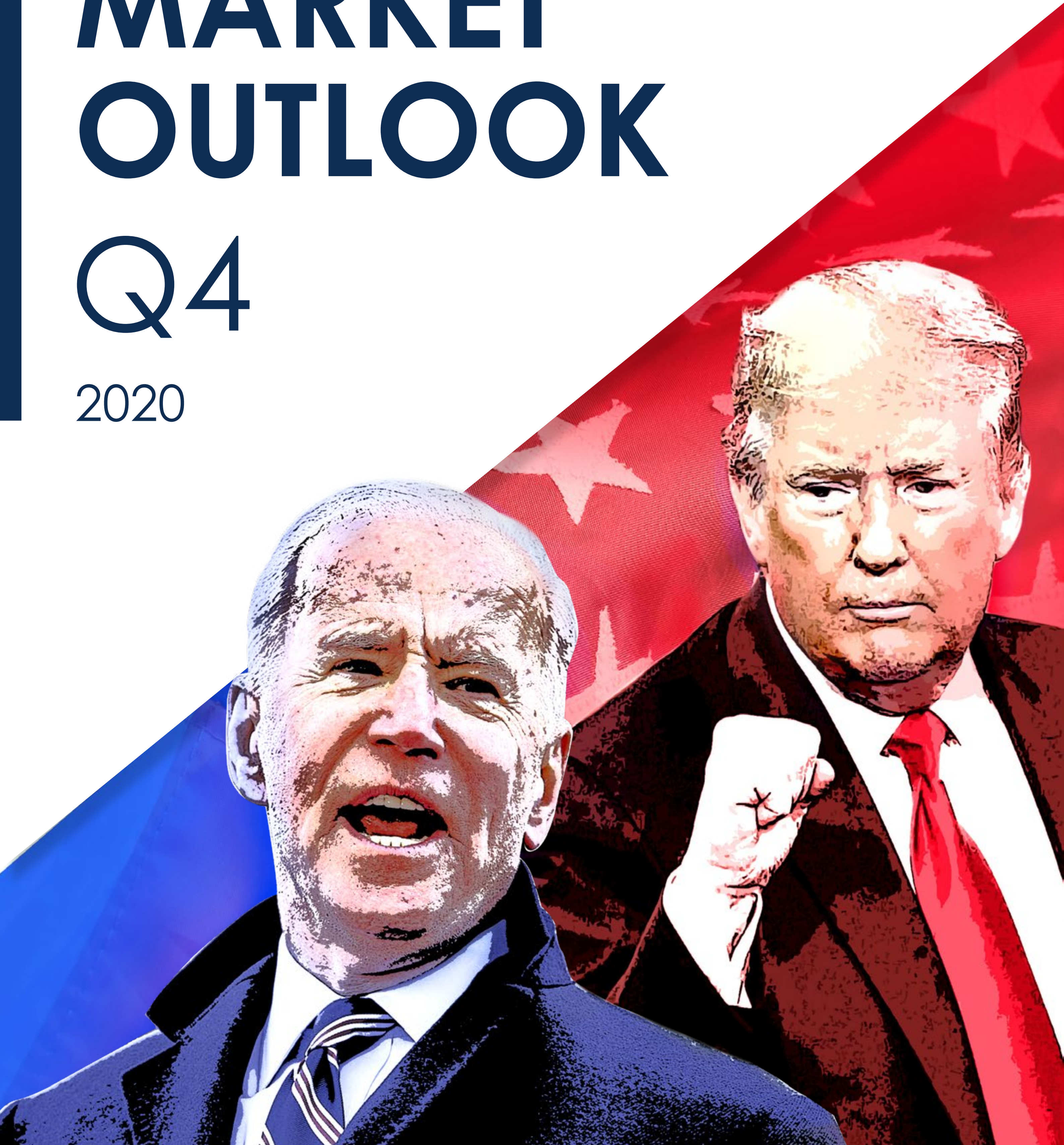
MARKET OUTLOOK

Q4

2020



ATFX MARKET OUTLOOK Q4 2020

2020 has been a year no one will forget, it's raised huge challenges for the entire world, with the financial sector being no different. As a trader, we need market volatility to make money, and 2020 truly delivered on that.

Q4 is set to extend on that market volatility as the US presidential election (3 November) looms over. This could cause a flurry of new trends in the Dollar, stock indices, commodities, and cryptocurrencies.

To help you understand how the markets might move we'll provide an in-depth analysis of each major market. As well as an introduction on the possible actions President Trump and former Vice-President Joe Biden will likely take, should they lead the White House for the next 4 years. We also discuss Covid-19 and how it might once again shift the pendulum of optimism and pessimism of traders.

Alejandro Zambrano
Global Chief Market Strategist, ATFX

Q4 2020

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ATFX

Who is Joe Biden?

By Cameron Bowen, ATFX UK

Joe Biden was first elected to the Senate at age 29 and was re-elected 6 times before resigning to assume the vice-presidency in the Obama administration in 2009.

He called for action to address climate change before it was a mainstream issue, introducing the Global Climate Protection Act (GCPA). As VP he was responsible for infrastructure spending to counteract the 2008 recession. He's also recognised for passing critical legislation such as the Tax Relief and Job Creation Acts of 2010 and the Taxpayer Relief Act, which addressed the fiscal cliff.

What would a Biden win mean for the USD?

While the U.S. Dollar has benefitted from President Trump's economic policy of trade protectionism, Biden's long-standing support of international free trade including his support of the North America Free Trade Agreement and his less aggressive attitude towards China and Europe encourages global growth.

On the other hand, potential Democratic support for higher corporate taxes and in particular, their much-publicised comments in support of repealing Trump's 2017 Tax Reform Act, might hurt U.S. economic growth, putting pressure back on the dollar. Added to this, Biden's plan to impose a minimum tax rate of 15% will be costly for some major companies on Wall Street (such as Amazon and Netflix) that pay little or no taxes. If extra fiscal stimulus measures to fight the high unemployment rates caused by Covid-19 are also introduced, the pressure on the USD could escalate.

Unlike Trump, Joe Biden tends not to comment on the exchange rate, leaving the Fed to get on with its job. Trump, by contrast, has typically been against a strong dollar.

Joe Biden and Wall Street

While Wall Street would probably still prefer Trump over Biden for President, if a Democrat is going to be the next U.S. President, Wall Street could live with Biden. Compared with Bernie Sanders for instance, he's seen as a moderate and the state he's most associated with – Delaware – is home to more than half the publicly traded companies on the NYSE and Nasdaq. More than 67% of the Fortune 500 companies are also incorporated in Delaware. And, although Biden has promoted himself as supporting the middle-class workers and small businesses against the bankers, brokers and corporate executives of Wall Street, his long experience of working with Wall Street will count in his favour.

Interestingly, in his current presidential campaign, stockbrokers, bond dealers and brokerage houses have donated $29 million to the Biden campaign according to numbers from the Centre for Responsive Politics while Trump has received about $6 million from the same group.

Which Stocks Will Benefit the Most from Biden?

Despite the tax implications, some parts of the Joe Biden agenda could be greeted with relief from Wall Street. He's less likely than Trump to impose new tariffs on trading partners and we may see trading tensions diminish.

A Biden win could raise the chances of passing an infrastructure package that could boost the coronavirus battered U.S. economy and Wall Street believes that health care companies such as Anthem, Centene, UnitedHealth, Humana, and CVS Health will capitalize on a Joe Biden win.

In general Wall Street prefers Republicans but history shows that Wall Street also did well when Democrats like Bill Clinton and Barack Obama were in the White House. It looks like a Biden administration is unlikely to drastically change business as usual when it comes to the financial industry and Wall Street. Financial markets want stability, and Biden can provide that.

Who is Donald Trump?

By Cameron Bowen, ATFX UK

Before he became president, Donald Trump was a well-known businessman and TV reality star in New York. He has been in the real estate industry for decades and currently owns some of the best-known properties in several cities in the US.

Trump announced that he would seek the nomination of the Republican Party in 2015 and surprised many by beating Hilary Clinton to the Presidency a year later. His campaign raised issues such as illegal migration, US national debt, offshoring, and Islamic terrorism.

