In this edition of Laser Focus:

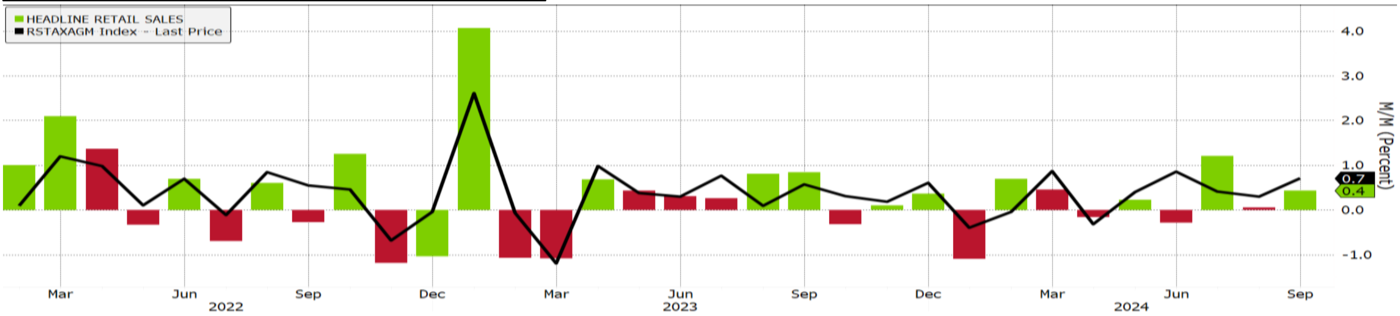
- MACRO FOCUS – Fed rate cut expectations trimmed, take profits on US 10Y short
- The prospect of "Uptober" and a crypto rally in the coming weeks; BTC technical analysis
- Bitcoin ETFs making a comeback
- Betting odds in the US election campaign

MACRO FOCUS

US data trims Fed rate cut expectations

A string of solid US data prints has led markets to reprice its optimism about the number of rate cuts from the Fed. US retails sales strengthened in September by more than forecast, with the value of retail purchases +0.4% unadjusted for inflation, after a 0.1% gain in August, Commerce Department data showed last Thursday. Excluding autos and gasoline stations, sales climbed 0.7%.

US Retail Sales Strengthened in September
Control group rises 0.7% vs the prior month



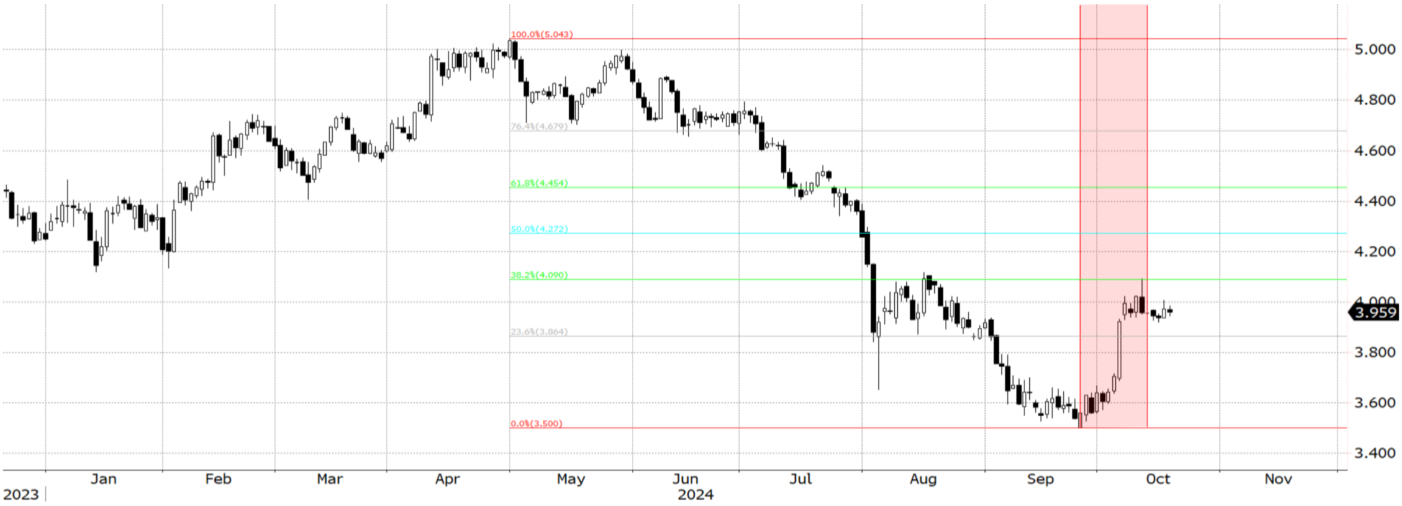
Given recent strong data, markets believe the US economy is in reasonably good shape, and in line for a soft landing. It could avoid a recession altogether, as companies are delivering earnings and expanding margins. It is worth noting however, that Core CPI rose more than forecast for September to 0.3% for the second month running, representing a pause in the recent progress towards moderating prices.

