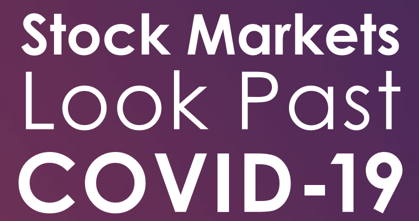
ATFX

MARKET OUTLOOK Q3

2020

Stock Markets Look Past COVID-19



ATFX MARKET OUTLOOK Q3 2020

The second quarter offered some great trading opportunities across all asset classes. As we head into the new quarter, I think market volatility will decline, yet I still think it will be a great quarter to trade.

My rationale is that traders in stocks and FX, overreacted on the way down, and now look to overact on the way up. The best example of this is EURUSD and AUDUSD, where we saw massive losses followed by almost complete retracements.

In stock markets, the Nasdaq 100 managed the same feat, while both the Dow Jones and S&P 500 still have room to go. I think the same is true for crude oil prices. To know more about what our analysts think, keep on reading.

Alejandro Zambrano
Global Chief Market Strategist, ATFX

Q3
2020

TABLE OF CONTENTS

FOREX OUTLOOK **4**

EURUSD Gains as Europe Eases Lockdowns, Price to Turn Lower in June 5

GBPUSD Could Reach its Zenith When the UK Economy Reopens 7

USDJPY will Fluctuate Violently in Q3 as Japan's Economy Worsens Under the Coronavirus Pandemic 10

AUDUSD: Covid-19 Engulfs the Australian Economy 12

NZDUSD: Negative Interest Rates Dominate the Financial Landscape 14

STOCKS BATTLE BACK FROM COVID CRASH ... BUT FOR HOW LONG? **17**

COVID-19 AND GEOPOLITICAL FACTORS CONTINUE TO IMPACT THE PRICE OF GOLD **22**

CRUDE OIL PRICES STAGE A VOLATILE RECOVERY **25**

CRYPTOCURRENCIES FIRST BIG TEST **29**

THE MARKET ANALYSTS OF ATFX **33**

FOREX OUTLOOK

ATFX

EURUSD Gains as Europe Eases Lockdowns, Price to Turn Lower in June

By Alejandro Zambrano, Global Chief Market Strategist, ATFX

The last 6 months have been volatile for the EURUSD. The coronavirus crisis forced the world to shut down. The last time we saw a health crisis of this nature, it was back in 1918 when the Spanish flu hit. Despite the problems Covid-19 caused, we were still able to nail the EURUSD price action in both Q1 and Q2 market outlooks. In both instances, we said EURUSD could decline and at both times the price indeed traded lower as projected.

At the time of writing, in the first week of June 2020, EURUSD once again rallied sharply. Like last time, I think the gains are limited, and it would not surprise me if the price turns lower. However, my bias is less bearish than in the past.

U.S. yield advantage is gone

Over the last few years, the USD had been enjoying a yield advantage over the Euro. Also, traditionally, the U.S. economy has grown faster than the Euro area. These two factors have supported the USD in the past. Yet, on June 3, 2020, the USD three-month Libor was 0.33%, while the Euro equivalent was at negative 0.33%. The small difference in interest rates leaves the USD with a minimal yield edge, but I don't necessarily think it will be enough to support the USD, as it has in the past. Hence, from a relative yield perceptive, the EURUSD outlook is neutral. From a quantitative easing perspective, both the ECB and FED are anticipated to lift their balance sheets to around $8 trillion, this is also EURUSD neutral.

Relative growth perspective

From a relative growth perspective, I think the USD has an edge. In the short-term, Europe is getting ready to open its economies after the Covid-19 shutdown. The U.S. is also opening up but there's still a high number of new coronavirus cases in the U.S. Also, the drop-off rate in the U.S. is slow. The American death rate is about 5 times higher than that of the combined major European countries.

In Europe, as it stands now, the situation is under much better control. I think the Euro region will see their economies pick up faster than in the USA, which should support the Euro. As the year progresses, I think the U.S. will catch up and outperform the Euro area as they usually do.

EU 2.0

The Euro area is currently looking into borrowing money as a collective. This move will allow investors to lend money to the Euro area states with reduced risk. That's because the risk would be shared amongst the states, which is significantly more appealing to investors. It will also allow the EU to funnel money to the country that needs it the most. It does however also create a moral hazard situation where countries that receive grants will be less incentivised to reform their economies. If the new plans come into fruition, there will be less risk to the Euro and in turn, should boost its value.

From a fundamental perspective, I am slightly bullish short-term but from a technical standpoint, I'm less so. I think the difference between these views is too low to provoke a major move in the EURUSD.

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

Technical outlook

The EURUSD is trading sideways between the 2020 high of 1.1500 and the 2020 low of 1.0633. The price is now approaching the 78.60% level of this range at 1.1313. According to the 14-day Relative Strength Indicator (RSI) the price is overbought. However, it's not as overbought as it was when it was trading at its 2020 high when the RSI reached 83.50. I suspect that the EURUSD might trade higher in the next few weeks, but at a certain point in Q3, the price will start to turn lower from the 1.1312 to 1.1550 zone. If the price indeed turns lower as I suspect, I think the price will trade back to the April 15 high of 1.0990. On a break of the 1.1550 level, I would turn neutral on EURUSD.

