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PENNSYLVANIA STATE UNIVERSITY

Weekly Report 8.7.2022

Weekly Product Report

Agriculture Sector

Weekly Product Report

Arianna Anderson
Associate | Agriculture Sector
arifaithanderson@gmail.com

Gavin Carey
Associate | Agriculture Sector
gavin.carey22@gmail.com

Jack Robison
Analyst | Agriculture Sector
jackrobison2002@gmail.com

Summary of Weekly Themes

- **September corn futures rose 27.25¢** to 607.25¢ per bushel over the past two weeks. December futures saw similar movement gaining 24.00¢ to 607.75. Droughts have continued to worsen across the U.S. causingthe bullish movement seen across grain markets the past two weeks
- November soybeans gained **67.00¢ up to 1413.00¢ per bushel**. August soybeans gained more significantly, up 143.50¢ to 1616.50¢.
- September wheat futures saw limited movement compared to other grains rising 4.75¢ to 775.00¢. December contracts rose 6.50¢ to 795.50¢. This more constrained movement was a product of an overall bullish push across grains, while the export of Ukrainian wheat held the product back
- September random length **lumber futures fell another $97.10** these past two weeks down to $475.10. November contracts also fell losing $89.80 down to $491.70 per contract. The most recent job report showed the U.S. built 528.00 k in July and in turn allows the Fed to be more hawkish
- August lean hog futures rose slightly gaining 3.50¢ to 120.78¢. October contracts gained a little more rising 4.23¢ to 98.35¢ per contract
- August live cattle futures saw very little movement again these past couple weeks rising 0.10¢ to 137.85¢ per contract. Similarly, the October contracts gained only 0.70¢ up to 144.05¢ per contract this past week.
- August soybean oil rose over the past two weeks **up 8.01¢ to 68.02¢ per** contract. September contracts **rose similarly up 7.67¢ to 65.99¢** per contract. Russia has struck the Zaporizhzhia power plant two days in a row, the largest nuclear facility in the E.U., driving bullish movement

Looking Ahead

Ukraine has finally begun to be able to export grains out of the Black Sea. The first of these ships left port on Monday June 25, and most recently four ships left Ukrainian ports on Sunday August 8. While the treaty that was put into place saw a rocky start as Russia launched missiles on the port of Odessa, Ukraine exports out of the country are gaining steam as Sunday's ships carried ~170.00 k MT of agricultural products out of the country. Ukrainian Infrastructure Minister Oleksandr Kubrakov claims he will be able to ensure 100.00 vessels per month soon. He also claims Ukraine will soon open a third port, Pivdennyi, which would allow the country to export 3.00 mm MT more goods a month. While these numbers appear attractive the conflict in the country continues to wage on and still poses issues. Meanwhile corn harvesting has begun in parts of the U.S. such as Texas who is currently 8.00% complete, only 1.00% below what is usual. Farmers have noted however that the crop is short this year due to the drought conditions currently reported in 51.00% of states. If the weather remains dry and or hot, both foreign and domestic buyers would need to shift from purchasing as they need it, to securing supply. While weather is nearly impossible to predict, the Sector expects drought potential to bring volatility to agricultural markets. Ukrainian exports building has the potential to pull prices down in the long term, while drought will cause short term volatility.

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Weekly Product Report

Energy Sector

Weekly Product Report

Anthony Cammuso
Co-Associate | Energy Sector
acammuso6@gmail.com

Jacob Kirshbaum
Co-Associate | Energy Sector
jacob.kirshbaum@gmail.com

Jason D’Ambrosia
Analyst | Energy Coverage
jasondambrosia@gmail.com

Summary of Weekly Themes

- Crude oil posted its biggest weekly decline since early April after **WTI crude settled down 5.89%** to $89.01/Bbl and Brent fell 9.31% to $94.32/Bbl. This behavior is accredited to lower U.S. gasoline consumption and greater inventory, as exports from Libya have increased, helping ease supply issues
- On Wednesday, August 3rd, OPEC+ agreed to a smaller **increase of production of 100.00 k Bbl/d**, bringing the total production goal back to pre-pandemic levels. Many believe this indicates that the organization is expecting declining demand amid recession warnings within the U.S
- Coal consumption is expected to return to record levels achieved in 2013 due to the shortage of natural gas caused by the Russian sanctions**. EU coal consumption is expected to rise 7.00%** on top of 2021’s 14.00% jump
- European natural gas futures achieved a third weekly gain as uncertainty of Russian sanctions lingers. On Friday, August 5th, Dutch TTF futures posted a **5.00% gain w/w** amid European natural gas prices rising 372.00% y/y
- U.S gasoline prices have fallen consecutively for 49.00 days as **the national average recedes to $4.11/gal**. This decrease is being attributed to lower demand from consumers as the possibility of a U.S. recession exists
- Republicans in the U.S. Congress are pressuring the oil-and-gas industry to take an aggressive position on the Democratic tax-and-climate bill, which aims to channel $369.00 Bn towards wind, solar, and battery developments
- Shale companies, such as Pioneer Natural Resources Co., Continental Resources Inc., and more all reported historically high profits as costs of operations have increased due to labor shortages and soaring prices

