The Greenback and the Green Trade

Date: 2021-05-21

Upcoming Economic Events (Singapore Local Time):

- 2021-05-26 10:00 New Zealand RBNZ Interest Rate Decision
- 2021-05-31 09:00 China PMI
- 2021-06-01 12:30 Australia RBA Interest Rate Decision
- 2021-06-02 22:00 US ISM Manufacturing PMI
- 2021-06-04 20:30 US Nonfarm Payrolls
- 2021-06-04 20:30 Canada Unemployment Rate
- 2021-06-04 22:00 US ISM Services PMI

The focus of the next 2 weeks is on the upcoming Purchasing Managers' Index (PMI) and employment figures of a few major economies, which will give us a better gauge on the strength and robustness of the recovery.

Markets in Focus

Figure 1 Generic 1st GBP/USD Future

GBP/USD still looks bullish as it approaches the resistance level established by the previous high in February. The consolidation of the past three months displays a nice symmetry both in time and price levels. We can view it as an inverted Head and Shoulder pattern, or a truncated Cup and Handle pattern. Both suggest the Pound is going to continue strengthening against the US Dollar.

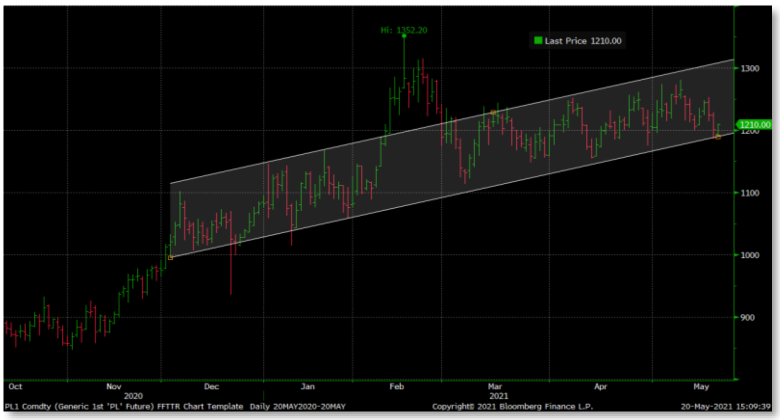
Figure 2 USD/CNH Cross Rate

A long-term view of the USD/CNH cross suggests that the pair is currently at the lower support of a multi-year ascending channel. Breaking the support would lead to another 6% drop to 6.02. However, we do not expect the break to be so effortless. It may undergo a significant countertrend rally from here. Note the similarity between now and 2017-2018, both in terms of the price actions (magnitude and speed), and the Relative Strength Index (RSI) levels.

Figure 3 GBP/CNH Cross Rate

Interestingly, when we combine the bullish GBP/USD and bullish USD/CNH views, which essentially means being bullish GBP/CNH, we find the chart corroborating its high probability of breaking out from an 8-year support-turned-resistance level of around 9.10.

Figure 4 Generic 1st Platinum Future



Platinum has been trading in a tight ascending channel since the end of 2020. It is currently trading at the lower support of the channel.

Market Views

As laid out in the previous editions, our views on the Greenback and on inflation have not changed since. We continue to believe that loose monetary and fiscal policies in the US will eventually lead to a much weaker US Dollar; and in such an environment, commodity prices are going higher.

However, the recent volatilities in various asset classes have led us to become more cautious about managing our positions and trades. Even though we believe many trades still have room to go, the market has already been in this “reflation trade” for a good few months. Unsurprisingly, both equities and soft commodities experienced some pullbacks last week.

We want to either find more effective ways to hedge our exposures to the market consensus, or to search for overlooked and less crowded opportunities. For the former, as shown in Figure 1, 2, and 3, given that we are more bullish on the GBP and less so on the CNH, being long GBP/CNH effectively eliminates our short USD exposure, amid growing bearish market consensus on US Dollar. For the latter, we are bullish on platinum both technically as shown in Figure 4, and fundamentally because it is a key component in the “green transformation” of clean hydrogen production. The demand for platinum-based electrolyser is accelerating. As compared to Dr. Copper which has already reached all-time high in early May, Platinum is less talked about, and still far away from its high in 2008.

How to play the theme out

A hypothetical investor can consider the following 3 trades[1]:

Case Study 1: Long GBP/USD

In the April 26th Edition *"Dollar Another Leg Down?"*, we discussed the case study of long GBP/USD future (6BM1) at 1.395. This can be viewed either as a new trade or a pyramiding entry. If the investor were to buy GBP/USD future (6BM1) at around 1.412 and set the stop below 1.38, his maximum loss per contract for this trade would be (1.412 – 1.38) x 62500 = 2000 USD. A measured target would be 1.47, resulting in (1.47 – 1.412) x 62500 = 3625 USD.

Case Study 2: Long USD/CNH

If the investor prefers to reduce the short USD exposure by pairing the GBP/USD long with the USD/CNH long, he could buy USD/CNH future (CNHM1) at around 6.44 and set the stop at 6.35. His maximum loss per contract would be (6.44 – 6.35) x 100000 = 9000 CNH, equivalent to 1417 USD. The initial target is at the April high of 6.60, resulting in (6.60 – 6.44) x 100000 = 16000 CNH, equivalent to 2424 USD. This case study is better suited for more sophisticated investors.

Case Study 3: Long Platinum

If the investor were to buy Platinum future (PLN1) at around 1210 and set the stop at 1175, his maximum loss per contract would be (1210 – 1175) x 50 = 1750 USD. The initial target at upper channel resistance points to around 1295, resulting in (1295 – 1210) x 50 = 4250 USD.

[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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