SURGETRADER
ACCELERATED TRADER FUNDING

SURGETRADER AUGUST 2022 **MARKET Outlook**

PRESENTED IN COLLABORATION WITH BKFOREX

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Kathy Lien

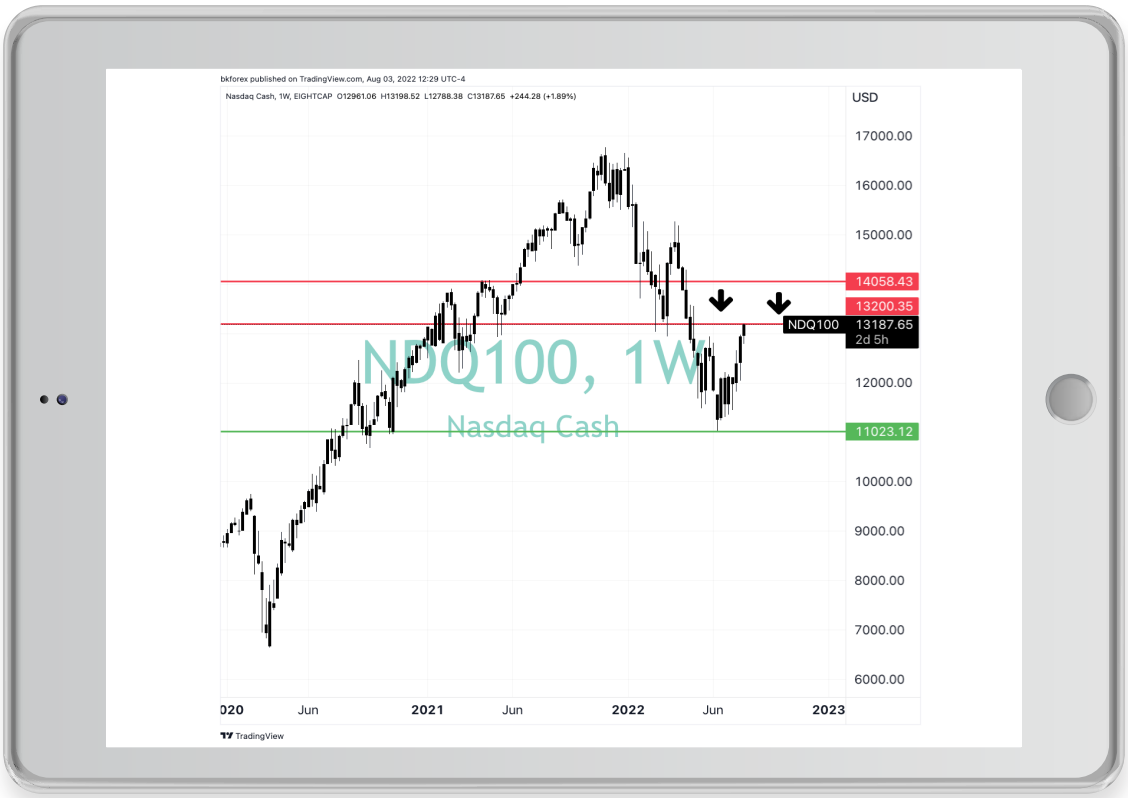
EQUITIES

The dog days of August are here. And despite the U.S. Speaker of the House trying to light a match at the dynamite factory by visiting Taiwan, we suspect it will all be much ado about nothing as volatility in equities continues to compress and traders' minds wander to the beaches of Hamptons and St. Tropez before engaging with the markets once again.

August can of course be stormy month; the Russian default happened in August plunging bonds markets into a tizzy while making a short meal out of long-term capital, but overall, the last true month of summer tends to be a quiet time for equities and this year we don't think it will be any different... unless China decides to double down on its threats and attack Taiwan. Even then, it's not entirely clear how equities will react to such geopolitical risk, but assuming cooler heads prevail, equities are likely to be a snooze fest as all the stories are pretty much priced in and the only real question is how slow the economy will get.

The consensus view is that a soft landing is almost impossible given the high level of inflation and that only a severe recession can cure what ails us. Given that this is a nearly universal view, it is almost certainly wrong and that suggests that markets are underpricing the prospect of a Fall rally, even if it eventually turns out to just be a short squeeze in an overall bearish market.