Looking Ahead

As the possibility of a recession within the United States lingers, many energy products are continually being met with bearish price movements as consumer consumption continues to decrease. It is becoming increasingly important for this sector to analyze how the increasing U.S. inflation will affect consumer spending on energy products. With the U.S. inflation rate accelerating to 9.10% in June of 2022 and consumer spending decelerating, this Sector has the opportunity for profitability by taking bearish long-term stances on RBOB gasoline and crude oil. Since RBOB gasoline has posted 49.00 days of consecutive declines this Sector foresees household gasoline consumption continuing to decrease as the cost of energy, housing, and food continue to go up. Additionally, the encroaching conclusion of Summer and the typical travel season puts additional bearish pressures on gasoline. It is more difficult to gauge the impact of Western sanctions on Russian oil supplies due to the uncertainty of the situation. To access this risk, this Sector will continue to watch coal for investment opportunities, as it is being used as an alternative energy source to fill the demand created by the sanctions. Coal consumption in 2023 is expected to rise an additional 7.00%. Overall, this Sector expects to see bearish patterns continue within oil and RBOB gasoline in the coming months, with the chance of bullish behavior for gas and coal due to Russian sanctions.

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Weekly Product Report

Equity Derivatives Sector

Weekly Product Report

Phil Sullivan
Co-Associate | Equity Derivatives Sector
philsullivan10@gmail.com

Skylar Rothman
Co-Associate | Equity Derivatives Sector
skylarrothman02@gmail.com

Trenton Jones
Analyst | Equity Derivatives Sector
twjones20@gmail.com

Lizzy Barrett
Analyst | Equity Derivatives Sector
lizzybarrett6@gmail.com

Summary of Weekly Themes

- The three major U.S. indices closed mixed this week as investors began to digest a stronger than expected jobs report and unanimous pushback against an expected Fed pivot in early 2023, with the **NASDAQ up 2.15% w/w, S&P 500 0.36% w/w, and the Dow Jones down 0.15% w/w**
- **U.S. nonfarm payrolls increased by 528.00 k** for the month of July, **more than double the consensus for 250.00 k**. It was the largest monthly gain since February and brought employment back to pre-pandemic levels. In addition, **the unemployment rate decreased 0.10% m/m to 3.50%**
- Fed officials Neel Kashkari, Loretta Mester, and Mary Daly all stated that the Federal Reserve's work on **inflation is nowhere near done** and equity markets may be getting ahead of themselves in anticipating a Fed pivot. Fed President James Bullard also said **benchmark rate will likely have to go to 3.75% to 4.00% by year end**, implying another 150.00 bps of tightening
- July Headline **ISM services PMI posted an unexpected increase of 1.40 points m/m to 56.70**, beating consensus for 1.80 point decline. New orders were also up 4.40 points m/m. This data **decreases the likelihood the economy is in recession,** adding to pushback on Fed pivot narrative
- Walmart Inc. ($WMT) stated on Wednesday that it would be **laying off hundreds of employees** in a restructuring effort. This move comes in light of falling profits, as many retailers continue to **struggle with elevated inventory levels** amidst a change in consumer spending habits
- The average rate on a **30.00-year fixed-rate mortgage fell to 4.99%, down from 5.30%** a week earlier fueled by recent fears that the U.S. economy is heading into a downturn leading to a slower pace of rate increases

