Second Quarter, 2021

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UNITED STATES

The start of the second quarter has been characterized by a cooling in demand for the USD caused by a rise in demand for US Treasuries as the yield also slips. The first quarter of 2021 saw a continued recovery in the US economy and improving data flow, the confirmation of President Biden's $1.9tn fiscal stimulus bill and the proposed additional $2.25tn Infrastructure bill. The weaker Dollar narrative that greeted the new year did not materialize as the USD rallied throughout Q1 and time will tell if the current weakness at the beginning of Q2 will persist.

As we wrote at the beginning of the year "Market expectations are for the 2018 low to be tested once again during 2021 with the consensus expectations of a further 3-5% decline, with some, such as ING Economics, having the decline closer to 10%" - these have now been reversed and "the consensus view of a lower Dollar has its caveats … Biden will not talk the (Dollar) down; and he will embrace multilateralism, including the framework that has built and supported the (dollar's) reserve currency status," the idea being that a more inclusive foreign policy will support the Dollar. There is also the argument that higher stimulus spending and the boost to growth that Biden will be hoping for will attract investors, from both overseas and at home. This appears to be what has driven USD strength through Q1.

Q4 GDP growth was upgraded in the final reading to 4.3% from 4.1%, lifting sentiment. Expectations for Q1 are for a better than initially expected 4.6%, and 8.5% for Q2. The Q1 Earnings season kicks off in earnest in mid-April and is expected to see growth of 22.4% for the key S&P500 from the same period in 2020 and an increase of 23% for revenues. The real question remains as to the type and style of the ongoing recovery and whether it is sustainable. Q3 and Q4 GDP growth estimates are currently 6.4% and 4.4% respectively.

While economic activity could be robust for Q2 as the vaccine rollout continues, the truce with China has again come under scrutiny with numerous companies (particularly technology) remaining under the spotlight. The negative rhetoric has continued, even with the new President, and it is unlikely to change significantly; indeed, both sides appear to have become more entrenched, with Hong Kong and Taiwan particularly sensitive areas. The Fed remains focused on accommodative monetary policy, a rising balance sheet and a benign attitude to a rise in inflation. This combined with a significant reluctance to even consider negative interest rates earlier in the pandemic and now the necessity for a sustained improvement in the economic performance and data flow of the US to even consider a rise in rates. The current dovish tones from Jay Powell and co have no rate rises penciled in until 2024, while the market on the other hand and some hawks on the FOMC are looking for action before then.

The **Dollar** was in demand during Q1, but as global economies continue to recover that demand could cool over the coming months if the economic outlook fails to pick up. The USDIndex rallied from lows of 89.15 in January to highs of 93.45 as the quarter closed for a gain of over 4%, surprising many market participants and squeezing many "short dollar" positions. The prospects for the **Dollar** are mixed as higher growth and lower future interest rate differentials weigh against it, however, with all central banks moving in dovish unison, the Dollar retains its appeal and is likely to pivot at levels around 92.00. However, the combination of the significant fiscal package, the even bigger infrastructure bill, the accommodative monetary policy, and the rapid vaccine rollout all combine for a potentially positive second quarter and much stronger second half of 2021.

The **USD10YR** bond yield surged during Q1 and topped at 1.777% in the first few days of the new quarter as sentiment improved and the vaccine rollout and economic data picked up. However, the recovery remains patchy and with the jobs market also showing conflicting signs, data for Q2 will be key for the remainder of the year. Analysts are now pricing in a 2.0% level for the USD10yr during 2021, however, with 1.5% and 1.75% having been breached during Q1 a move over 2.0% cannot be ruled out.