Key Trump economic policies

The economic agenda of Donald Trump has revolved around 3 things: tax reform, deregulation, and trade. Trump's Tax Reform Act, effective from January 2018, was welcomed by business leaders and investors. Not only did it lower corporate taxes from the previous 35% to about 21%, but individuals also saw significant tax cuts and some enjoyed bonuses.

Trump was keen to encourage more companies to move back to the United States, but he was less successful in this ambition largely due to the disparity in wages between the US and countries like China and Mexico. Some companies like General Motors and Harley Davidson even announced plant closures. Trump made progress in reducing the regulatory burden for business. He announced that the US would leave the Paris Climate Accord and repealed regulations such as the Clean Air Act and Clean Power Plan acts. At the same time, he has removed some of the restrictions that limit coal and natural gas extraction. These measures together with Trump's anti-environmental protection stance has helped drive deep divisions in opinion across the US.

Trump looked at Trade through an America First lens which led, by 2018, to him starting trade wars with several countries. He began by applying steel and aluminium to most countries, including allies like Canada, Mexico, Japan, and the eurozone. China and the US achieved a first phase and narrow new trade deal in January of this year.

Stock performance under Trump

Stocks have generally been positive in the Trump administration. In his tenure, the Dow Jones, S&P 500, Nasdaq, and Russel reached their all-time highs. But the coronavirus pandemic has been a real challenge and led to some of the sharpest declines in indices in years. For example, the Dow Jones had its worst day on record in March this year.

Finally, Trump has also had an impact on monetary policy. He ended Janet Yellen's tenure as the Federal Reserve president and replaced her with Jerome Powell hoping that Powell would lower interest rates and provide a more accommodative policy. This hasn't happened and the central bank increased interest rates three times in 2017 and twice in 2018.

The US dollar index declined from 102 to 88.85 between January 2017 and January 2018. It then started rallying, reaching a high of 101.90 this year.

Trump 2020 campaign policies

In the current election cycle, Trump will continue focusing on tax cuts, deregulation, and trade concentrating on some of the issues he hasn't yet been able to deal with, such as the large and "unfair" trade deficit with the eurozone. More infrastructure spending will be promised which could be good for many American companies.

Nevertheless, Trump will have many questions to answer about his record - his heavily criticised response to the Covid-19 crisis, the high unemployment rate, the continually rising US budget deficit and the, so far, ineffective trade wars.

Four months ago, with a strong economy and Wall Street making consecutive record highs, it looked like Trump would win a second term. Now, after the coronavirus crisis, a double-digit unemployment rate and a deep recession, the latest polls suggest that Trump faces possible defeat.

Analysts and investors believe that it is too early to take positions betting on the outcome of the election.

FOREX OUTLOOK

EURUSD: Can Joe Biden save the US dollar?

By Alejandro Zambrano, Global Chief Market Strategist, ATFX

The 2020 U.S. election, derailed by the outbreak of the coronavirus, will be a presidential campaign like no other. The election will undoubtedly drive fourth-quarter trading in the EURUSD. If EU inflation continues to decrease, it could tilt odds in the favour of more European Central Bank (ECB) quantitative easing. This could turn the tide for a strong Euro. Most EURUSD price changes will probably occur post-election night, as traders hold back with their positions to await news of who the next commander-in-chief is.

As for Covid-19, it seems that most governments are willing to accept some loss of life if it means they get to keep their economies open. Also, the latest figures show that the number of deaths remains low as the most vulnerable individuals in society continue to self-isolate. Hospitals are also more equipped to deal with the virus than they were at onset of the outbreak. It's hard to say today how the situation will look in December, but for now I can say that the winter could turn out to be better than expected. The effects of the virus could diminish. Above all, the economic ramifications of the virus on both the European and U.S. economy will be especially important, as well as the upcoming U.S. election, and the possibility of a change in ECB's stance.

Expect election volatility

The 2016 U.S. presidential election saw the EURUSD opening at 1.1039 followed by a spike to 1.1299, and the creation of a new day low of 1.0905. The EURUSD closed on election day at 1.0935, and as the dust had settled, the session price range was seen at 394 pips. A similar volatility surge could happen on 3 November, 2020, as there is no clear winner at present.

Joe Biden might get the highest number of votes, but the US presidential election is not based on the popular vote. What is important is how the population of the various states vote and each states' number of Electoral College votes. The system is old and was built to even out the power of the big cities. Today, however, some think that this system gives disproportionate weight to some states with a low population, and typically these states vote Republican over Democrat. This is how Hillary Clinton lost in 2016, despite having 3 million more votes than Trump.

In the aftermath of the 2016 election, stock markets rose, and the dollar strengthened. In EURUSD terms, the price slid from 1.0935 to 1.0351; however, following President Trump's inauguration, the EURUSD turned higher.

Trump prefers a weaker dollar

A strong economy and a weak dollar is a combination that Trump seeks. Following his inauguration, the US Treasury confirmed Germany, Japan, and China as currency manipulators, and on 13 April, 2017, Trump said the greenback is "too strong".

If President Trump wins, I therefore think that he will prefer the dollar to remain soft, and it is unlikely that people would need to make dramatic changes to their dollar positions.

As for policies, we should see more of the same, e.g. more support for business and possibly lower taxes, both of which could boost the dollar. On the other hand, China will feel tightened screws, if Trump continues to try to get a more US-favourable trade deal. This may then have a negative impact on the US economy and on China, and the dollar could deteriorate here.

What if Joe Biden Wins?

If Joe Biden becomes the next president we might see the anti-dollar policy dropped. This could see the EURUSD turn lower. Countering this is the fact the US economy might grow a bit slower under Biden.

Joe Biden says climate change is "the greatest threat to our security", and calls for a "revolution" to address it. His team has drawn up plans on how to invest in new technology and reduce emissions. Potential red-tape like this could have a dampening effect on US growth and the dollar. Also, Biden might be ready to impose more stringent lockdowns on the US economy if Covid-19 becomes a major problem once again.

Race to the bottom

The EURUSD drifted lower over 2018 and 2019 as the US economy outperformed, and as the Federal Reserve was increasing interest rates.

However, as soon as the Covid-19 crisis hit, the Federal Reserve was quick to lower rates from just below 2% to the current rate of 0.25%.

The US yearly change in the monetary base (M2), rose by nearly 3.5 trillion, while the Euro area figure for the same measure was shy above 1 trillion. In short, the Federal Reserve printed much more money on the heels of the Coronavirus crisis than the European Central Bank did, and this could explain why the EURUSD has risen following the crisis.

The Federal Reserve is now targeting an average inflation level of 2%, rather than having inflation at a 2% ceiling. They have also said that they are ready to see the unemployment rate drop to very low levels before increasing interest rates as they did between 2016 to 2019, and effectively act when inflation starts to pick up sharply. This new policy means that the USD will not receive a boost by the Fed any time soon. I also think that the Fed has probably done enough to shore up the US economy. In other words, I don't think the Fed will do much to sink the US Dollar.

What is in store for the ECB?

The Euro area is in deflation, with the August annual figures showing a 0.2% slide. Businesses are reopening in Europe, but the virus continues to affect confidence and people are not spending as they used to. I, therefore, think inflation will remain weak in the months ahead, and the ECB's wait and see approach will change fast as we reach the end of the year. I anticipate more QE and a weakening of the Euro on this basis.