Looking Ahead

On Friday, a stronger-than-expected jobs report raised the prospect of more aggressive tightening by the Federal Reserve. In the coming weeks, the major indices may see a pull-back in fear of more aggressive rate hikes. As corporate earnings season begins to wind down, we can expect to see more subdued corporate earnings reports next week as most S&P 500 companies have already reported their 2Q2022 earnings. Walt Disney Co ($DIS) earnings are set to be released after the market closes on Wednesday. In the week ahead, the focus will shift to inflation data, which will govern the direction of global markets through the rest of the year. The Sector has historically taken defensive positions within the portfolio. Based on these inflation indicators the Sector may look to continue this thesis by investing in the consumer staples sector with companies such as Costco Wholesale Corporation ($COST) or McDonald's Corp ($MCD). Investors will get key economic updates on Wednesday, as the latest Consumer Price Index reading will provide an important update on the rate of consumer inflation. The Producer Price Index will follow on Thursday. On Friday, the preliminary August reading of the Michigan Consumer Sentiment Index will be released, which will give insight into consumer confidence regarding inflation expectations. All of which will provide insight into the likelihood of aggressive tapering by the Fed in the upcoming FOMC meetings.

Weekly Product Report

Nabil Lahlou
Associate | Index Derivatives Sector
nlahlou27@gmail.com

Arnav Handa
Analyst | Index Derivatives Sector
arhanda81@gmail.com

Summary of Weekly Themes

- All three major U.S. indices **rose slightly**, leveling off on Friday as per the July 2022 jobs report showing **528.00 k jobs added** which may prompt the Fed to **remain hawkish** in its further meetings. The S&P 500, NASDAQ, and DJIA reported gains of 0.80% w/w, 2.76% w/w, and 0.15% w/w respectively
- The NASDAQ ‘s bullish price movements are due to the U.S**. passing a $52.00 bn semiconductor package** and **strong corporate earnings in tech** leading equities such as Uber ($UBER) and Microchip Technology, ($MCHP) up 36.62% w/w and 4.93% w/w, respectively
- The **FTSE 100 declined** 0.16% w/w after **the BoE announced a 50.00 bps rate hike** as inflation is expected to reach 13.00% by 4Q2022. U.K. GDP also contracted 0.20% in 2Q2022 as the BoE warns of a **recession by 2023**
- **EURO STOXX 600 remained volatile**, dropping 0.44% w/w due to the **energy crisis** across the continent, **recessionary fears** amid high inflation, and growth in the U.S. job report. Strong earnings from European companies kept the index from complete bearish price movements
- The **Nikkei 225 reported gains** of 1.30% w/w due to **technology equities rising** from larger-than-expected **corporate earnings** from Japanese companies such as Advantest ($ATEYY) and Tokyo Electron ($TOELY), leading to 6.97% w/w and 4.13% w/w growth respectively
- The Hang Seng grew 0.88% w/w as **Alibaba ($BABA) stock** rose 4.00% from the **2Q2022 revenue hitting 205.00 bn ¥,** beating investor expectations and showing promise despite COVID restrictions, geopolitical tensions, and the possibility of **Chinese inflation reaching 3.50% by 2023**

Looking Ahead

The FTSE MIB is Italy’s benchmark stock index on the Borsa Italiana exchange. Currently, the index is down 8.99% y/y as a result of the European energy crisis, high inflation, rising costs of credit, drought effecting crop yields, and major political tension. Italy’s government has been failing over disagreements about an inflation-relief package and the Russia-Ukraine war, causing disunity and political division in Italy. The announcement of Prime Minister Draghi’s departure has led to snap elections which will bring forward governmental uncertainty in a time of large economic distress. The financial repercussions from the government fallout has contributed to weak growth, 8.90% Euro-Zone inflation, and domestic political instability, giving the Sector a negative economic outlook for Italy going into 4Q2022. Additionally, Italy has reached its record high of public debt, accounting for 150.00% of GDP, which further complicates matters economically after the ECB’s 50.00 bps interest rate hike. Moreover, Italy expects GDP growth to decline from 4.70% to 3.10% by 1Q2023 as a result of these macroeconomic issues. As the former President of the ECB, Draghi’s exit will prove to be detrimental to capital markets in both Italy and the entire European Union, since he has experience with monetary policy and economic decisions. Due to political instability, slow growth, and high inflation, the Sector remains bearish on the FTSE MIB for the remainder of 2022.