The **USA30, 100 & 500** moved sharply higher to new all-time highs during Q1, as the major technology companies gave way to the Financials, Industrials and Energy stocks that became the new drivers of the recovery in Q1. The February peaks have been replaced by early April peaks. A fresh stimulus package and the ongoing low rates are beneficial to the stock market as it creates room for both price-based and volume-based gains. Earnings reports from Q4 during Q1 also helped to buoy equity markets with 84% of reporting companies in the US500 beating expectations. It is expected that the Q1 reporting season could be encouraging too but there remains the possibility that expectations could get ahead of the reality of the data. April marks the end of the best performing six-months of the year, traditionally,

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as markets cool into the summer months, however, with much pent-up demand expected during Q2 this year could be an exception to the sell-in May mantra.

EURO AREA

Even though globally the markets are growing increasingly confident in the bigger picture recovery scenario, supported by ongoing ultra-accommodative central bank policies, massive government stimulus programmes, and vaccine developments, in Europe the rough vaccine rollout and rising case numbers saw the return of restrictions in Europe, threatening optimism on the European recovery timetable and strengthening the uncertainty over the staying power of stimulus-driven growth. Overall, however, it seems whether fast or slow, the vaccination progress has kept confidence in the recovery alive for the year, despite putting the Q2 recovery story at risk.

Meanwhile, inflation is also in the basket of risks as it moves higher, mainly thanks to energy prices. In general, rising inflation expectations have unnerved the markets, even after the **ECB** indicated that inflation is not a concern at this time. Instead, the ECB is committed to maintaining accommodation until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2%, within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics. However, with business sentiment back at pre-crisis levels and supply chain pressures pushing up prices, the chances that underlying inflation pressures will continue to build, driven by strengthening demand, is **rising**. That will leave the **ECB** trying to assure markets that they will see through any short term effects and maintain the generous degree of accommodation that is currently in place. Additionally, the **ECB** remains nervous that the rough vaccine rollout and rising Covid-19 cases will measurably slow the nascent recovery in Europe.

Meanwhile, for the quarter ahead clearly yield spreads have effectively become a target for ECB policy intervention and it seems that they would like to maintain the flexibility of the PEPP programme on the distribution of purchases beyond the current crisis. Hence, even if the Eurozone recovery is at risk – and as there is little prospect for the ECB to tighten policy on the horizon, as interest rates are near the most negative in the world – the ECB is expected to keep policy unchanged in Q2. Their focus solely turns on slowing down the rising yields as a result of reflation trades and any widening of intra-Eurozone spreads as the outlook for the world economy starts to improve, while they expect purchases under the PEPP over Q2 to be conducted at a significantly higher pace than during the first months of the year. A disorderly reflation is a risk to be watched by central bankers along with its several dimensions.

From the data perspective, coordination between the rich nations who could have moved much faster on their own and the smaller ones who would have struggled without the joint procurement scheme was never going to be easy. Cross country differences are very high especially when looking at the service sector and unemployment rates, which are still at nearly 40% for the young in Spain and just 6.1% in Germany. Though the true fallout from the pandemic will only become apparent over time, weak wage growth will likely continue to have a dampening effect on overall inflation and likely also demand in the medium term. In the meantime, the **Eurozone's** services sector is likely to continue to struggle, and countries relying on tourism will continue feeling the pain in Q2. Broadly, developments remain uneven across sectors and countries. Notably, the manufacturing sector seems to have left the pandemic behind already, especially in Germany, which is only hindered by supply chain constraints. A 1.0% gain in Q1 GDP for the Eurozone is still anticipated after the -2.2% drop in Q4, with a 1.6% pace seen in Q2 giving way to a 1.4% rate in Q3 and 1.0% gain in Q4.

All these have added to underlying inflation pressures, with input costs rising at the fastest pace for a decade. It remains to be seen how fast this feeds through consumer price inflation, but the data will add to lingering concerns that the central bank may face a spike in headline inflation once economies re-open that will not just be transitory. The recovery story clearly remains intact, despite virus headlines, however not for the **EURO;** the **EURO** remains fragile as yield differentials are likely to keep it bearish. On the stock market front, the **GER30** has been sustaining the overall upwards movement in Q1 posting record highs, something that could continue in Q2 with the prospect of strengthening of the German economy. However, it may also register some idiosyncratic effects since it is overbought as we go into Q2, and if the Eurozone's deteriorating fundamental backdrop begins to weigh on market sentiment. The **FRA40** and **NETH25** have followed a similar path to the **GER30**.

