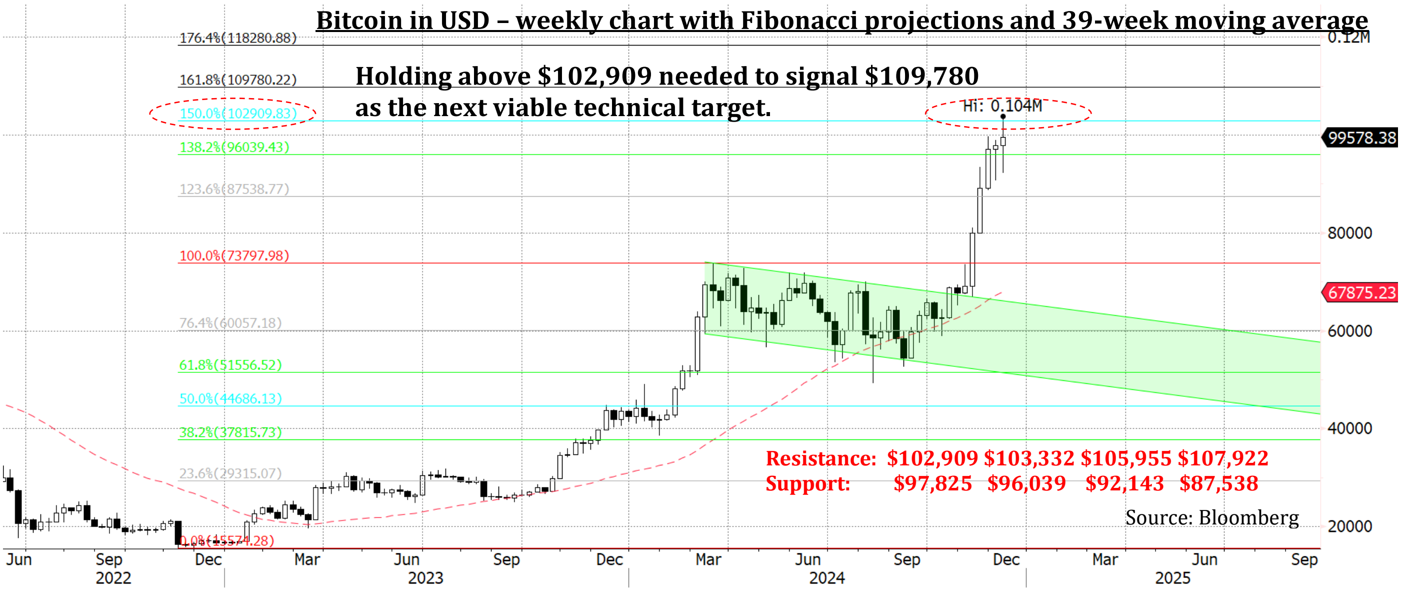
## In this edition of Laser Focus:

- Bitcoin breaches $100,000. Where to next?
- MACRO FOCUS- BRICS on de-dollarization: a lot of noise but no substance; the US Federal Reserve looks safe under Trump for now; we look at the prospect of rate cuts from major central banks

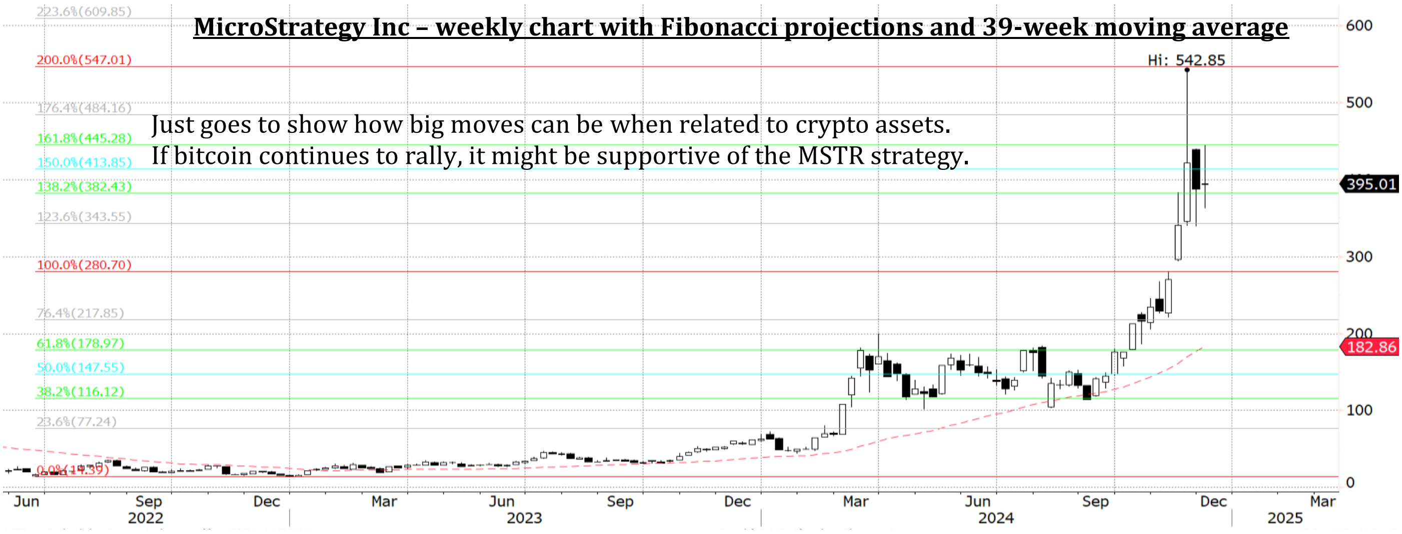
## As bitcoin breaches $100,000 and new all-time highs, the question is: where to next?

