

COVID-19 analysis – update nr 4

As per 10 April 2020

Why is the Dollar so strong even the US Gov is printing money?

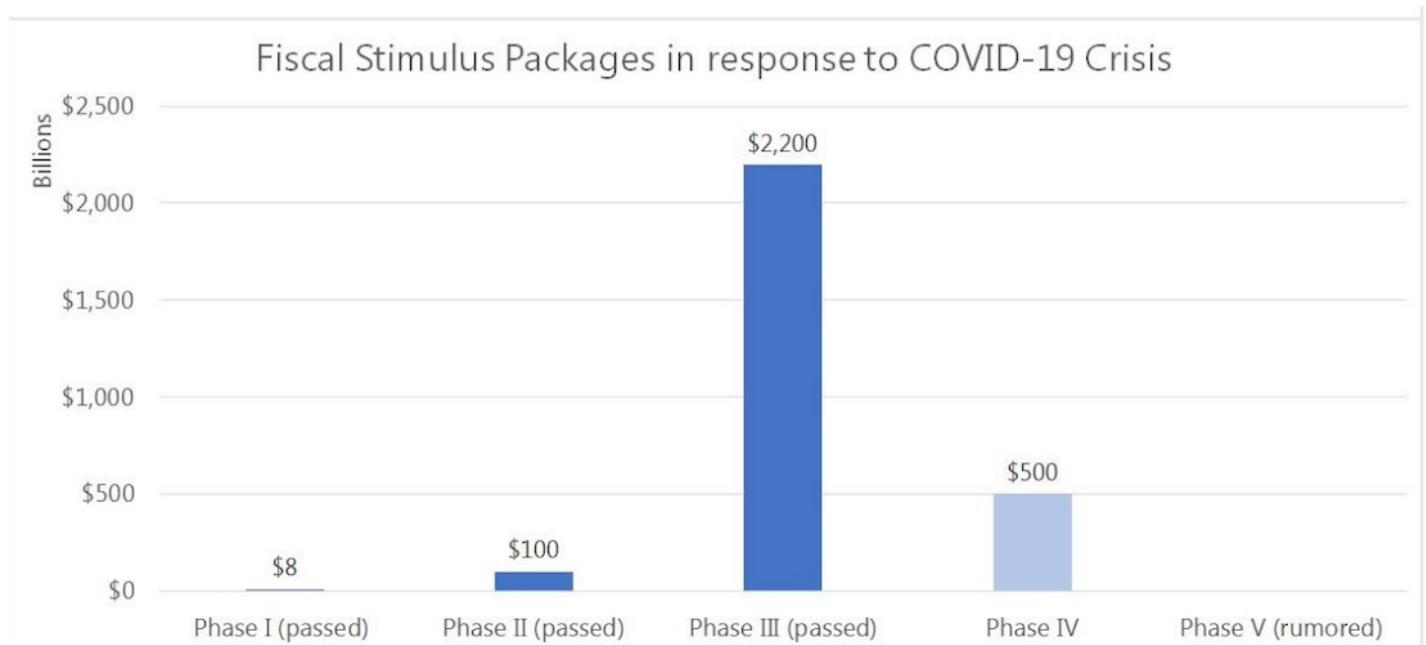
- Fundamentals are not supporting the strength of the USD
- USD strength is the result from RISK OFF of investors
- As soon markets are again in RISK ON mood, USD should fall

Geringere Zinsdifferenz & Normalisierung der Liquiditätsstress-
Levels dürfte letztlich den US Dollar unter Druck bringen
2 & 5 Jahres Swap Spread vs. Trade-Weighted USD Index (DXY)



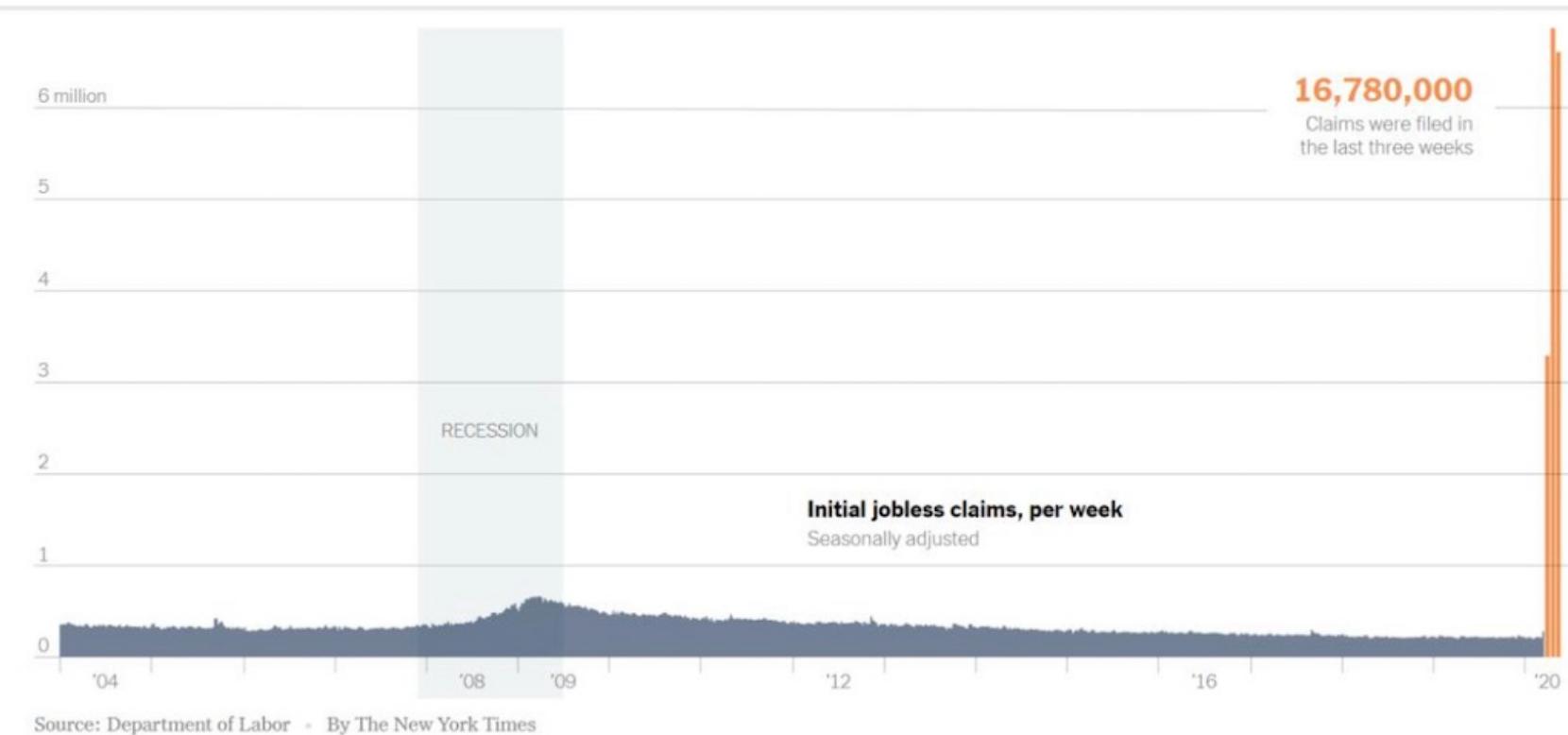
Fiscal stimulus is enough for...