As the global economic engine returns to normal, the supply chain bottlenecks continue to ease, putting downward pressure on prices, which in turn should temper monetary policy going forward. That could be a constructive background for equities, especially if corporations retain their pricing power. All of this of course depends on easing, rather than tightening, of geopolitical tensions and that could be a false assumption if China decides that it cannot lose face and raises stakes in the Asia-Pacific region. For now, however, the key support levels in NASDAQ have held and the path of least resistance is up.

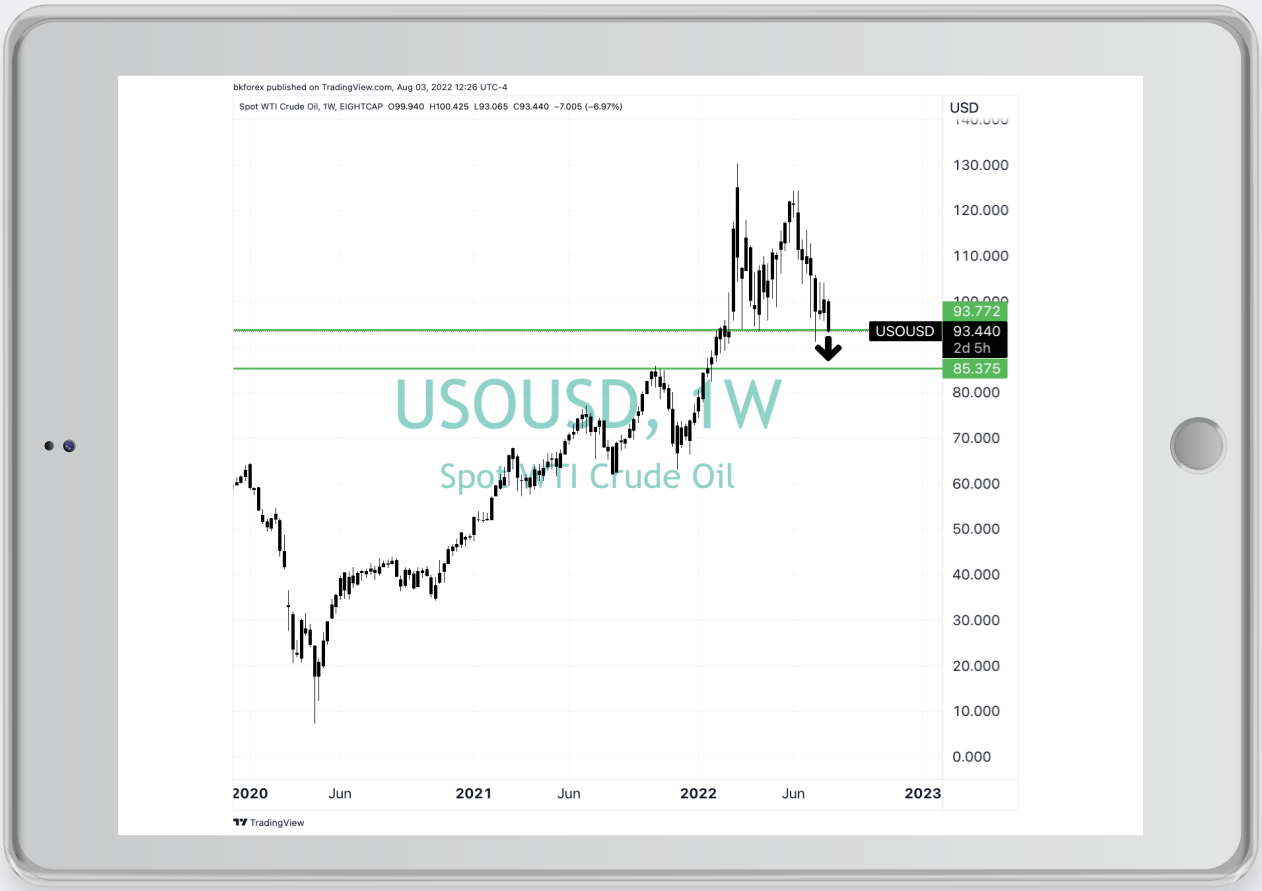


Oil

Gasoline prices have fallen for seven straight weeks at the fastest pace in decades as crude now tumbles below the psychologically key **$100** per barrel mark, much to the consternation of oil perma-bulls. One key factor is the dampening of demand from China. The original argument was that the slowdown in China was all COVID related and would come roaring back as soon as the restrictions were lifted. This is clearly not the case, as the Chinese economic slowdown is structurally driven by collapse in demand and credit in real estate which comprises as much as **35%** of Chinese GDP.

The latest Chinese PMI data is within a stone's throw of the 50 boom/bust level, indicating that manufacturing activity continues to slow. All this suggests that demand for oil is likely to remain capped while global supply, driven by Russia's ever more desperate need for cash, will remain steady or increase.

With crude now below the **$100** level, the next point of attention for shorts will be the **$85-$95** zone of support which served as the breakout point just before the Russia-Ukraine war. Most likely that will also be the equilibrium point for the time being, unless global growth slows materially into the final quarter of the year.