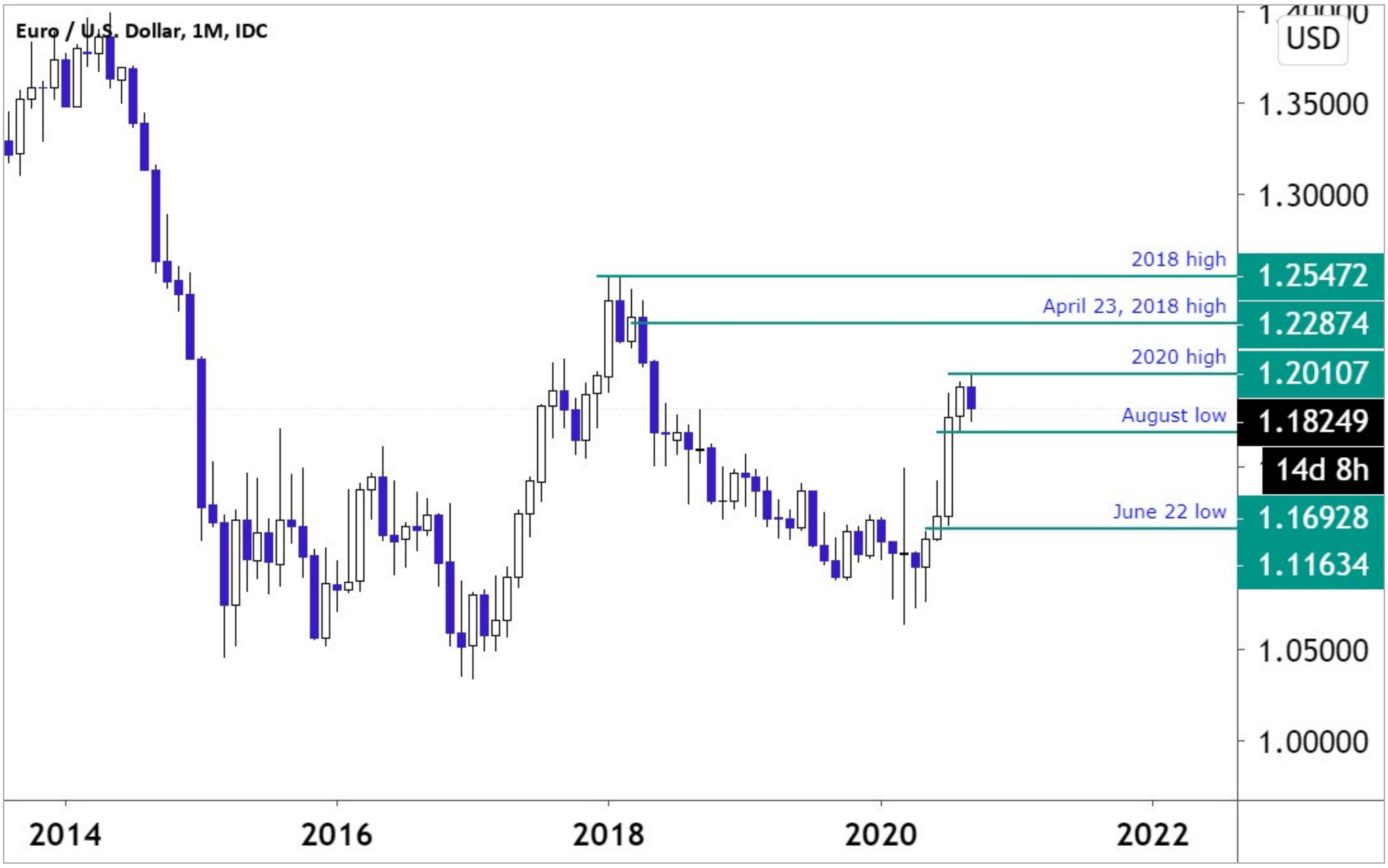
To summarise, it is not clear who will win the US presidential election, but I lean towards President Trump keeping his job which will not have a major impact on the dollar. Also, I think the ECB will turn more dovish than the Fed in the coming months, which is Euro negative. Overall, I would rather be a dollar buyer than a seller. However, the technical analysis does not currently support this view.

Technical Outlook - The trend remains in favour of the EURUSD

The EURUSD was in a firm downtrend from the start of 2018 until May 2020. The price then abruptly traded higher. At the time, there was not a special technical pattern that triggered the move higher which made it hard to forecast the next step. Today, the situation has changed little and if we look at the chart below we can see that the EURUSD has been trapped in the large range of 1.0450 to 1.2550 since 2015. I don't think this range will end anytime soon.

Over the next couple of months, the August low of 1.1692 will be key, and as long as the price trades above the August low we might see the price trade to the 2020 high of 1.2010, with a successful break possibly lifting the price to the 23 April, 2018 high of 1.2287. It was from this level that the downtrend accelerated in 2018. So for now the technical analysis favours the upside in EURUSD, but this might change as we near the end of 2020.

EURUSD Monthly Chart



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GBPUSD: Heading for a cliff edge as Brexit risks mount

By Alejandro Zambrano, Global Chief Market Strategist, ATFX

Despite the UK economy seeing more of a decline than the U.S, the GBPUSD currency pair has witnessed a sharp rise. This rise halted on 1 September when the GBPUSD reached 1.3483 and then started a descent to 1.2759. Data on GDP rates for the second quarter show that the UK economy contracted 21.7%, while the U.S. economy fell 9.1%.

The Fed injects $3 trillion into economy by printing more money than ever

There are several reasons for the slide in the U.S. Dollar. Firstly, the U.S. central bank, the Federal Reserve, has printed money more aggressively than other central banks. Over a three-and-a-half month period, the Fed printed a little over three trillion dollars to counter the economic impact of Covid. If we compare their money printing vs the Euro area, then the Fed printed 3.5 times more money. Another factor is that the Euro area and the UK were seen as dealing better with Covid-19 than the US.

PM Johnson regrets signing the withdrawal agreement in its current form

However, on 1 September, traders turned as bullish as can be on the British Pound. At the time, the threat of a hard Brexit was deemed to be very low. Yet fast forward a few days, and the British government was ready to alter the UK-EU withdrawal agreement that they freely entered into months earlier. They aimed to change UK law by the end of September, and in the process break international law, in the process infuriating the EU.

It looks like PM Johnson is trying the "my way or the highway" approach employed by President Trump in his international trade deals. However, the US has had the upper hand when using this strategy. In the UK/EU relationship, 43% of all UK exports go to the EU as per the UK parliament website, while EU exports to the UK account for only 6.2% or 18% of the total depending on the measure. (According to the BBC).

Should the UK be banking on a good trade deal?

The UK government also takes the approach that it is in the EU's interest to provide a favourable deal. However, there is a risk that by providing the UK with a good deal, this might trigger more countries to leave the EU, so it is not in the interest of the EU to give the UK a good deal. Also, some EU countries hope to fill the gaps that will be created when the UK leaves.

The chances are therefore high that the UK will leave on WTO terms, e.g. a hard Brexit. But this will not stop the UK trying to negotiate a new deal following that. WTO terms will probably dent UK growth once again.

The risk of a no-deal Brexit should keep the British Pound under pressure—low growth in the UK vs. the US should also keep it down. As for the Bank of England, the money markets are projecting a cut in interest to zero by February 2021, and into negative territory later in 2021. The money markets are, therefore, projecting a hard Brexit or slower economic growth.

Technical outlook

If we ignore the Covid-19 spike to 1.14, then the GBPUSD has been trading sideways between 1.20 and 1.3420 since late 2018. We have seen some adjustments to Brexit risks, but at the time of writing, the price was closer to the upper end of the range than the lower end. I therefore think we could see GBPUSD drift lower and reach 1.25 in the fourth quarter. On a hard Brexit, we could also see a slide to 1.20.

The most significant risk to this outlook is that the UK and EU somehow manage to become friendly and succeed in striking a deal. If this happens, and the price trades above 1.3420, then it might be the start of a push towards the psychological level of 1.40, followed by the 2018 high of 1.4375.

GBPUSD Daily Chart

USDJPY: How the resignation of Japan's Prime Minister will impact economic policy

By Dean Chen, ATFX (China) Senior Market Analyst

We've seen weaker than usual economic data for Japan in the last 3 months. The country has recorded its worst Gross Domestic Product (GDP) drop recently, at a record 9.9%. This means that the country is now officially in recession. The coronavirus-induced global economic downturn has sent financial markets spiralling. But what does this mean for the Japanese Yen?

Interestingly, the drop in the rate of GDP has not necessarily resulted in a depreciated Japanese Yen. The reason is that the U.S. has also reported a 9.1% drop in its GDP, a figure very close to Japan's GDP drop. While we know that the Japanese unemployment rate has stabilised at approximately 3%, this figure doesn't help us understand fully the fluctuations in the Japanese Yen. In fact, the Consumer Price Index (CPI) would have to remain below 1% in the long run for us to get a better understanding of Japanese currency fluctuations.