- USA are losing every day 60 bil USD of GDP
- 1.2 Trio USD every 20 days
- If lockdown stand until end of May or 60 days from now:
additional 3.6 Trio USD are needed
- Bill Gates arguing, it might not be until fall 2021 that Americans “can be completely safe” from COVID-19 (an approved vaccine by then)



16.78 mio unemployment: equal 10% of the labor force

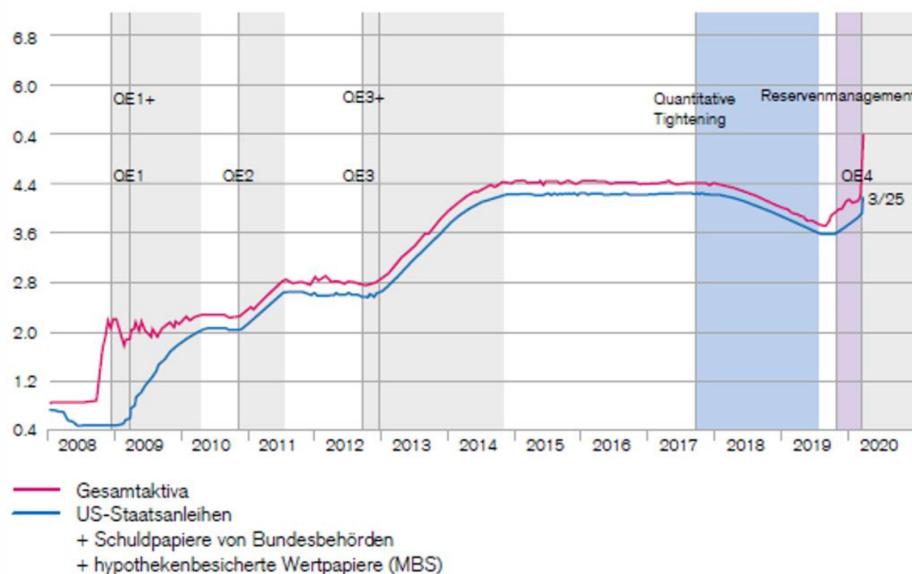
- Same peak unemployment rate during the Great Recession
- Going to be higher in May?
- Market discounted those numbers, but not higher ?



FED balance sheet

Helikoptergeld: Klotzen statt Kleckern (1/2)

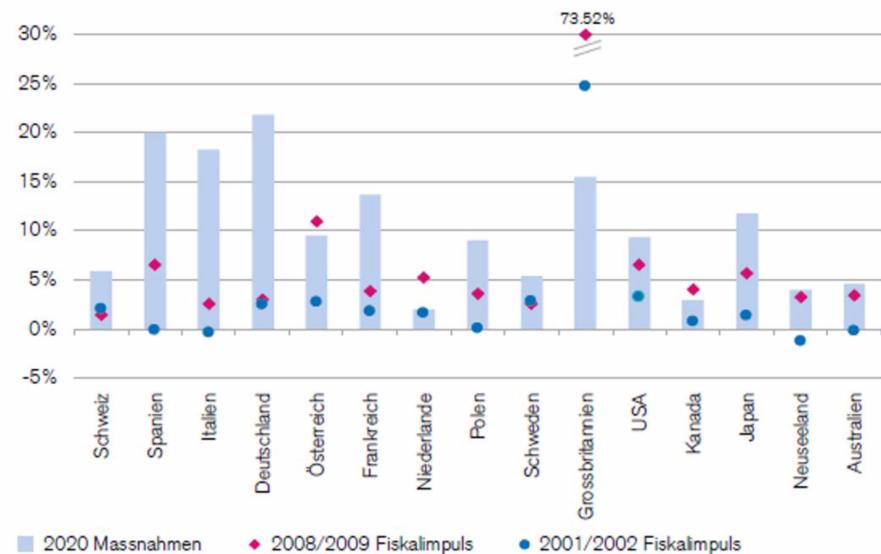
Abbildung 7: Entfesselt? Die Bilanz der US-Notenbank unterstützt den Kampf gegen die Pandemie
Aktivposten der US-Notenbank in USD Billionen



Total stimulus is now already 5 Trio. The FED can increase 3 times the size and it would be as the same level like the Swiss SNB, therefore the **FED has still plenty of “munitions”**

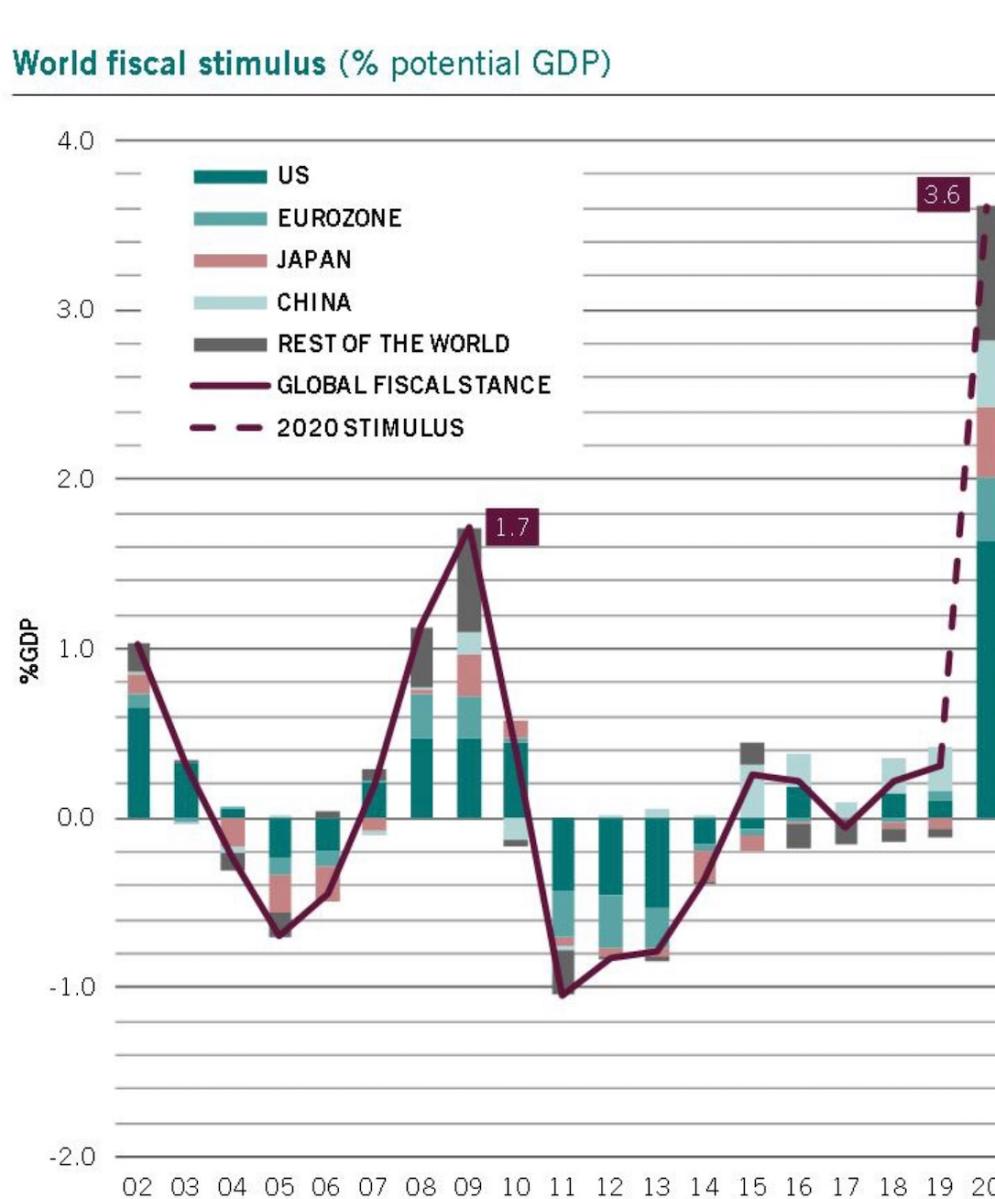
Helikoptergeld: Klotzen statt Kleckern (2/2)