EURUSD Daily Chart

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

GBPUSD Could Reach its Zenith When the UK Economy Reopens

By Alejandro Zambrano, Global Chief Market Strategist, ATFX

The British Pound experienced violent market volatility, much like the Australian and New Zealand Dollar during the coronavirus crisis. The reason for the lower price was a surge in demand for the US Dollar.

The Funding Needs of Emerging Markets

Foreign banks lend a great number of dollars to foreign companies. A report by the Bank of International Settlements (BIS) showed that foreign banks had issued about $12.1 trillion loans in 2019. For perspective, $11.4 trillion was approximately 57% of U.S. GDP in 2019. When the coronavirus crisis struck, these companies appeared to hedge their positions in the open market, and this caused a surge in the dollar. In GBPUSD, a collapse followed. In December 2019 the price was trading at 1.35, and by March the price was down at 1.1412.

In our Q2 report, I said that the price could turn lower, following a correction higher, but that correction never happened. Instead, global panic sent the GBPUSD tumbling.

The reason why certain foreign companies borrow money in dollars is that it can be easier to access funds, and sometimes, the cost is lower than borrowing in their domestic currency. Also, international lenders do not always prefer to lend in their local currency.

As an example, in Turkey, many corporations borrow in Euros because it's cheaper. Foreign lenders are also less likely to lend in Turkish Lira, as it tends to decline in value. When the Turkish Lira is in freefall, Turkish corporations will rush to buy Euros against the Lira to hedge their risk. Something similar happened during the coronavirus crisis, where most of the loans were issued in South East Asia.

UK Economy Could Face Negative Interest Rates

As the coronavirus crisis is slowing in intensity across Europe and the UK, the GBPUSD is clawing back its losses. The UK central bank, the Bank of England (BoE), opted to cut rates to 0.1%, and there are talks that they could decrease rates to negative. The Central Bank Governor, Andrew Bailey, has not ruled out the need to cut rates to negative. Andrew Hauser, also from the bank, has said that the BoE is exploring the idea, and studying how the rates impacted Japan and the Euro area. He also said that it could damage the already weakened UK banks.

In the U.S, the central bank has firmly ruled out negative interest rates. One of the reasons is that it has a considerable amount of funds to manage, approximately 4.8 trillion dollars. This is essentially the Federal Reserve trying to look after individuals' bank accounts. In the past when trouble has struck these funds, it created problems for the U.S. financial system.

If the U.S. central bank would cut the rate to negative, it would mean that returns on those funds would be slightly negative. A similar situation could transpire as it did in 2008 where the money market fund held huge amounts of Lehman Brothers debt. The investment bank went bust and the Federal Reserve was forced to step in to secure peoples' bank balances.

As the Bank of England has not ruled out negative interest rates, this could weigh on the GBP, dragging it lower.

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

Hard Brexit

Disagreement over the extent of and timeline for the UK's separation has created a strain on relations between UK and European Union officials. The coronavirus crisis has not helped the situation and shifted the focus away from the EU-UK talks. Negotiations are currently happening online, as face to face meetings are banned following government guidelines. This again reduces the chances of successful trade talks.

The UK is seeking a deal similar to what the EU has provided to many other nations. These deals are with countries such as Canada and Japan, who are located geographically further away from the EU. Some aspects of these deals therefore have little practical impact. In the case of the UK, given its proximity to mainland Europe, the EU is not willing to offer the same sort of deals. It also looks like the EU is trying to set an example, to any other country within the EU that might potentially be thinking about leaving the single market. The EU's message is clear: you can't have your cake and eat it. Any new deal after leaving the EU will be inferior to what you have now.

From the UK side, the government has put in an arbitrary law that the country needs to leave with or without a deal by the end of the year. EU's Michel Barnier has offered to extend negotiations again, but the UK is not ready to claw back their law.

As always, these types of deals take time, and they will probably hamper UK investments as they have over the last few years. From a relative growth perspective, I think the UK will continue to underperform against the U.S., and this could cause the GBPUSD to trade lower.

All Eyes on the Reopening of the UK

However, for now, the focus for investors is on the re-opening of the world and the UK's economy. The UK is currently leading the U.S. in regards to re-opening its economy, with the latter still struggling with high death rates and new infections. Therefore, my short-term bias for GBPUSD is to remain trading sideways to bullish. From a technical point of view, the outlook is straight forward.

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

Technical outlook

In the first week of June, the GBPUSD was trapped between the May 18 low of 1.2076, and the April high of 1.2648. On the price closing above the April high, the price might claw back more of its losses, and we could see the price reach the yearly pivot point level of 1.29. The next level beyond 1.29, is the 2020 high of 1.3213. However, I doubt that the GBPUSD will manage to trade above that level.

I am leaning towards this scenario, that the price will try to break out just to fail a few days later. The reason for my bearish view is that EURUSD is also reaching the upper end of this year's price range, and I don't see EURUSD gaining much further. If the EURUSD and GBPUSD show reversals around the same time, then that will strengthen my conviction.