This data from the Bureau of Labour Statistics shows a 3-month annualised rate advance of 3.1%- the most since May. Economists use the core gauge as a more reliable indicator of underlying inflation than overall CPI. That measure rose 0.2% from the prior month, boosted by housing and food, which accounted for more than 75% of the gains. Goods prices rose as well after reliably falling over the past year.

A mix of higher-than-expected inflation figures and strong labour market data has seen rate cut expectations become less aggressive since the Fed cut 50 basis points last month. Now, it's more likely the central bank will only cut 25 bps twice more this year, or even just decide to cut once more in 2024.

As a result, the bond market across the curve repriced rate cut expectations. Notably, the short end 2-year yields went from 3.50% in late September to 4.09% in mid-October and 2-year yields are seeing large quarterly swings. Last quarter, yields fell 111bps, and are +45bp so far this quarter. If you remember, in past editions we envisioned the possibility of taking profits on 10yr USTYs at 3.61% (now 4.23%), and most of the immediate sell-off is now completed.

US 2-year generic yield daily chart
with Fibonacci retracements



Eurozone cut rates in response to economic slowdown

As expected, the ECB cut rates by 25 bps last week. It was the third cut this year, bringing the deposit rate to 3.25% from its 4.0% peak. Euro-Area inflation is now clearly below 2.0%, and markets are now expecting another cut in December of even 50 bps as inflation is now 1.7%.

With a slowdown in economic activity occurring in Europe, most notably in Germany and France, it seems the market is now thinking rate cuts could persist until April 2025. The 2s10s German yield curve spread continues to steepen, and is now +8bp having dis-inverted last month, and has now reached close to our steepening target of +22bps, a technical Fibonacci target.

In the UK, a pay slowdown leaves the Bank of England on course to cut in November by 25 bps, as CPI inflation dropped to 1.7% in September from 2.2% in August. Even for countries with extreme price increases like Argentina and Turkey, the worst seems to be over. China is an outlier considering its deflation risk, but it's wielding the same tool: interest rate cuts.

"UPTOBER"

A seasonal rally on the cards?

The question in the crypto markets right now is whether we are about to see "Uptober" play out to its historical past with a rally in Bitcoin. We have been considering that new highs in Bitcoin were viable before year-end in line with a stock market rally. That view remains in play, as chart-wise $67,015 is a technical resistance level that has now been breached, leaving $73,897 as a fresh new target, 200% Fibonacci projection to be seen on our technical analysis charts.

October is historically the second-best month for Bitcoin with average returns +21%, while November has an average 46% monthly return. Back in 2020 during the halving (when the reward for mining Bitcoin is cut in half) prices were up 27% in October and 42% in November with a 6-month rally thereafter. Can history repeat itself?