Abbildung 8: Angekündigte Fiskalpakete im Vergleich zu früheren Krisen
in Prozent zur Wirtschaftsleistung, aktuelle Schätzungen für 2020



Global fiscal stimulus twice as big as 2009 response

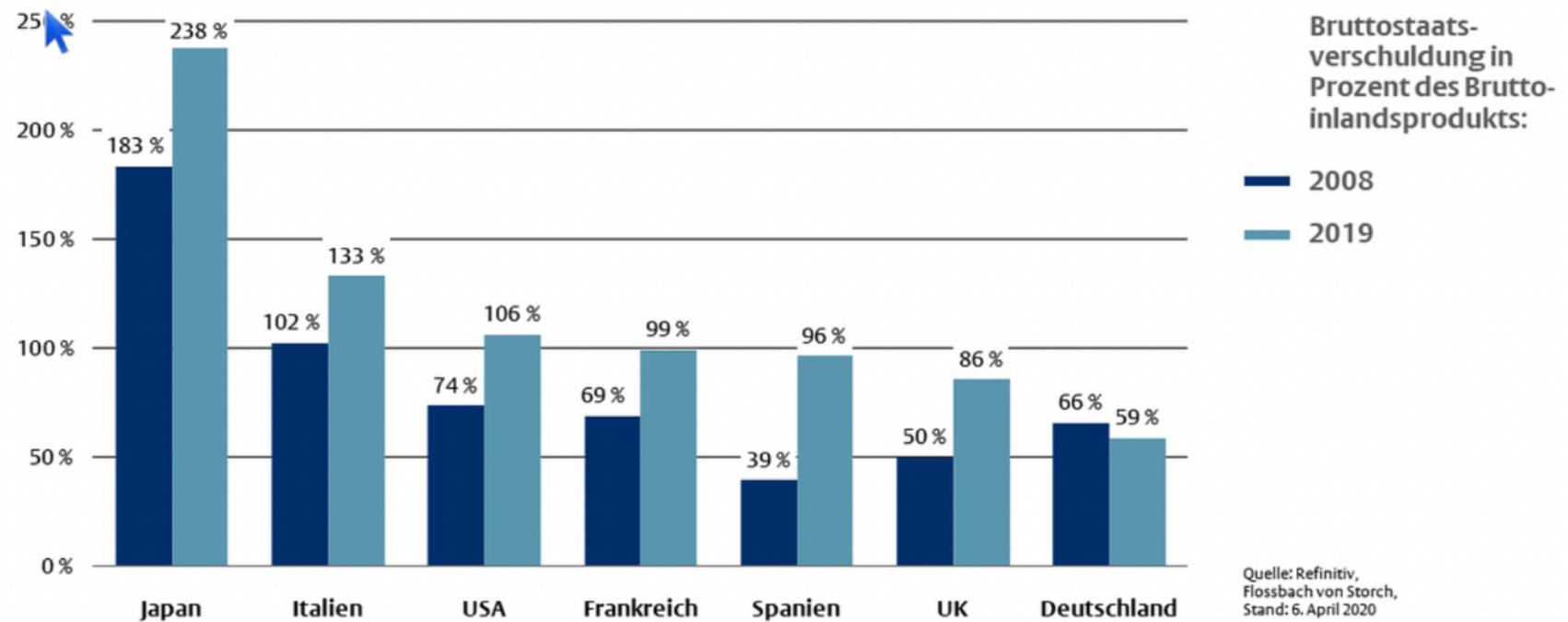
Main contributors: 45% US, 12% Japan and 11% China & Eurozone



...but the increase of general Gov debts going to be a long term problem and means inflation

Erst die Finanzkrise, jetzt Covid-19

2020 wird einen massiven Anstieg der Staatsschulden nach sich ziehen



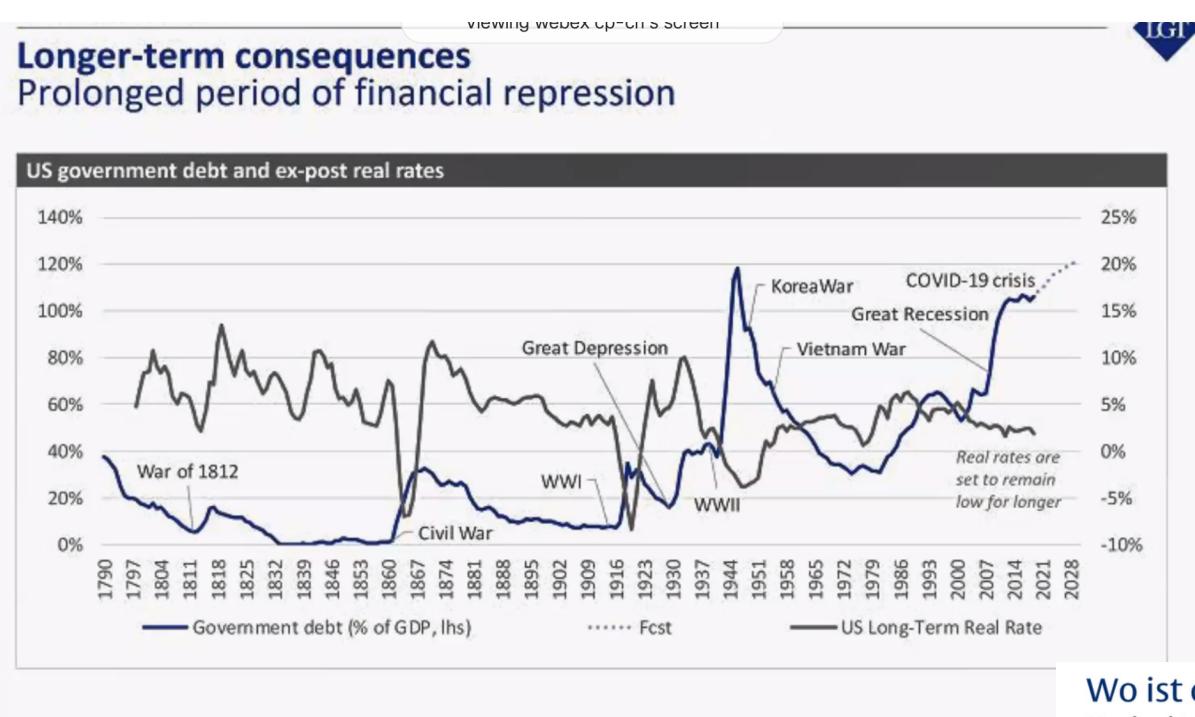
FED buyer of junk bonds

- The FED is buying no limit High yield bonds, postpone for 12 months mortgage payments at Fannie and Freddie Mae
- FED set a massive floor in the general bond market, not only IG bonds
- Impressive rebound of HY bonds: back to the pre COVID19 levels