GBPUSD Daily Chart

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

USDJPY will Fluctuate Violently in Q3 as Japan's Economy Worsens Under the Coronavirus Pandemic

By Dean Chen, ATFX (China) Senior Market Analyst

It appears that the future of Japan's economic power will continue to be the deciding factor of the USDJPY direction in the medium to long-term.

Due to the coronavirus outbreak which has devastated the world in recent months, Japan reported a negative GDP growth rate of -2% in the first quarter of 2020. This is worse than the 0.3% growth the U.S. experienced and better than the -3.2% growth in the Eurozone. Japan's GDP performance was and still is, lying in the medium range of the developed, western nations. The number of confirmed cases of coronavirus in Japan at the time of writing (May 27, 2020) is at 16,500, comparatively lower than the U.S. which currently sits at 1.68 million cases. Despite not being as bad as the U.S. it has still not helped the growth of Japanese GDP during the 1st quarter of 2020.

If we analyse the trend of USDJPY in the 3rd quarter, in light of the principles of economic resilience, the rate of USDJPY will likely experience a sharp rise as the U.S. economy improves. However, it should be noted that the employment data obtained from Japan is relatively robust compared with other countries. During the coronavirus pandemic, the unemployment rates for most countries across the globe has increased substantially. In the U.S., the unemployment rate has reached a historical high of 14.7%. Japan has done well to keep this number at a lower level of 2.5%. The lifetime employment system has protected Japanese citizens from the turmoil of the jobs market. Despite this, the system has dampened economic growth and jeopardised the potential for long-term financial development.

Regarding monetary policies, the American Federal Reserve has cut interest rates by 150 BPS and unveiled an unlimited quantitative easing (QE) program amidst the onset of the coronavirus pandemic in the U.S. This has led to the rapid increase of money supply with historical growth rates of nearly 11%. In Japan, "Abenomics" over recent years has significantly reduced the ability of the Bank of Japan to adjust and manoeuvre their monetary policy. So, when the coronavirus outbreak began to impact Japan's economy, the growth rate of money supply saw no obvious changes year-on-year. This scenario is particularly favourable to the Japanese Yen since it avoids devaluing its currency. However, it's still not enough to support the appreciation of JPY against USD.

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

Technical outlook

In March 2020, the global coronavirus pandemic enveloped the world in a modern-day crisis unlike no other. During this time, USDJPY experienced huge volatility and price fluctuation in a whipsaw fashion, and this led to a strong upward trend of the Average True Range (ATR) Index. Although it was a violent fluctuation of the currency pair, it actually had little impact on the overall direction of the pair.

100 is the mid-long term support level of USDJPY, which was held in June 2016 and March 2020 respectively. If this level were to break, there would be a higher possibility of starting a significant downtrend. The upper resistance level has been selected as 120 as it was approached in late 2016. The range between 100 and 120 contains 2 significant trends in 2014 and 2016, therefore increasing the probability of this pattern continuing.

In conclusion, USDJPY will still fluctuate between 100 and 120 in Q3 2020 and seems unlikely to break down below 100. The effects of the coronavirus crisis should dissipate in the second half of 2020 as predicted by some analysts, which again will reduce the chance of a move down. USDJPY will likely have a downturn during the period when the Federal Reserve executes near-zero interest rates and unlimited quantitative easing policies. When monetary policy starts to return to normalcy, any downward moves will likely come to an end.

USDJPY Monthly Chart

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

AUDUSD: Covid-19 Engulfs the Australian Economy

By Martin Lam, Chief Analyst of Asia Pacific, ATFX

The future outlook for global economic growth is undoubtedly clouded by the coronavirus outbreak which is currently sweeping the world. Australia's economic growth rate in Q2 proved to be significantly lower than what was expected by financial analysts. The mass uncertainty caused by Covid-19 is also affecting consumption and weakening wage growth. Whether Australia can recover and rejuvenate its economy in Q3 remains to be seen. The RBA's economic outlook mentions that the economy is expected to return to an upward trend once Covid-19 shows signs of being contained. However, it is far too early to say how long the effects of Covid-19 will last or when global economic growth will pick back up again. The Australian government has also pledged to help the sectors most affected in order to maintain the efficient functioning of Australian financial markets. As such, the RBA will ensure adequate liquidity in the financial system.

The RBA committee has discussed the fragility of commercial property and will closely monitor certain financial stability risks. Conversely, the retail sales industry experienced one of the largest monthly increases on record during the month of March. But many economic limitations are expected to have an impact on prices in June and later this year. Meaning that prices will still show signs of uncertainty in Q3.

RBA's cash rate will remain extremely low

During the economic downturn, RBA's cash rate fell to a record low level of 0.25%. The RBA has stated that it will not raise its cash rate target until the goals of both reduced unemployment and lower inflation are reached. We witnessed some global improvement in regards to Covid-19 in Q2, this led to China re-starting its economy and resuming work for most of its citizens. Europe and the United States also show signs of readiness in terms of restarting economic activity, which will help propel the Australian economy forward as well. Throughout Q2, the Australian dollar rallied strongly against the U.S. dollar. However, economic recovery, and whether or not the RBA cash rate can be raised, will be dependent upon the aforementioned factors.