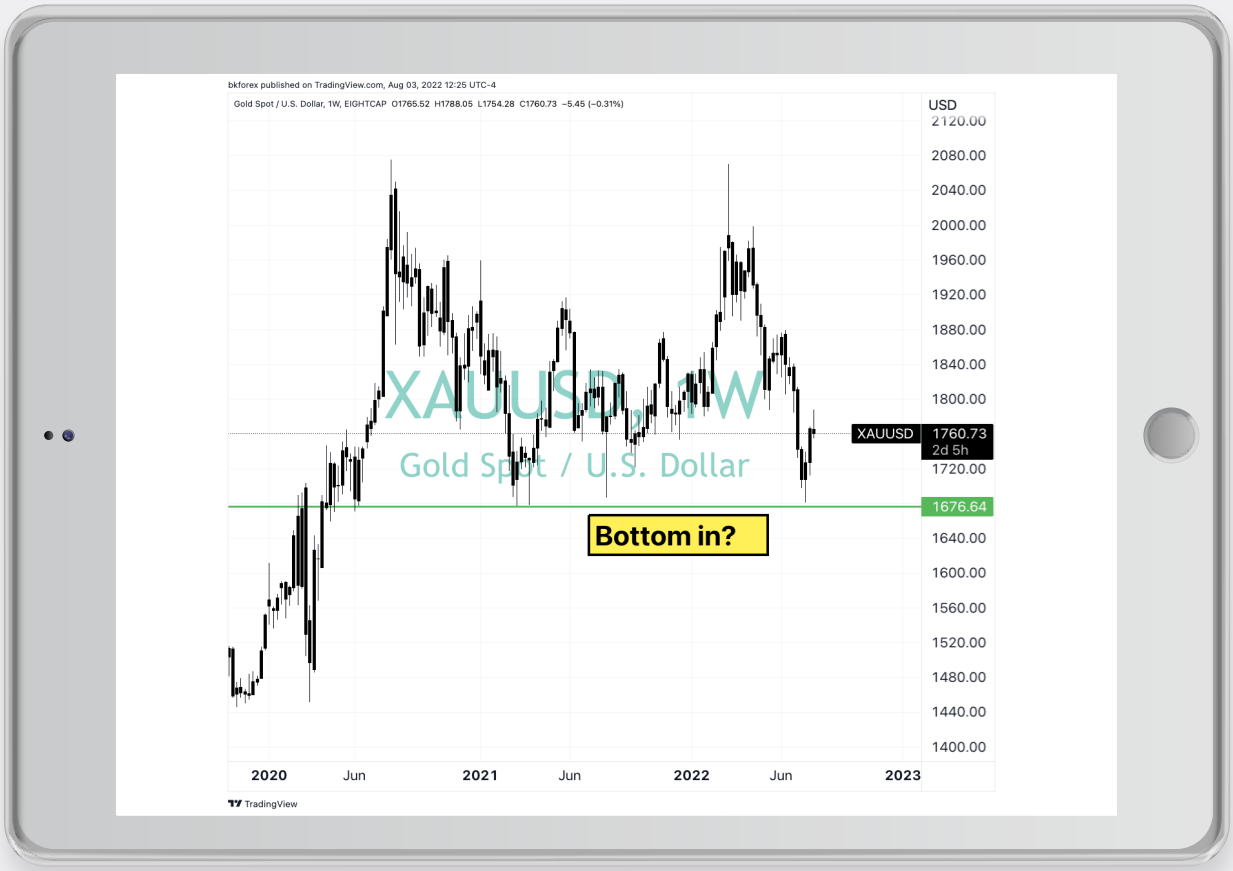


Gold

Dead money. Dead money. Dead money. Say it three times and it's true. With gold, there is not even any need for incantations because the asset has been a dog since the start of the year, collapsing as fast as inflation has been rising and essentially destroying the thesis that gold is an inflation hedge.

Gold of course does really act as inflation hedge but rather as a response to real rates and as real rates have risen in reaction to Fed's commitment to monetary tightening, the yellow metal continued to lose its luster in July. Perhaps the only positive thing to say about gold is that it appears to have carved a double bottom at the **$1,680** level as the last of the intermediate term longs capitulated.

As we noted last month, "But perhaps we are too quick to judge. If the 1970s is the analogue, then inflation is just starting to permeate the