



FLASH BOURSIER

RETAIL TRADERS DRIVE UP MARKET VOLATILITY

Overview

Highlights:

Slow business recovery in the US

Euro strength causing a stir in EMU

Fatalities linked to Covid-19 have been decreasing worldwide, even though the number of cases has been rocketing again since people have returned from holiday. But this may also be because so many more tests are being carried out. Quite simply, more infections may simply be the result of more swabs.

As the search for a Covid-19 vaccine continues frantically, AstraZeneca last week dampened hopes of a quick fix, halting clinical trials after a potentially unexplained disease surfaced. This should be a reminder that vaccine discovery is a long, painstaking process. Happily, the group announced over the weekend that the trials had resumed.

Economies continue to recover slowly. In the US, initial jobless claims have levelled off at a high rate, with unemployment at 8.4%. The services sector slowed in August, as illustrated by a non-manufacturing ISM index falling from 58.1 to 56.9 last month. New stimulus measures are expected, although Republicans and Democrats are disagreeing on which form this should take.

In Europe, the euro's strength is triggering serious debate. The currency has appreciated 10% against the US dollar since March. Leading up to the ECB meeting, the latest economic stats showed a regional economy running out of steam. Yet Christine Lagarde was last week strangely optimistic about the bloc's prospects. There was talk about the euro's high value

within the governing council, but her remarks betrayed no sense of urgency, even though a strong currency is deflationary and undermines competitiveness. In reality, the optimism seems to be tied to the level of stock markets.

Volatility ticked up in financial markets last week in the wake of the Nasdaq correction and the slide by US tech darlings, which seemed unstoppable. The magnitude of these swings was disconcerting, bearing in mind that the 15% correction in Apple's share price represented drawdown of around USD 300 billion – the equivalent of Nestlé's market capitalisation. The uptick in volatility seems to be magnified by a new phenomenon: options-based speculation by retail investors. The leverage provided by these instruments is huge. Over the past four weeks, retail traders (using applications such as Robinhood) have spent around USD 37 billion on call options, giving them notional exposure of more than USD 300 billion. These readily available instruments started to become popular during lockdown when many gamblers withdrew to the stock market, which ever since has been on a non-stop winning streak.



The SMI is showing positive signs pointing to renewed appreciation. Last week it was able to overcome the resistance at 10350 points and is now preparing to break through 10500 points.

Key data

	USD/CHF	EUR/CHF	SMI	EURO STOXX 50	DAX 30	CAC 40	FTSE 100	S&P 500	NASDAQ	NIKKEI	MSCI EMERGING MARKETS
Latest	0.91	1.08	10'439.52	3'315.81	13'202.84	5'034.14	5'935.98	3'340.97	10'853.54	23'406.49	1'091.79
Trend	➡	➡	⬆	➡	⬆	➡	⬇	⬇	⬇	⬆	➡
%YTD	-6.07%	-0.81%	-1.67%	-11.46%	-0.35%	-15.79%	-21.30%	3.41%	20.96%	-1.06%	-2.05%



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EURO UPTREND VERSUS DOLLAR COULD BE ABATING

For once, it has been the euro gaining against the US dollar, rising by 12% up from its March low. Several factors have fuelled the upswing:

1- asset purchasing got off to a more aggressive start in the US, which for a time swelled the Fed's balance sheet relative to the ECB's; and more dollars in circulation meant a cheaper dollar;

2- talk earlier of debt pooling bolstered confidence in the Eurozone and reduced the risk premium on the single currency;

3- Europe emerged more quickly from the Covid-19 crisis compared to the US.

Now it looks like the tables have turned, and there are good reasons why the euro should weaken. As Christine Lagarde and the ECB's

chief economist have also made clear, the level of the euro is being closely monitored by top brass at the European Central Bank. Its strength today poses essentially two problems: it is deflationary because it makes import cheaper, and it is further widening the gap relative to the ECB's inflation target of 'below but close to 2%'. Inflation is one way of reducing the value of debt (because debt is repaid in nominal value).

The strong euro is also hampering eurozone exports at a time when so much effort is being put into reviving the economy. The ECB will therefore be keeping a close eye on how the situation develops and has not ruled out increasing the firepower of its 'special Covid' bond purchases, which for now are unchanged at EUR 1.35 trillion.



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