Prior to the U.S. presidential election, the dollar will lead the AUD trend

Economic conditions in Australia, as well as interest rate trends, will be the prerequisites for analysing the Australian dollar's performance in this quarter. Another important factor will be the trend of the U.S. dollar Index. In the past, during the run-up to the U.S. presidential election, the President candidate statement, financial policy and economic prosperity of the current administration drove the direction of the dollar. These factors cannot be overlooked when decoding how the AUD will fare against the USD.

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

Technical outlook

The Australian dollar rebounded from near 20-year lows at the end of Q1. AUDUSD broke through its 10-week and 20-week moving averages in the last quarter and showed a strong upward trend. From the first stage of the rebound wave, the Australian dollar is expected to trade between 0.6380 and 0.6822. If we see continued Australian dollar strength in Q3, it could break through 0.6822 and up to 0.71 or 0.72. In contrast, if the U.S. dollar outperforms the Australian dollar, it could reach a low of 0.6380. If it breaks through 0.6822, the next support is 0.65122 and 0.6128.

AUDUSD Weekly Chart

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

NZDUSD: Negative Interest Rates Dominate the Financial Landscape

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

The Covid-19 pandemic has prompted global central banks to start implementing a range of measures aimed at preventing an impending economic meltdown. They include quantitative easing, repo asset purchasing, and auctioning of the bond yield. Interest rates are a core element in driving economic growth for countries across the world. The Covid-19 pandemic has proven to have a huge impact on economic growth. To boost the recovery, global central banks have cut interest rates substantially. In Q1, the Reserve Bank of New Zealand announced that the Official Cash Rate (OCR) would be reduced from 100 basis points to 25 basis points. After announcing the decision, NZD weakened while USD strengthened and it caused the price to plunge to a decade low of 0.55.

Furthermore, the emergence of Covid-19 brings with it a continuing drop in economic growth and international trade. Many businesses have suffered huge reductions in revenue, forcing some to close or file for bankruptcy. This situation naturally puts pressure on the New Zealand dollar, especially against the world's reserve currency - the U.S. dollar. To prevent what seems to be an inevitable global recession, the committee of the Reserve Bank of New Zealand has stated that a negative OCR might well become a potential option in the future. Furthermore, the committee has also stated that it will facilitate discussions with financial institutions regarding ongoing preparations for a negative OCR.

We expect that in the coming 3rd quarter, negative OCR probability will remain low due to several mitigating factors. First, in reviewing the second quarter, reopening the global economy will bring about some changes. In particular, New Zealand's trading partner, China, has already started to ease its national lockdown so the demand for export will increase. Therefore, we would expect the New Zealand trade balance and ongoing economic activities to facilitate some improvement in Q3.

Secondly, New Zealand is a highly regarded and advanced economy which has been impacted less by coronavirus than other western nations. As such, the local currency, NZD, remains in a better position compared to its European peers. Moreover, S&P Global Ratings has stated that the country's latest sovereign credit report affirms the economy's A.A. rating, suggesting that a more promising future may be on the horizon. We must also pay close attention to the United States because a presidential election will take place this year, which could impact the value of the U.S. dollar. Also, the U.S-China trade deal continues to be a concerning factor for Q3.

The Fascinating Relationship Between the U.S. - China - Australia

New Zealand's economic foundations rely heavily on commodities The commodities which define the country's economy lie mostly in agriculture, specifically dairy products and livestock. According to trading economics, China is New Zealand's largest and most vital trading partner. New Zealand provides China with dairy products and livestock and this helps form the basis of the New Zealand economy. Therefore, when the Chinese economy experiences a downturn, it's likely to impact New Zealand's pivotal industries in a negative way.

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

Against a backdrop of rising tension between the world's two economic superpowers, we have seen Australia become involved in heightening tensions between China and the U.S. China has banned certain beef imports and even iron ore from Australia, which places New Zealand in an advantageous position to replace the export with its own offering. Therefore taking into account the relationship between China and Australia will give us a better understanding about how NZDUSD will move. In the upcoming quarter, it appears that the issue may not be easily resolved and so we expect the strengthening of the New Zealand dollar to take place in Q3. Covid-19 has brought with it many lessons for advanced nations and New Zealand is particularly interested in applying those lessons to stabilise growth in the economy once more.

Technical outlook

Current NZDUSD steady on the critical resistance area, which is 0.65850 and the confluence with the 50% Fibonacci retracement. Fundamentals news shows New Zealand's economy activities operating smoothly, and the economic data shows the improvement in Q2. This fact carries NZDUSD to test the next resistance area, R1: 0.65850, which is the support on July 10, 2019. If this level breakthrough, it might be reaching R2: 0.67380 and R3: 0.68240, respectively. On the other hand, downside support level S1: 0.63800, S2:0.63170 and S3: 0.62330.

For better prediction, we prefer using 60 moving average and 200 moving average to averaging the median price. We expect that the coming Q3 would remain bullish momentum. Refer to the chart below, which is the illustration of the price movement.

NZDUSD Daily Chart

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

STOCK MARKETS

ATFX

STOCKS BATTLE BACK FROM COVID CRASH ... BUT FOR HOW LONG?