In 2020 Q2, the year-over-year rate of growth in Japan's M2 money supply was below 4%. As the global turbulence caused by the coronavirus pandemic accelerated further, Japan's M2 money supply index surprisingly rose by 7.9% in July. This rise has massively exceeded expectations.

History shows that the easing of monetary policy led by the Bank of Japan has not always led to a CPI rebound. That said, eased monetary policies have worked significantly well for stock, bond and forex markets. "Abenomics" named after Prime Minister Shinzo Abe's famous policies, refers to extreme quantitative easing enacted during his political career.

On 28 August 2020, Abe announced his resignation. He cited deteriorating health as his reason for stepping down. Top candidates expected to replace him include Chief Cabinet Secretary, Suga Yoshihide and Deputy Prime Minister, Aso Taro. The phenomenon known as "Abenomics" is expected to have little impact on future policies.

What this means for the Japanese Yen is that if quantitative easing policies are not continued or expanded by the future Prime Minister, the Japanese Yen may not appreciate in the long run.

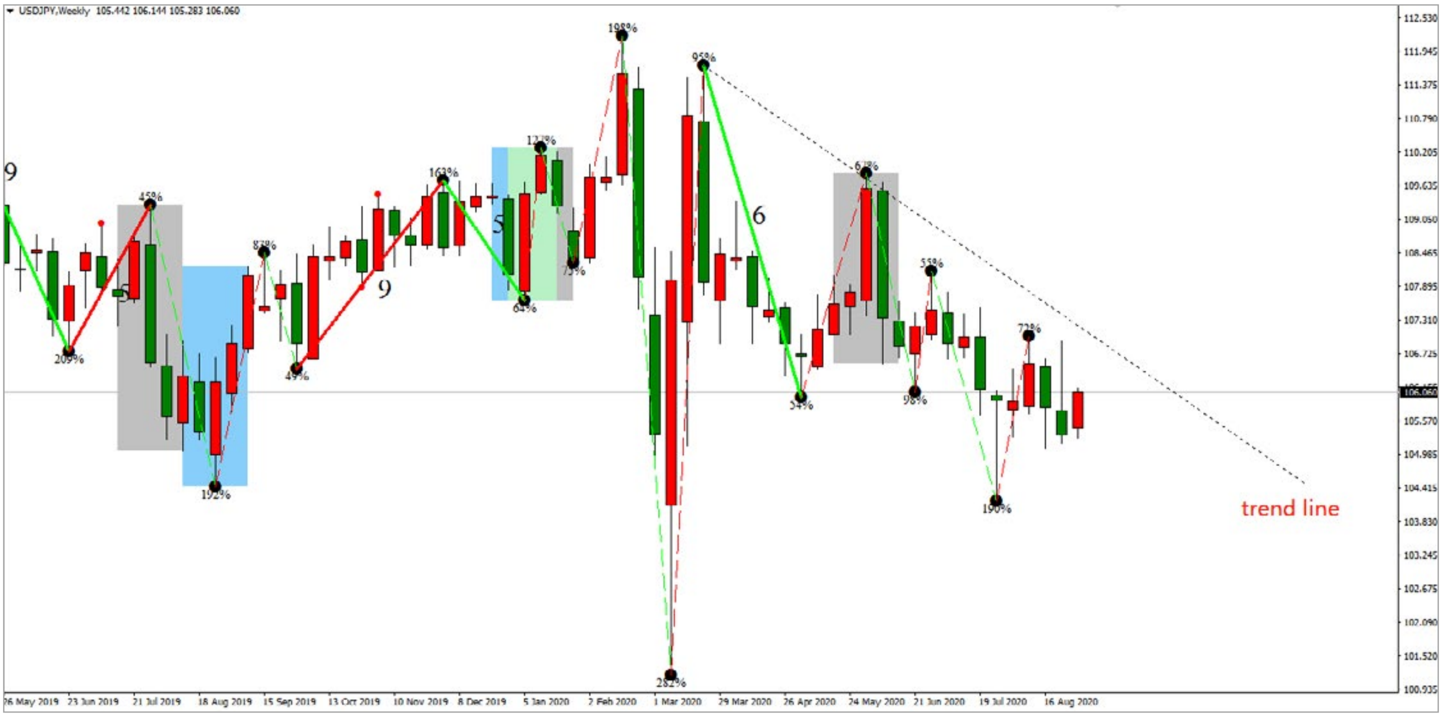
Technical outlook

USDJPY is not the best choice for short-term trading since the currency pair's trend in recent years has been either range-bound or significant V shape reversal pattern. For instance, when the pandemic was at its peak in March 2020, the Japanese Yen fell from the 112 level to 101, and then rebounded to 111 in the space of four weeks. Although a clear down trend is visible on the USDJPY weekly chart, the fast rebound from the lows of 101 does show there are still buyers in the market, making short sellers that little bit more cautious. The performance of Japanese Yen in Q4 will be affected by both the status of Japan's economy and the trend of the US Dollar.

The USD Index has traded close to the critical support level of 92.5 recently, which is in the low level range for this year. It's certainly possible to see a substantial rebound in the US Dollar. Moreover, USDX's daily chart has shown a bullish three-drive pattern. If we take the wave principle into account, the USDX is unlikely to display a significant drop in the fourth quarter. Despite this, we're still bearish towards the USDX in the long term but also conscious of the risk of a bounce in Q4.

In conclusion, if "Abenomics" loses its political weight and we see an end to extreme quantitative easing, the Japanese Yen could appreciate significantly. It's important to note that this is a long-term outlook that may not necessarily manifest itself during the fourth quarter of this year. The USDX could also see a sharp rebound.

USDJPY Weekly Chart



AUDUSD: Australia economy was dragged down by the coronavirus crisis; economic activity is still not recovered in the last quarter

By Martin Lam, Chief Analyst of Asia Pacific, ATFX

The Reserve Bank of Australia (RBA) is not optimistic about either the economic outlook or inflation in the coming quarter. They suggest that successive lower inflation expectations and reduced wage growth will make it more difficult for prices to recover.

The Australian Bureau of Statistics recorded a quarterly decline in GDP of 7%, the worst contraction since records began in 1959. It believes there is no chance of a sharp rebound and expects the recession to continue to run into Q4. If the coronavirus crisis does not improve during this quarter, this will hinder the upward movement of the Australian dollar.

Since the RBA cut the interest rate to a record low of 0.25%, it has pledged to keep rates low for years to come and stressed that it would not consider a negative interest rate monetary policy to avoid damaging deflation. The RBA has three more announcements to make this quarter, on 6 October, 3 November and 1 December, respectively. It is believed that the RBA will keep interest rates at their lowest level in nearly two years at 0.25% until there are signs of economic recovery and growth. The RBA is forecast to keep interest rates and policy unchanged for the quarter and to expand its long-term financing mechanism to provide a more accommodative policy setting based on economic needs.

Based on the above, there is no reason for the Australian dollar to gain. But over the past two quarters, continued US dollar weakness has indirectly supported the Australian dollar. Looking ahead, if the U.S. economy remains sluggish this quarter as the epidemic continues to bite and if the US Congress disputes concerning the national fiscal budget continue prior to and after the US election, then this could allow the Australian dollar to rise against the US dollar.

Technical outlook

As seen in the Weekly Chart, the AUDUSD has risen for 2 quarters against the dollar, breaking through the 61.8% of the Fibonacci Retracement and now approaching the 73.6% level (0.7435). The moving averages (MA) have now crossed and are in a bullish formation with the fast MA above the medium MA, which is above the slow MA. There may well be a retest of these moving averages before a continuation of the bull trend.

If AUDUSD can hold above 0.6508, we'd expect the trend to continue. The next key resistance levels are 0.7434, 0.7737 and 0.8142.

