

## June 2019

June 3, 2019 - Stuart Cowell, Head Market Analyst, HotForex

### CURRENCIES

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**Dollar:** The Dollar started off the month weak but the situation quickly reversed as the trade tensions with China (and Mexico by month end) took hold. US data held up (GDP & Jobs) but there were also signs of softness in the housing market. The EURUSD pair moved lower during May, unable to hold over 1.1200 and testing the 1.1100 zone. The Fed meeting (18-19) will be the key event of the month with no change to rates all but certain and a continued tone of caution being the key theme. June starts with NFP on the 7th, CPI data on the 12th, Retail Sales on the 14th, FOMC Rate Decision on the 19th and closes the month (27th) with the final reading for Q1 GDP.

**Euro:** Developments in the Euro continue to crawl along, with mixed data releases and two-year lows for EURUSD. The month was packed with political developments, with the European Parliament elections producing the anticipated rise in anti-EU parties (particularly in Italy, France and the UK); although this was not to the extent as first feared by many, it is a trend that is continuing to gain momentum. The ECB meeting is the headline event for June (6th), preceded by May CPI (4th) and then followed by GDP (also 6th), PMIs (21st) and June CPI (28th).

**Sterling:** Brexit chaos came to a head during May with talks between the Government and main opposition party collapsing, the resignation of PM May (from June 7) and the rise of the Brexit Party in the European elections. BOE announcements and economic data were largely ignored as the uncertainty continued. Sterling suffered across the board with Cable falling over 600 pips, GBPJPY moving over 900 pips and EURGBP gaining over 370 pips. June 20th is headline day with BOE rate decision, while other important events are Wages and Earnings (11th), CPI (19th) and GDP (28th).

**Yen:** The Japanese currency was the major gainer during the trade war-induced hiatus in global markets that ran throughout May. USDJPY traded down under 108.30 from highs of 111.65. Economic data again underwhelmed, however GDP was the key exception, showing a 2.1% increase for Q1. Important dates for the coming month are GDP (10th) the BOJ Interest Rate announcement (20th) and release of meeting minutes (25th).

**Aussie:** The Aussie moved down against all crosses during May (AUDUSD moved under 0.6900), despite another improved trade balance and positive employment change. Australia's exposure to the Chinese economy was the main driver. Parliamentary Elections proved a big surprise with the Conservative coalition being re-elected, boosting business sentiment. The housing sector and weak inflation numbers remain areas of concern. The RBA announcement (June 4th) is expected to announce a rate cut and perhaps more to come, and other key events are GDP (5th), RBA Minutes (18th) and Employment numbers (20th).

**Loonie:** The Loonie continued to decline against the USD during May (breaching and holding over 1.3500) and completing a 4-month fall from the big gain in January. A strong jobs number and a better than expected retail sales reading, but a dip in the GDP reading provided mixed messages for the BOC. The three key events for June are the jobs numbers (7th), CPI (19th) and Retail Sales (21st).

**Emerging:** The **Ruble** traded below the 65 level against the Dollar during the middle of the month but faltered into month end as Oil prices fell and the USD gained ground. The **ZAR** also lost ground after a strong start to the month following the Elections on May 8. USDZAR moved down under 14.200 before rallying to over 14.6000. The Turkish **Lira** moved up into month end and having breached the key 6.00 level, it closed the month at 5.82. In sharp contrast, the Mexican **Peso** weakened significantly following President Trump's proposed tariff announcement. USDMXN moved up from the 18.78 May 1st low to close the month at 19.60.

### COMMODITIES

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**Gold:** Gold had a volatile May, up from \$1270 to \$1300, back to test \$1270 before closing the month at \$1305, as trade tensions refused to ease and Q1 earnings growth faded. Support now sits at the \$1270-75 zone with the overall direction not clear. The central bank shift to stable interest rates should, in the longer term, provide some support for the **Gold** price.

**Silver:** The price of **Silver** also had a negative May and completed a 4-month move to the downside from February highs at \$16.16, to May lows of \$14.31, closing the month on a bounce to \$14.57. Weakening manufacturing PMIs continue to reduce the industrial demand for Silver and without the safe haven demand that supports Gold, Silver could continue to weaken as global growth struggles.