In past reports we forecast that the $100,000 milestone would be reached before the end of 2024, and it has now surpassed. The 5th of Dec witnessed the break of $100,000, with a high of $103,332.30 printed, totalling a market cap of $1.97 trillion. Our suggested target of $102,909 has now been met and leaves a choppy path to the next technical target towards $109,780, the 1.618% Fibonacci projection of the 2022 low to March 2024 high. It is unlikely to all be one directional as we near the holiday season, and we also have a couple of important data hurdles from the US to digest. First is the inflation data out this week (CPI on 11th Dec), and then the Fed policy decision on rates. We expect a 25bp rate cut on the 18th of December, so watch out for some wild swings into year-end.




## MicroStrategy to join the Nasdaq on Dec 20th

MicroStrategy inc. (MSTR) is poised to join the Nasdaq index after Dec 20th. A market cap of $94bn will impact passive funds, meaning we could see additional $2bn of inflows as they will need to buy some stock as part of their balanced portfolio holdings. MSTR owns nearly 2% of all Bitcoin making $500m a day when BTC hit new highs. MicroStrategy's approach involves adding Bitcoin to the balance sheet, increasing stock volatility, and using convertible debt to enable low-cost capital raises. It is worth noting that MicroStrategy's convertible notes do not offer investors any interest, but since Trump's election win there has still been an appetite to buy them. MicroStrategy stock closed at $395.01 on Friday, up 2.2% on the day. Year-to-date, the stock has gained a massive 476%.




## MACRO FOCUS

## BRICS vs USD a lot of noise but substance is lacking

**Donald Trump doesn't want BRIC countries to create a new currency to compete with the U.S. dollar**

The term BRIC originally referred to Brazil, Russia, India and China. In 2010 it expanded to include South Africa, and has since grown to incorporate the UAE, Egypt, Ethiopia and Iran. This year Argentina declined to join, and Saudi Arabia has still not decided whether to join despite Russia trying to announce they were included amongst the new members. President-elect Donald Trump has been very vocal against BRIC nations trying to find new currency alternatives against the US dollar.

Saudi Arabia's refusal to commit to membership is not a good look for the BRICS, and will make it harder to attract other countries as new members. Unease from Saudi Arabia's non-commitment and Argentina's rejection might contribute to the bloc's hesitation to define exactly what a new "BRICS partner" status means. Introduced at the Kazan summit, the status reportedly has been given to thirteen countries, including Belarus, Cuba, Kazakhstan, Indonesia, Malaysia, Nigeria, Thailand, Türkiye, and Vietnam. But whether those countries have received official membership invitations is unknown. The new status appears to be a compromise between two factions among BRICS members: those in favour of another round of expansion and those opposed to it.

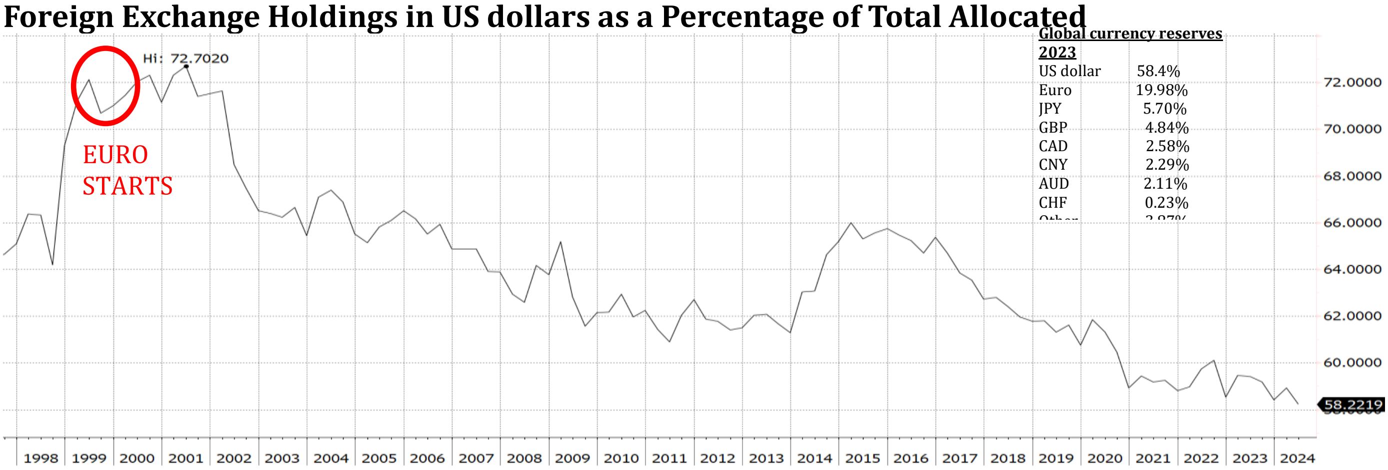
Brazilian President Luiz Inácio Lula da Silva likes to say that BRICS is "against no one." Indeed, one of the reasons why up to forty countries have signalled interest in being part of the grouping is that there are opportunities to diversify their partnerships and to gain access to China.