AUDUSD Weekly Chart

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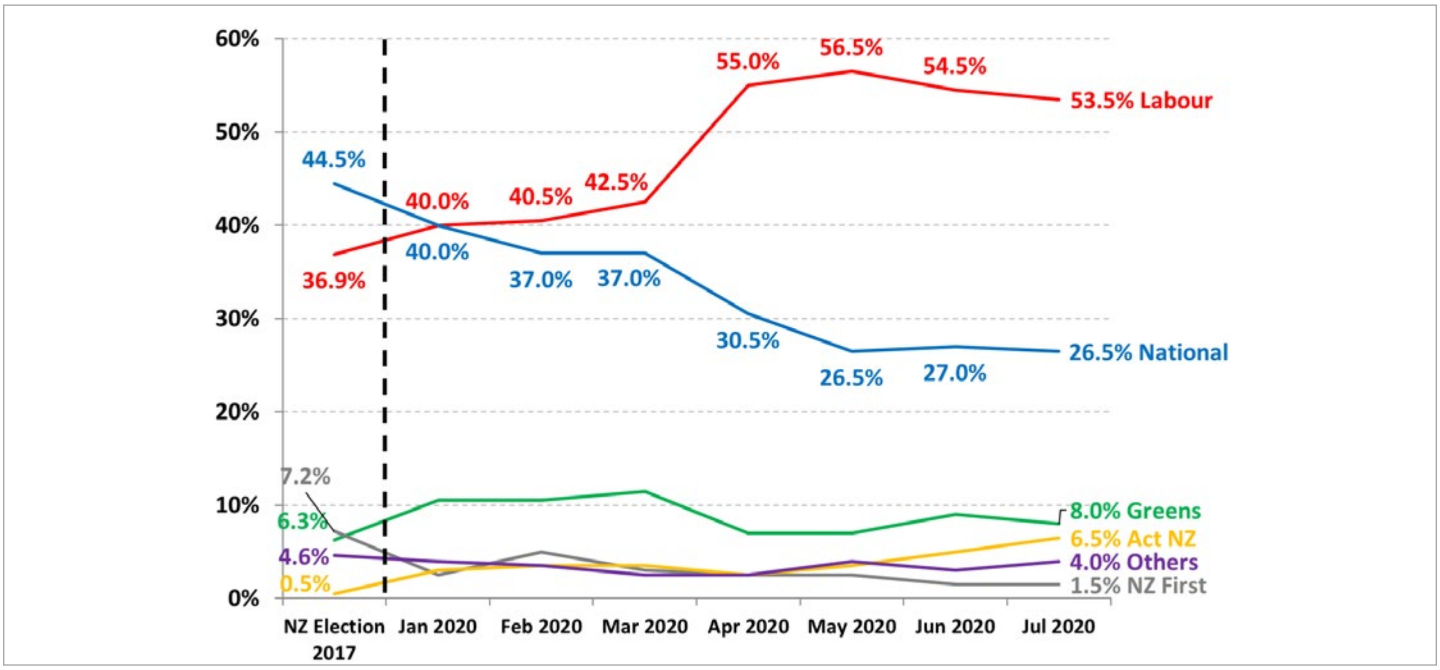
NZDUSD: How will the upcoming NZ elections impact its economy?

By Jason Tee, ATFX (Asia Pacific) Global Market Strategist

In a surprising turn of events, the prime minister of New Zealand recently postponed the general election scheduled for 19 September 2020 to 17 October 2020. This one month delay was enacted by Jacinda Ardern after a number of new infections were identified in Auckland. Calls had been growing from opposition parties for the election to be moved since the outbreak was underway and level three restrictions were in place in the country's largest city, prohibiting campaigning.

This election delay is only the fourth such postponement in its history. Currently, Prime Minister Jacinda Ardern maintains a significant lead over the new National Leader Judith Collins. Data from Roy Morgan reports that the support rate for Ardern's Labour Party is at 53.5%, more than double the support for National, which is currently at 26.5%. It should be noted that much more can change and a lot remains to be seen until the final results are released in October.

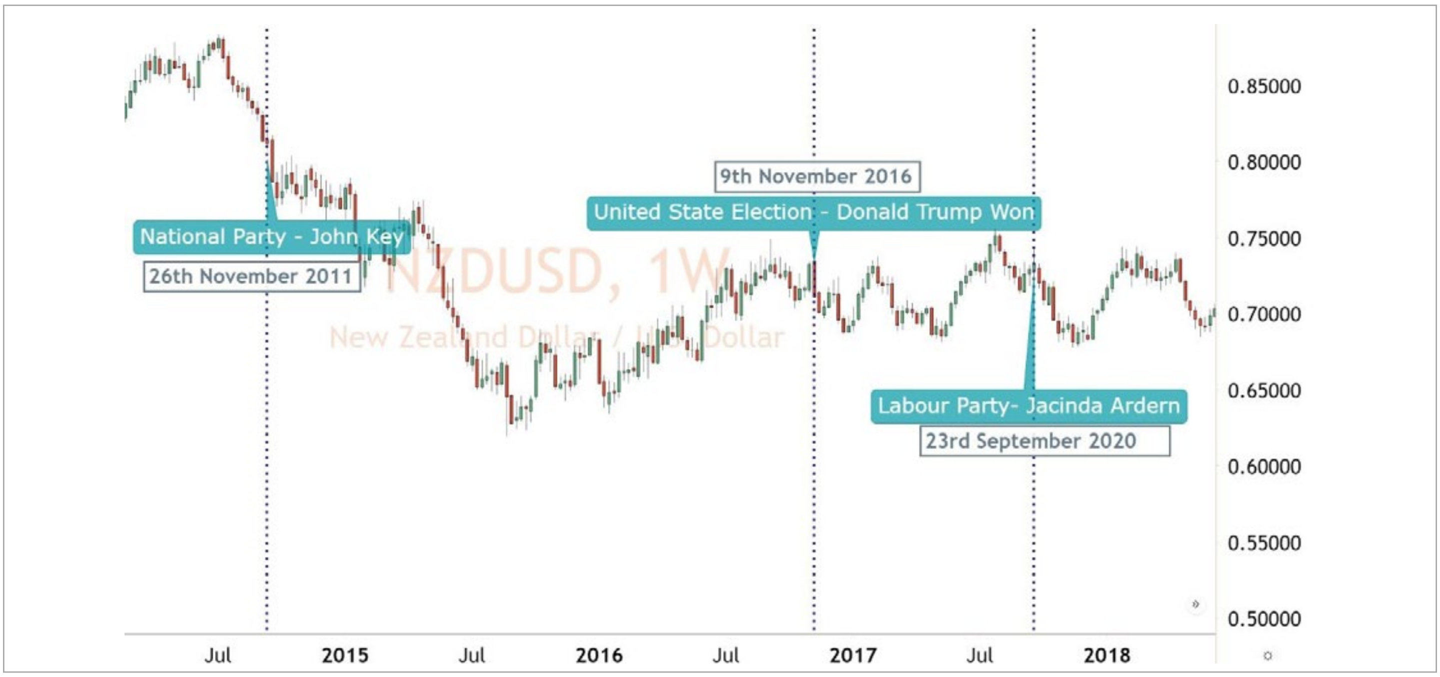
The support rate of political parties in New Zealand



If we examine the two dominant political parties in New Zealand, we can see that the Labour party relies mostly on democratic socialism, while the National party follows the principles of economic liberalism. When looking at price action and historical movements of the New Zealand Dollar, we can see that any change in government policy has a direct influence on the economy.

Based on the chart below, uncertainty after the election period could cause the NZDUSD to slump. After the New Zealand election, focus would then shift to the U.S. presidential election, which will be held on 3 November 2020. In contrast, U.S. elections have generally strengthened the US dollar. With these factors in mind, we predict the New Zealand dollar could face increased pressure in Q4.

NZDUSD Weekly Chart from 2015 to 2018



Another factor that precipitated a slump in the New Zealand dollar was the surprise announcement made by the Reverse Bank of New Zealand (RBNZ) in Q3. The RBNZ decided to double the quantity of bonds it'll buy under its Large-Scale Asset Purchase (LSAP) or quantitative easing programme. It also flagged a possible shift to negative interest rates as the Covid-19 pandemic continued to wreak havoc on the economy. The bank left its official cash rate (OCR) at 0.25%, as expected, but declared that it was prepared to use additional tools if and when needed.

This shift in RBNZ's policy came as the bank predicted a massive 21.8% drop in June quarter Gross Domestic Product growth, which would be followed by a 23.8% expansion in the next quarter. After this prediction was made public, the New Zealand dollar fell by more than 0.5% to $0.6524.