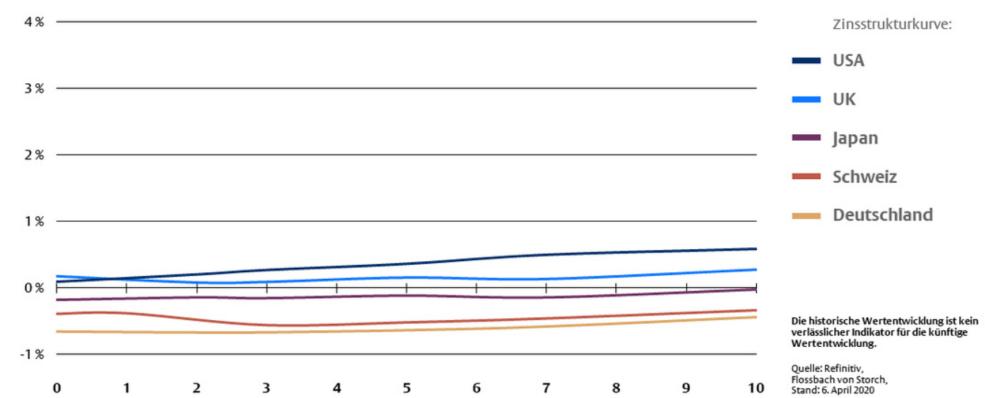
Interest rates low for longer

- Once again, interest rates can not increase
- Japan has higher real interest rates than USA and Europe!



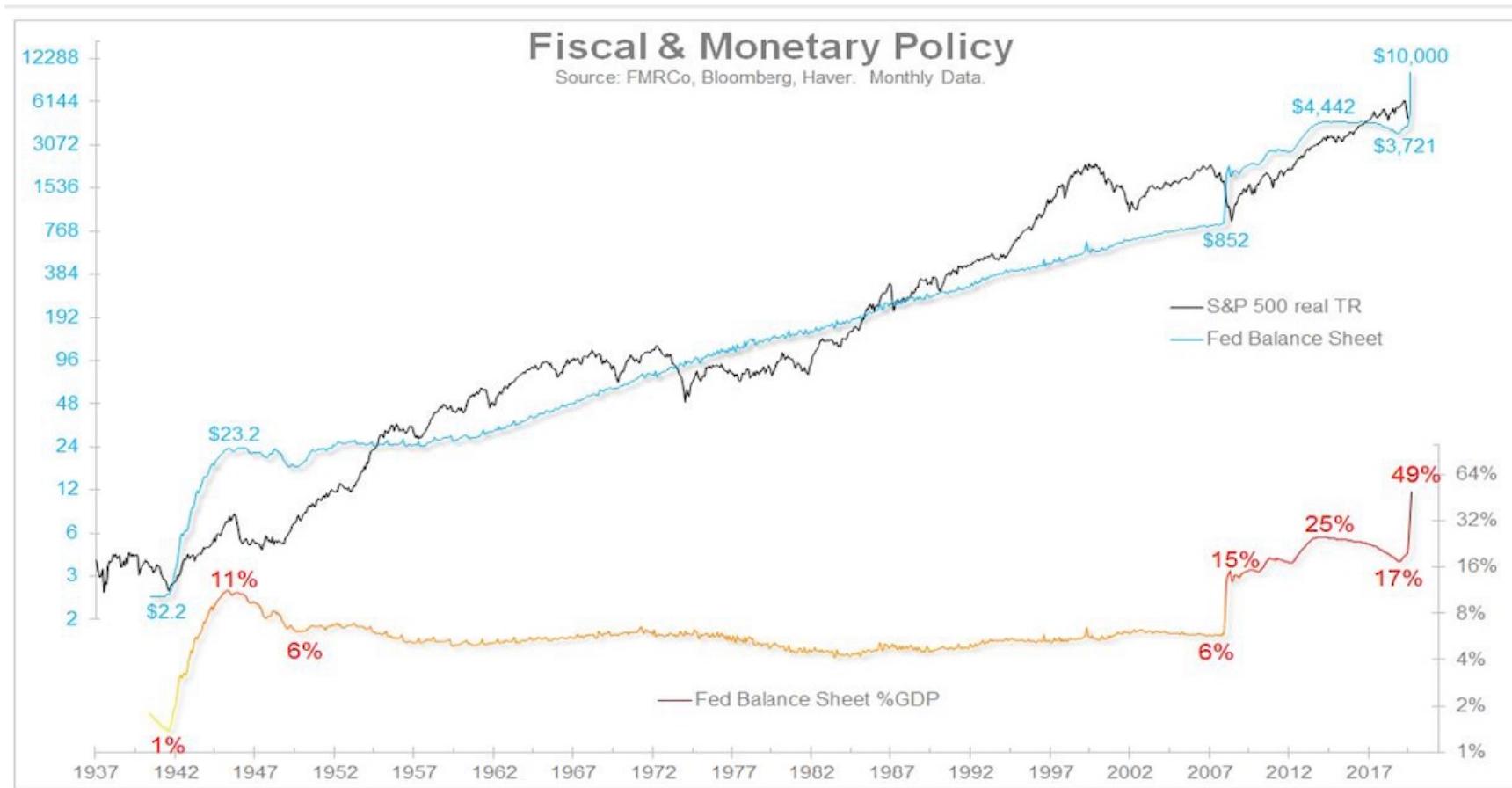
Wo ist der Zins geblieben?