mass consciousness and the true gold mania in the 1970s did not hit its apex until the end of the decade. So, the speculative cycle may still be ahead. For now, however, gold is dead money in more ways than one, and unless it can recapture and hold the **$2,000** per ounce mark, there is no evidence that gold is anything but a range-bound market." That thesis is holding true and only a vicious second wave of price hikes in the real economy will revive the barbaric relic.



CRYPTO

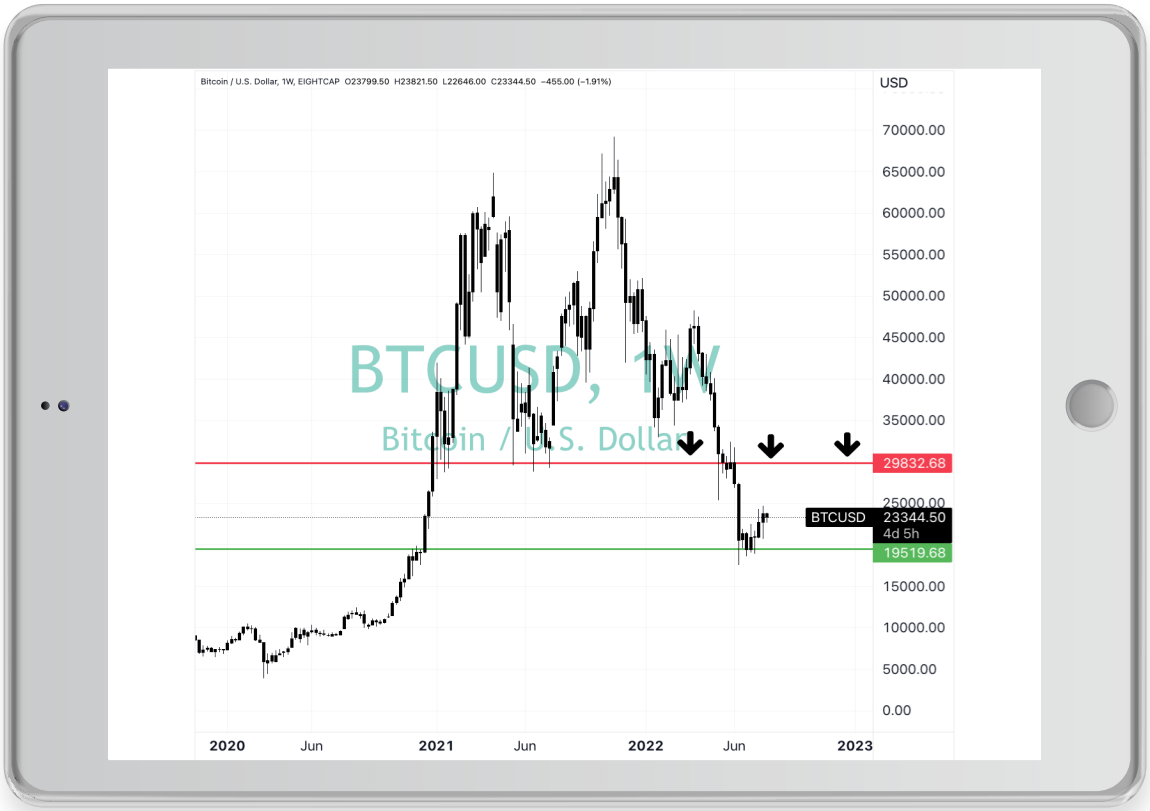
Cats have nine lives, but crypto may only have three. The second crypto winter is upon us, as the whole sector essentially collapsed over the summer, wiping out billions of retail speculative capital. Bitcoin bulls continue to insist that this is all a normal process of destructive creation in a new technology. The only problem as we keep asking is: Where is the technology part?

