In this edition of Laser Focus we look at:

- Crypto markets – the week in review
- A technical look at Bitcoin and Ethereum
- MACRO LENS FOCUS –Fed cuts becoming less aggressive; near-term USD rebound; gold and silver shine; China's stimulus program

CRYPTO MARKETS

Markets settle post the Fed 50 bps rate cut

On Sep 18th the Federal Reserve cut rates by 50 basis points, triggering reactions in various asset classes. But heading into October we can see 3-month volatility calming down in various metrics such as vs FX, stocks or gold. Bitcoin reacted strongly to both the Fed's rate cut and China Stimulus with Bitcoin +7.7% at the time beating gold +5.0%, Ethereum +3.2% and the S&P500 +1.7%. Bitcoin's daily correlation with the Nasdaq is back to late 2023 levels, above 0.62%. Overall, we think over the next 2-3 months into year-end cryptocurrencies should see a rally after the US election.

3-month volatility calming in major metrics vs Bitcoin (source Bloomberg).

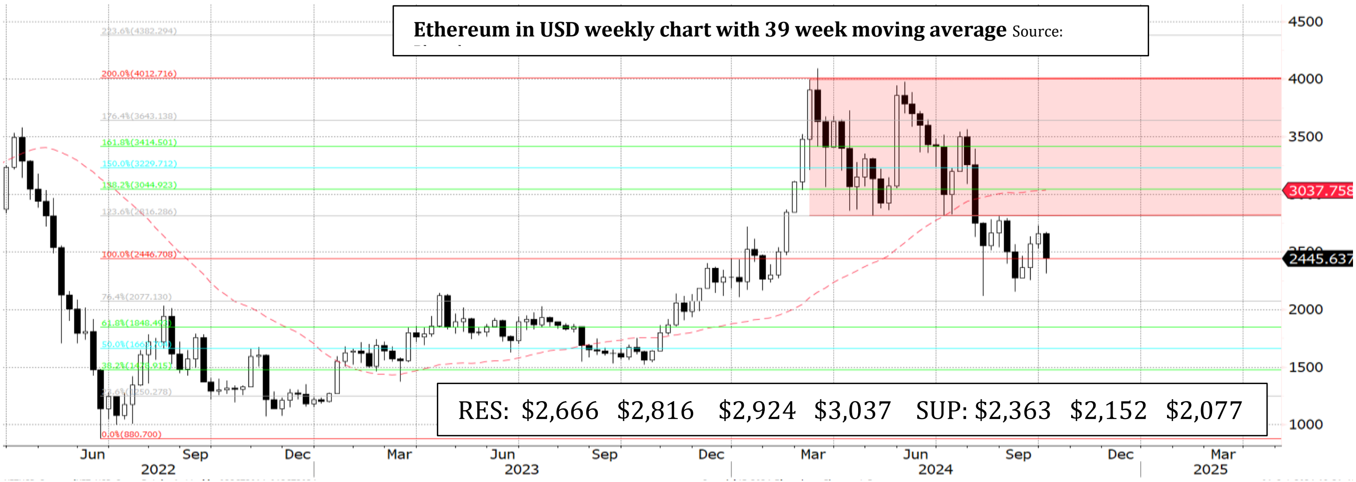
TECHNICALS – further consolidation expected before any upside test

Bitcoin – bucked the past trend of a weak September, ending +8.19%. The Fed cutting 50 bps and China's stimulus later in September helped both Bitcoin and stocks to rise. Bitcoin is still down about 15.5% from record highs printed 7 months ago of $73,737. But this is the smallest percentage fall off its all-time high out of the top 10 crypto currencies. In September, Bitcoin was trading just below $53,000 at one point, so it's bounced back well.

Technically we're looking for dips near $60,700 support to offer fresh long opportunities -this being the 39-week moving average region- as a springboard to $67,000. The 176.4% Fibonacci projection measure is the hurdle to clear to consider $70,000 for a test. The bias is to see this unravel later next month with the all-time high possibly for a challenge by year end. The absolute high peaked exactly at 200% Fibonacci projection of the measures used, indicating the projections drawn on the chart are useful in identifying inflections in this market.

