AMG
PENNSYLVANIA STATE UNIVERSITY

Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- **Visible crude stocks increased in January.** Crude stocks saw builds of **~800.00 k Bbl/d against expectations of 1.80 m Bbl/d**. As more refineries go into maintenance, crude stocks will rise higher
- **WTI and Brent markets reach year-to-date highs.** In February, Brent traded in a $8.00/b range and is near its top at $83.55/b. When either WTI or Brent reaches their year-to-date high, we have seen **open interest in futures contracts decline** showing uncertain investors
- **Heating degree days were 17.00% higher in January than last year.** The large arctic air mass caused **peak loads to rise 81.60%**. Thus offsetting the warmer-than-average temperatures in January
- **Stranded Russian oil tankers receive payment issues with China and India**. Three oil tankers carrying 2.20 m barrels are stranded due to the U.S. finally cracking down on illegal Russian oil exports
- **Retirements of electricity generating capacity is set to slow in 2024**. 22.30 GW of coal-generated electricity has been retired in the past two years. **Operators plan to retire 5.20 GW of fossil fuel** capacity; green electricity sources are set to increase in 2024
- **U.S. crude oil production increased to 13.23 m Bbl/d in February.** The week prior, U.S. crude production was 12.98 m Bbl/d
- **The IEA continues to forecast lower demand growth for crude oil.** The IEA expects demand growth to halve in 2024 to 1.20 m Bdl/d from 2.40 Bbl/d in 2023. This comes after China's economic outlook is weak
- **Non-OPEC producers account for 95.00% of supply growth.** Global oil supply is set to grow 1.70 m Bbl/d in 2024 caused by non-OPEC

Looking Ahead

The Energy Sector expects continued rises in both Brent Crude and WTI Crude oil as the factors affecting these benchmarks are showing bullish indicators. The war between Israel and Hamas is picking up pace once again and starting to become more of a threat to the supply of oil. Both oil benchmarks are considerably affected by geopolitical tensions, and as we see them increase, we will see oil follow as well. In other news, the Energy Sector expects to see OPEC+ cut production levels further, thus lowering supply and increasing prices. U.S. production still remains high but has started to show signs of a potential decline due to the U.S. oil rig count dropping, as well as a smaller-than-expected build on current stockpiles. Stronger-than-expected inflation data from January has not helped the Fed get closer to cutting rates. However, that is currently priced into the market and does not significantly change our outlook on oil. The Energy Sector's natural gas outlook remains neutral, as we don't see any strong indicators that it could rise in the near term. Supply remains abundant, with stockpiles remaining 22.30% above the seasonal norm. Temperature forecasts still remain mild, hurting the demand forecast for the commodity even further. The one bullish indicator looking ahead is Chesapeake Energy, one of the largest producers of natural gas in the U.S., announced that it is cutting its production plan for 2024 by 30.00%. This is due to natural gas being at a 3.50-year low and the age of many natural gas plants rising.

Weekly Product Report

Equity Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- The major indices ended the week in the green, recovering from last week's decline for the first time in five weeks. **The NASDAQ was up 0.54%, the DJIA was up 0.98%, and the S&P 500 was up 1.15%**
- **Initial Jobless Claims** came out 12.00k less than last week at **201.00k**, below market expectations of 218.00k. Showing the lowest claim count since the 16.00 month low that came out five weeks ago
- U.S. **Existing Home Sales rose 3.10% m/m** to the highest level in five months of 4.00 mm units in January 2024. Sales increased in the Midwest, South, and West, but the Northeast remained steady
- **Nvidia (NVDA)** came out with their **quarterly earnings** that **beat expectations** and causing a rally fueled by AI optimism. Nvidia's stock value increased by $277.00 bn on Thursday, largest in Wall Street history
- **Capital One (COF) and Discover (DFS) announced** one of the **biggest mergers this year**, creating the largest credit card issuer in the U.S. with a $35.00 bn deal, giving the combined company more than $250.00 bn in credit loan volume. It's expected to face major pushback from regulators.
- **Walmart (WMT)** came out with their **quarterly earnings** and beat expectations. Walmart also **acquired Vizio in a $2.30 bn** deal
- **Home Depot (HD)** released earnings and **beat expectations** for revenue while **sales fell 3.00% y/y.** They're expecting growth as more consumers are starting to take on home improvement projects this year
- **Nestle (NSRGY)** released its earnings, which fell below analysts predictions. The company has experienced a slowdown in growth, attributed to inflation damaging its profit margins.