Many analysts accuse the RBNZ of dampening consumer and business confidence by offering pessimistic predictions about the economy. However, the NZD did retain its strength in Q3 despite RBNZ's announcement. It should also be noted that the US dollar weakened during this time which could have been a factor in NZD retaining its strength.

To date, the RBNZ has bought $18.1 billion of New Zealand Government Bonds and $929 million of Local Government Funding Agency bonds from these foreign investors as well as local bondholders, as a part of its LSAP programme. Looking at the bigger picture, the RBNZ might be better off being over-easy with monetary policy rather than tightening too early. If the bank is easy for longer and the economy picks up pace, then this would benefit the country. But deciding to rein back the easing early could send the economy into a secondary decline.

Before Covid-19 hit, international tourism accounted for 20% of New Zealand's exports. According to data from the Tourism Satellite Account (TSA), it contributed to 5.8% of GDP in 2019 alone. Tourism income has been greatly affected by the pandemic, but if borders open in Q4, it could provide a major boost to the industry and contribute to economic recovery. The economy will also be less sensitive to currency fluctuations if and when borders open.

Technical outlook

The Kiwi dollar has completed a clear "V-shaped" recovery against the US dollar in 5 months. It has registered new highs above the 0.6785 level. This is as the resurgence of U.S. Covid-19 cases waned on the dollar. In technical terms, NZDUSD has accelerated above the key 0.6520 level where the hundred simple moving average (SMA) is hovering, and is currently extending its five-month-old uptrend towards the 0.6700 resistance area.

If the downside risks posed by policymakers start to ease in Q4, NZDUSD could head back to the

100-day SMA (0.64430) and 0.6280 which is at the 38.2 Fibonacci retracement level. If the price breaks below these two lines, it could cause the NZDUSD to slip down towards the next support level of 0.6126 which is 50% of the Fibonacci retracement level or 0.5970 which is the 61.8 Fibonacci Retracement level. Conversely, a weakening US dollar could trigger a surge towards the 0.6943 resistance level. Once it breaks and closes above, key resistance would be seen at 0.7430.

NZDUSD Weekly Chart

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STOCK MARKETS

ATFX

PENSIVE WAIT FOR THE U.S. ELECTION, COLDER CLIMATES DUE, WILL INVESTORS RIDE IT OUT?

By Cameron Bowen, ATFX UK

The stock market price action has been led primarily by the impact of Covid-19. Q3 has seen a continuation of the recovery, which started, albeit slowly, at the end of March.

With world economies beginning to open up, it is no surprise that we've seen a bounce from the initial stock sell-off.

Stock market recovery

The recovery has been led by a tech and digital stock rally. With populations forced into new ways of life, the internet has provided a means of communication and consumer activity. Tech firms like Apple, Facebook and Amazon have seen huge growth during this period, with the NASDAQ reaching all-time highs and bouncing 90% from the lows of the pandemic crash.

Whilst tech stocks were enjoying this ride to the highs, other sectors like travel, traditional retail and hospitality have been struggling to stay afloat. In order to facilitate their respective recoveries, governments have been forced into unprecedented stimulus packages. As at16 August, the UK government recorded 9.6 million jobs that had been furloughed, at a cost to the public purse of £35.4 billion.

Not only governments, but central banks have also contributed to the attempt to prop up economies and stock prices. Near-zero interest rates and in some cases negative rates have made stocks inviting for investors.

The market recovery is in line with our forecast for Q3. The expectation was for continued growth but at a slower rate and with the possibility of new highs being made.

What will impact the stock market in Q4?

There are 2 main factors that will impact the stock markets in Q4. The U.S. Presidential election and the threat of a second wave of the pandemic.

Second wave

The initial crash happened because countries and economies came to an almost standstill. This is the risk that'll continue to hang over global economies and stock markets until a vaccine is produced.

Winter and risk of lockdowns

Government guidelines so far have been to keep rooms well ventilated, to maintain social distancing and to meet people outside where possible. With colder weather due, there will be real uncertainty about how populations react to this type of guidance and this will have a direct impact on the spread of the virus.

Already in many developed economies there are signs of a second wave of infections and governments are re-introducing restrictions, typically at a more local level. The current slow rise in the number of infections and hospitalised cases could accelerate as we get further into winter. While most governments want to avoid new nation-wide lockdowns, these cannot be ruled out. This will lead to worried investors who will be more inclined to sell their holdings for fear of another market crash.

Economies still not fully open
Countries are re-opening their economies slowly as they attempt to balance the risk of infection with the very real damage that prolonged restrictions can do to their economic welfare. In the UK, for example the Government is currently allowing pubs and restaurants to stay open yet banning gatherings of more than 6 people either inside or outside. Why? To try and give a lifeline to the hospitality sector and at the same time, to curb the spread of the disease. It's a difficult balance to pull off.

With governments doing all they can to keep businesses afloat, they still won't be able to go back to pre-pandemic operations. As long as social distancing is advised, day to day business won't be as it was. So whilst businesses are re-opening, they won't expect to see the revenue they enjoyed before this pandemic.

This affects the stock market because businesses can't work at full capacity and therefore their growth ambitions will stall.

U.S. Presidential election
The U.S Presidential election will also play a part in stock market prices in the coming months. Trump vs Biden.

Trump - The current President has made 3 issues key to his financial legacy and intends to continue in the same vein; tax reform, deregulation and pro-American trade. Wall Street likes this approach, so any sign that Trump is closer to a second term will be greeted with optimism.

Biden - Despite the initial fear from Wall Street that the Democrats will favour high tax and regulation, their promise to open borders and minimise tariffs to China has been more favourably received. Biden is also considered a moderate democrat. The fact that he was Senator of Delaware for 36 years, which is home to more than half of the publicly traded companies in the NYSE and the Nasdaq, as well as more than 67% of the Fortune 500 companies, suggests that he has had long exposure to business issues. Therefore, whilst he may not offer some of the benefits to Wall Street that Trump does, there won't be any panic should he be elected.

Clearly, there will be anxiety running up to the election, but the stock market rarely performs well during the months of September and October anyway, so don't be surprised to see the market come off as we approach the election.

After the election, however, we would expect to see the market continue its bull trend.

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Technical outlook

We'll take a look at the S&P 500 from a technical standpoint, both using a weekly and a daily chart.

Weekly view

During the recovery from the March crash, the market found support at the psychological number 3,000 and also at the yearly pivot point of 2,972. It has since rallied to an all-time high of 3,589 and tested the yearly R1 pivot point at 3,504, which it has held and closed below.

The MACD suggests that momentum to the upside is subsiding, so the expectation for the expectation for October and November is to consolidate below the R1 level at 3,504. Once consolidation has ended, then we'd expect another run at the R1 level and recent highs.

SPX500 Weekly Chart

Source: S&P 500 Index by TradingView

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Daily view

The daily chart shows an uptrend with higher highs and higher lows but we are witnessing a pullback at the time of writing (15 September 2020). Daily support levels are 3,400, 3,198, 3,000 and 2,763. The only resistance level is the all-time high at 3,589.

The MACD is showing a sell signal and divergence, suggesting that this market will go lower in the short term.

SPX500 Daily Chart

Source: S&P 500 Index by TradingView

Given the daily and weekly signals, we'd expect this market to consolidate lower before the bull trend continues.

Summary

So what can we expect in Q4? With Covid-19 still hanging over the stock markets, the risk is still there and will continue to make investors cautious. The closer we do get to a vaccine, the more confident we'll see markets become and the more bullish their trends will be.

In the short-term, the expectation is for consolidation. After the tech stocks sell-off, there will be questions about whether they were overbought and overpriced, so I don't see any immediate rallies pending. This combined with the lead up to the U.S. election and the fact that stock markets rarely perform well in September and October all point to some sideways/downward momentum. This also aligns with the technical analysis view.

Towards the end of Q4, I think we'll see the markets come to life again and the bull trend resume. Despite Biden being less Wall Street-friendly, if he were to get in, he will bring some benefits which will appeal to investors.

