields closed in a one-year high increased by 4%. Stocks reacted by crushing where the Dow decreased by more than 300 points. The stocks were negatively affected by the spike in yields due to the slowing in recovery after the higher borrowing costs. For example, the 30-year mortgage rate benchmark increased above 3% for the first time since July 2020. Despite the fact that interest rates are still low, the refinancing and demand for new homes will improve within the increase of the mortgage rates. The USD takes advantage in various ways. The Chairman's trust in the economy and its capability to survive the increase in rates benefit the currency. The increase in yield attracts demand for the greenback and the decrease in stocks push investors toward the currency. After the chairman's statements, the USD/JPY pair have increased to the strongest levels in the recent eight months whereas the USD/CHF reached its highest levels in the four months. The Swiss Franc and Japanese Yen were sold the highest with respect to the USD, however other currencies were not that far behind. Eurozone retail sales participated in the EUR/USD's break under 1.20. Though, trade data from Australia didn't aid the AUD avoid the drop.

Precious Metals

Gold has fallen quickly due to the economic positivity over a strong economic recovery and faster than expected rises in yields. The recent moves in the bond price indicated that within the rise in inflation, the market doesn't have bullish expectations for the metal. Therefore, the decrease in the real interest rate would stop. Moreover, the gold's deficit signaled the recovery in USD and correction in other commodities. The bounce back in the dollars has earned power, and other metals are selling off sharply. The Gold's next impulsive step higher won't happen unless the market experiences an increase in inflation or bond yields decrease largely to a sharp correction in the stock market. The market signals that the above-mentioned move might happen in the upcoming six to nine months.

Crude Oil

The market experienced an increase in oil prices this morning after the OPEC surprise and the attack led by Houthi on Saudi Arabia. The strong US job data indicates that the economy is expected to improve with the decrease in the virus risk. Moreover, China's reports indicate a strong global demand knowing that the destruction of the mobility limits is beginning to go away. An increase in demand for gasoline will be created after traders pricing in the US economic boom. The USA's economy is known for its heavy services and the 1.9T of the stimulus is an additional benefit for the country. After OPEC's surprise in keeping production quotas stable for April allowing oil to increase in the price of the main reopening in the second quarter. The supply strategy maintained by OPEC is still working and traders are left to play catch up to OPEC's conservative demand expectations. OPEC strategy is pushing traders and bank analysts to increase price expectations in the upcoming two quarters leading a strong boom in the market sentiment.

Cryptocurrencies

BTC buyers are satisfied from the first week of March and the BTC/USD has increased to above $50,000 where it recovered by 15% again. Traders believe that the increase in price is related to the bullish phase of the market indicating that the market uptrend will be maintained.

Based on the latest option market data, institutional traders believe that the BTC will experience a future growth to $75,000 and beyond. Traders bought call spreads with a strike of $75,000 and $100,000 expiring on May 28 via OTC on Monday. Lately, the changes in bitcoin price have been positively related with the dynamics of the US stock market. Throughout this week, as the S&P 500 index started to increase, the crypto currency market also increased. Experts believe that US indices will experience new highs as the new part of cheap liquidity overflows the market. Hence, BTC will have new chances of reaching new highs if its positive correlation with the stock market preserves. It is recommended to hold long positions in BTC with the nearest target at $75,000.

Conclusion

With the US stimulus being unchangeable, the strong economic data inputs are working on holding the risk within mixed risky signals. However, being in the FOMC self-imposed period with markets left to their own devices, investors are uncertain about the steps that should be taken since refining activity gives some easy to higher yields. The street should continue to worry about the inflation triggers.