Saudi Arabia's assessment is likely influenced by BRICS's decision to invite Iran, as well as Russia's aggressive talk and plans to reduce the importance of the U.S. dollar, hence Trump's reaction of late. These moves could transform BRICS into an anti-Western club.

Comments by Trump on X such as "They can go find another sucker" seems a bold statement. But the reality is there is currently no real alternative to the US dollar. In the Americas, 96% of invoices are transacted in US dollars. In Asia-Pacific it's 74% and the rest of the world it's over 50%. It's true that since the Euro came in in 1999 there has been an erosion of foreign holdings of US dollars, from 72% to 58%, as currency diversification has taken place. The main countries that have been trying to move away from the dollar are Russia, moving into other currencies with its wealth fund and into gold; and

China making transactions outside US dollars for some commodities, such as some of its oil supply. So, **we are a long way off any real de-dollarization.**

## Foreign Exchange Holdings in US dollars as a Percentage of Total Allocated




**The Federal Reserve is safe from Trump**

Donald Trump has denied he plans to replace US Federal Reserve Chair Jerome Powell, whose post is effective until May 2026. In past interviews Mr Powell has confirmed he has no plans to step down before then and will continue to maintain the central bank's independence from government. Having ridiculed the role in past comments, Trump is probably happy with the stock market and crypto performance and does not want to try and fix something that is not broken, especially with the S&P 500 now making its 56th new high this year.

Trump renewed his threat to impose tariffs on US trading partners if necessary. In an interview in November, he was challenged that tariffs raise prices for consumers and asked if he could guarantee American families would not be paying more. He responded by saying "I can't guarantee anything. I can't guarantee tomorrow".

This month we expect to see the Federal Reserve cut interest rates by 25 basis points. US Treasury bonds rallied on Friday in response to the U.S. non-farm payrolls number, which showed 227,000 new jobs were generated, compared with the 220,000 forecast, and unemployment edged up to 4.2%. Wages grew 4% YoY, which was more than forecasters were expecting. Traders took comfort in the lack of bigger revisions to the October employment report. The data was not soft enough to call for a 50 basis point cut on Dec 18th, and adds to the expectation of a soft landing for the US economy. The big question is what the rate cut landscape will look like in 2025.

November US inflation data is due this week, with CPI data on the 11th of December and PPI the day after, which should give an indication about productivity and growth. The ECB is expected to cut rates faster in a bid to revive a flagging economy. A 25bps rate cut is expected this Thursday, with markets predicting 25bps cuts at every meeting until June. In contrast, the Fed has a trickier task, with the prospect of another 2-3 cuts in 2025 of 25bps each, data depending, and the terminal rate in the US somewhere near 3.8%-4.0%.

With European services in contraction following manufacturing and political upheaval in France and Germany and the prospects of US tariffs, European rates have room to fall for a while. Meanwhile in the UK, the next rate cut is not likely to come until February 2025. Japan is expected to hike rates in December or January.


Seasonally the US dollar has weakened on average by 0.75% in the month of December since 2014 and bonds have performed positively. Looking at 2-year yields in the chart above we can see a minor double top has formed, implying a lower yield play sub 4.0% with 3.86% as a Fibonacci technical target to consider on market expectations of more cuts to come. With US 1-year yields around 4.15% on Friday, the US 2s10s yield curve is around +5bp and has been inverted again recently. However **the bigger picture for next year is a steeper yield curve driven by weakness in the longer end duration part of the curve.** The liquidity of the last 20 years in the bond market is over, as China and Japan scale back on bond buying overall and the US has a huge $7 trillion refinancing need separate to any additional spending. China bonds could see strong out-performance in 2025 versus US bonds, as China 10s made fresh new lows recently sub 2.0%.

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