A Crude Awakening

Date: 2021-06-04

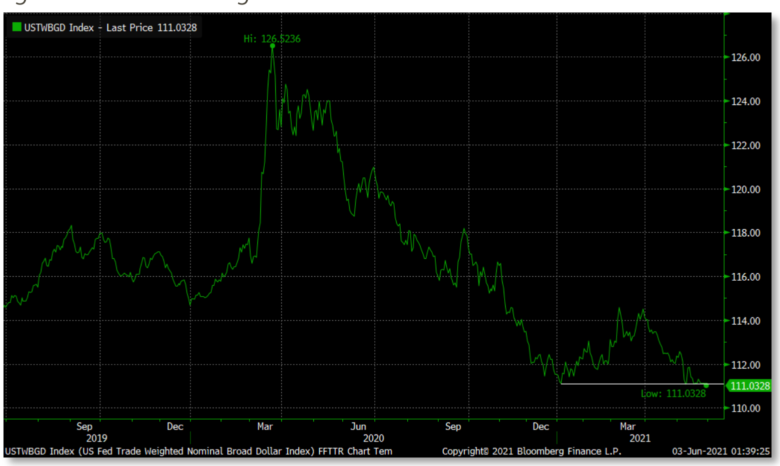
Upcoming Economic Events (Singapore Local Time):

- 2021-06-09 09:30 China CPI and PPI (May)
- 2021-06-09 22:00 BoC Interest Rate Decision
- 2021-06-10 19:45 ECB Interest Rate Decision
- 2021-06-10 20:30 US CPI (May)
- 2021-06-16 14:00 UK CPI and PPI (May)
- 2021-06-17 02:00 Fed Interest Rate Decision
- 2021-06-17 15:30 SNB Interest Rate Decision
- 2021-06-18 11:00 BoJ Interest Rate Decision

The focus of the next two weeks is on the latest Consumer Price Index (CPI) and Producer Price Index (PPI) of several countries. Major central banks are still likely to maintain their current monetary policies, despite more signs of inflation showing up in CPI and PPI numbers.

Markets in Focus

Figure 1 US Trade Weighted Nominal Board Dollar Index



The US Dollar resumed its decline after three months of counter-trend rally, as we have suggested in the [April 26th Edition]. Now it is attempting to break the low established in early January. A weakening US Dollar continues to add fuel to the reflation narrative in the market.

Figure 2 Generic 1st Silver Future

Silver is once again running into the overhead resistance between 29-30. This level has managed to prevent Silver from advancing further on numerous occasions in the past year. Is this finally the time for Silver to claim victory and break out from the massive ten-month symmetrical triangle?

Figure 3 Generic 1st WTI Crude Oil Future

After three months of consolidation, WTI Crude Oil decisively penetrated the upper resistance of the rectangle range. As suggested in the May 10th Edition, the next potential resistance for WTI is at around 75, indicating this rally could further continue .

Figure 4 XLE vs. WTI Crude Oil

XLE (The Energy Select Sector SPDR® Fund) is an ETF that holds mostly US energy sector companies. It is a close proxy to oil prices. While WTI Crude Oil has broken the significant resistance firmly into its 2019 price range, XLE is lagging behind and still below its own 2019 lower support level. We could expect a catch-up by XLE soon.

Market Views

Reflation remains the dominant market regime. Nothing makes us more assured of this than the continued weakening of the US Dollar and the decisive breakout of the oil. Oil prices have had a stellar recovery (more than tripled) since its collapse last year. If we look at other reflation/inflation periods in history, it is not unimaginable for oil prices to reach above 100. Given that most countries are opening up and businesses are back to normal, the pent-up demand could continue to drive oil prices higher. The recent societal and government focus on ESG and transitioning into clean energy has put pressure on traditional energy companies, further restricting the supply side. No doubt thatthe world is moving to greener and renewable energy sources eventually. The transition, however, will not happen overnight, and the world is still heavily reliant on fossil fuels, leading us to remain very bullish on oil prices for the next 3-6 months.

Since we expressed our bullish view on Gold in the April 26th Edition, Gold has rallied 6% from 1793 to 1900. In comparison, Silver's price action seemed muted, as shown in Figure 2. Silver, with its unique traits as both a precious metal and an industrial one, should enjoy a strong tailwind from a weaker US Dollar, a falling real yield, and the ESG demand. We believe the bull run will be fast and furious once Silver breaks the massive symmetrical triangle.

How to play the theme out

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

Case Study 1: Long XAE (E-mini Energy Select Sector) Future

In the May 10th Edition, we already discussed the case study of long WTI Crude Oil future (CLM1) at 66.3. Now the CLN1 is trading nicely at above 69. The investor could establish a new position in the E-mini Energy Select Sector future (XAEM1) to gain equity exposure on top of the oil price move and take advantage of XLE playing catch up, as shown in Figure 4. If the investor were to buy XAEM1 future at around 581 and set the stop below 531, his maximum loss per contract for this trade would be (581 – 531) x 100 = 5000 USD. The initial target would be 641 and then 701, resulting in (641 – 581) x 100 = 6000 USD and (701 – 581) x 100 = 12000 USD.

Case Study 2: Long Silver Future

If the investor were to buy Silver future (SIN1) at around 28.2 and set the stop at 25.6, his maximum loss per contract would be (28.2 – 25.6) x 5000 = 13000 USD. A measured target points to around 35.2, resulting in (35.2 – 28.2) x 5000 = 35000 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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