Shaken, Not Stirred

Date: 2021-06-18

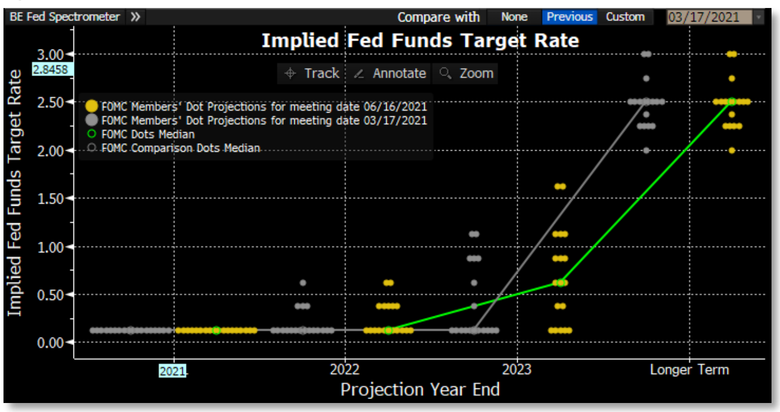
Upcoming Economic Events (Singapore Local Time):

- 2021-06-21 09:30 PBoC Interest Rate Decision
- 2021-06-23 02:00 Fed's Chair Powell testifies before Congress
- 2021-06-23 21:45 US Markit PMI (June)
- 2021-06-24 19:00 BoE Interest Rate Decision
- 2021-06-24 20:30 US Durable Goods Orders (May) and GDP (Q1)
- 2021-06-25 20:30 US Core PCE (May)
- 2021-06-30 09:00 China PMI (June)
- 2021-06-30 17:00 Eurozone CPI (June)
- 2021-07-01 22:00 US ISM Manufacturing PMI (June)
- 2021-07-02 20:30 US Nonfarm Payrolls (June)

The focus of the next two weeks is on the latest US economic data, especially the Nonfarm Payrolls on July 2nd. The FOMC meeting on June 16th signalled that the data-dependent Fed is turning more hawkish. If the upcoming data indicates that the economy is overheating, we may see more reactions from the Fed.

Markets in Focus

Figure 1 FOMC Dot Plot



The Dot Plot on the June 16th FOMC meeting shows that seven members see a rate hike in 2022, and the median projections point to 2 hikes by the end of 2023. In comparison, on the March 17th meeting, only four FOMC members saw a hike in 2022. The Fed is turning more hawkish.

Figure 2 Generic 1st US 10-year T-Note Future

The bond market had a meaningful reaction to the FOMC meeting. US 10-year Treasury Note future seems to have completed a 10-week bear flag. The counter-trend rally stopped and turned back at the 38.2% retracement level of the down move since August 2020.

Figure 3 WTI Crude Oil July 2021 Future

Unlike equities, bonds, US Dollar, and gold that wobbled, crude oil was among the few assets that have shrugged off the FOMC meeting without any notable dent to its prevailing uptrend. This further confirms our bullish view on crude oil and "non-transitory" inflation since the May 10th Edition.

Figure 4 USD/CNH

USD/CNH has run into solid support at the lower band of its multi-year ascending channel. The pair seems to have started a significant counter-trend rally, as suggested in the May 25th Edition. Note that while the price is making **new lows**, the Relative Strength Index (RSI) is registering **higher** lows. The divergence also increases the probability that a local bottom is already in and the price is bouncing back.

Market Views

In the past two weeks, all eyes have been on the FOMC meeting concluded June 16th, in which the Fed seemed to have turned more hawkish in its interest rate projections. After all, the Fed is data-dependent in its monetary policy decisions. When data indicates the economy is running hot and overshooting the inflation targets, we should expect the Fed to react accordingly.

The hawkish shift has certainly caught people off guard, as we saw many markets shaken immediately after the news broke. There were selling pressures in the equities, fixed incomes, precious metals, and various currency pairs against the US Dollar.

The market is shaken but not yet stirred, as we believe it is still too early to call the reflation trade over because Fed has turned hawkish. We are still bearish on the US Dollar and bullish on crude oil and inflation. However, it warrants to tighten stops on our running positions and find tactical trades amid the shorter-term market moves.

How to play the theme out

A hypothetical investor can consider the following two trades[1]:

Case Study 1: Short US 10-year Treasury Note Future

If the investor were to short the US 10-year Treasury Note future (ZNU1) upon the completion of the bear flag at 131-19 and set the stop at 133-05, where the bear flag upper resistance and 38.2% retracement level coincide as shown in Figure 2, his maximum loss per contract would be (133 05/32 – 131 19/32) x 1000 = 1562.5 USD. An initial target points to 130 as the low established in April, and subsequently a measured target to 128, resulting in (131 19/32 – 130) x 1000 = 1593.75 USD and (131 19/32 – 128) x 1000 = 3593.75 USD respectively.

Case Study 2: Long USD/CNH Future

If the investor were to buy USD/CNH future (CNHU1) at around 6.47 and set the stop at 6.38, his maximum loss per contract would be (6.47 – 6.38) x 100000 = 9000 CNH. A measured target points to around 6.63, resulting in (6.63 – 6.47) x 100000 = 16000 CNH.

[1] *Examples cited above are for illustration only and shall not be construed as investment recommendations or advice. They serve as an integral part of a case study to demonstrate fundamental concepts in risk management under given market scenarios.*

Background

Inspirante Trading Solutions Pte Ltd (“ITS”) was incorporated in Singapore in July 2020. Founded by the partners of Synergy Link Capital Pte Ltd (“SLC”) to consolidate their initiatives in FinTech solutions, research, and training programs for different market participants, while SLC continues its focus in proprietary trading. ITS focuses on providing clients bespoke trading solutions such as algo trading systems, risk management systems, research reports, education and training courses. With a strong technical background, unparalleled understanding and insights from the actual market practitioners, ITS managed to obtain FinTech certification recognized by the Monetary Authority of Singapore within two months of incorporation. ITS is now actively collaborating with various trading groups, exchanges and brokers in multiple countries.

The trainers and researchers in ITS have been regularly speaking on various exchange/broker hosted trading seminars and writing for various research publications over the years. Catering to both aspiring and experienced traders, we want to help in bridging the void between the theoretical and practical aspects of derivative trading, with guidance from our team of seasoned and active traders.

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