BITCOIN – weekly chart with 39 week moving average and Fibonacci projections (source: Bloomberg)

Ethereum - Overall ETH is not trading well, consistently holding below the 39-week moving average and is now up around $3,037 as resistance. Support at $2,077 needs to hold firm. The 76.4% Fibonacci sub projection ratio to negate deeper declines to $1,670. $2,816 would be the first rebound hurdle to recover the 123.6% Fibonacci projection to give some confidence in building for a move to $3,000.

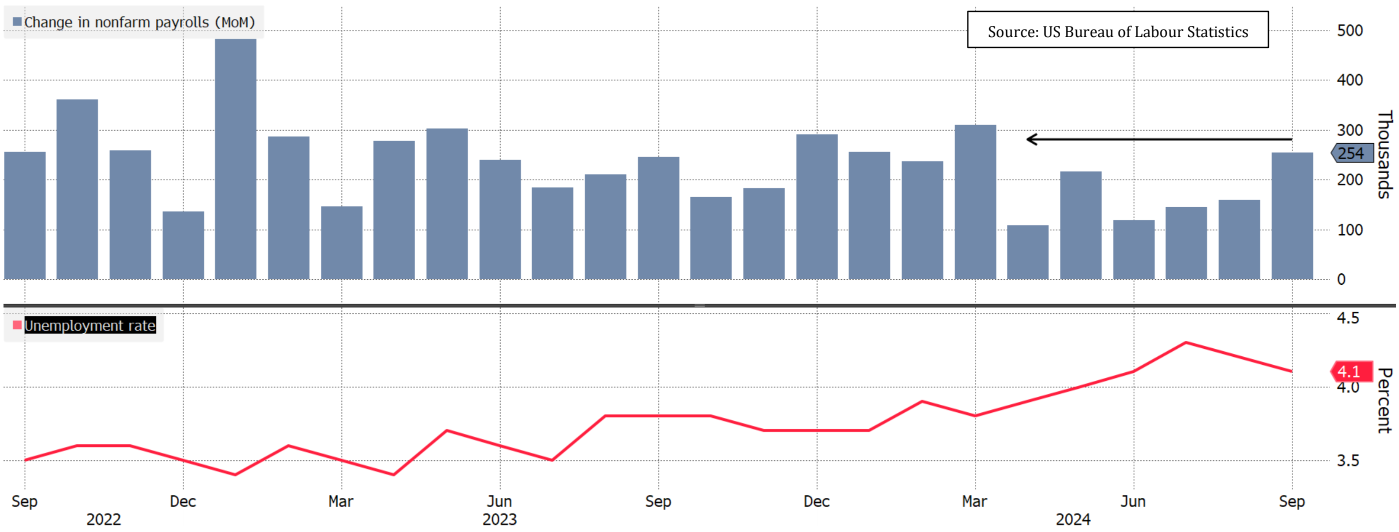


MACRO LENS FOCUS – expectations of future Fed easing more realistically priced

Last week there was a slew of US data to be digested. The net result was that the market is now less convinced about the prospect of aggressive rate cuts from the Fed. Two additional 25 bps cuts are still likely this year in November and December. The next Fed meeting is Nov 6-7, so until then we have a blackout period with the October employment report to be released Nov 1st, and US presidential and congressional elections on Nov 5th.

The data last week was a mixed bag. The Job Openings and Labor Turnover Survey (JOLTS) showed more job vacancies than expected, up to 8.04 million. However the quits rate dropped to 1.95%- the lowest since June 2020 – a sign that people are not leaving their jobs. ISM manufacturing PMI came in below expectations at 47.2. It's a weak print, and prices paid fell to 48.2, the lowest reading this year. However, nonfarm payrolls showed an increase of 254,000 in September- the most in 6 months following an upwardly revised 72,000 gain over the prior two months. The unemployment rate fell to 4.1% whilst hourly earnings increased 4% from a year ago.

