

Seasonal Trends May 2019

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Abstract

This report aims to give an overview on new upcoming seasonal trends.

Keywords

Seasonal trading, Commodities, Futures, Spreads.

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Introduction

This report deals with the next upcoming seasonal trading strategies on outright and spread futures contracts. In particular, the report is released in advance in order to guarantee an adequate study. Here, we present some of the most profitable (according to our statistical analysis) contracts.

1. Wheat July 2019

In the report Vol. I, No. 6, March 2019, we proposed two trading strategies about the wheat (SRW). It turns out that, the futures contract Wheat July 2019 (WN2019) during May 2019.



Figure 1. WN2019 seasonal trends (Tradology).

In figure 1, the red line stands for the statistical trend in the last 5-year trend, while the green one for the last 15 years. First, we notice that (statistically speaking) the seasonal window should start around the 24th May 2019 and finish around 15th June 2019, therefore is shorter than a 30 trading days and in the last available month before the delivery. In addition, it seems the trend in the last 5 years is not so neat as the green line, however, it could be caused by an average effect, since outright futures are more volatile than spreads. In this futures contract, assuming we took a position at blinded eyes, we would succeed 12 times in the last 15 years according to the above mentioned seasonal window dates.

A useful tool is the *stacked* plot, which is shown in the picture 2, it turns out the current Wheat July price is rather similar to the last 5 years. The last USDA report (March 2019) tells

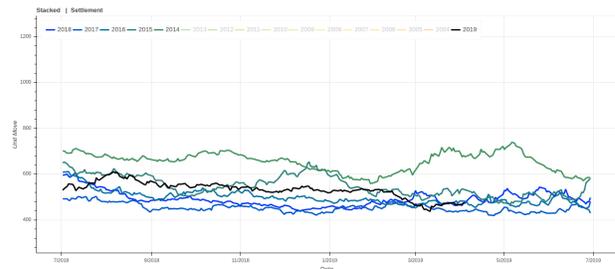


Figure 2. Price of the Wheat July contracts in the last 5 years. (Tradology).

us that the March projection of the ending stocks is about 28.72 Million Bushels, while the ending stocks were about 29.92 and 32.13 Million Bushels, respectively in the seasons 2016/2017 and 2017/2018. Which means it is likely the wheat will have a lower price than last year since the wheat season is not yet finished and it is possible the ending stocks will be larger and therefore a surplus of wheat. In this case, it could be interesting to check the historical temperatures in the South/East USA, where the Wheat SRW grows.

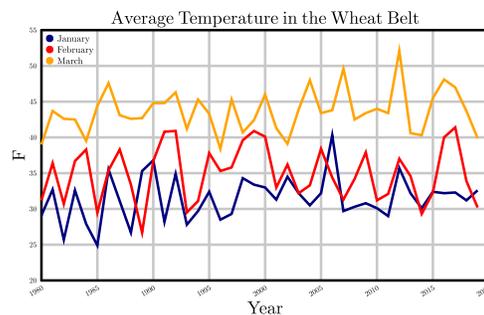


Figure 3. Average temperatures in the wheat belt.

According to the data available on weather.gov, it turns out that while January 2019 was mild with gentle rain (see the charts 3 and 4), February and March 2019 were among the driest and coldest in the last 18 years. These figures might enhance wheat production.

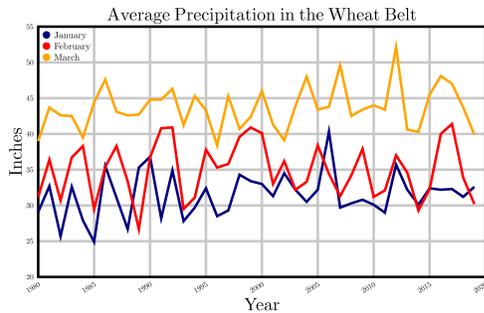


Figure 4. Average precipitations in the wheat belt.

The figure 5 displays the Wheat July price in the last 15 years, and it confirms that the current price is normal (i.e. no minimum nor maximum).

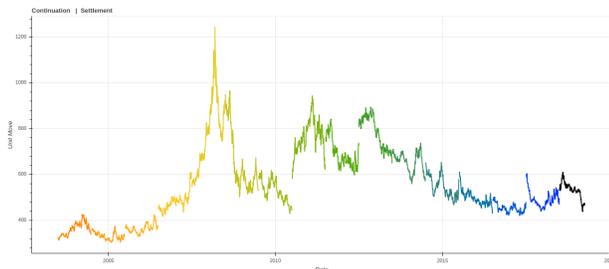


Figure 5. Price of the Wheat July contracts in the last 15 years (Tradology).

In conclusion, this contract could be a very good trading opportunity, it is likely the mild weather supports lower prices.

2. Soybeans Oil Calendar Spread

In this section, we deal with a calendar spread between Soybeans Oil August 2019 - Soybeans Oil August December 2019 (BOQ2019-BOZ2019). The figure 6 shows two seasonal trends (5 and 15 years, respectively in red and green), in addition, it is shown a correlated spread (with a probability higher than 80%) in water blue. It turns out the correlated contract is in agreement with the historical trends, which is a good sign.



Figure 6. BOQ2019-BOZ2019 seasonal trends (green and red) and correlated spread (water blue) (Tradology).

In this spread the seasonal window starts on the 10th May 2019 and finish around 5th June 2019, which it is shorter than 30 trading days.

However, the most significant information is that the two historical curves (green and red) present, essentially, the same trend in the seasonal window. According to the seasonal window, this spread had been profitable 12 times in the last 15 years.

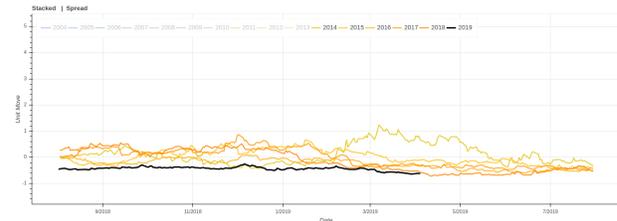


Figure 7. BOQ2019-BOZ2019: comparison of the last 5 year (Tradology).

According to figure 7, the spread is at the minimum of the last 5 years. The (February) USDA report shows that the imports are stable at about 300 Million Pounds, the domestic demand is growing. Although the exports are growing, the ending stocks are growing as well, and this implies lower prices. However, a more detailed analysis can be made with the next upcoming USDA report.

The figure 8 compares the current spread with the last 15 years, and it turns out it is not at the minimum of the last 15 years. In addition, it does not exhibit high volatility contrary to 2004 and 2013.

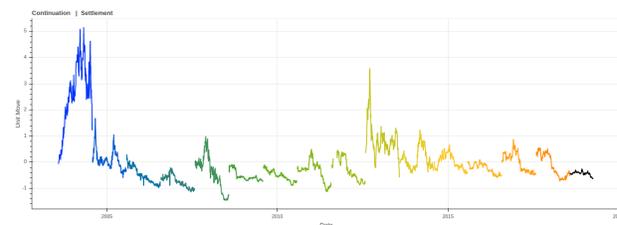


Figure 8. BOQ2019-BOZ2019: comparison of the last 15 year (Tradology).

Conclusion

This paper has dealt with some two trading strategies, one for an outright futures contract and the second one with a spread contract. The proposed trades highlight very interesting properties. However, we will follow these contracts and wait for an entry signal. In addition, further recommended trades for May 2019 can be found on Tradology, we are pleased to help you in your trading strategies.