**Oil:** Oil prices remained volatile in May, but finally moved lower, ending its four-month 2019 rally. From a 20th May high at \$63.95, the price collapsed into month end to close at \$53.35, representing a 16.5% move lower. Prices are likely to remain volatile as demand and supply are still quite unpredictable as US Oil inventories pivot from build to drawdown conditions from week to week. The situation in Libya and the ongoing crisis in Venezuela support prices along with OPEC production cuts, however weakening global demand from the ongoing trade tensions constrain demand. June 25-26 is the 176th Meeting of the OPEC and non-OPEC Conference.

## INDICES

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**US:** The US markets (**USA30**, **USA100**, and **USA500**) all moved negatively in May, down significantly from April's all-time highs, losing over 6%. It was the first move lower for the year and the worst May performance since 2010. The escalation in rhetoric over the ongoing trade tensions with **China** was compounded late in the month with the threat of a 5% tariff on **all Mexican imports** beginning June 10, to be increased monthly up to 25%, unless illegal immigration is halted. June is traditionally a weak month for equities, however, as the *Stock Trader's Almanac 2019* reports, this June could turn out better than average as a result of a strong start to the year and weakness in May. Over the last twenty-one years, the USA30 and USA500 have recorded average losses in June, whilst the USA100 has fared better with modest average gains.

**Europe:** Stock markets in continental Europe moved in tandem with the US exchanges, as the **GER30 (-5%)** and **FRA40 (-6%)** declined significantly with more mixed economic data releases and weak PMI data in particular. The **UK100** also moved down during May, even as Sterling declined and the Brexit crisis intensified. However, losses were less than 3% as the UK stock markets have proved remarkably resilient to all the Brexit uncertainty, with Sterling the main victim.

**Japan:** The **JPY225** moved inversely to the Yen and moved down over 6%, in conjunction with the overall trend in Europe and the US. The Japanese economy has underperformed over the past month with some weak data points, however the overall economic outlook is positive for the country as inflation continues to remain above zero and spending and loans growth remain positive. As a major exporting nation the Japanese macro environment needs to see a relaxation, not an escalation of global trade tensions.

## EQUITY PICK OF THE MONTH - TESLA

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One of the most high profile of companies, TESLA has faithful followers and investors in their undoubted visionary founder and CEO Elon Musk. However, with a collapsing share price, problems reaching production targets and volumes, and legendary capital expenditure burn rate, the once darling of Wall Street is under the most significant pressure to deliver. The share price fell during the first quarter, moved a leg lower in April and collapsed during May. The share price closed trading in May at \$185.16, representing a **46% reduction in value in less than five months**, and even the purchase of over 100,000 shares by the CEO at the beginning of the month at \$243 per share (investing \$25 million) has not stopped the share price slide. Barclays is the latest firm to issue a downgrade, predicting that Tesla is more likely to become a "niche luxury" car maker than a mass-market one, with analysts cutting their price target to \$150 from \$192.

So what has gone wrong and where does the company go from here? Investors appear to be losing faith in the always colourful and controversial Elon Musk with his constant missed delivery deadlines, key executive departures and the constant cash burn. Market sentiment also appears to be waning with what once an innovator now was simply trying to survive as more global competition arrives from both technology companies and the traditional automotive sector. However, Tesla and Mr. Musk have been down here before; in the spring of 2016 the share price moved some 90% in two months following a 50% sell-off over the previous 18-months. Is it different this time? – Only time will tell.

## CRYPTOS

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**Bitcoin** ended the month close to the **\$8500** mark, after trading close to \$9000. The significant breakout in early April was followed by a similar move at the beginning of May and again in mid-May. Bulls are calling for \$10,000 and beyond, and Bears point to gaps on the chart that need to be filled. **Ethereum** tracked Bitcoin higher in May and breached the 200-day moving average trading as high as \$280.00, before closing the month around \$260.00, representing a \$100.00 (62.5%) gain for May. **Ripple's** price too was affected by the Bitcoin movements, with its price also breaking the 200-day moving average to trade as high as \$0.4695, up from \$0.3043.

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