Last week's data indicates a strong demand for labour and a low amount of people losing jobs



Aggressive easing into year-end still expected in EU/UK

While the Fed is now able to be less aggressive in its rate cutting cycle, the ECB seems by contrast increasingly likely to cut rates on October 17th due to poor data from the Eurozone. It appears the ECB is increasingly confident that inflation will fall to its 2.0% target. At the EU parliamentary hearing in Brussels, Christine Lagarde said "**the latest developments strengthen our confidence that inflation will return to target in a timely manner.... we will take that into account in our next monetary policy meeting in October."**

The inflation and weak growth data have raised expectations of a 25-basis point rate cut in October, which is now almost fully priced into money markets. German growth forecasts for this year have now been abandoned, with stagnation now the most likely scenario, while manufacturing data from Spain, France and Germany were all below expansion territory of 50. The inflation rate in Europe is now 1.8% on the headline front, whilst core inflation is still at 2.7% and services inflation is sticky at 4.0%. If the ECB cuts rates by 25 bps in October, it's likely there will be another cut of 25 bps in December.

The net result of these recent activities has been a correction in the bond market, where yields have jumped in the US (+13 bps in US 10s after non-farm payrolls) and in the Eurozone and the UK. The US 2s10s curve spread narrowed but is still positive after the longest period of dis-inversion in history of over two years. As further cuts in the cycle unravel, the curve should re-steepen another +50 bps over time, **and this is one of our key macro views.**

Turning to the UK, Bank of England governor Andrew Bailey made a comment last week that the central bank could be "bit more aggressive" when thinking about rate cuts. It was a change in tone from two weeks earlier. Services inflation is the most keenly watched data point by the BoE. Easing momentum in the data based on a 3-month average of the one-month annualised rate was the justification to cut rates in August.

If Europe really is slowing down, this does matter to the UK, as it is a key export partner, and softer external demand may also be a strong consideration for cutting rates more quickly. The BoE is expected to cut 25bp in November, and markets will be waiting for what they have to say then.

All this change in rate expectations, combined with geo-political tensions has given the US Dollar some reprieve.

Opportunity to re-enter curve steepeners in the US

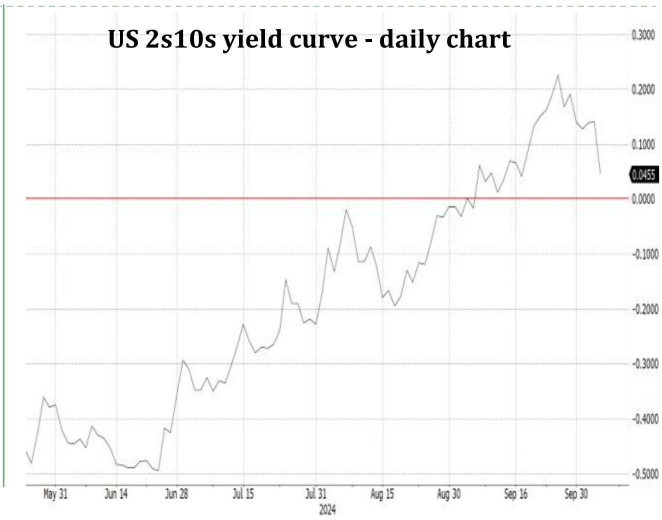


Chart source: Bloomberg

Gold and silver are non-yielding assets, yet continue to outperform major indices ytd

It's impressive that gold is +28.63% ytd and silver is +35.32% ytd, since they compete against yielding assets. There are many reasons for the rally in gold. One is the inverse correlation to US real yields adjusted for inflation. From 2001 to 2012, long term real rates fell about 4%, followed by a five-fold increase in the real price of gold. Pimco research suggests a 1% fall in real rates for US 10-year Treasury notes equates to a 24% increase in gold prices. A second reason is central bank buying of gold has been very strong in the last two years, with central banks accounting for 25% of global demand in recent years. In theory, China has only 5% of its foreign currency reserves in gold, but it's likely higher than that in reality, and there's still space to buy more. Further support for gold comes from concerns about US debt, particularly now that it has hit $35.4 trillion. This is giving gold some hedge against government deficit spending, (debt is 120% of GDP), but it's also a currency play, and we believe this may be **supportive of digital asset prices over the medium term.** Silver has also been surging to its highest price since 2012 and is getting the additional benefit from potential increased industrial demand from the China rebound narrative.

Overall, we expect these metals to do well in 2025 and for the foreseeable future, with many supportive factors likely to be at work over the next couple of years.

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