By Cameron Bowen, ATFX UK

The Covid-19 crisis hit all global markets hard but some were certainly affected more than others. With entire workforces instructed not to go to work, output dropped like a rock. And with populations told not to leave their homes unless absolutely necessary, the number of consumers plummeted also. Supply and demand fell off a cliff.

This hit the stock market particularly hard because companies were forced to down tools. Despite the huge downturn, stocks from different sectors all behaved as expected. The tourism and airline stocks took huge losses, whilst tech companies and supermarket stocks rose after the initial shockwave.

The recovery so far

At the time of writing (June 4, 2020), stocks have started their recovery worldwide, albeit at different rates.

This is partly due to the containment of the virus but also in part because of the mini economic cycle we were facing prior to the pandemic. We were on track for an upturn with manufacturing indicators pointing up and a trade deal between the U.S. and China being drafted. 2019 also saw the largest year of easing by global central banks since the 2008 crisis. All this has given lifeblood to the Covid-19 recovery.

With further easing of restrictions and people returning to work, we should start to see output increase and business start to get back to normal, the new normal at least.

Will the recovery continue?

To gauge whether we think the recovery will continue, we need to identify the risks and assign a probability to them happening.

First, supply chain disruption. The pandemic will add to the pressure caused by China-U.S. relations in terms of supply chains. This will have a negative impact on global growth but will likely be a long term effect rather than a short term effect (or one we'll realise in Q3).

Second, larger economic impact than expected. The labour market took a huge hit in the U.S. as April non-farm payrolls printed -20.5 million jobs. For reference, during the 2008 crisis, the maximum number we saw was -663k. How business and consumer confidence is affected by this will be key.

The U.K has rolled out a furlough scheme that is paying the wages of over 8 million workers. Soon this will be tapered and employees will be expected to burden some of these costs, but it's still uncertain whether they'll be able to, given reduced revenue. Unemployment will be a severe problem and this will have a knock-on effect to business. It's doubtful we'll see a credit crisis as we did in 2008 but the lack of jobs will be weighing on any recovery.

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

Third, central bank firepower. With 2019 being a big year for easing, further accentuated in 2020 by Covid-19, there isn't much wiggle room for central banks. However, the rhetoric we're hearing - "unlimited money" and "whatever it takes" - suggests they're willing to use tools like QE to prop up the economy as best they can. This combined with vast fiscal stimulus should be a solid platform for recovery.

Fourth, U.S. numbers being under-reported. As the U.S. is the largest economy in the world, any negative implications could drag the global economy into recession in Q3. Any dramatic increase in cases could cause stricter containment measures. This seems unlikely given the numbers already being reported and the fact Donald Trump has bragged about their testing capability. The White House has also clear intentions to get the economy going ASAP, any further measures would likely be relatively loose.

The final risk we cannot rule out is any unexpected shocks. There are still scientists warning of a second wave of Covid-19, which would bring a halt to any immediate recovery. Other examples might be a big name brand going out of business, which would send shockwaves through investor confidence or a mutation of the virus. Any large unexpected shocks could derail the recovery, so whilst today things are looking up, expect the unexpected.

