10-08-2020

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US markets – The S&P 500 gained 5.5% in July, while the Dow and the Nasdaq Composite rose 2.3% and 6.8%, respectively and continued the upside momentum last week as Wall Street saw quarterly earnings reports from 130 members of the S&P 500. U.S. stocks advanced even higher beginning of last week, and technology stocks surged like Apple and Microsoft, as well as signs that the rate of new coronavirus infections cases may be slowing. Analysts expecting that this bullish market movement will face a 10% correction before continuing the rally. Despite the $600 weekly benefits from Fed have expired, stocks edged higher, as investors were optimistic for a new relief package against a sequence of disappointing corporate earnings reports later on the week. Democrats and Republicans are still debating an extension of the $600 weekly federal unemployment benefits, however Republicans want to minimize the weekly amount while Democrats want to provide further benefit. US jobless claims reported was better than expected and led equities to advance higher with technology-heavy Nasdaq index closing at a record high and rose by 1%. US stocks markets had gains and were mixed late Sunday with SP500 rising by 0.3% and Nasdaq futures dipped slightly, after Trump announced an extension to unemployment benefits, even though the order for coronavirus aid was dismissed by Democrats and some Republican lawmakers. The orders would provide an extra US$400 per week in unemployment payments, less than the US$600 per week passed earlier in the crisis. All eyes turn to this week quarterly earnings.

Asian - Asian stocks were mixed at the beginning of last week with US equities, amid resurgence of coronavirus cases, along with the US-China tensions. Stocks in Japan and China advanced even higher after a private survey showed China’s manufacturing activity expanded by more than expected in July, while mainland-listed tech stocks surged on expectations that Beijing will respond supportively to U.S. moves on Chinese-owned software companies. The rally followed reports showing that manufacturing has improved across much of the world, including in China, Europe and the United States and investors eyed the progress of stimulus talks in Washington. The Wall Street Journal reported that senior US and Chinese officials will discuss the countries' "phase one" trade deal on August 15, six months after the agreement was made. China’s exports sector seems that started recovering from the pandemic hit. China’s exports have grown 7.2% on a yearly basis in July, disrupting expectations for a drop of 0.2%. Imports declined 1.4% year on year in contrast to a 1% rise as economist forecasted. This resulting in 62 billion trade surplus against expectations of 42 billion. On the commencement of this week Asian equities held tight ranges today as concerns over increased tensions between the United States and China weighed on sentiment. The market sentiment remains mildly positive as US President Donald Trump’s recent executive orders pushed the opposition democrats back to the discussion table for phase 4 COVID-19 stimulus package.

European Markets – European equities were expected to open higher beginning of last week as they did ahead of one more week of corporate earnings, while the US lawmakers attempted to provide a new coronavirus aid package. The Eurozone's manufacturing economy recorded its first growth in a year-and-a-half during July as the report showed 51.8 higher in July than expected (51.1) and June 47.4. European stocks of AIG, Bayer, and Diageo slid in Europe after reporting earnings and led the Pan-European Stox600 index little changed slightly losing 0.07%. Positive earnings reports later on the week and a surge in commodities shares lifted European stock markets however the fear amid new wave of a coronavirus tempered the mood. European stocks were opened lower by the end of last week, as new infections cases are picking up once again in Europe. Investors also keep an eye on the efforts in Washington as Democrats and Trump administration officials continue to negotiate over a new progress for coronavirus relief bill. At last week's closing EU Stoxx600 index declined after BoE noted slower rebound than expected in the country. On Friday, DAX30 rose by 0.66%, as Germany's trade surplus widening from €7.5bn to €14.5bn at the end of the 2nd quarter. The CAC40 and EuroStoxx600 gained 0.09% and 0.29% respectively.

