DERIVATIVES

Daily Commentary

22 May 2019

OMF Derivatives Team

OVERNIGHT

Currency Rates	Level	Change		Indices	Level	Change		Commodities	Level	Change	
NZD/USD	0.6507	↑		Dow	25877.33	197.43	↑	Gold	1274.30	-3.00	↓
AUD/USD	0.6885	↑		S&P 500	2864.36	24.13	↑	Silver	14.43	-0.02	↓
EUR/USD	1.1162	↑		NASDAQ	7451.02	74.32	↑	Copper	271.50	-1.10	↓
USD/JPY	110.5100	↑		FTSE	7328.92	18.04	↑	Crude Oil	63.07	-0.14	↓
GDP/USD	1.2702	↑		CRB Index	181.97	0.26	↑	Natural Gas	2.65	-0.05	↓
NZD/AUD	0.9450	↑		Overnight Futures				Cocoa	2446.00	59.00	↑
NZD/JPY	71.9040	↑		SPI	6506.00	11.00	↑	Sugar	11.81	0.19	↑
NZD/EUR	0.5829	↑		Nikkei	21375.00	230.00	↑				

June Gold ($1277.7 - $1269 range): Gold prices dropped to a two-week low as the U.S. dollar firmed along with equities ahead of the FOMC minutes due tomorrow morning. Global equities firmed in a moderate risk in response from the markets as the U.S. temporarily relaxed some sanctions on Huawei which placated concerns about further escalation of trade tensions between the U.S. and China. The USD index is not far off last month's high of 98.33 which was the highest it has been in two years.

June Gold is holding support at $1272.7 behind which is this month's low $1267.3. Resistance is $1284.2 and $1292.3.

July Crude ($63.78 / $62.78 range): June expiry, a strong dollar, trade wars and Middle East tension leaves crude prices moving sideward.

The June front month expiry completes this morning and ahead of the latest U.S. weekly inventory data. According to the latest Reuters poll expectations are for a -0.6 million draw in crude, a -0.05 million draw in distillates and gasoline, a draw of -0.8 million barrels. The data will be released this morning ahead of tonight's official EIA release.

The latest in the war of words between the U.S. and Iran has seen Iran's Foreign Minister, Mohammad Javad Zarif, say his country won't negotiate with President Trump unless the U.S. shows Tehran "respect" by honouring its commitments under the disputed nuclear deal. In an interview with CNN Zarif said the U.S. was "playing a very, very dangerous game" referring to the U.S. military build-up in the Arabian Gulf.

Iran's director of foreign affairs for the country's parliament, Hossein Amir-Abdollahian also in an interview with CNN was more to the point saying Trump is "crazy" and his Administration is "confused." "In his mind, Trump thinks he has a gun to Iran's head with sanctions and he is trying to shut down our economy. This is all in his imagination. Now he wants us to call him? This is a crazy President!" Amir-Abdollahian added that "Trump's tweets are self-contradictory." I'm not too sure on the U.S. Administration being 'confused' but more 'confusing' is probably a better description. As for the U.S. President there could have been worse adjectives used but I'll leave it there.

In the U.S., Acting U.S. Defence Secretary Patrick Shanahan said potential attacks by Iran have been "put on hold" by U.S. counter-measures. Shanahan told reporters at the Pentagon: "I think our steps were very prudent and we've put on hold the potential for attacks on Americans and that is what is extremely important. I'd say we're in a period where the threat remains high and our job is to make sure that there is no miscalculation by the Iranians."

Ok the long and short is, Iran won't speak to the U.S. and is increasing its uranium enrichment processing because the U.S. has imposed sanctions after walking out on the Joint nuclear agreement. In the U.S., the President doesn't seem to know what he wants after tweeting initially that he wanted Iran to 'call him' and that he didn't want war followed by 'If Iran wants to fight, that will be the official end of Iran' and then saying 'fake news' had put out a false statement that the U.S. was trying to negotiate with Iran…. This was all within a few days. Confused? You won't be, after this week's episode of...Soap.

In Saudi Arabia, the kingdom has intercepted several missiles fired from Yemen by the Iranian back Houthi and a drone attack directed toward a Saudi airport / military base. This followed other 'drone' attacks earlier in the week directed towards oil pipelines. Despite this escalation the Saudis have invited Arab leaders to two summits, one to discuss the "aggression and consequences" related to tensions with Iran and the sabotage of four oil tankers on May 12th. The second meeting will be at the fourteenth session of the Organisation of Islamic Cooperation, according to Saudi Arabia's official news agency. There is speculation the Saudis want to know what the U.S. plans to do regarding tensions with Iran while at the same time not wanting a new conflict in the region. The Saudis appear to have not asked for U.S. help with this new phase of Houthi attacks is telling.