Looking Ahead

Next week, markets will be getting economic data in the form of Durable Goods Orders, GDP Growth Rate, PCE Price Index, Personal Income, Personal Spending, and ISM Manufacturing PMI. Equity markets will also be assessing earnings releases from Berkshire Hathaway (BRK), Salesforce (CRM), Lowe's Companies (LOW), TJX Companies (TJX), and American Tower Corporation (AMT). Durable Goods Orders are expected to decrease 4.80% m/m, down from the previous reading of 0.00% m/m. If this measure were to decrease significantly, we could see that markets take this reading as a sign of a slowing economy - which could allow the Fed to consider rate cuts sooner rather than later. GDP Growth Rate is expected to increase 3.30% q/q from a previous increase of 4.90% q/q. An unexpected increase in the growth rate could show that the economy is growing faster, supporting hawkish moves by the Fed. PCE is expected to come in at a rate of 2.40% y/y, down from a previous level of 2.60% y/y. This being the Fed's preferred gauge for inflation, cooling in this y/y reading could give the Fed more confidence in cutting rates; this could lead to an upward movement in the broader equities market. Personal Income and Personal Spending numbers could give good insights into the strength, or lack thereof, of the consumer. It is a slightly quiet week for earnings, with Berkshire Hathaway being the most watched. The crucial economic reports coming out will still make for a busy week in the land of equities.

Weekly Product Report

Foreign Exchange Sector

Weekly Product Report

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Summary of Weekly Themes

- The DXY traded down (0.35)% w/w, on relatively weak U.S. **PMI data, services PMI was lower than expected at 51.30.** Fed governors specifically Neel Kashkari continue to express that rates will remain until inflation is back down to the 2.00% target. The labor market has remained strong and inflation has remained high pushing back the timeline for rate cuts
- EURUSD traded sideways this week, PMI for the E.A. was released and services **PMI beat expectations and hit 50.00 for the first time since July**. The preliminary reading of **consumer confidence was (15.50) for February, improving from the (16.10)** January reading
- GBPUSD increased slightly despite the U.K. technical recession. U.K. PMI data remained strong and increased for manufacturing and composite while remaining stagnant for services. **Consumer confidence remains weak for February coming in at (21.00) which missed expectations**
- USDCAD traded up slightly **despite Canadian CPI coming in below expectations at 2.90%.** Going forward this will hurt the pairing as it will likely allow the BOC to cut before the Fed**. Retail sales in Canada released for December at 0.90% beating expectations** suggesting a stronger consumer
- USDJPY increased 0.23% w/w, **Japanese exports for January increased 11.90% y/y and imports at (9.60)% y/y**. These changes are better for Japan long term as they are historically dependent on exports, which make up a large part of their GDP. Japan's balance of trade has continued to struggle
- USDCNY was stagnant this week as there is limited liquidity but the **PBoC held rates at 3.45% despite being expected to cut to 3.30%**. Housing also proved weak in China as house price index for January was (0.70)% m/m

Looking Ahead

The sector will monitor news from multiple countries in the coming week. In particular, Japan, the BoJ, and Yen overall are potentially set to have major developments. CPI is set to be released for Japan, and at such a crucial time this can change general sentiment around the BoJ and Yen. If CPI continues to decrease further below the 2.00% mark, it may mean that the BoJ will turn away from rate hikes for the considerable future. In contrast, a significant gain will mean the exact opposite. Unemployment rate can also prove impactful, with the labor market and wages being a massive factor in the BoJ’s decision. This is incredibly influential for the Yen. Further, in the U.S., multiple reports of varying importance will be relevant. New home sales released on Monday and the housing price index released on Tuesday may provide context and clarity in the housing market going forward. Additionally, consumer confidence also released on Tuesday can help to provide a better view of the consumer. Finally, GDP is being released which can serve as a major influence for the Fed. Moving into the E.A. and ECB, CPI, much like in Japan, can fully change the outlook of the ECB. This in addition to retail sales in Germany and PMI in Italy will be incredibly important for the sector's outlook for Europe going forwards. Outside of the traditional currencies, retail sales in Australia have a significant impact on the currency. As the Sector looks to diversify into currencies outside of the DXY index, this is something we will be considering into the future.