Gold Market – Despite investors have decreased their open interest in gold futures by 26.1k, by the start of previous week according to CME indicating that further upside was limited and some correction to the downside it was expected, gold finally surpassed well above $2000 per ounce and easily touched the new all time highs of $2074 per ounce, as investors fled to the precious metal with the pandemic showing no signs of diminish. Initially gold found limited gains until $2000 due to rise in the U.S. government bond yields. Because gold does not offer a coupon, rising yields from risk-free government bonds can deflate the yellow metal's haven appeal. Spot gold prices have spiked more than 32% so far this year and are on track for the best year since 1979. For the time being Sino-US tensions and fiscal wrangling in the US may lift USD and put gold under pressure. December gold on futures rose $20.10, or 1%, to $2,069.40 per ounce, registering its fifth straight record close after a 1.4% gain for bullion. Despite better than expected Us jobless claims report gold was still appreciating. Meanwhile, VanEck, the firm that was one of the first to roll out gold-backed funds, is calling for gold to touch $3,400 an ounce. Michael Cuggino, CEO of the Permanent Portfolio Family of Funds, says gold can move a lot higher. It would "not be an unreasonable move" for gold to breach $4,000, he said in an interview. Gold prices slid slightly to $2,029.20 per ounce after reaching an all-time high of 2,072.5 last week in spot trading. The correction was derived from upbeat US NFP report and the US-China war escalation. "It's quite easy to see gold going to $4,000," Frank Holmes, CEO at investment firm U.S. Global Investors, told CNBC on Monday.

Oil Market – Crude oil last week began even lower close to $40 per barrel as OPEC and its allies' producers commenced supplying more crude Oil globally where many countries are still struggling to contain the coronavirus. More specifically OPEC will supply about 1.5 million barrels during August, which is more than in July and Russia has already started lifting its output and this create worries that a fresh recovery in fuel demand could postpone as a fresh wave of COVID-19 infections cases around the world cause tighter lockdowns. Later on, the week Oil dropped after consecutive days of winnings, due to increase virus cases around the world underestimated the market confidence in a pickup in fuel demand. Crude inventories were down by 8.6 million barrels in the week to Aug. 1 to 520 million barrels, compared with analysts' expectations for a drop of 3 million barrels.

According to CME volume increased by the end of the week and prices of the WTI reached the key 200-day SMA above the $42.00 mark after Crude Oil stocks fell 7.4 million barrels in the week ending July 31st, as EIA announced, against expectation of minus 3 million barrels. Crude Oil prices were edged higher with Brent crude rising 43 cents to US$44.83 per barrel and US crude Oil added 54 cents to US$41.76 per barrel. State oil giant Saudi Aramco's Chief Executive Officer (CEO) Amin Nasser said on Sunday, oil demand recovery is picking up pace in Asia as economies gradually open up after the easing of coronavirus lockdowns. Technically the black gold has room to further drop at $32 per barrel if it breaks below $38 per barrel.

Foreign Currencies – Euro/Dollar began the previous week near 1.17, 200 pips lower than previous intra-day highs of 1.19 as overbought conditions met. FX Strategists at UOB Group, foreseen Euro/Dollar navigating within 1.16 and 1.19 range. While the US ISM Manufacturing climbed 54.2 in July, the employment sub-index remained well below 50% and that's why dollar did not manage to remain stronger against euro after its rebound. Hiring US data released by ADP showed that the private payrolls in the US increasing by 167,000 during July and was well below the 1.2 million estimates from economists surveyed by Bloomberg and the revised 4.3 million increase seen in June. FX Strategists at UOB Group noted that Euro could advance to 1.20 on a close above 1.1930 in the next weeks. By the end of the week euro lost 0.28% amid a risk-off mood stemmed from President Trump's move against China's TikTok and WeChat. Despite better than expected jobless claims report of 1.186 million unemployed people against 1.415 forecasted, euro appreciated. Euro/Dollar make efforts to recapture 1.18 price level after suffering a substantial drop on Friday following upbeat US jobs figures and escalating Sino-American tensions. Investors turn their oversight to the fiscal stimulus impasse in Washington after Trump's executive order. While US jobless claims report last week was better than expected, the unemployment rate remains above 10%. The US economy gained 1.763 million jobs in July, with the unemployment rate falling to 10.2%. A combination of factors such as no deal Brexit, coronavirus woes and dollar pullback lead pound lower, closing lower last week at 1.304 from highs of 1.319. Bulls stay hopeful over the Tory government's ability to offer more stimulus, positive trade talks with the US and Japan. Pound performed slightly well last Thursday, gaining 40 pips against dollar as the Bank of England's (BOE) Monetary Policy Committee decided to keep the policy rate unchanged at 0.1% at its June policy meeting as it was expected. The BOE held the Quantitative Easing program unchanged £745 billion. In previous report BoE noted that will not tighten the rates unless inflation sustainably moving to the target. Cable is now facing the next key target at the 1.3200 level in the next weeks, suggested FX Strategists at UOB Group. . Bank of England noted that may take longer for the UK economy to recover and it is predicted at the end of 2021 to recover the most. A survey showing that a third of UK employers may lay off workers is weighing on the pound. Pound/Dollar failed to hold onto the highs amid the BoE policy decision and Sino-American tensions. All eyes turn to this week's UK jobs report, along with UK GDP and US consumer and UK employment is expected to be at the same 3.9% in June. Long-term economists at MUFG Bank believe Dollar/Yen could trade below the 100 level. FX Strategists at UOB Group noted the outlook on USD/JPY remains unclear for the time being. U.S. ADP private payrolls data led dollar depreciating against yen and we saw a new selling pressure to an intra-day low to 105.3. Dollar/Yen climbed to 106.05, last Friday on release of upbeat U.S. jobs report, even though lack of follow-through buying triggered profit-taking and price retreated to 105.73 in thin Asian trading today as Japanese markets remain closed for Mountain Day holiday as geopolitical tensions between U.S. and China continue to remain.