GOLD OUTLOOK

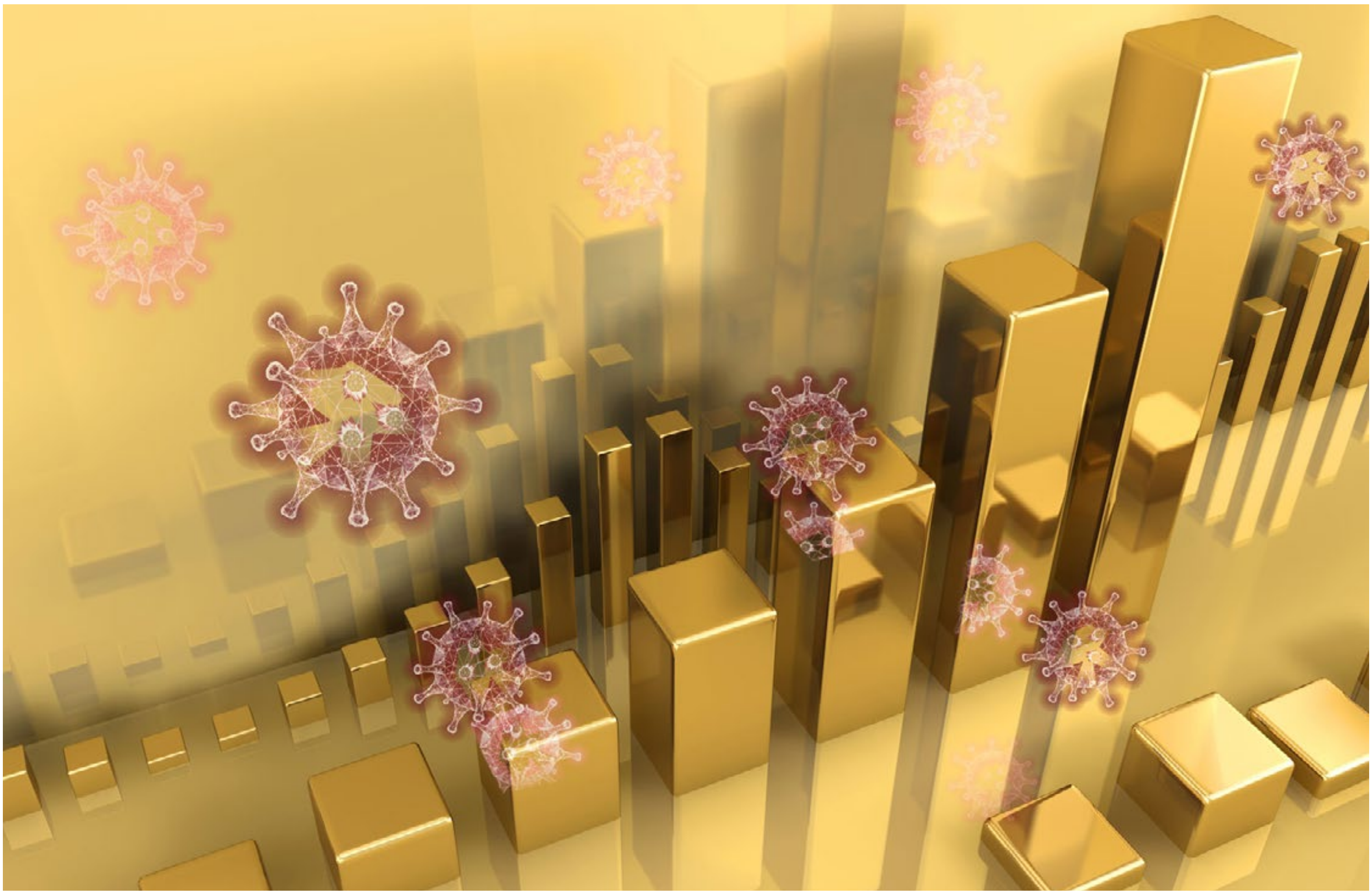
THE CONTINUOUS CORONAVIRUS CRISIS STIMULATES THE GLOBAL QE POLICIES AND SUPPORTS THE GOLD PRICE

By Martin Lam, Chief Analyst of Asia Pacific, ATFX

The coronavirus crisis caused the global economy to be close to immobility, and led to a monetary policy imbalance in various countries. This in turn led to global central banks continuously expanding the scale of quantitative easing to ensure economic stability. However, the current crisis has not been resolved by Q3. Increasing public expenditure by different states has led European countries and the US into serious fiscal deficits, which has shaken the government bond and the bond market. Many funds have invested in the Gold market against currency risks. As a result, the gold price continues to trade high and in the last quarter hit a record high of $2,074.

The trend in gold prices in the future will be affected by the coronavirus crisis. If new cases continue to rise globally and with no immediate prospect of a coronavirus vaccine, then the gold price could gain further.

The gold price trend depends on the fundamentals going forward. The global recession is deepening, and global trade has not fully reopened. If the global economy appears to be under obvious downward pressure due to the coronavirus crisis, then major Central Banks may adopt further substantial easing of monetary policy, which will stimulate the gold price. Only when the coronavirus crisis has been contained and hopefully resolved will major Central Banks withdraw their quantitative easing policies. Then, when the global economy recovers, we may see a reversal in the upward trend of gold prices.



Technical outlook

Last quarter, spot gold traded at a record high of $2,074, breaking the 2011 high of $1,921. Looking at the weekly chart, there is a Fibonacci level at 250% ($2,079.64) which could be a key resistance level, considering where it has recently held. Therefore, we'd expect $2,074 and $2,079 to be key resistance levels before we see this market trend higher and breaking highs again.

The moving averages do confirm the uptrend as they're beginning to spread and in a bullish formation (the price is above the fast MA, which is above the medium MA, which is above the slow MA). Support levels will be seen at the 10-week MA short term but more likely at the 20-week MA, which would be $1,828. Further support can also be found at $1,702.3.

XAUUSD Weekly Chart

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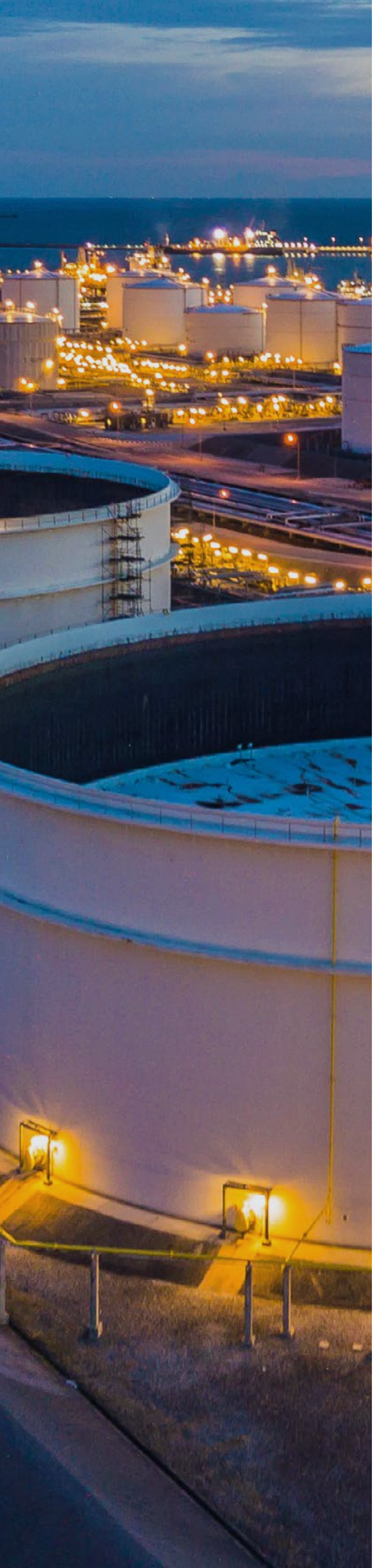

CRUDE OIL

OIL PLUNGES AS MAJOR PRODUCERS SLASH PRICES ON DEMAND WEAKNESS

By Jessica Lin, ATFX (Asia Pacific) Global Market Analyst

The world's most traded commodity has fallen under new pressure amid signs that coronavirus fallout continues to weigh on the energy sector. Oil prices have dropped more than 35% since the start of the year. Reopenings during the summer prompted a moderate rally and held contracts around $43 per barrel, but prices have since slipped on concerns that the market may take longer than expected to bounce bank. All in all, West Texas Intermediate Crude (WTI) and Brent have dropped to their lowest levels since June. However, global fiscal stimulus brings hope, mostly from the U.S. government. In the absence of improvement, we'll likely see downward pressure as global oil prices continue to reflect the change of demand.