Weekly Product Report

Index Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- U.S. benchmark indices rallied this past week, as **the S&P 500, Dow Jones, and Nasdaq indices climbed 1.15% w/w, 0.98% w/w, and 0.54% ww,** respectively. Nvidia (NVDA) earnings beating EPS estimates by 11.28%, leading to a 19.00% rise for the stock and a 2.70% rise in the S&P 500 on Wednesday, accelerating growth in artificial intelligence stocks
- **The Hang Seng Index rallied 2.40% w/w**, jumping 1.60% on Wednesday. The Hang Seng Technology Index (HSTECH), representing the 30.00 largest technology companies in the index, soared 2.70% following strong performances by stocks including Alibaba (BABA) and Meituan (MPNGY)
- **Japan's Nikkei 225 rose 1.51% w/w**. The index hit a 35.00 year high led by a continued weakening Yen. The USDJPY exchange rate reached 150.52 this week. Chip manufacturers also jumped after excitement around Nvidia
- **Germany's DAX Index jumped 2.01% w/w** despite the important Manufacturing PMI Flash data unexpectedly falling to 42.30 in February, ending the recent rise since July and coming in below forecast of 46.10
- **India's Nifty 50 Index rose 0.78% w/w**, as 10.00 of the index's 50.00 constituents achieved record new highs with companies such as Sun Pharmaceutical Industries (SUNPHARMA) and ICICI Bank (IBN)
- **The STOXX Europe 600 gained 1.27% w/w** hitting a two-year high. Manufacturing data contracted but the services sector returned to growth above forecasted of 49.00 and hitting 50.00 for the first time since July
- **The IPC Mexico fell (1.05%) w/w**, as retail sales fell below forecasts, falling to (0.90%) m/m as well as the Economic Activity Index also missed forecasts, demonstrating the lowest growth rate since October of 2021

Looking Ahead

Movement in global equity indices this week was largely driven by a surge in the market-moving artificial intelligence chip manufacturer Nvidia (NVDA). The company reported a robust earnings report where quarterly sales tripled y/y, growth that stands out even among the technology giants. The stock soared to all time highs adding $277.00 bn in market capitalization in just one day, a record for U.S. companies, and powered benchmark indices around the world to historic highs. The STOXX Europe 600 hit its highest level in two years and the Nikkei 225 continued its rally to a new 35.00 year record. The Sector will continue to monitor the Japanese economy and the performance of the Nikkei 225. The index has rallied 17.79% YTD, rising nearly 6,000.00 points. The weakening JPY has amplified this growth as it accelerates global demand for Japanese exports. Japan's exports rose 11.90% y/y in January of 2024 as 150.52 JPY buys one USD. The BOJ's refusal to raise interest rates and exit its ultra-loose policy also continues to keep the JPY weak and trigger the stock market rally. The Sector believes that this bull run has the potential to continue and that the index will reach 40,000.00 points in the near future. Nikkei 225 futures rose nearly 1.00% on Friday indicating that the record run may extend. The Sector may seek to capitalize on this bull market and take a long position on Japan's benchmark index, however, we must analyze risk including a potential hawkish BOJ pivot, a technology bubble, and an aging population.

Weekly Product Report

Interest Rate Products Sector

Weekly Product Report

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Summary of Weekly Themes

- **The PBOC one-year loan prime rate was unchanged at 3.45%** on Friday, Feb 20th, while the the benchmark five-year loan prime rate was cut by 25.00 bps to 3.95% as the PBOC strives for further economic easing
- **Canada CPI increased 2.40% y/y in January**, headline CPI decreased to 2.90%, the lowest since 2021FY, as consumers await rate cuts from BOC
- **U.S. Initial Jobless Claims fell by 12.00 k to 201.00 k**, following a forecast of an increase in initial jobless claims to 217.00 k, while continuing jobless claims decreased 27.00 k to 1.86 mm, giving signs of a strong job market
- **U.S. Leading Economic Index fell by 0.40% to 102.70** in January**,** following a 0.20% decline In December, both due to a decline in weekly hours worked in manufacturing and the yield spread remaining negative
- **German GDP decreased by 0.30% in Q42023,** following a previous decline of 0.10% in Q32023, showing the country narrowly avoided a recession
- **Existing Home Sales in the U.S. increased 3.10%** in January to 4.00 mm units, due to lower mortgage interest rates in November and December
- **U.S. Services PMI** decreased to 51.30 for the month of February, missing market expectations of 52.00**,** a slower rate of cost of inflation for both manufacturer and service providers contributed to this decline in February
- **U.S. Manufacturing PMI increased to 51.50** for the month of February, following a forecast of 50.50 and a previous reading of 50.70 in January, as a return to expansion of new orders and a slower concentration in output
- **E.A. CPI decreased to 2.80% y/y In January**, following a reading of 2.90% for the previous year, while the E.U. CPI decreased to 3.10% y/y in January, slowly increasing recessionary fears amongst consumers in the E.U. area