JAPAN

It has been another relatively downtrend first quarter for the **Japanese Yen** as the appreciation of the US Treasury Yield and reflation trade ramped up. The JPY has been on a steady decline since January 2020. The key drivers for Q2 2021 are the state of the Covid-19

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pandemic, the global vaccination programmes and the progress of the global economic recovery as it recovers from the worst of the virus-induced damage.

The global geo-politics situation was calmer in the first quarter 2021 and not as much volatility happened in the market. This is expected to continue for Q2 2021 as well, despite the slight tension that arose last March with US President Joe Biden and Russian President Vladimir Putin's verbal exchange through live television that led to a rocky start of the first official meeting between the US and China. These events are not expected to destabilize the current positive sentiment in the market.

The **Bank of Japan** (BoJ) left its interest rate unchanged at -0.10% in its policy meeting last March. However, the BoJ removed a pledge to buy ETFs (Exchange-Traded Funds) at a set pace (currently at 6 trillion yen/year) and decided to buy only when markets face turbulence to make its massive stimulus programme more sustainable. Furthermore, the BoJ will cease buying those tracking the Nikkei 225 or Nikkei 400 and it will now only buy ETFs tracking the Topix. Although the BoJ reviewed its policy tool in the March meeting, BoJ Governor Haruhiko Kuroda re-emphasized that the central bank would remain committed to buying ETFs as needed with a close eye on market developments even after the coronavirus pandemic wanes. Nonetheless, these adjustments do not indicate a shift away from the BoJ's broadly dovish policy stance. This likely leaves the Yen continuing heading south, at least in the short-term.

The **USDJPY** exchange rate has been in a steady rise since the start of 2021 and the chart suggests it could rise further this year. The USDJPY appreciated from 102.58 to above 110.00 in Q1. The **USDJPY** has been steadily traded above 110.00 and the 2020 high 112.20 is the nearest resistance target. For the daily timeframe, the USDJPY pair has shown a 50-DMA & 200-DMA golden cross, indicating strong bullish momentum. The 50- Weekly Moving Average will be the key support at 109.00. Both daily and weekly RSI-14 show an overbought momentum above 70.

UNITED KINGDOM

The rapid delivery of coronavirus vaccines in the United Kingdom has placed a premium on the local currency compared to its haven-associated counterparts**.** Since the beginning of the year, the **GBPUSD** and GBPJPY exchange rates have climbed 4.36% and 8.36% respectively.

Indeed, the 7-day average of Covid-19 infections has dropped to its lowest point since September 2020, and over 55% of the public has received at least one shot of a vaccine. The UK appears to be on track with its 4-stage reopening strategy largely unabated. Furthermore, an extra 10 million injections of AstraZeneca's vaccine would presumably double the inoculation rate in the coming weeks, theoretically allowing all adults to receive their first injection by the beginning of June. This means that the country will be able to return to normalcy soon.

The **Bank of England's** policy stayed on hold this year and it signaled that it will likely maintain its accommodative financing conditions through the early stages of the recovery, and it will not be tightening policy any time soon. The GDP estimates for January were less sluggish than predicted. The deficit as well as debt to GDP ratios are higher than in the Eurozone, as are refinancing costs and interest rates. In contrast to the Eurozone, the UK also faces a very sizeable current account deficit. When and if markets refocus from Covid developments to this twin deficit this could further lift market rates and thus refinancing costs for the government. Even if that doesn't happen, it is clear that taxes will likely have to rise to bring the deficit, which reached an estimated 12.1% in the last year, down again. These along with the easing of constraints on activity could be consistent with a marginally stronger outlook for demand growth in the second quarter of 2021.