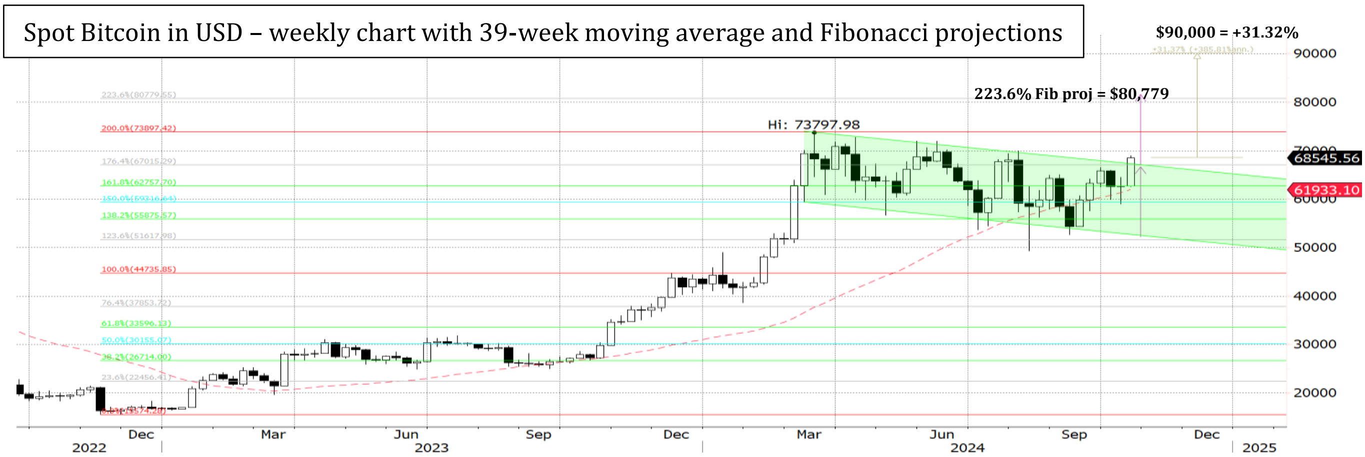
	January	February	March	April	May	June	July	August	September	October	November	December
2024	0.62%	43.55%	16.81%	-14.76%	11.07%	-6.96%	2.95%	-8.60%	7.29%	7.77%		
2023	39.63%	0.03%	22.96%	2.81%	-6.98%	11.98	-4.02%	-11.29%	3.92%	28.52%	8.81%	12.18%
2022	-16.68%	12.21%	5.39%	-17.30%	-15.60%	-37.28%	16.80%	-13.88%	-3.21%	5.56%	-16.23%	-3.59%
2021	14.51%	36.78%	29.84%	-1.98%	-35.31%	-5.95%	18.19%	13.80%	-0.70%	39.93%	-7.11%	-18.98%
2020	29.95%	-8.60%	-24.92%	34.26%	9.51%	-3.18%	24.03%	2.83%	-7.51%	27.70%	42.95%	46.92%
2019	-8.58%	11.14%	7.05%	34.36%	52.38%	26.67%	-6.59%	-4.60%	-13.38%	10.17%	-17.27%	-5.15%
2018	-25.41%	0.47%	-32.85%	33.43%	-18.99%	-14.62%	20.96%	-9.27%	-5.58%	-3.83%	-36.57%	-5.15%
2017	-0.04%	23.07%	-9.05%	32.91%	52.71%	10.45%	17.92%	65.32%	-7.44%	47.81%	53.48%	38.89%
2016	-14.83%	20.08%	-5.35%	7.27%	18.78%	27.14%	-7.67%	-7.49%	6.04%	14.71%	5.42%	30.80%
2015	-33.05%	18.43%	-4.38%	-3.66%	-3.17%	15.19%	8.20%	-18.67%	2.35%	33.49%	19.27%	13.83%
2014	10.03%	-31.03%	-17.25%	-1.60%	39.46%	2.20%	-9.69%	-17.55%	-19.01%	-12.98%	12.82%	-15.11%
2013	44.05%	61.77%	172.76%	50.01%	-8.56%	-29.89%	9.60%	30.42%	-1.76%	60.79%	449.35%	-34.81%
Average	3.35%	15.66%	13.42%	12.98%	7.94%	-0.35%	7.56%	1.75%	-3.77%	21.64%	46.81%	5.45%
Median	0.29%	15.32%	0.50%	5.04%	3.17%	-0.49%	8.90%	-8.04%	-4.35%	21.20%	8.81%	-3.59%

Table shows seasonality data for Bitcoin with average and median reads (source: Bloomberg)

Technical analysis

If Bitcoin rallies another +31.37% by year-end it will approach $90,000. The all-time high stopped at $73,797 which technically was around the 200% Fibonacci projection of measures used since the 2022 lows. A potential channel-break higher building on the weekly chart which has a target nearer to $80,000 with $80,779, the 223.6% Fib projection. Support now needed for the 39-week moving average now to counter any corrective attempts marked at $61,933.

Spot Bitcoin in USD – weekly chart with 39-week moving average and Fibonacci projections



Rush into Stablecoins

Tether's US dollar-denominated stablecoin has surpassed a record $120 billion market capitalization for the first time, signaling a potential crypto rally. According to the firm's website, which offers live updates of the stablecoin's supply, it passed the milestone on October 20th. Stablecoins are the main conduit between fiat currencies and digital assets. **A growing stablecoin supply is often used as a signal to predict an upcoming bull market rally**, as it suggests that investors are loading up on stablecoins before investing in cryptocurrencies. The growing USDT supply could help the next Bitcoin rally. Back in August, Tether minted $1.3 billion of USDT in five days after Bitcoin bottomed at a five-month low of above $49,500 on Aug 5th. It was a day of market turmoil for all assets (see Macro Focus for more on this and the Japan carry trade unwind). By Aug 9th, the $1.3 billion USDT helped Bitcoin bounce back more than 21%.