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

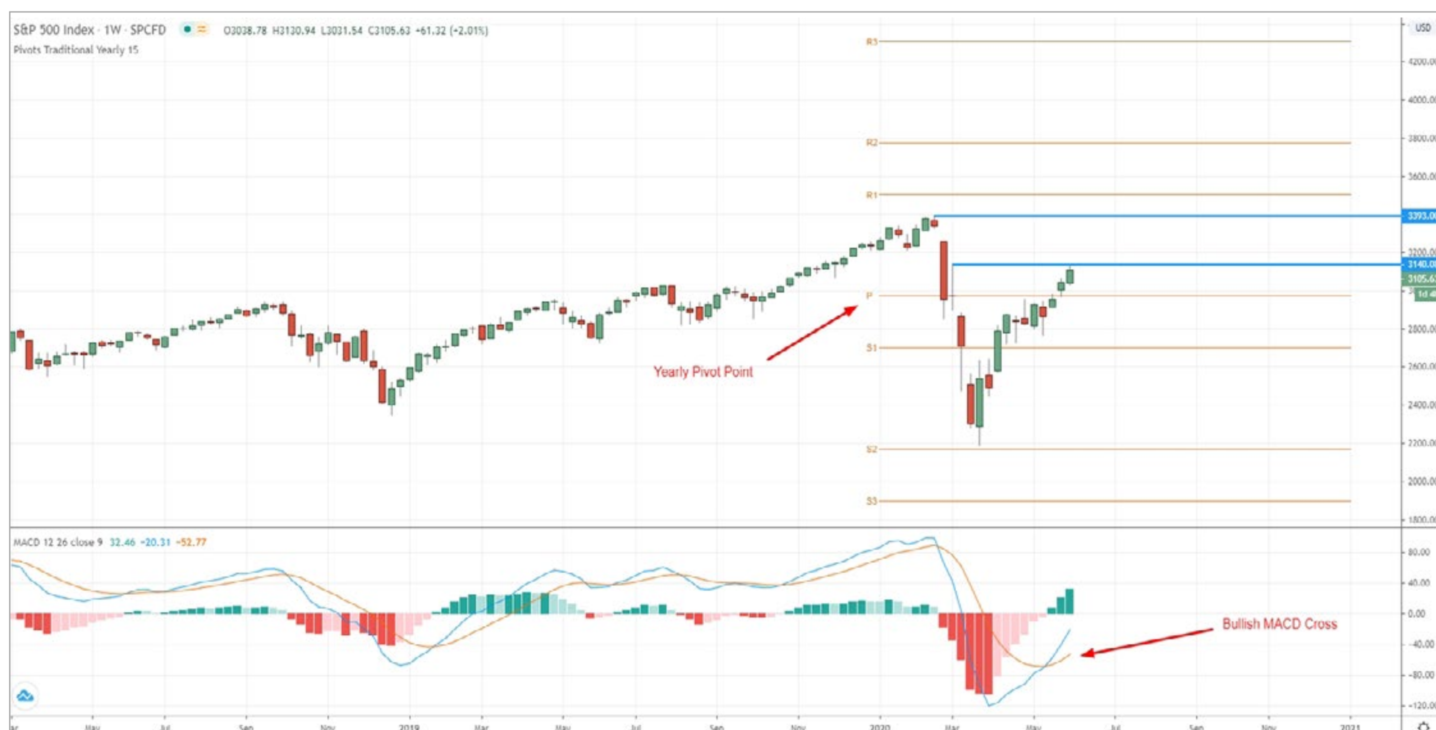
Technical outlook

From a technical standpoint, we'll have a look at the S&P 500 and the FTSE 100.

S&P Technical Outlook

The S&P has seen a strong recovery from the crash. At the time of writing (June 4), it's just approached the resistance level of 3,140, where we would expect it to hold short-term. But given the recent momentum, the expectation is for it to break through. On a weekly chart, there is a bullish cross in the MACD indicator and the recovery to date has broken back above the yearly pivot point. All technical reasons to point higher.

Chart 1:



Source: S&P 500 Index by TradingView

Assuming none of the above risks materialise and we maintain the current recovery trajectory, we can expect to test the highs of 3,393 that reached in the week of February 18, 2020. Given there are still lots of unknown questions regarding the global recovery, I expect the current momentum and volatility to subside and the market to ultimately consolidate.

The immediate target after the highs is the 3,500 level which is also the yearly R1 pivot point.

Whilst the technical viewpoint is relatively bullish for the S&P, a lot can be attributed to the FAANG stocks, which have benefited from this downturn. The overarching stock view is still of trepidation and with risks still looming overhead, profit-taking also expected soon, I expect the recovery to slow down.

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

FTSE Technical Outlook

The FTSE 100 traded in a range between 3,500 and 7,000 for around 20 years. In 2017 it finally broke out, only for the Covid crash to bring it back to earth. With Brexit still an unknown factor, I don't see us getting back to all-time highs anytime soon, let alone in Q3.

Chart 2:

Source: FTSE 100 Index by TradingView

We're still trading below the yearly S1 pivot point whilst the S&P is above the actual pivot point. With pivot points and major resistance levels impending at 6,579, 7,000 and 7,700, the expectation is for this market to stagnate.

Looking at the recent high of 6,352 and the recent low of 4,836, I can't see this market breaching either in the coming quarter or the following. The bullish MACD cross indicated a move higher but as mentioned, significant resistance will likely deter a smooth bull run to the highs.

The combination of technical analysis, Brexit uncertainty and Covid containment will all play a part in the FTSE stalling in Q3.

Summary

To summarise the global stock market expectations for the coming quarter, a few points should be highlighted.

We expect the supply of goods to recover well, whilst demand to recover slowly. Supply chains and supply of services will depend on the Covid-19 containment. Demand for services will be a slow recovery, some won't come back and social distancing will play a huge role in hampering certain sectors.

Countries will also recover at different speeds, the backbone of each country will prove to be pivotal. Those that rely on tourism and travel will see their recovery linger for a couple of years.

A slow global recovery is expected, slower than we've seen in Q2, whilst we might see indices approaching highs again, the overall stock market will need time to recover. If any of the risks highlighted in this article come to fruition, then the recovery will become strung out for many quarters to come.

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

GOLD OUTLOOK

ATFX

COVID-19 AND GEOPOLITICAL FACTORS CONTINUE TO IMPACT THE PRICE OF GOLD

By Martin Lam, Chief Analyst of Asia Pacific, ATFX

As Covid-19 hit the global economy in the second quarter, major Central Banks launched large-scale easing. Economic stimulus measures have boosted demand for gold against a backdrop of economies attempting to reopen from the pandemic. The price of the precious metal has continued to increase in the second quarter, reaching a seven-year high of $1,764.

Containing the outbreak

Most countries in Europe and the United States have reopened their economies after maintaining some control of the Coronavirus outbreak. But in South Africa, a major gold production country where the outbreak is spreading, gold producers could shut down production and shortages could be triggered at any time, setting off another gold price up wave.

Another factor underpinning gold's rally is geopolitical concerns, particularly ahead of the U.S. presidential election in November 2020. The risks of economic instability associated with the U.S-China trade relationship, as well as Brexit, are imminent. If tensions continue to rise, it will impact recovering economies and the economic outlook will likely darken.