Crypto has yet to solve any real-world issue better than what is currently available, as distributed databases carry enormous overhead of processing — something that has been known in computer science for decades — and are therefore utterly useless for the billion transactions a minute needs of the modern digital economy.

So crypto continues to chug along as a promise and a dream, but essentially vaporware, and we wonder if the once-burned-twice-shy retail speculators will wander once back into the pool for the third round at a lottery ticket.

For now, the convulsive selling has ceased, and Bitcoin appears to have found a bottom at the $17,000 level with no less an authority of Anthony Scaramucci proclaiming that the bear market is over and that the fair value of Bitcoin is $40,000. We don't know what the fair value of Bitcoin is, but the production value of Bitcoin is about $6,000, so the instrument still has a way to fall before it becomes unprofitable to mine it.

Looking at the instrument from a purely technical view, the risk rally could take it towards the $28,000 level into the fall season but the $30,000 zone is likely to bring out a lot of sellers who'll be relieved to cut their losses on any wave higher.


Bitcoin / U.S. Dollar, 1W, EIGHTCAP O23799.50 H23821.50 L22646.00 C23344.50 −455.00 (−1.91%)
USD
70000.00
65000.00
60000.00
55000.00
50000.00
45000.00
40000.00
35000.00
29832.68
25000.00
BTCUSD 23344.50
4d 5h
19519.68
15000.00
10000.00
5000.00
0.00
2020
Jun
2021
Jun
2022
Jun
2023
BTCUSD, 1W
Bitcoin / U.S. Dollar