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The appreciation of the euro is affecting European exports:

The appreciation of the euro against the dollar raises additional concerns about the speed with which the eurozone economies are recovering from the coronavirus crisis, as their exports become more expensive and their competitiveness diminishes. Today, the euro-dollar exchange rate stands at $ 1,178, up from $ 1,063 a year ago. According to Daniel Gros, director of the Center for European Policy Studies, the combination of an open economy and dependence on exports means that the eurozone could face serious problems if the euro continues to strengthen. Those pushing for a stronger international role for the euro should keep in mind that while such a shift may be geopolitically desirable, the economic implications are more complex. For an extremely open economy like the eurozone, these economic implications certainly have significant disadvantages. The situation is somewhat different for the US, in part because of the global role of the dollar. While a strong currency undermines export competitiveness and employment, the US economy is vulnerable to exchange rate fluctuations because it is less open. Recent research by IMF shows that the overwhelming dominance of the US dollar in trade - the so-called Sovereign Currency example - also makes a big difference. Because most exporters worldwide price in dollars, their export prices remain relatively stable, even when the local currency exchange rate against the dollar changes. As a result, neither these economies nor the US economy appears to benefit substantially from the devaluation of the local currency in the short term, or to suffer significantly from its revaluation. Exporters from Europe are the exception: because they tend to price in euros, European exports become less competitive everywhere when the euro appreciates against the dollar. While the devaluation of the dollar does not help the US economy, it affects Europe.

Weekly News 10-08-2020 – 14-08-2020

Time (GMT+3)	Event	Impact
04:30 am 10.08	CNY Consumer Price Index (YoY) (Jul)	High
11:30 am 10.08	EUR Sentix Investor Confidence (Aug)	Low
18:30 pm 10.08	USD 6-Month Bill Auction	Low
11:30 am 11.08	GBP Claimant Count Rate (Jul)	Medium
11:30 am 11.08	GBP ILO Unemployment Rate (3M) (Jun)	High
12:00 pm 11.08	EUR ZEW Survey – Economic Sentiment (Aug)	Medium
05:00 am 12.08	NZD RBNZ Rate Statement	High
05:00 am 12.08	NZD RBNZ Interest Rate Decision	High
09:00 am 12.08	GBP Gross Domestic Product (QoQ) (Q2)	High
15:30 pm 12.08	USD Consumer Price Index ex Food & Energy (YoY)(Jul)	High
04:30 am 13.08	AUD Employment & Unemployment Change (Jul)	High
09:00 am 13.08	EUR Harmonized Index of Consumer Prices (YoY)(Jul)	High
15:30 pm 13.08	USD Initial Jobless Claims (Aug 7)	Medium
05:00 am 14.08	CNY Retail Sales (YoY) (Jul)	High
12:00 pm 14.08	EUR Gross Domestic Product (YoY) (Q2)	High
12:30 am 14.08	USD Retail Sales Control Group (Jul)	High
17:00 pm 14.08	USD Michigan Consumer Sentiment Index (Aug)	High

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