

The Show Must Go On

Date: 2021-07-30

Upcoming Economic Events (Singapore Local Time):

- 2021-08-02 22:00 US ISM Manufacturing PMI (July)
- 2021-08-03 12:30 RBA Interest Rate Decision
- 2021-08-04 20:15 US ADP Employment Change (July)
- 2021-08-04 22:00 US ISM Services PMI (July)
- 2021-08-05 19:00 BoE Interest Rate Decision
- 2021-08-06 20:30 US Nonfarm Payroll (July)
- 2021-08-09 09:30 China CPI (July)
- 2021-08-11 20:30 US CPI ex Food & Energy (July)

The most important economic data in the next two weeks is the US Nonfarm Payroll number. Fed Chairman Powell emphasized during the July FOMC press conference that “maximum sustainable employment” is one of the Fed’s dual mandates watched closely by the policymakers to determine monetary policies.

Markets in Focus

Figure 1 Generic 1st Dow Jones Future



Dow Jones Industrial Average Index has broken out from a three-month rectangle consolidation or a reverse Head-and-Shoulder continuation pattern. Both interpretations suggest that the index is going to make another all-time high.

Figure 2 QQQ vs. CQQQ



Since July, Invesco China Technology ETF (CQQQ), with top holdings in Chinese tech giants like Tencent and Baidu, has diverged from its US equivalent Invesco QQQ, which tracks the Nasdaq-100 Index and features US tech stocks including Apple, Microsoft, and Google.

Figure 3 Generic 1st Platinum Future



Platinum has been consolidating around 1050, a significant support level, after being dragged down by a broad commodity market selloff since early May.

Figure 4 Generic 1st WTI Crude Oil Future



Crude Oil finally had its sharp correction, only to quickly turn around at the significant support level of 65.

Figure 5 Generic 1st Feeder Cattle Future



Feeder Cattle has run into a formidable resistance at around 165 and turned back down. Seasonally, summertime is also bearish for the livestock.

Market Views

The past few weeks have been very eventful. Firstly, there were growing concerns over Evergrande, a highly indebted property developer in China, after its credit downgrades by major rating agencies. The company's stock and USD bonds both plummeted. Secondly, Beijing issued new policies to reduce the students' burdens and to curb soaring educational costs. Chinese EduTech companies took the biggest hit, followed by an abrupt selloff of the broader market. Hang Seng Tech Index dropped more than 18% in three days. FTSE China A50 Index and Shanghai Composite Index lost more than 12% and 7% respectively in the same period.

The spillover effect, however, has been timid. The global market quickly shrugged it off. During the July FOMC press conference, Fed Chairman Powell reassured the market that the US economy is "some way away from having had substantial further progress toward the maximum employment goal." Therefore, the Fed maintains its current policy stance to keep both interest rate and bond purchase program unchanged.

After experiencing a 13% correction, it is encouraging to see oil price's strong re-bounce from the support. Technically, it was a healthy and necessary pullback to regain strength in the upward momentum, as we have advocated since [early July](#). The positive price action gives us more confidence to establish new risk-on positions now. Bearing in mind the "base effect" we mentioned in the [previous edition](#) and the potential choppiness in the summer, we want to focus on the highest-quality setups that provide the best risk/reward, meanwhile carefully maintaining the portfolio's net exposures.

Among major US indices, the Dow Jones offers arguably the best trade setup as it has just broken out from an inverse Head-and-Shoulder continuation pattern. Most precious metals are also looking constructive as the US Dollar came under pressure from Fed's dovishness. On the other hand, livestock products, such as Feeder Cattles, have a more bearish setup, presenting us the opportunity to position on the short side to reduce the overall long commodity exposures.

How to play the theme out

A hypothetical investor can consider the following three trades¹:

Case Study 1: Long Dow Jones Future

If the investor were to buy the E-mini Dow future (YMU1) or the Micro E-mini Dow future (MYMU1) at around 34800 and set the stop at 33500, his maximum loss per contract would be $(34800 - 33500) \times 5 = 6500$ USD for YMU1 and 650 USD for MYMU1. An initial measured target points to 38400, resulting in $(38400 - 34800) \times 5 = 18000$ USD for YMU1 and 1800 USD for MYMU1.

Case Study 2: Long Platinum Future

If the investor were to buy the Platinum future (PLV1) at around 1070 and set the stop at 1010, his maximum loss per contract would be $(1070 - 1010) \times 50 = 3000$ USD. An initial target points to 1150 and subsequently 1300, resulting in $(1150 - 1070) \times 50 = 4000$ USD and $(1300 - 1070) \times 50 = 11500$ USD respectively.

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.

Case Study 3: Short Feeder Cattle Future

If the investor were to short the Feeder Cattle future (GFU1) at around 163.50 and set the stop above 167.50, his maximum loss per contract would be $(167.5 - 163.5) \times 500 = 2000$ USD. An initial target points to 160 and subsequently 155, resulting in $(163.5 - 160) \times 500 = 1750$ USD and $(163.5 - 155) \times 500 = 4250$ USD respectively.

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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