Spread Futures Analysis for May 2019

Lorenzo Siddi[1]*

Abstract

This report gives a guideline of two promising spread contracts of the upcoming May 2019 seasonal window. In particular, we focus on Soybean Oil and Crude Oil.

Keywords

CME, Soybean Oil, Crude Oil, Spread trading

[1] *Tradology*

Corresponding author: info@tradology.eu

Introduction

At the beginning of each month, we release the list of the most promising outright and spread futures contracts. This list requires certain statistical properties, in term of the width of the seasonal window (at least 25 days) and an average gain ratio (ratio between the enter and exit value or vice-versa) greater than 2. However, all these statistical signals do not guarantee the current contracts will follow the same patterns. Here, we show the full list of our proposed spread contracts (in case you are not familiar yet with the tickers you can download the full list of CME tickers here).

#	Ticker	Seasonal Window
1	ADU2019 - ADZ2019	May 2 - June 3
2	BON2019 - BOU2019	May 2 - June 11
3	CLX2019 - CLZ2019	May 14 - June 7
4	CN2019 - CZ2019	May 2 - June 10
5	FCU2019 - FCV2019	May 10 - June 24
6	GCV2019 - GCZ2019	May 27 - June 17
7	HGU2019 - HGZ2019	May 13 - June 14
8	HOQ2019 - HOZ2019	May 10 - June 5
9	LCV2019 - LCZ2019	May 2 - June 5
10	LNN2019 - LNQ2019	May 2 - June 4
11	NGM2019 - NGN2019	May 1 - May 24
12	SIU2019 - SIZ2019	May 3 - June 19
13	SMN2019 - SMQ2019	May 2 - May 27
14	SQ2019 - SX2019	May 2 - June 10
15	WN2019 - WZ2019	May 2 - June 7

1. Soybeans Oil

This month we have proposed 15 spread contracts. Among those, the spread Soybean Oil July 2019 - September 2019 (BON2019 - BOU2019) having recommended window May 2, 2019 - June 11, 2019. Therefore, the seasonal window is approaching, in addition, the spread has encouraging properties (see figure 1): first the trend curves (5 and 15 years) are very similar, in addition, the correlated spread (it is correlated with the 2000 and 1989 years) is similar to both curves. Second,

figure 2 shows the RSI and it is in normal condition, which means between 50-70.

Figure 1. BON2019 - BOU2019. The figure exhibits the spread closing price (blue), 15-year trend (green), 5-year trend (red), Bollinger bands (orange and yellow) and rolling mean (black). (Tradology).

However, if we zoom in, it turns out an entry signal (divergence between spread and RSI) is forming.

Figure 2. BON2019 - BOU2019. Relative strength index (RSI) of BON2019 - BOU2019 spread (Tradology).

On the other hand, the current spread is among the lowest in the last 15 years (figure 3). Is it reasonable to expect an additional drop of this spread? At first glance, it turns out that the contango histogram (figure 4) shows that July and September contracts are, statistically speaking, likely in contango (further delivery months have higher prices).

As a final comment, this spread had been profitable 15 times in the last 15 years, therefore, we should not be worried by the lower spread.

2. Crude Oil

This section delves into the proposed calendar spread WTI Crude Oil November 2019 - December 2019 (CLX2019 - CLZ2019). The estimated seasonal window starts around May 14, and finishes around June 7, it has been profitable 14
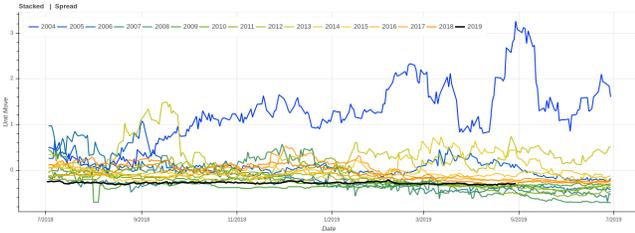
Figure 3. BON2019 - BOU2019. Spread between BON-BOU in the last 15 years (Tradology).
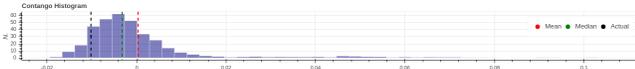

Figure 4. BON2019 - BOU2019. Contango histogram of the spread between BON-BOU in the last 15 years (Tradology).

times in the last 15 years, in the proposed window. Figure 5 shows the spread, together with Bollinger bands and pattern curves. There are not correlated spreads (the spread 2016 is the most similar with a correlation of about 70%) in the past, however, the two pattern curves (green and red) are pretty similar. Furthermore, the current spread has a good position (close to the statical patterns), and it has a growing trend since last December. The spread curve touches the (20 days) rolling mean, in addition, the Bollinger bands come close together (squeeze) which means the volatility is decreasing.

Figure 5. CLX2019 - CLZ2019. The figure exhibits the spread closing price (blue), 15-year trend (green), 5-year trend (red), Bollinger bands (orange and yellow) and rolling mean (black). (Tradology).

It is likely the spread keeps growing before an entry signal occurs. Actually, it seems there is the presence of divergence, however, the expected seasonal window is in about ten trading days and the RSI (figure 6) even if it is normal (between 30-50), it seems slightly low for a supposed bearish trend.

Figure 6. CLX2019 - CLZ2019. The relative strength index (RSI) is in a normal region, between 50-70 (Tradology).

Figure 7 tells us the current spread values are average in the last 15 years. It turns out that in the last 15 years this spread has been in contango and backwardation.

Figure 7. CLX2019 - CLZ2019. Spread CLX - CLZ in the last 15 years (Tradology).

This is exactly what the contango histogram shows (figure 8): a bimodal (double local maximum) behaviour, in fact, statistically speaking, it is not unusual to find this spread in backwardation like the current year.

Figure 8. CLX2019 - CLZ2019. Contango histogram of the spread between CLX-CLZ in the last 15 years (Tradology).

Conclusion

In this report, we have given an explanation of the two calendar spreads. The first is a spread on Soybean Oil, which shows promising features. The second is a spread on Crude Oil, this also present good statistical properties, however, it seems wiser to await we approach the proposed entry date. The calendar spread proposed together with the graphs are based on the statistical tools present on Tradology.