Konjunktur und Geldpolitik befördern die Zinsdifferenz



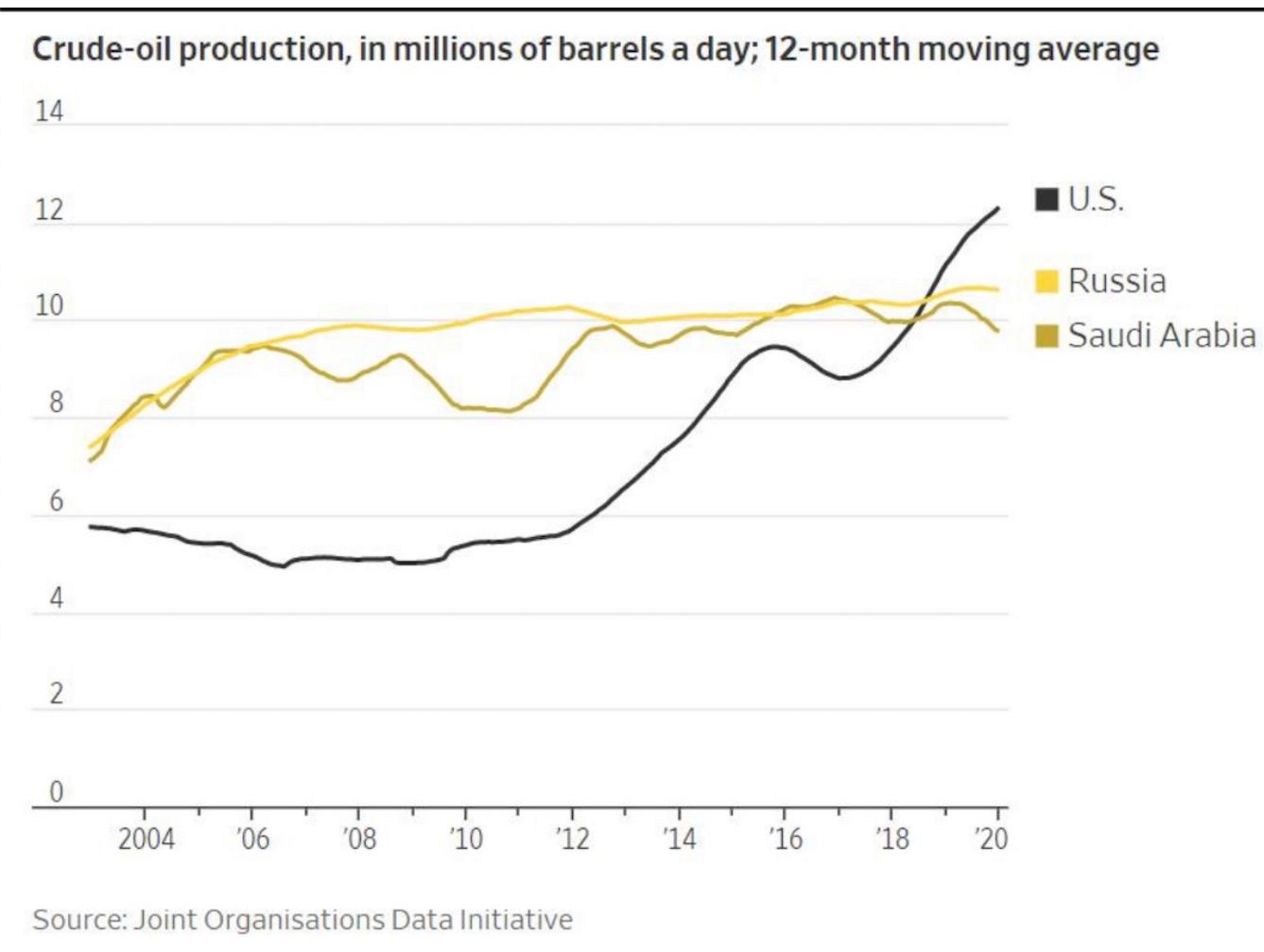
FED monetization of debt

- During WWII the FED increased its balance sheet 10-fold as it monetized war debt & engaged in QE to enforce its price caps (around 2.5%)

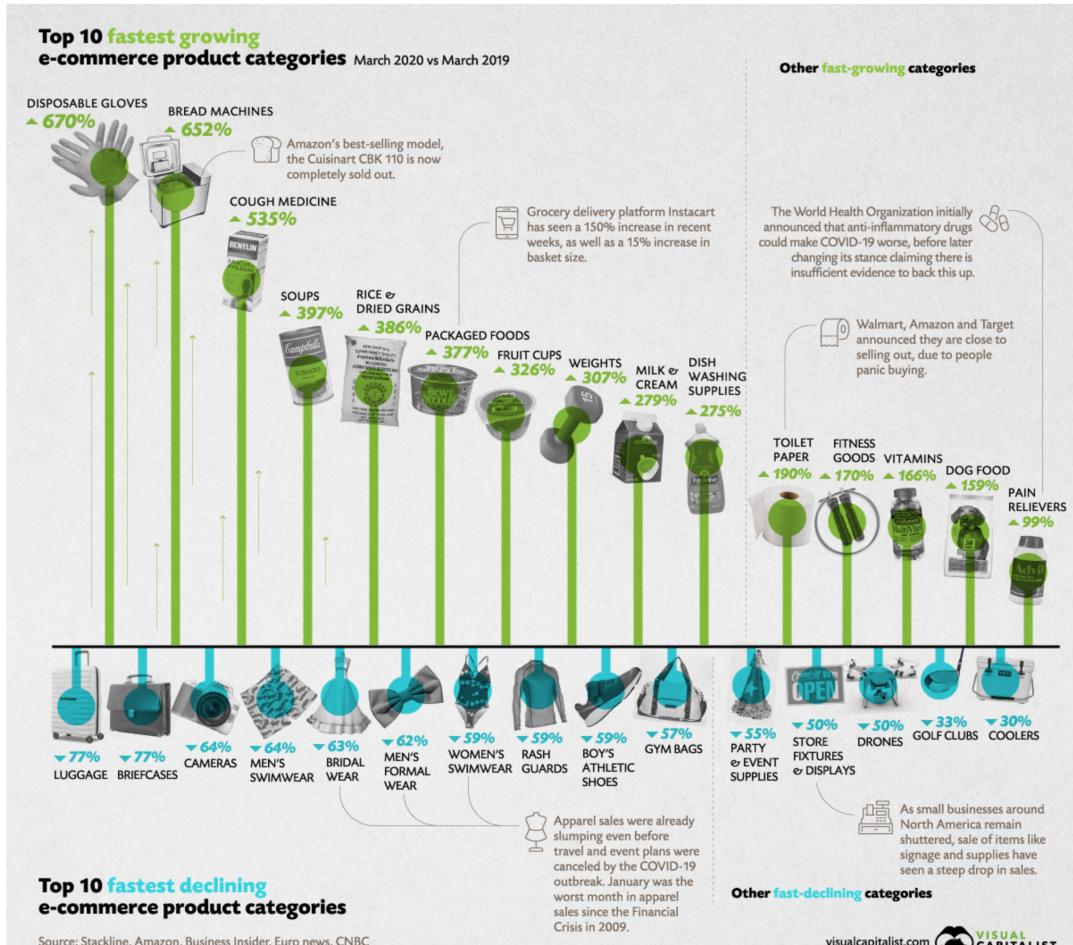


OPEC and allies agree to historic 10 mio barrel per day production cut

- Market wished 20 mio barrels, is G20 helping?
- But it is a start to support the oil price
- USA must also participate, but how?