However, it is obvious that with the vaccination campaign much more advanced than in the EU there is a lot of recovery and vaccine optimism priced in and hence the **Pound** could expand its gains versus the US Dollar, Euro and the Japanese Yen, thanks to positive yield differentials. But some market participants have also flagged the risk that investor confidence in the **Pound** may be running too far ahead of actual developments. The **GBPUSD** pair posted multi-month highs around 1.4230 in Q1 2021 but could not maintain the bullish momentum and fell back to 1.3670. The **EURGBP** pair has witnessed a consistent fall in Q1 2021 from the highs of 0.9080 but is expected to rise in the second quarter. The UK100 index remained positive in the first quarter but there are chances that the index may see a correction before posting further gains.

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AUSTRALIA & NEW ZEALAND

For more than a year now, we have witnessed all the hard work that governments made in preventing the spread of the virus – some governments have evidently been successful in this attempt while most countries are still under the pandemic haunt. The difference is even distinct between the neighbouring peers **Australia and New Zealand.**

Australia, which is still undergoing a series of 'snap' lockdowns in different regions, has seen its economy lag below pre-pandemic levels. In Australia, Q2 economic outlook is likely to remain subdued, with GDP expected to contract by 10%, the unemployment rate to hit 10% (probably a temporary effect post the end of wage subsidies) and total working hours to reduce by 20%.[1] Subsequently, inflation is expected to remain below 2% following reduced spending, employment, investment and trade activities. Besides ongoing travel restrictions and weak population growth, the relationship between Australia and China remains in the spotlight. Recent reports revealed that there are much-lower-than-average Chinese imports from Australia, which strengthened the concerns over the trade relationship between the two countries, considering that China is Australia's largest trading partner.[2]

On the contrary, **New Zealand** is among the countries that are at the leading edge of the rebound, with the Kiwi appreciating by over 2% versus its long-term trend. New Zealand has last recorded an increase of 1.2% in GDP compared to Q4 in 2019.[3] Ongoing fiscal and monetary support, resilient household and exports demand and a robust housing market together with strategic prevention measures are among the factors that have led to a sharp rebound in the country's GDP above pre-pandemic levels.[4] Nevertheless, the short-term outlook is that the RBNZ's accommodative monetary stance and financial policies shall remain following uncertainties derived from new strains of virus which may subsequently bring about an uneven domestic recovery.[5] The outlook of the economy is also highly dependent on the progression of the global vaccination programs. During Q4 2020, the inflation rate and unemployment rate in New Zealand recorded 1.4% (y/y) and 4.9% (q/q) respectively. This explains the need of ongoing support to the economic system until it reaches at or above its maximum sustainable level, while inflation sustainably remains at or near its 2% target.

From the technical perspective, both the **Aussie dollar** and **Kiwi** have undergone a bearish correction against a more robust Greenback since late February 2021. Each pair had its session high printed at 0.8006 and 0.7464, respectively. As of March 29, **AUDUSD** and **NZDUSD** remain pressured below 0.7650 and 0.7000, down 4.94% and 6.68%. On the other hand, the **AUS200** has been traded in consolidation, well above 6,700 since its rebound from its 1-year low, recording impressive gains of approximately 55% and demonstrating a sharp V-shaped rebound.

CANADA

The **CAD** has benefited from the movement of world oil prices; it fell to a new low in early January 2021 against the USD at a price of 1.2364, but when compared to other commodity currencies such as the AUD and NZD, the CAD was the best performer during the last 3 months. The **BoC** left its benchmark interest rate unchanged at 0.25% on March 10, in line with expectations.[6] As also stated in the Bank's press release, it maintains forward guidance, strengthened, and complemented by a quantitative easing programme, which will continue at its current pace. The inflation projection implies no moves on rates until 2023. Although the near-term outlook is stronger, there is still considerable economic lag and a lot of uncertainty about the mutation of the virus and the path of economic growth.

