

From Coiling to Breaking Out

Date: 2021-10-22

Upcoming Economic Events (Singapore Local Time):

- 2021-10-27 20:30 US Durable Goods Orders (Sep)
- 2021-10-28 11:00 BoJ Interest Rate Decision
- 2021-10-28 19:45 ECB Interest Rate Decision
- 2021-10-28 20:30 US GDP (Q3)
- 2021-11-02 11:30 RBA Interest Rate Decision
- 2021-11-03 20:15 US ADP Employment Change (Oct)
- 2021-11-04 02:00 Fed Interest Rate Decision
- 2021-11-04 20:00 BoE Interest Rate Decision

Investors will focus on major central banks' interest rate decisions in the next two weeks, especially that of the Bank of England (BoE). The three-month Sterling interest rate market has priced in BoE's first rate hike in December 2021.

Markets in Focus



The US Dollar could not hold its ground above the 1160 resistance level on the Bloomberg Dollar Index. After a short period of what turned out to be a false breakout, it fell back into the 12-month trading range again, even as the market started pricing in more aggressive tapering and rate hikes by the Fed.



Silver finally enjoyed some tailwind on the US Dollar weakness and rebounded from the critical support level at around 22. It also broke a 4-month downtrend, heading towards the top of the massive triangle pattern.



Soybean Oil had a clean breakout from a 5-month triangle top. Its outperformance to other agricultural commodities is possibly due to the spillover effect from the energy market into edible oils.



KC HRW Wheat is on the verge of a breakout from the significant resistance level at around 760. It has arguably formed a fractal Cup-and-Handle pattern since early May this year.



The Dow Jones Industrial Average index broke out from a 6-month trading range. Equities seems to have shrugged off concerns built up over the past few weeks and resumed the rally to new all-time highs.

Figure 6 US 5 Year Bond Yield



5-year yield also had a clean breakout from a textbook Cup-and-Handle pattern. The bond market is clearly pricing in higher inflation and rate hikes, especially at the belly of the yield curve.

Market Views

As we move into Q4, much of the uncertainty around Evergrande and Fed's tapering plan seems to have dissipated, unlike the [coiling state](#) we have observed through Q3. The [energy space seems to be the only exception](#) where prices went parabolic due to manifold reasons.

Looking at various assets' price actions, we are now inclined to believe the consolidation stage is finally over. Over the past two weeks, bond yields have made a substantial move higher across the entire yield curve. The interest rates market suggests Q3 2022 as a likely point for Fed's first rate hike, and the BOE will move as early as December this year. Synchronized exits, as we have anticipated in [August](#).

The most important asset on our radar, the US Dollar, failed to advance further after temporarily breaking out from the trading range established for more than a year. The Dollar's weakness is a much-needed catalyst for risk assets to resume their rally. Considering how high they have gone up in H1 2021, many have had sharp pullbacks since.

In this environment, we want to buy strength instead of picking bottoms in each asset class, which has led us to Silver for precious metals, as discussed in the [previous case studies](#). We also prefer Dow to S&P or Nasdaq for equities, Soybean Oil and KC Wheat to other agricultural commodities.

How to play the theme out

A hypothetical investor can consider the following two trades¹:

Case Study 1: Long KC HRW Wheat Future

If the investor were to long the KC HRW Wheat Future (KEZ1) at around 757 and set the stop below 700, his maximum loss per contract would be $(757 - 700) \times 50 = 2850$ USD. A measured target points to 830 and subsequently 920, resulting in $(830 - 757) \times 50 = 3650$ USD and $(920 - 757) \times 50 = 8150$ USD.

Case Study 2: Long Micro E-mini Dow Future

If the investor were to long the Micro E-mini Dow Future (MYMZ1) at 35480 and set the stop below 34000, his maximum loss would be $(35480 - 34000) \times 0.5 = 740$ USD. A measured target points to 38000, resulting in $(38000 - 35480) \times 0.5 = 1260$ 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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