Global growth fear is the primary reason for now that oil isn't a lot higher. The U.S. has a lot of preverbal balls in the air with the markets focused mainly on negative outcomes, or risk factors. Clearly numerous trade talks are not going to be resolved quickly or the Iran / U.S. standoff. Even if the U.S. tones down the military presence in the Gulf there is the ongoing issue of Iran sanctions and uranium enrichment, not easy fixes. The self-proclaimed Master of the Deal could see readers seeking a refund if the U.S. President doesn't start sorting some of his self-inflicted issues out soon.

Price action will focus on inventory data in the hours ahead bar any Middle East headlines. For today July WTI support remains $62.85 / $62.70, resistance $63.40 (hourly SAR), $63.80.

Stocks: Trade headlines continue to dominate on Tuesday; global stocks rallied after the U.S. temporarily eased trade restrictions on China's Huawei. The S&P settled +0.84%, Dow +0.77% and the NASDAQ +1%.

Ten of the eleven S&P sectors ended higher led by the materials, technology and industrials sectors, +1.51%, +1.2% and +1.18% respectively. The consumer staples was the only sector left in the red.

U.S. chipmakers, which had been hit hard by the restrictions on Huawei, rebounded from a three-day slide. The Semiconductor Index rose 2.14%.

Tesla's (TSLA) shares fell 0.7%, bucking the broader market trend, after Morgan Stanley cut its worst-case forecast on the electric car maker's stock from $97 to a mere $10. Morgan Stanley cited concerns about Tesla's debt load and geopolitical exposure. Tesla's shares are now down 38% year-to-date.

Asian stocks settled mixed: Japan -0.14%, Hong Kong -0.47%, China +1.23%, Australia +0.37%, Singapore -0.69%. European stocks settled higher: FTSE +0.25%, DAX +0.85%, Euro Stoxx +0.5%, CAC +0.5%.

FOREIGN EXCHANGE
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Dollar up. U.S. equity markets rose on the news that Trump was giving Huawei a temporary reprieve. The Commerce Department granted Huawei a three-month license to buy U.S. goods in the first sign of easing tensions between the U.S. and China. Not a big sign, but enough to see some risk currencies trade positively (apart from AUD and NZD). Equity markets rejoiced, but the currency markets are very much divorced from equities short term. The U.S. dollar rose to its highest level in a month more on negative news elsewhere but also on the Huawei news.
Elsewhere, the GBP rose briefly intraday on news that Prime Minister May would allow Members of Parliament a vote on whether to hold a second referendum. The catch? Only if her Brexit bill passes the first stage of voting in parliament. The GBP's rally was short lived as it was clear a second referendum doesn't have the support in parliament. The GBP's weakness to new lows not seen since mid-January helped the USD climb higher by default.

Overnight, the OECD lowered their global growth forecasts by a notch to 3.2% for 2019 which was largely ignored. Federal Reserve commentary from Evans and Rosengren gave little news to trade off only confirming the Federal Reserve is very much on hold for some time to come. The market still expects a rate cut this year, although at just a 63% chance now. I'm not so sure. For now, the US dollar remains in favour with again like yesterday, "the Euro remains capped at 1.1180 again today".

AUD rate cut. Both the Reserve Bank of Australia minutes from their meeting earlier in the month, then in a speech by the RBA Governor, Lowe suggested that they would consider cutting interest rates at their June policy meeting (in just under two weeks' time). With this, the market shifted from being a 50/50 bet to nearer a given that the RBA will cut rates when they meet on June 4th.

The AUD was sold back to where it closed last week and gave up its gains from the previous day. Again, the same goes today like yesterday, "the AUD remains very much in a downtrend with only a break and close back above .6960 going to arrest this". But the laboured manner in which the AUD is declining suggests the market is currently very short and is not adding or holding new short positions. With the US dollar remaining in favour, it is hard pressed to see the AUD find much upside. If short, have a stop in place for protection. A long weekend this weekend for many may see short closed and the bid go back into the AUD quickly. Until then, .6920 should cap, support remains .6860. Construction Work numbers out today will not influence.

Kiwi eases. With a stronger USD and weaker AUD, it is hardly surprising to see the Kiwi on or near its lows this morning to start hump day.

Overnight, the slightly lower GDT auction (-1.2%) had no effect the Kiwi; more the movements of the USD and AUD. The market seems a little uninterested however, with again a very tight, just 15 pip range traded in the overnight sessions traded. From here, if I was forced to trade the Kiwi I would be buying it here (currently .6505) with just a 25 pip stop. A bounce is most likely but needs some reprieve from across the ditch. Expect a range today of .6500-.6535 if we are lucky.

First quarter Retail Sales numbers due out at 10:45 am will be interesting as consumer spending has been holding up fairly well; expect a 0.8% rise for the quarter.