Canada's GDP growth rate grew 2.3% on a quarterly basis in the last three months of 2020, following a record 8.9% growth in the previous period largely supported by large changes in business inventories, increased government and consumption spending, business investment in machinery and housing investment. In 2020, real GDP shrank by 5.4%, the most since comparative data was available in 1961, due to the coronavirus pandemic. Manufacturing PMI rose to 54.8 in February 2021 from 54.4 the previous month. The unemployment rate in Canada fell to 8.2% in February 2021, the lowest since March 2020 and following 9.4% in January.

[1] https://www.rba.gov.au/publications/smp/2020/may/economic-outlook.html

[2] https://www.thestar.com.my/aseanplus/aseanplus-news/2021/03/08/chinas-exports-to-australia-surged-57-in-jan-feb-2021-despite-poor-relations-why

[3] https://www.spglobal.com/ratings/en/research/articles/210325-economic-outlook-asia-pacific-q2-2021-three-speed-recovery-will-benefit-from-faster-global-growth-11888628

[4] https://www.spglobal.com/ratings/en/research/articles/210325-economic-outlook-asia-pacific-q2-2021-three-speed-recovery-will-benefit-from-faster-global-growth-11888628

[5] https://www.rbnz.govt.nz/-/media/ReserveBank/Files/Publications/Monetary%20policy%20statements/2021/mpsfeb21.pdf?revision=d3022919-4b30-4663-ab8a-e3be4ea2b453

[6] https://www.bankofcanada.ca/2021/03/fad-press-release-2021-03-10/

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The outlook for the **Canadian economy** is optimistic as the growth outlook for this year continues to brighten amid sizable fiscal stimulus, an ultra-accommodative central bank, and good news on the vaccines. A main factor as well for the Canadian currency is also the increase in oil prices - if the USOil price remains above $60/barrel it will be good for the Canadian economy and its currency. However, **OPEC's** decision to increase production by more than 2 million barrels per day by July might weigh on Oil prices.

EMERGING ECONOMIES

The Emerging Markets (EM) have been on the sidelines this year with most major EM currencies weaker against a stronger USD on the back of the stimulus package and possible infrastructure bill that have boosted optimism. This also helped drive government bond yields higher, which led to a sell-off in developed sovereign treasuries and US credit bonds.

In the first quarter of 2021, the USD rally turned into a rapid devaluation of many emerging currencies such as the **Turkish Lira**, **Mexican Peso**, **Chinese Yuan,** and **South African Rand.** The **USDMXN** spiked above 4-month highs in Q1 as the Peso remained pressured by continuing virus infections and a stronger USD. Mexico grows in tandem with the economy of the United States, with a growth of 5.1% expected for 2021 from the IMF although inflation remains an ongoing concern. Additionally, the recent US stimulus package is expected to improve Mexico's medium-term prospects as it could support an export-led recovery for the second half of the year. Also, the latest massive US labour market report for March reconfirms a positive reflation story which tends to be beneficial for growth-linked assets such as the **Mexican Peso.**

The Turkish Lira (TRY) had the one of the worst selloffs in years compared to other emerging markets. TRY lost as much as 14% in Q1 after the Turkish president made the decision to replace the governor and then remove a deputy governor from the central bank, leading to an abrupt stagnation in efforts to regain the confidence of the central bank. This move sparked speculation that the country will once again start easing interest rates. By the end of March, the pair peaked at 8.50 before falling back to 7.90, marking a 15% drop against the Dollar. Currently Turkey's annual inflation has risen above 16%, with the weaker Lira driving prices higher, while the Turkish commodity price index rose 4.13% month-on-month in March for an increase of 31.2% for the year-to-date, and consumer prices rose 16.19% year-on-year.[7] The current policy uncertainty points to institutional challenges, adding risks to financial conditions in Turkey. This along with USD strength is likely to support USDTRY in the 7.5-8.0 zone and possibly challenge 8.50 again.