In addition, as we have highlighted in the past, fundamentals for gold remain strong and this continued bullish move should also prove supportive for crypto valuations.

ETFs coming back strong

Spot Bitcoin ETFs turned highly positive last week, with the products attracting more than $2 billion in net inflows. This has become their best five-day trading period since mid-March. There are 11 US-based spot Bitcoin ETFs.

Last Monday saw the most inflow during the entire 5-day trading period, with $555.9 million entering the funds. $371 million went in on Tuesday, $458.5 million on Wednesday, $470.5 million on Thursday, and a more modest $273.7 million on Friday. This brought the total net inflows to $2,132.6 billion for the week, surpassed only by the March 11-15 period when it reached more than $2.5 billion.

BlackRock's IBIT has been leading the group, and last Thursday it saw more than $1 billion in net inflows alone. IBIT is now around $39.07, which is not far off its March highs at $41.99. An "uptober" rally into November and year-end could see IBIT making new highs.

The US election race is getting very tight

Since Kamala Harris entered the race for the White House a lot has changed. Donald Trump was initially having to literally dodge bullets to stay in the race and was at that point behind in the betting odds and polls. But now he's making a solid come-back, with polls putting Trump in the lead. With just over 2 weeks to go until the election this is important, as many believe whoever takes office will have an impact on US inflation, the budget deficit and geopolitics, and in turn will cause a market reaction.

Betting has now moved in favour of former President Donald Trump with the blockchain-based election betting site Polymarket (the world's largest prediction market) pricing in a 60% Trump win. It's the first time he's achieved these results since late July, not long after Joe Biden pulled out of the race.

Betting odds elsewhere for a win
Betfair 58% Trump
Kalshi 57% Trump
PredicIt 54% Trump
Smarkets 58% Trump

Election Betting Odds, which aggregates implied betting odds across the five major markets, gives Trump a 57% chance at victory. Trump is ahead by the widest margin since July 29th, up from about 48% at the end of September.

Are these odds a good reflection of voter intentions?

60% betting odds does not mean a 60% to 40% lead for Trump in the polls but indicates election betting is expecting Trump to win about 60/100 elections. Many poll-based models are split, making it too close to call. What is driving the dramatic shift in betting odds for Trump, despite mixed survey data, could be in part down demographics. Polls try to survey smaller groups representative of the broader U.S. voter population across race, age and other demographics.

The election betting market is not the only financial indicator moving in favour of Trump. Shares in Trump Media and Technology Group, the Truth Social's parent company primarily owned by Trump, are +86% in October, with the social media company's stock movement often viewed as a proxy for Trump's election odds.

Markets more broadly are pricing in a Trump win, with bank stocks and cryptocurrencies outperforming. Trump has vowed deregulation and cutting taxes in a bid to woo voters, which has pushed the S&P 500's financial sector up 7% over the last month, making it the top-performing of the S&P's 13 sectors. Meanwhile Bitcoin is up 15% over the last month, hitting its highest level since August last week.

Trump's promise on day one as President is to fire Gary Gensler (Chair of SEC), and Trump's "crypto friendly stance" -most notably since the July address he gave at the Bitcoin Conference- has boosted investor enthusiasm. The rebound in Bitcoin and crypto are in part a reflection of the markets pricing in a Trump win.

If you believe the spin from the Harris campaign, the Democrat's internal polling shows her in a better position. David Plouffe, the campaign manager behind Barack Obama's 2008 bid and now a key adviser to Kamala Harris claims the campaign's private polling is far more reliable than publicly available data. Mr Plouffe concedes the race is impossibly narrow but claims he would still rather be in the Harris camp than Trump's at this stage in the race.

If Kamala Harris wins or looks to be winning, Bitcoin could give all those gains back by early November. That being said, the trend is for Bitcoin to break $70,000 again this year and see fresh all-time highs before year-end. That's in line with a year-end stock market rally, as long as the Fed stays on course to cut rates.

All this change in rate expectations and geo-political tensions in the headlines has given the US Dollar some reprieve, although we are now testing significant resistance, so we would pare back US$ longs here.

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