As a result, gold will naturally shine. We could see gold continuing to respond positively to the central bank and government stimulus.

A decline of gold prices

Global economies are beginning to show the first signs of emerging from the worst of the economic damage triggered by the coronavirus pandemic. This process will certainly be slow and gradual, but as long as the market sees signs of recovery, it will increase confidence in risk investments and weaken the demand for gold. An alteration in gold prices at high levels is to be expected if the dollar Index and U.S. Dow maintains a high position.

2020 has been a great year for gold, primarily due to low-interest rates and geopolitical factors. The recent Covid-19 outbreak has added to uncertainty and contributed to the commodities price moving even higher. Most investors are targeting $1,800 or $1,850, but it's not expected to break through much further. Gold is likely to return to a $1,587/1,484 level as the momentum of economic recovery continues in the third quarter.

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

Technical outlook

Technical analysis shows that gold prices rose from a low of $1,608 in the last quarter to a high of $1,764, after hitting a seven-year peak. From the weekly chart, gold has been climbing in line with the 10-week moving average. If the gold price surge continues to the Fibonacci 85.2% level as it did in the last uptrend 5 years ago, the 2011 target of $1,791 may be reached. A successful breakout of $1,791, we'd expect $1,850 to be tested followed by $1,921. On the other hand, we might see gold fail to hit $1,791 in the third quarter, reverse and potentially break through its 20-week moving average support of $1,645 (at the time of writing, May 22, 2020). It's estimated that gold prices could test lower support at $1,587 or below, which would set $1,484 as the next target.

XAUUSD Weekly Chart

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

CRUDE OIL

ATFX

CRUDE OIL PRICES STAGE A VOLATILE RECOVERY

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

Covid-19 is new terrain for us all, and the pandemic has brought along with it price wars and production cuts which have disrupted the global economy. As a result, crude oil prices experienced unprecedented shocks in the second quarter of 2020. Fears prompted many within the oil markets to "panic sell" and this sent crude futures into negative territory for the first time in recent history. Nevertheless, it took one month to lift prices to more than $20 per barrel, resulting in the longest streak of gains in more than a year in May 2020. As spot prices of the world's major crude oil trading centres have rebounded significantly, it's safe to say that the oil market is over the worst.

From the lows of April to a six-week high in May, fluctuations in WTI futures prices have risen to nearly $70 per barrel in just a few weeks. The landscape may not look the way many would expect it to right now but it's worth bearing in mind that the prices are almost always driven by market sentiment. If the optimism around the oil market turns out to be premature, it could result in further sell-offs. That being said, high volatility is set to remain on the cards for the third quarter.

As the economy reopens, oil prices will be driven by multiple factors. It's best to take a cautious approach when analysing growth while maintaining some level of optimism. The re-balance of supply and demand is key to the steady recovery of oil prices. Oil markets are certainly re-balancing, but the process is gradual and will take time. The strength of the recovery (especially in advanced western nations) and the outlook for oil consumption are both essential to understanding how global economies will stabilise.

If global economies do recover and start to see some acceleration in terms of growth in autumn, oil prices could remain stable or trend upward to slightly above $40 a barrel. But it's unlikely that we will see oil demand return to its past levels. Following the production cuts agreed at OPEC's summit in April 2020, the cutbacks have been effective in their measures. It's widely expected that oil ministers will extend their cutback agreements, which will be ideal in stabilising global confidence in the oil market. Moreover, seasonality does play a key role in influencing crude oil prices, as a potential seasonal surge in the market late in the third quarter could be beneficial overall.

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

Technical outlook

The ongoing price war triggered a large price gap in early March. Oil remains in an upward trend as of April 2020 while weekly RSI crossed above the oversold level and has started moving upwards. After four consecutive weeks of gains, if the price exceeds the highs of the previous four weeks, some investors might see this as a potential buying opportunity.

For WTI futures prices, the wide price gap we saw in March could be filled if prices go back to their highest levels. But the neckline of the head and shoulder formation (previously a support level) will become the challenging factor. If it fails to reach $48, we could see upside being limited to $45. The following support zone will focus on $30/28.

USOIL Weekly Chart

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

Brent and WTI prices predominantly move in synchronisation, which means that Brent's future prices may well fill the gap and offer some relief. This can only take place if it trades above $46, eventually increasing to $50, but still, the neckline might come into play. If key resistance levels hold, it could test $40 or even lower support at $36/34.

UKOIL Weekly Chart

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

CRYPTO-CURRENCIES

ATFX

CRYPTOCURRENCIES FIRST BIG TEST

By Cameron Bowen, ATFX UK

The Covid-19 pandemic has had a huge impact on the global economy. With countries implementing draconian measures to stop the spread, entire sectors have been ordered not to return to work. The economic effects were pretty plain to see. With vast portions of a country's workforce unable to work, economic output would drastically reduce. Causing an impending knock-on effect on all financial markets.

The one market that still had questions hanging over it was the cryptocurrency market. Bitcoin was formed as a direct consequence of the 2008 financial crash and so the current crisis was the first time it faced a major financial downturn of its own.