Meanwhile**, the South African Rand (ZAR**) appears poised to continue to achieve short-term stability as the Rand's sensitivity to changes in US Treasury yields wanes and the local economy continues to take a back seat, because analysts expect it to continue operating in the short term at 15.00 to 14.60 without international developments affecting it.[8] The **Rand** has remained stable in Q1, fluctuating along with global risk sentiment and where inflationary pressures remained calm. It can even be noted that the greater indebtedness by the government was financed mainly through the issuance of long-term government bonds, as the percentage of GDP and gross credit debt increased from 62.2% to 77.1%.[9] The Rand continues to offer a positive carry, which provides stability for this pair. However, if US yields pick up again, and manage to strengthen, the US Dollar may pick up as well.

China continued its recovery from the pandemic during Q1, and along with the US is one of the only two economies in the world that are providing strong signals of a further growth. The Chinese economy retained substantial growth since last year mainly due to three key factors - infrastructure investment, real estate, and exports - as it is the very first one that reopened its economy and the only one not to close it again. The indications so far suggest that the shape of China's recovery remains intact. Meanwhile, China's central bank kept prime loan rates steady, suggesting that there is still room to expand liquidity. The bank is attempting to moderate credit growth to reduce the risk to financial stability but is taking a measured approach as it seeks to foster the ongoing economic rebound. These along with a further rise in the service sector and vaccine rollout could help there be more stable economic growth through the year.

COMMODITIES

Commodities performance was mixed in Q1, as some of them saw large gains in the beginning of the year but ended up reversing some gains in a messy March. In general, however, Q1 was very supportive for industrial metals but very stingy for precious metals.

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7 https://www.reuters.com/article/uk-turkey-economy-inflation/turkish-inflation-climbs-above-16-after-lira-decline-idUSKBN2BS0GV

8 https://www.fxstreet.com/news/usd-zar-targets-1500-as-south-africas-developments-take-a-back-seat-credit-suisse-202103310719

9 https://www.dailyfx.com/forex/market_alert/2021/03/31/USDZAR-Outlook-Rand-Resilient-Despite-Revealing-Quarterly-Bulletin-South-African-Rand-LiveEdu-WV.html

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Copper had a remarkable rally in Q1 as it reached decade highs territory, up to $4.37. Copper is an asset which is strongly supported by underlying fundamentals which have been supporting and could continue to support the asset in the long term. Hence despite the increasing tension between a stronger growth outlook but rising inflation risks, with new virus variants adding uncertainty, Copper, in contrast to precious metals, had and will likely continue to have – at least for the 1st half of the year – a bunch of reasons to hold higher due to its essential use in the manufacturing industry. **Copper** positively responded to the easing of restrictions as well as to the announcement of the vaccination programme since it is the world's most important industrial metal but also a key economic health indicator, which was why it rebounded in April from 2.14 lows due to the positive headlines related to the pandemic (easing of Covid-19 during the summer). With vaccine related developments picking up pace since then, but also on the increasing demand as construction projects and major appliances production have not stopped since the first lockdowns, the metal has been strongly supported. The reopening of the Chinese economy, along with continuous signs of rapid recovery, could likely continue to lead to huge amounts of refined copper imports due to voracious commercial demand and government stockpiling. Another positive factor for **Copper** prices was China's strong demand and the fact that China is aiming for more sway over copper prices after it launched a new futures contract for copper, which would help increase its influence on pricing in a market that is critically important to its economy. In addition, Copper is not at this point, or in the long term, strongly correlated with weather and geopolitics, or even the ongoing reflation trade, but simply speaks to the transformation of the world into "green" economies. Hence, Joe Biden's election was also another factor in Copper's rally as he represents significant green tech spending. **Copper** is set to enjoy an even bigger rise in demand because of the transition away from fossil fuels, similarly to Palladium and Platinum, as all three of them are necessary components of connecting renewable sources of generation to the grid, of electric vehicles engines and wind turbines etc.