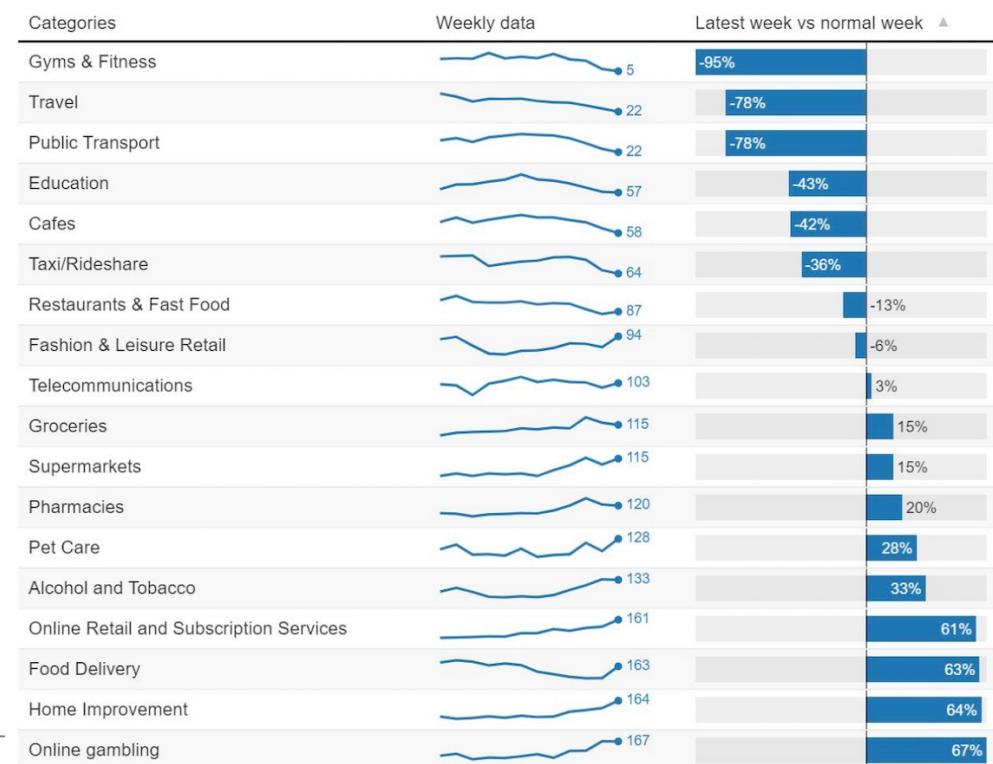


Shutdown-affected categories



Shutdown-affected categories have fallen sharply, but stimulus drives strong growth in many others

Weekly index of consumption per person, Normal weekly average = 100



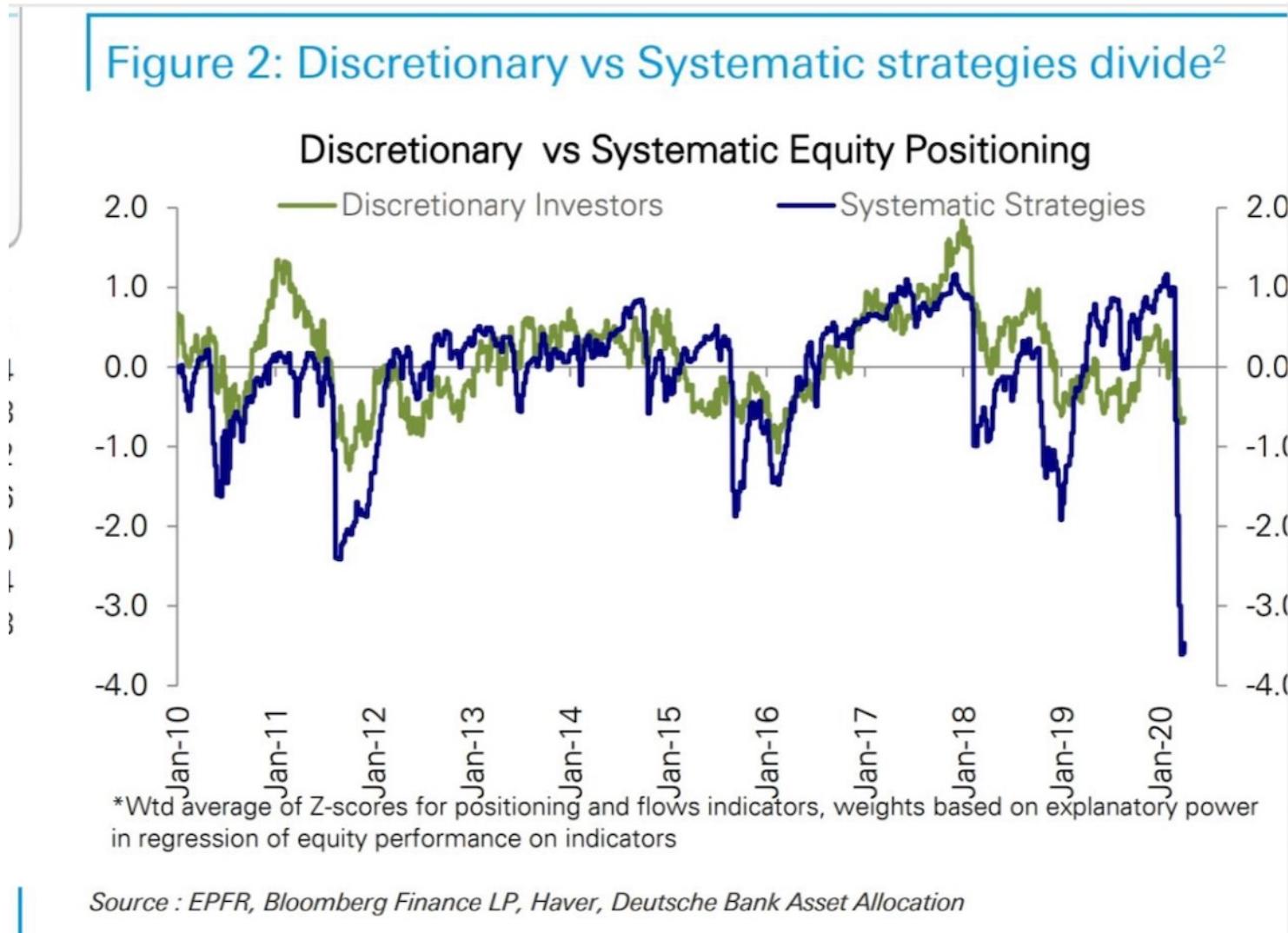
Based on a weekly sample of the transactions of c.250,000 Australian consumers

Shutdown-affected countries

- Shutdown of Jeans production in Mostafiz Uddin from Inditex
- The German Takko also took extreme steps
- 46% of orders are being cancelled
- That means 4 mio workers in 4'000 different fabrics in Myanmar, Cambodia, Bangladesh does not have a job and have a serious existence problem

