IN BRIEF

What happened

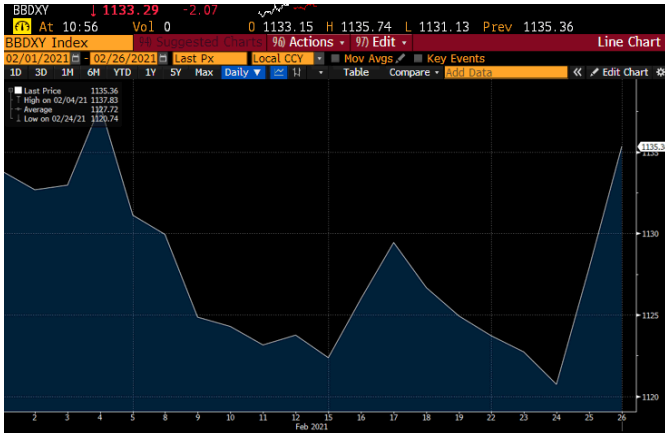
- The battle against COVID-19 continues, but with more approved vaccines and better rollouts
- The buck closed February in positive territory per the Bloomberg Dollar Spot Index, barely changing after big inconsistent rallies
- Euro fortunes improved as the European Union secured its inoculation plans and Italy welcomed Mario Draghi as new Prime Minister
- Pound Sterling continued its good run as the health of the country advances
- U.S. Congress remains tied up in working on a much-awaited rescue package

Tempus' view

- The last month of the first quarter will determine if the pandemic's economic woes are easing
- Concerns over rising yields and possible inflation could increase FX volatility
- Euro could have room for depreciation as the European Central Bank discusses the need to maintain a loose financial environment
- We feel that Sterling may be a bit overvalued and could fall if Bank of England increases quantitative easing
- March will hopefully mean further progress in reducing infection and re-opening business

IN FOCUS

BDXY: Let's call it a gain—an eventful Feb. witnessed lots of USD movement



Global demand seems to be rising as the buck finds mixed direction

- Commodities are trading around their highest prices since 2013 as the recovery seems to be aiding other regions besides China and Asia
- Central bankers and governments have worked to amplify programs to help their populations while stepping up vaccination efforts
- There is some worry that bond yields and inflation could get in the way of fixing the pandemic's damage across industries
- The energy crisis in Texas highlighted the need for more infrastructure spending

THE VIEW – Global momentum moving USD value all over the place

Volatility is increasing as we enter a crucial point in getting rid of COVID

February may have been short, but it packed a lot in little time. We started off with significant political changes in a large European economy, witnessed a major oil rally after a historically cold winter storm in the southwest, and growth in the cryptocurrency market as it looks to be more mainstream. As expected, central bankers and governments have been busy with the task of bringing the economy back to pre-pandemic levels. While some progress is being made, things are far from stable as the cold winter and safety measures caused delays in hiring, business re-openings, and school attendance.

On February 2nd, we received news that Giuseppe Conte would resign his post as Italy's Prime Minister, creating, once more, a sense of worry for the beleaguered third largest economy of the Euro-zone.

Although Mr. Conte had survived a vote of no-confidence, the President of Italy, Sergio Mattarella, spoke with him, and it was decided Conte would cease any further attempts at building a coalition to govern. Then came the major announcement that Italian authorities would work with former European Central Bank President Mario Draghi to start a process of alliance-building and form an administration.

In bringing home their biggest name in economics, Italy may have given itself the chance to start enacting reforms. Draghi expects his term to not be a full one but is determined in addressing bank failure as well as ending the era of corporate interventionism that has seen the government bailout companies such as Telecom. He wants the government to put emphasis on education programs as well as research and development.

While the focus could remain on Italy, we will pay attention to news on the spending of funds from the massive rescue EU bill by other countries. Spain and France seem to have experienced some improvement across indicators, while Germany is doing what it can to make-up for a very difficult time during the second wave of the virus.

The Euro could merit appreciation as indicators such as Gross Domestic Product, Producer Price Index, and Retail Sales are indicating better growth than previously thought. However, much of the strengthening will depend on how the ECB feels, since President Christine Lagarde has pointed at labor woes and the need for the continent to advance digital currency offerings as well as attempt to regulate the wild movements in crypto.

Meanwhile, the world is getting back to high levels of productivity with energy costs rising. Last month saw WTI Crude oil reach its highest price since October 2018 as a crisis in Texas and geopolitical news aided the black gold resurgence. OPEC+, the market movers, will be meeting the first week of March to figure out ideal production under current circumstances.

We all know by now that the nation of Venezuela faces tremendous problems as the power of the state has been diminishing while criminal elements have entered the country. The situation alone has caused friction and issues with neighboring countries as poverty overtakes a country with the largest proven reserves of oil.

What caused all this chaos was the mismanagement of the oil state company PDVSA after key jobs were given to unprepared individuals who only attained the position for being loyalists to the troubled regime. This level of egregious nepotism has led to economic catastrophe leaving big chunks of the country in a rogue and desperate state.

The same thing cannot be allowed to happen in Brazil, where President Jair Bolsonaro replaced a business-educated CEO with a retired army general. Bringing in friends to control what helps make Brazil an energy-independent has already put pressure on the Brazilian Real (BRL), dropping by over 4.0% in February. Additionally, we shall see how much Iran could influence supplies, with American President Joe Biden looking to ease sanctions to improve international relations.

Our neighbors in Canada and Mexico could also be impacted as both countries try reviving economic momentum. Things south of the border look complicated after the President, AMLO, got into hot water for enabling the election of a candidate to a governor seat who is accused of sexual assault and misbehavior. Protests are ongoing as well as planning from the central bank to address the awful levels of GDP growth, which continue to disappoint MXN bulls.

Lastly, we must recognize the growth of the cryptocurrency market into $1.0 trillion value. Bitcoin has hit new records as companies such as Tesla and local governments such as the City of Miami, FL look to use it as a medium of exchange. We believe crypto could see further gains while $18.0-trillion of the world's bonds trade in negative yield territory.

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