In contrast, **Gold** was one of the main losers out of the metal sector, drifting by more than 14%, from $1,958 down to $1,677. **Silver** on the other hand recorded a smoother decline to just 4.5%. The same factors that weighed on Gold also affected Silver. The ongoing rally in US Treasury yields, as Bond bears were on the prowl, weighed on precious metals as **Gold** is a non-yielding asset. The stronger **USD** and elevated US Treasury yields eroded investor appetite for the non-yielding metal. Hence, in Q1, the return of risk-aversion amid new restrictions in Europe and a slow vaccine rollout there, along with rising US/EU-China tensions, weighed on stocks and non-yielding metals while richening yields. But the same dynamic lurks in the background -- the vaccine, virus, recovery, stimulus and massive government borrowing needs are likely to continue buffeting the equity and fixed income markets in Q2.

Elsewhere in energy sector, the price of **oil** rallied more than every other element in Commodity groupings. **USOIL** jumped by nearly 43% to $68 before closing the quarter lower at $59.50, reversing nearly 40% of the year's gains. The lows were seen after reports circulated that a container ship stick in the Suez Canal had been "partially" freed. The canal, which is used by tankers to transport Crude Oil from the Middle East, was closed in both directions. More recently, rising Covid cases in Europe and other parts of the globe should limit **USOIL** price gains going forward. While a modestly stronger USD hurt sentiment, further Covid lockdowns in Europe, record case numbers in India, Mumbai now in lockdown, and prospects for an extension of the foreign travel ban in the UK will likely keep a cap on prices for Q2, along with an unimpressive vaccine rollout, which were also responsible for oil weakness as well, denting demand prospects. Lastly, OPEC's decision to raise production incrementally in May through June could provide some ceiling to **USOIL**. Though with demand picking up in Asia, and likely to improve in the US over the next few months as more receive the Covid vaccine, oil prices appear set to hold near the $60.0 mark, as the demand side of the equation continues to limit upside potential.

CRYPTOCURRENCIES

Inflows to cryptocurrency investment products hit a new peak of $4.2 billion for the first quarter of 2021, according to data from digital assets investment firm CoinShares.[10] Bitcoin, the largest of the cryptocurrencies, saw its market capitalization increase to $1.1 tn by the end of Q1 up from $600 bn during the first week of January 2021. This corresponds to over 88.5% of the available 21 million coins now being in circulation. **Bitcoin** started 2021 around $29,000 and by end of March it was trading close to $60,000, having posted an all-time high over $61,000 on March 13.

It was a strong quarter with bullish news from Tesla, which on February 8 announced the purchase of $1.5 bn of Bitcoin and that it will start accepting Bitcoin payments for its vehicles, while another crypto-bull, MicroStrategy, announced on January 25 that they will continue

[10] https://markets.businessinsider.com/currencies/news/cryptocurrencies-bitcoin-ethereum-inflows-record-high-q1-coinshares-btc-eth-2021-3-1030216970

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to invest in Bitcoin, adding to their existing holding of 70,784 coins valued at $2.38 bn. Conversely many global regulators (including the UK's FCA and Germany's BaFin) continued to voice concerns and new US Treasury Secretary Janet Yellen warned that cryptos were an extremely inefficient way to conduct monetary transactions, although acknowledged that all central banks were investigating digital currencies. Finally, Morgan Stanley and Goldman Sachs announced plans to offer crypto funds to their high-net worth clients.

For Q2 2021, investors will be watching if **BTCUSD** will hold its recent support at $50,400, followed by second support at $43,200 and then the $29,000 level. On the upper side, the Fibonacci extension on the up leg from the $29,400 low to $61,600 high, projects to $83,948 if we see an 100% increase, and $103,950 for a 161.8% increase. Will the news flow, bullishness and volatility continue for Bitcoin and other cryptos in Q2 2021?

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