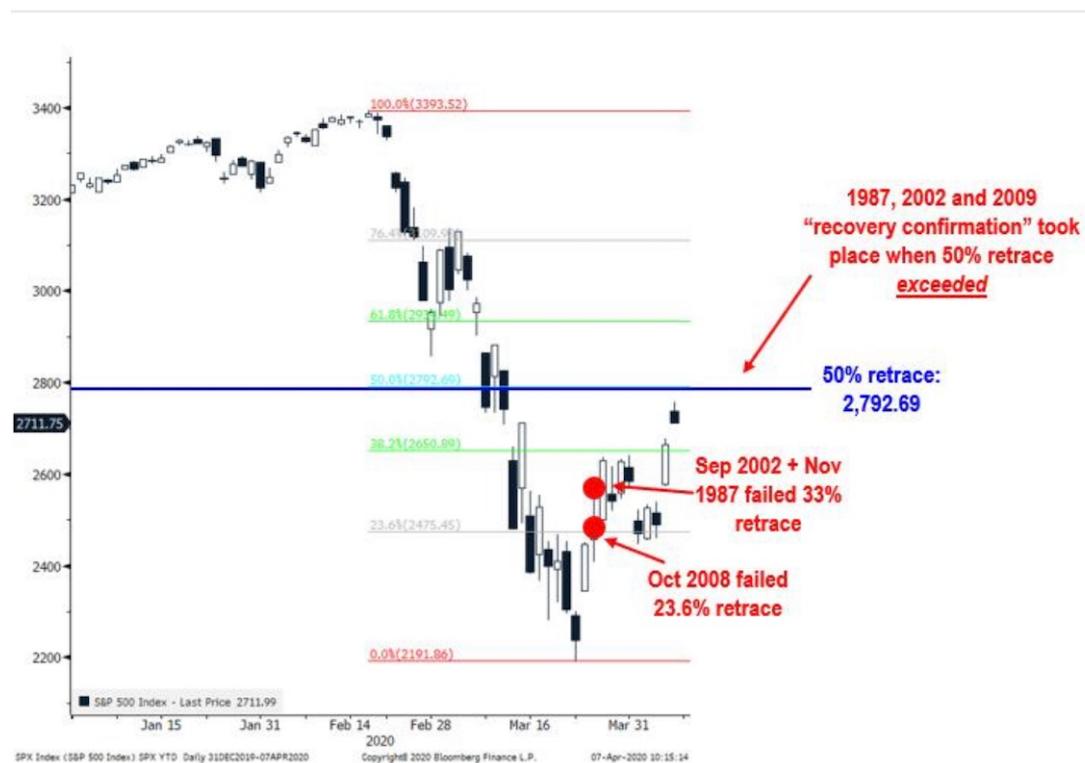
Technical analysis

- Most of the CTA strategies did not work again.....
- As we know, trend followers are reacting to late to corrections



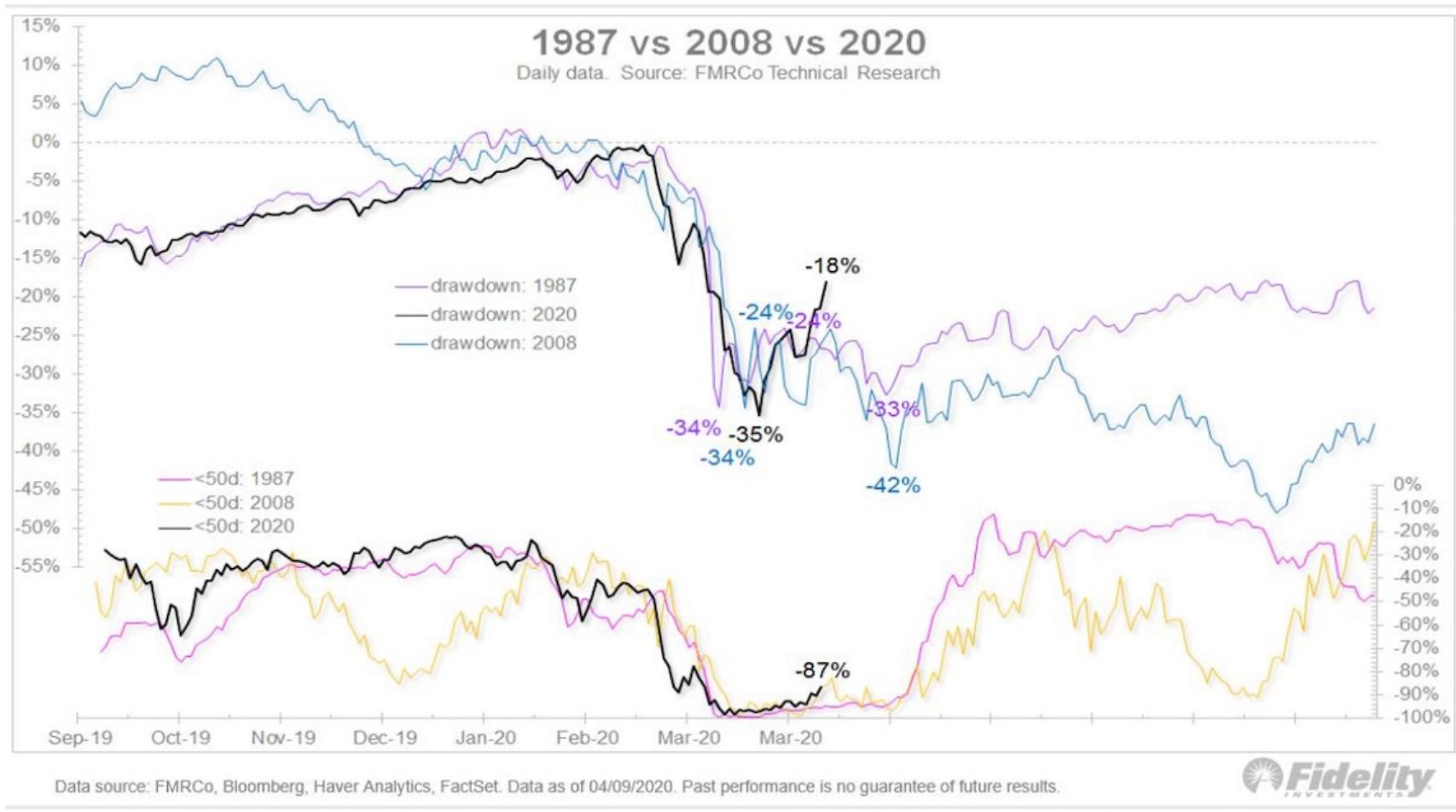
Technical analysis

- Most of technical analysts arguing, S&P 500 index at 2'800 is the 50% Fibonacci retracement, during 1987, 2003 and 2009 market corrected again after touching such levels.
- The same analysts, which were calling the lows of markets at the end of March
- The main argument: at the beginning of April, after the FED announced the buying programs, Pensions, Private Banking and institutional investors could finally rebalance their portfolios, being able to sell bonds and buying equities
- The next uptrend leg of the market would be when Hedge funds would close their hedges, but it is still not happening. In addition many retail clients having missed the market rally of the recent years, would like finally to invest. Most of them also missed the opportunity window in Q1 2019! A lot of retail clients are very “hungry” to invest, having negative interest rates on the account and by bonds.