Looking Ahead

In the coming week, the Sector will be monitoring incredibly important macroeconomic data that will provide insight around when central banks around the world will cut rates. On Wednesday February 28th, U.S. 4Q2023 GDP will be released. It is forecasted to be released at 3.30% for the quarter. A stronger than expected reading will show a continuing resilient economy and support rates being held higher for longer, and vice versa with a weaker reading. Both headline and core PCE will be released on Thursday, which both the Fed and investors will be monitoring closely. There will also be various Fed officials speaking throughout the week and a number of PMI readings. The Sector is expecting a volatile week around rate cut expectations and will use these upcoming indicators to adjust our outlook accordingly. There will also be 4Q2023 GDP readings from France, Switzerland, and Canada. We will get CPI readings from Spain, France, Japan, and the Eurozone throughout the week, with the Eurozone reading being the most important. It is expected to show further disinflation with headline forecasted at 2.50% y/y and core at 3.00% y/y for the month of February. This upcoming week will be incredibly important is shaping a strong thesis around what various central banks will do in the future with rates. Inflation, GDP, and rhetoric will be the most important to watch throughout the week, with PMI readings and other readings like jobless claims, consumer confidence, and new home sales following closely behind.

Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- **Gold prices rose by 1.77% w/w,** due to a weakened dollar and increasing safe-haven demand. Due to dropping treasury yields as well as a pause on delaying rate cuts helped the falling price of the precious metal
- **Silver prices experienced a small decline of 0.17% w/w,** due to weak earnings reports from top solar energy companies such as Sunrun who performed under expectations, hurting investor confidence towards the industrial applications of the metal. As the S&P 500 reached all-time highs, weakened expectations of early rate cuts have also hurt prices
- **Copper prices increased by 2.76% w/w,** continuing to rebound from YTD lows that did not bode well for investor confidence in early February. But even with a weakened dollar, the metal continues to increase in price, allowing for experts to forecast a positive year for the industrial metal
- **Palladium prices gained by 0.46% w/w,** after excitement within investors dies and prices start falling again, matching the metal's trends of 2023 and the forecasts of 2024. Disappointed expectations of the Tesla earnings report also push the price of the metal up as investors turn away from the EV market. A tighter supply of palladium also contributed to the price hike
- **Platinum prices experienced an slight uptick, rising 0.61% w/w** due to the use of platinum in autocatalytics that promote clean energy. The metal seems to be losing excitement and interest as many automobile companies revoke or delay their electric vehicle lines for future years
- **Uranium prices retreated 1.21% w/w** due to increased production and introduction of new mining projects. At record highs, the metal is expected to perform well in light of clean energy initiatives and interest from banks

Looking Ahead

Following last weeks CPI report coming in at 4.10%, 0.20% higher than expected, the Sector believes that rates will be kept higher for longer. The Fed is still performing on a month by month basis, so it is entirely possible that things can change, allowing the Fed to decide on an earlier rate cut. The Sector will be closely following Fed rhetoric going forward. The Sector believes that precious metals will decrease in price steadily over the next few months due to increased U.S Dollar coupled with pushed back rates. The Sector expects Gold to be trading between $1,955.00 and $2,050.00 and Silver to be trading between $22.00 and $23.50 in the short term. The Sector stays bearish on industrial metals behind their severe underperformance in 1Q2024, however expects a more positive 2024 with hopes of China's stimulus rebounding some of its manufacturing industries, however industrials will most likely trade sideways for the time being as China's manufacturing looks to be hitting it's low point. Copper, in particular, could see an increase in price as it is involved in numerous sectors across multiple industries and has increasing demand with lagging supply. Higher for longer rates is expected to hinder precious metals in the short term. However with multiple rate cuts priced in during 3Q2024, the Sector believes that precious metals are due for significant price increases; as inflation feels the effects of high rates and begins to cool, The Fed will look to cut rates accordingly.