The plateauing in demand is a symptom of the continuing aggressiveness of the coronavirus. After a plunge in April, the oil market did see a swift rebound in June. While consumption did not rebound to pre-pandemic levels, the partial recovery combined with supply losses meant that the market had technically flipped into a deficit.

Brent crude moved up to $46 per barrel by late August on the back of declining inventories and expectations of slow-but-steady increases in demand. But the mood is shifting again for Q4. The recent fall in prices can be attributed to speculative moves by investors and trader sentiment recently shifted in a more negative direction.

Inventories remain at historically high levels. Globally, oil inventories are six hundred million barrels above the five-year average and they are not declining as fast as expected. Demand recovery is fragile, inventories and spare capacity are high, and refining margins are low.

Oil recovery is contingent on the global economy, while the price of crude oil remains sensitive to risk appetite. That being said, crude oil prices are harder to break through without significant improvement on the demand side. Only when the global economy starts to pick up pace, will we see a corresponding surge in demand.

Heading into Q4, year-end seasonal demand could lift oil prices, but the slow pace of demand recovery still presents a challenge for those who are expecting oil prices to keep climbing. OPEC and a dozen non-OPEC producers led by Russia are currently withholding 7.7 million bpd of combined crude oil production from the market, hoping to rebalance supply and demand after demand crashed in the pandemic earlier this year.

So far the supply boost hasn't derailed oil's fragile recovery, which has seen prices climb to a five-month high. But the outlook for fuel demand has deteriorated as the pandemic crushes international travel, and new outbreaks of the disease are weighing on the economic recovery. At the same time, OPEC+ is easing its production cuts. This increased supply and uncertain demand recovery are now tipping the market into oversupply.

The next OPEC+ meeting is scheduled for November 2020. We can expect more insights to come to light then. Geopolitical risk will be a key driver of crude oil prices in Q4, especially when considering the impact of the 2020 U.S. election. Democratic nominee Joe Biden is expected to have a softer stance on Iran and lift sanctions which will exacerbate existing pressures on the oil industry, while Trump has vowed to use the powers of the federal government to help the sector get back on its feet. Either way, downward pressure on oil prices remains a pressing issue.

Technical outlook - WTI Oil

Prices have tested the $46 level multiple times in August but failed to hold, indicating that demand outlook has been overestimated. The price broke below the support of its rising wedge pattern which could ignite further selloff pressure.

Staying below the 100-day MA on the daily time frame, May lows of $30.87 can act as a buffer against the $25/20 range. Key support lies at $15.50. The 200-day MA can also act as an immediate upside barrier before reaching the $46/48 resistance level.

USOIL Daily Chart

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Technical outlook - Brent Oil

Similarly, Brent crude could breach its rising wedge pattern if market momentum moves negatively below this area. The next support level could be seen at $37, before heading lower to previous lows of $33.50. The lower target would be $28.26/22.14. Conversely, if the price heads higher to a 200-day MA, the 2018 low of $50.29 would be a target before heading to the next resistance level at $56.

UKOIL Daily Chart

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CRYPTO-CURRENCIES

HOW HAVE THE CRYPTOCURRENCIES COPED WITH COVID-19 AND HOW WILL THEY BEHAVE IN Q4?

By Cameron Bowen, ATFX UK

The cryptocurrency market was affected by the Covid-19 pandemic just like the other financial markets. It crashed as violently as the FX and stock markets but its recovery was that bit faster.

Bitcoin dominates the cryptocurrency market, with 58% of the market capitalisation share at the time of writing (16 September). Understanding how Bitcoin reacts to certain circumstances can often show how the rest of the market will act. Traditionally, you can see correlations between Bitcoin and the rest of the cryptocurrency market.

The Covid-19 pandemic was Bitcoins' first real test and it actually threw up more questions than answers. This was because Bitcoin was due to halve during Q2 and it did so on the 11 May. The market knew this was coming and started to price in the reduced supply. So was the fast recovery to the pandemic crash due to the fundamentals behind Bitcoin or because of the halving?

Bitcoin in Q4

There aren't too many large events that are expected to directly affect Bitcoin in Q4. There are the same events that the whole financial market is waiting on, the U.S. Presidential election and the risk of a second Covid-19 wave but little specific to the crypto market.

The Trump vs Biden election is unlikely to have much impact on Bitcoin but the Covid-19 risks are still there. Given how it reacted during the last crash, you'd expect investors to act similarly and sell their risky assets for lower-yielding, more secure instruments.

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Technical outlook - Bitcoin

To give us a better idea about what Bitcoin is likely to do in Q4, a technical analysis approach is the best place to start.

Weekly chart analysis

The weekly chart is now showing the start of an uptrend. If it continues to behave in the same way as traditional markets then we'd expect to see this move higher in the next quarter. The higher highs and higher lows confirm the uptrend.

During Q3 it found resistance at the level $12,350, which is just below the yearly R1 pivot point at $12,925. It has since retraced from that level and we'd expect this to be a consolidation phase before another attempt to break higher. The consolidation phase is also confirmed by the MACD, which is showing reduced momentum.

As the market is trading above the yearly pivot point, this is another signal that the trend is bullish.

Due to the confirmed uptrend, we'd expect this market to break the recent highs at $12,473 and to test the resistance level at $13,880.

BTC/USD Weekly Chart

Source: BTC/USD Weekly by TradingView

Ethereum in Q4

Ethereum is the second-largest cryptocurrency by market cap. There has widely been talk in the crypto community that there'll be a launch of Ethereum 2.0 "Phase 0".

Whilst this hasn't been confirmed, it's expected that the blockchain will get it's first notable upgrade.

Assuming the upgrade is successful, this should be positive for the price of Ether.

Technical outlook - Ethereum

For more insight, we take a look from a technical approach.

Weekly chart analysis

Ethereum is not showing any trend direction because there are no consistent highs or lows. There is a higher high but a lower low, which shows indecision, therefore we must consider this market still to be undecided.

It has broken above previous major resistance levels at 289 and 369, which will now act as support. The 369 level is currently where the price is trading at the time of writing (16 September).

The market is also trading above the yearly pivot point at 200 and the yearly R1 pivot point at 295. It reached the yearly R2 pivot point at 464 and was rejected quickly. The MACD indicator is showing reduced momentum, which indicates the market is entering a consolidation phase.

Looking at the analysis, the highest probability expectation would be for this market to retrace back to the yearly R1 level in a slow consolidation manner. Due to the volatile nature of cryptocurrencies, don't be surprised to see significant spikes through the R1 pivot point at 295 before closing above.

We'd expect the market to hold there and potentially move higher towards the recent highs of 488. Due to the fact that Bitcoin is showing more signals to go higher, we can also use that fact as bias because Ethereum tends to follow Bitcoins price action. Therefore whilst there are fewer signals pointing higher than bitcoin, the expectation for Q4 would be for Ethereum to attempt to break the highs, with the yearly R3 pivot point of 560 as the target level.

ETH/USD Weekly Chart

Source: ETH/USD Weekly by TradingView

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Summary

As there isn't too much news due out in Q4, the best way to get an indication of price direction is to use a technical approach.

Bitcoin is showing signs that it could continue its bull trend in Q4, whilst Ethereum has fewer signals but nevertheless, the bias is higher. Combined with the fact that it tends to follow the price of Bitcoin, the expectation is for this market also to go higher.

Whilst you can't base your view of the whole cryptocurrency market on two coins, they are the largest two and combined have a market share of 73% at the time of writing (16 September). Each cryptocurrency will behave differently but as a whole asset class, we expect a bullish bias in Q4.

THE MARKET ANALYSTS OF ATFX

Alejandro Zambrano
ATFX Global Chief Market Strategist

Martin Lam
ATFX Chief Analyst of Asia Pacific

Dean Chen
ATFX (China) Senior Market Analyst

Jason Tee
ATFX (Asia Pacific) Global Market Strategist

Jessica Lin
ATFX (Asia Pacific) Global Market Analyst

Cameron Bowen
ATFX Senior Content Manager

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