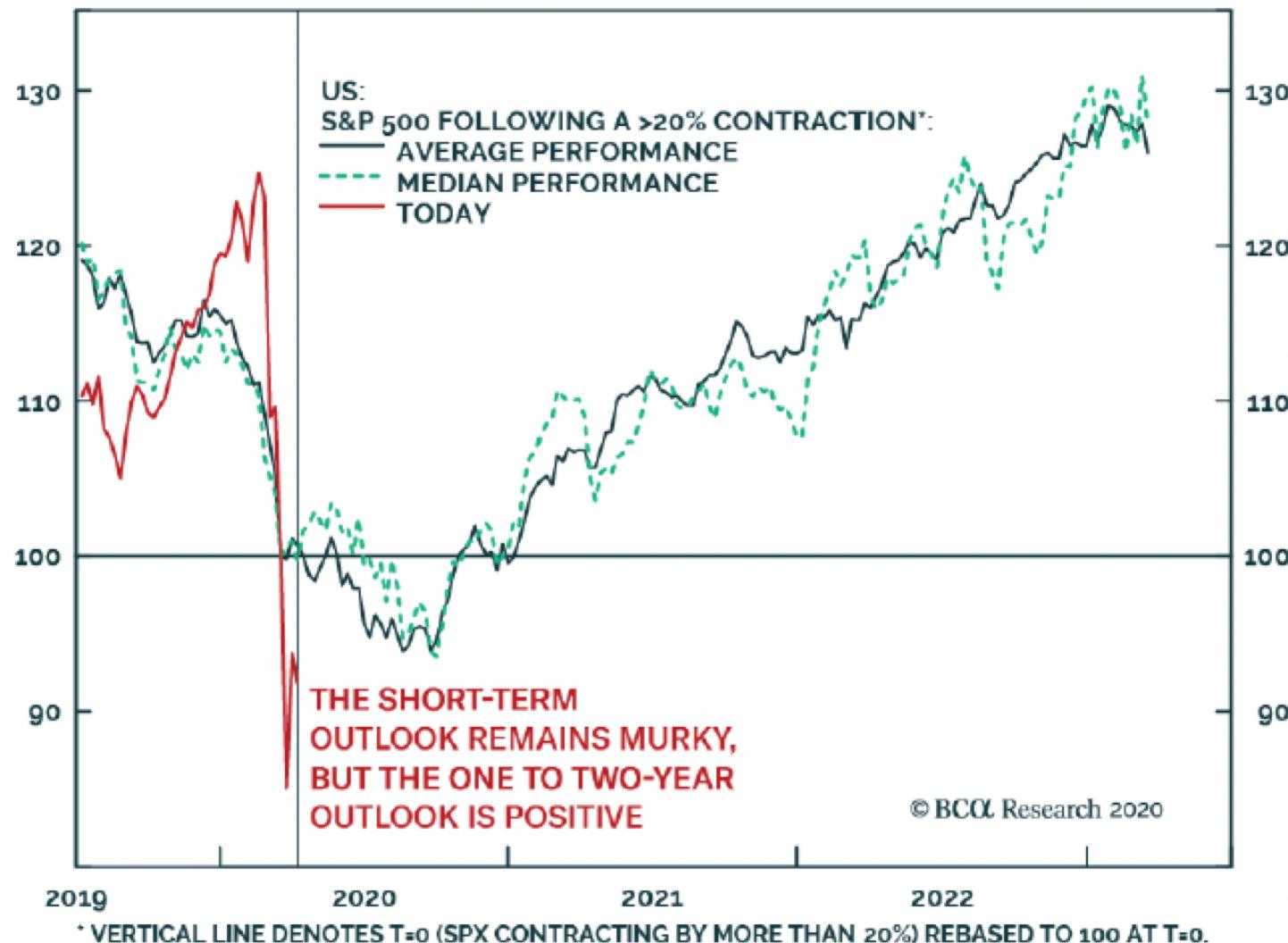
Technical analysis

- The rebound during 2020 it is still on the same path then 1987 and 2008
- In 1987 it took the S&P 500 Index almost 2 years to make new highs
- In 2008, after gaining 20% it fell another 27% and the Index did not make a new high until 2013
- CONCLUSION: was this rally the start of a new bull market, OR a bear market rally? Still not clear yet



Technical analysis

- But the comparison with the median performance of the past >20% contractions look better



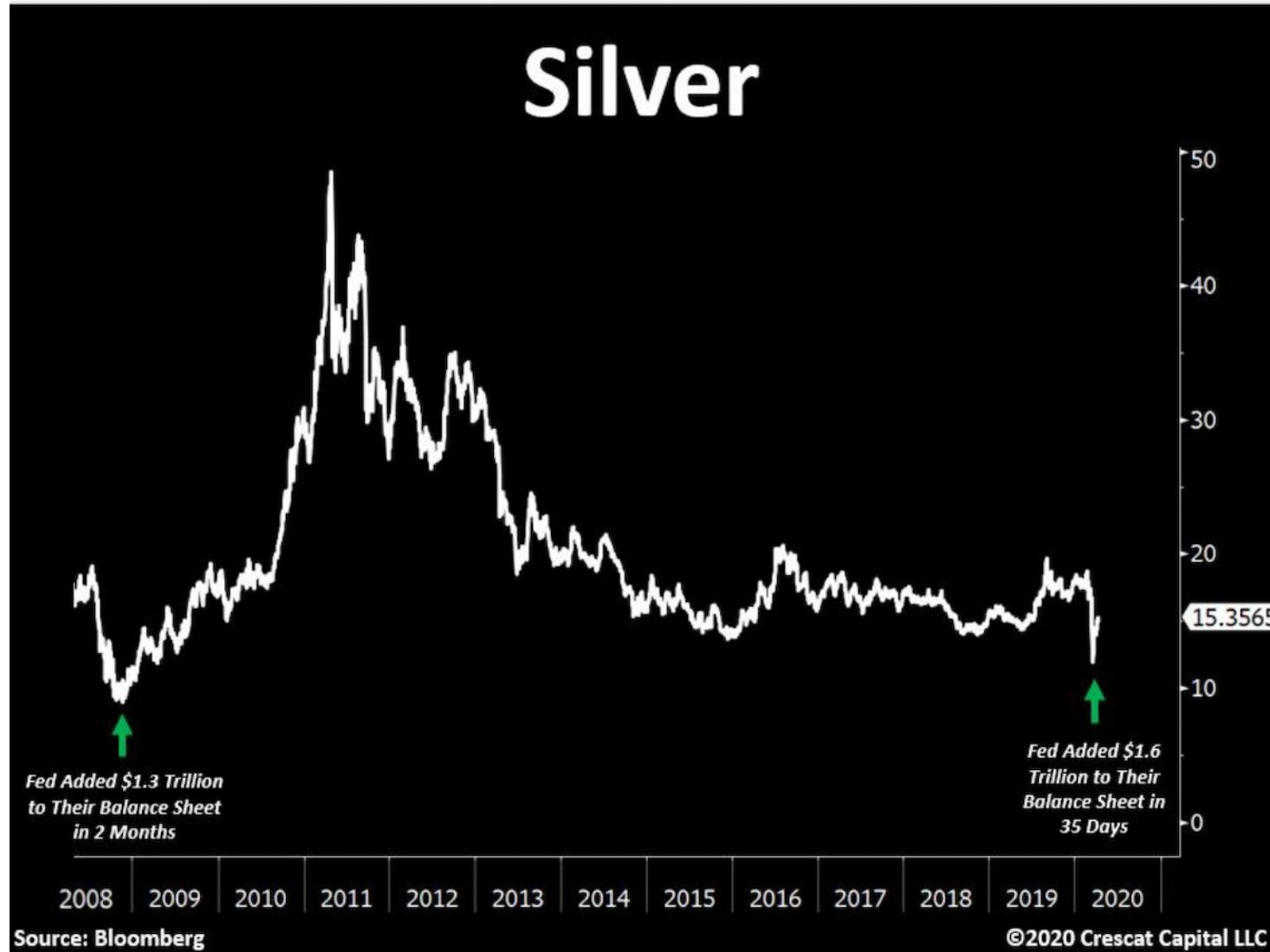
Technical analysis

- And the QE chart show another story: markets only increased



Technical analysis

- À propos QE...it was the start of the Silver and Gold rally



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