Bitcoin and Covid

Bitcoin continues to be the driving force of the crypto market, with a current market share of 67%, at the time of writing (June 2, 2020). Understanding bitcoin's performance during the Covid-19 crisis and assessing future moves will give us a better insight into the market as a whole.

There was early optimism that bitcoin would hold around the $10,000 mark whilst markets in the U.S. and China started their dramatic descent. This short-term relief had some crypto enthusiasts prematurely referring to it as a "safe haven". Even making comparisons with gold regarding its resistance to the effects of the pandemic.

This was short-lived as the price tumbled from $9,000 to $4,000 in the space of a week. This included losing 37.5% of its value in a single day when it dropped from $8,000 to $5,000.

This showed that bitcoin is affected by the centralised financial markets and when panic sets in, investors will flee bitcoin as well.

Bitcoins recovery

What bitcoin was able to do more so than any traditional markets was to recover quickly. Through the end of March, April and into June, bitcoin recovered all its losses and tested the $10,500 high prior to the crash. Whilst other markets are on a recovery trajectory, none have reacted quite as quickly as bitcoin.

This recovery came conveniently at the same time as the bitcoin halving. The largest event in four years for this market. Pre-crisis momentum had actually been building around the halving. With a reduction in the number of bitcoins produced, supply would decrease. This meant that the same minors who are paid in bitcoin, are now paid half what they were. Simple economics suggest low supply, high price.

With momentum growing pre-crisis and a fast recovery, it could be put down to the market pricing in the bitcoin halving. This in turn actually throws up another question, rather than an answer - what would bitcoin's price have been had the Covid-19 crisis not hit?

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

Bitcoin in Q3

Despite the crash in March, bitcoin has been relatively stable given its reputation. With more access for institutional traders, it's become more liquid and behaves similarly to traditional markets. Therefore, looking at both fundamental and technical analysis should give us some insights into future price movements.

What roadblocks are there for bitcoin in Q3? The European Commission announced it may publish legislation for digital assets according to a statement from Executive Vice-President Valdis Dombrovskis. But given the lack of publicity and multiple threats of regulation, it's unlikely to derail any price rallies.

With the threat of "unlimited" money from the Federal Reserve, a reduction in value might actually give bitcoin a boost. With fiat currency becoming devalued, bitcoin might be seen as a store of value.

Technical Analysis

At the time of writing (June 2, 2020), the bitcoin weekly chart can be considered as a sideways market. This is because there are no consistent highs and lows. The Covid-19 crash on the March 13, 2020 created a low of $3,850, which took out the previous low on the December 18, 2019 at $6,425. The high-created pre Covid-19 crash printed $10,500 on the February 13, 2020, taking out the previous high on the October 26, 2019 of $10,350. Therefore no consistent direction suggests we're likely to see a sideways market until a direction is chosen.

Chart 1:

Source: BTC/USD Weekly by TradingView

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

Given bitcoin was previously in a downtrend, it can now be considered to be consolidating, potentially gearing up for a bullish move.

The MACD is in accordance with this analysis as it's above the zero line and there is a bullish crossover. With this in mind, we would expect this market to break the next resistance level of $10,500. If this breaks, there is space on a weekly chart to test the highs of July 2019 at $13,880.

Chart 2:

Source: BTCUSD Daily by TradingView

Daily resistance levels can be found at $10,981, $12,309 and $13,204 before the $13,880 high. The Fibonacci target level creates a confluence at the July 2019 high of $13,880, making it an attractive target for the third and fourth quarter.

Should the $10,500 level hold, the next support level will come in at $8,109 followed by $6,400. But as with most sideways markets, their internal fluctuations are difficult to predict.

Summary

As bitcoin is showing bullish signals, it's likely we'll see altcoins follow suit. Traditionally once bitcoin goes, the others follow. If bitcoin can break $10,500 then the expectation would be for a test of June 26, 2020 highs of $13,880.

67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.

This information has been produced by a third party, for general information purposes only, and is not indicative of future results. AT Global Markets UK Ltd (ATFX UK) takes no responsibility for its accuracy or completeness. Any opinions expressed do not reflect those of ATFX UK. This information does not take into account your personal circumstances or objectives, and should therefore not be interpreted as financial, investment or other advice, or relied upon as such. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and as such is considered to be a marketing communication. Although we are not specifically constrained from dealing ahead of our recommendations we do not seek to take advantage of them before they are provided to our clients. We aim to establish and maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent conflicts of interest from constituting or giving rise to a material risk of damage to the interests of our clients. You should seek independent advice before making investment decisions. Reproduction of this information, in whole or in part, is not permitted.

CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. **67.02% of retail investor accounts lose money when trading CFDs / Spread betting with this provider.** You should consider whether you understand how CFDs / Spread betting work and whether you can afford to take the high risk of losing your money.

Please note: If you are a Professional client, you are not eligible for negative balance protection and you could lose more than your initial deposit.

AT FX

RECEIVE PERSONAL **ONE-TO-ONE COACHING** IN TRADING

- Clear and concise trading plans
- Tried and tested strategies

FIND OUT MORE

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

ATFX

A GLOBAL LEADER IN ONLINE TRADING

www.atfx.com