bkforex published on TradingView.com, Jul 02, 2022 10:56 UTC-4
Bitcoin / U.S. Dollar, 1W, EIGHTCAP O21385.50 H21519.50 L18602.50 C19270.75 −2108.75 (−9.86%)
USD
72500.00
70000.00
67500.00
65000.00
62500.00
60000.00
57500.00
55000.00
52500.00
50000.00
47500.00
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25000.00
22500.00
BTCUSD 19270.75
1d 7h
17612.75
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10000.00
7500.00
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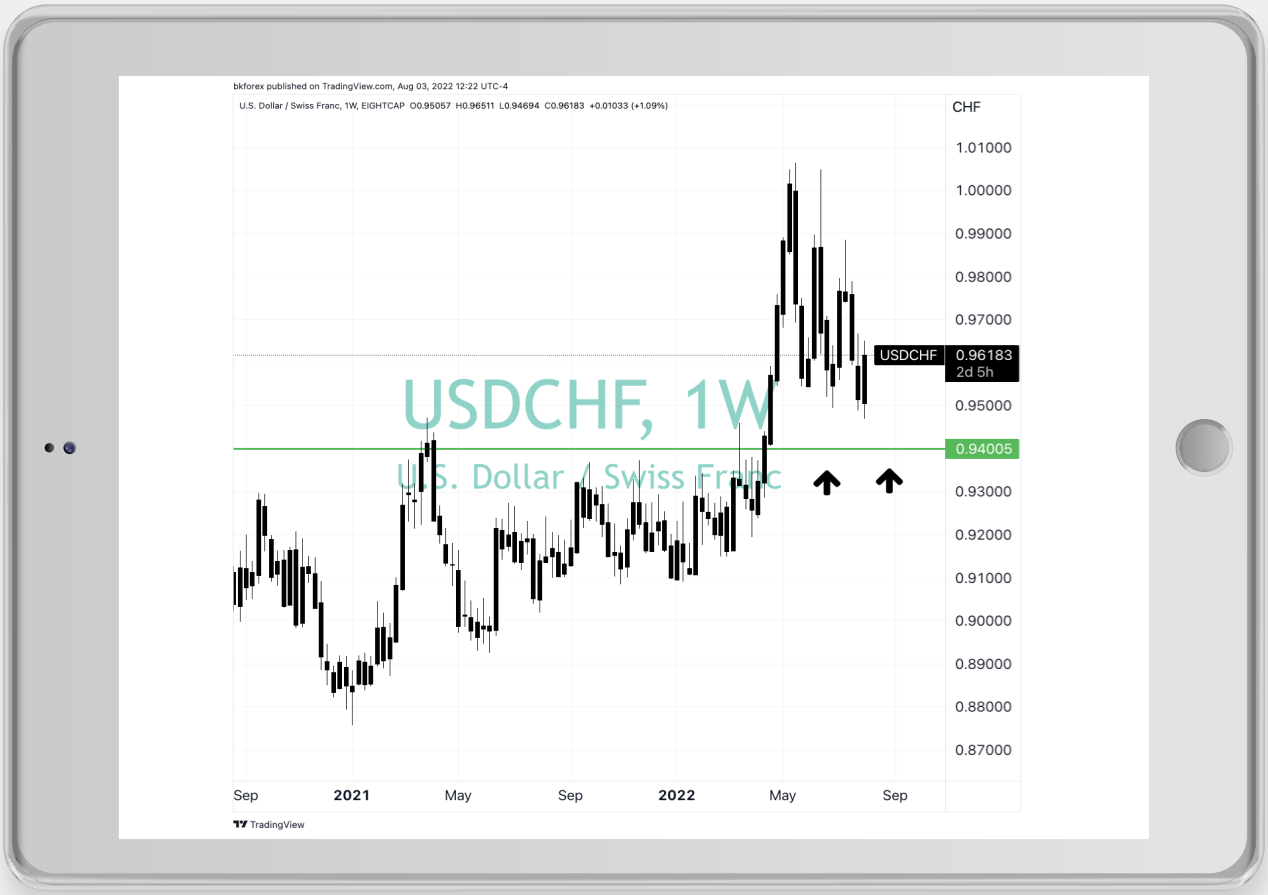
Oct
2021
Apr
Jul
Oct
2022
Apr
Jul
Oct
TradingView
BTCUSD, 1W
Bitcoin / U.S. Dollar

FOREX

One cheap and easy trick in the FX business is to use USD/CHF as a proxy for dollar strength. The pair tends to correlate very closely with the DXY index, allowing traders a quick look at how well the buck is bid.

Given the price action in USD/CHF recently, the only conclusion is that the dollar rally is in a pause. This is surprising, given the stream of negative fundamental data out of Europe, but the markets are clearly pricing ahead and have already started to react to the more modest pace of U.S. rate hikes from the Fed.

Still, it does not fully price in the carry spread that is sure to exist between U.S. and European assets, so the recent decline in the dollar is likely to be a profit-taking pause, rather than a peak move and if the USD hold the 0.9400 level in USD/CHF, dollar strength should resume offering dollar bulls a relatively low-risk entry at the current levels.



ABOUT SURGETRADER

Here at SurgeTrader, we fund traders up to $1 million. Our traders keep 75% of the profits. The program is built on three pillars:

1. Simple, straightforward trading rules
2. No time restrictions
3. Fast, responsive service

SurgeTrader offers a one-step funding model, where traders take an Audition with simple rules and no time restrictions. SurgeTrader exists to accelerate trader funding and help profitable traders with their biggest challenge: undercapitalization. We are not built to profit off of failed challenges like other firms. Our approach is long-term. We profit when you profit. When you win, we all win.

If you want to partner with a firm that has simple trading rules, incredible trader support and has your best interests at heart, SurgeTrader is the partner for you.

Get started today at www.surgetrader.com.

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