Weekly Product Report

Luke Chenault
Associate | Interest Rate Products Sector
lukechenault2020@gmail.com

Nick Salameh
Associate | Interest Rate Products Sector
nicksalameh2@gmail.com

Rishi Khanna
Analyst | Interest Rate Products Sector
rishi.khanna03@gmail.com

Joseph Piccirilli
Analyst | Interest Rate Products Sector
josephvpiccirilli@gmail.com

Summary of Weekly Themes

- On Friday, August 5, the **U.S. 10-Year Treasury Yield increased ~7.23% w/w to 2.84%** following the July of CY2022 FOMC meeting, where the **Fed increased** the target range for the **fed funds rate to 2.25% - 2.50%**
- Total mortgage applications increased ~1.20% w/w for the week of Monday, July 25. The increase followed a decrease in mortgage rates as the average weekly rate on a 30-year fixed rate mortgage fell to 4.99% during this week
- **Nonfarm payrolls** were reported to have **increased ~528.00 k** in July of CY2022 driving a net decrease in the overall unemployment rate to 3.50%. The positive unemployment report showed strong overall consumer health
- On Thursday, the BoE **hiked its prime interest rate by 50.00 bps**, representing the country's largest interest rate increase in over twenty years
- On Friday, the U.S. Dollar Index increased to 106.58, which was primarily driven by the favorable nonfarm payrolls data released during this week
- The **RBI** increased its **prime interest rate by 50.00 bps** to 5.40% as the central bank looks to lower its 7.00% inflation rate from June of CY2022
- The PBOC stated that it will continue to **provide liquidity** and facilitate increased economic activity in China's struggling property sector
- The **CBOE VIX fell** ~0.85% w/w this week to 21.15, **following a broader trade up in equity markets** as the S&P 500 increased ~0.36% w/w
- Fed funds futures markets currently indicate a ~68.00% chance of a 75.00 bp interest rate increase during the September of CY2022 FOMC meeting
- The Chinese Yuan weakened this week after the release of positive nonfarm payrolls data forecasting more potential rate increases throughout CY2022

Looking Ahead

After the Fed raised interest rates another 75.00 bps in their latest FOMC meeting in July, markets were able to continue their positive momentum before finishing somewhat flat in the last week. Despite nonfarm payrolls more than doubling their forecasted expectation, the Fed is likely to continue to remain aggressive throughout the remainder of 2022FY. Currently, the markets are pricing in a 68.00% chance of the Fed raising rates another 75.00 bps. With the 2- and 10-year treasury notes inverted at the widest margin in 22.00 years, the Sector is actively watching the market, as it draws comparisons from the 2001FY and 2008FY bear markets. In both of these bear markets, a bullish rallying phase usually lasted around six months was followed by an extremely sudden and sharp decline. Although past performance is not indicative of future results, the U.S. is in a bear market and if the pattern continues to develop at its current rate, these ideas could very soon become reality. In this case, the Sector recommends buying swaps on the 2-Year Treasury. While it's hard to determine the Fed's course of action given current-market volatility, with rate hikes and cuts being possible for 2023FY, swaps would be the appropriate tool to use as they can be engineered to profit off of either situation. The Sector will continue to monitor decisions from the Fed surrounding interest rates, and data relating to inflation to effectively profit off the market's momentum.

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Weekly Product Report

Metals Sector

Weekly Product Report

Kyle Junda
Associate | Metals Sector
kylejunda@gmail.com

Tom Delaney
Analyst | Metals Sector
tdelaney755@gmail.com

John Confalone
Analyst | Metals Sector
jconfalone5@gmail.com

Summary of Weekly Themes

- Gold continuous futures **rose 0.70%** this week **pushing the price of gold to $1792.00/oz**. Gold has been able to rebound from one-year lows at $1,680.25/oz after **two-week gains of 4.10%.** Gold has been supported by a retreat in treasury yields as well as renewed recessionary fears globally
- Over the past 10 days **the silver continuous contract gained 6.80%** rebounding from a two year low of $18.51/oz. Silver was able to see bullish price movement after what investors viewed as an optimistic outlook from Fed Chair Jerome Powell. Investors will continue to look for Federal guidance in the coming months to determine future demand
- **Palladium front month futures contracts slid 3.20%** this week. Palladium is mainly used by auto makers, who embed them in engine exhausts to reduce emissions. Palladium fell this week because of demand concerns sparked by recessionary worries and declining supply fears.
- **Front month aluminum contracts fell 1.70%** this week. Fear of recession causing demand declines in the market is on the forefront of every investors mind. Aluminum has been hurt by the larger industrial metal selloff and now declining energy prices. These will continue to be main drivers
- **June nickel future contracts dropped over 7.00%** this week. Industrial metals investors experienced some relief after what was viewed as positive guidance from the Fed last week. Investors remained skirmish this week after **demand declines sparked by growing recession fears**
- The copper continuous contract **declined 0.02% this week.** Chinas **imports of copper rose 9.30%** from a year ago, as sharp price declines have created buying opportunities **amid falling domestic inventories**.

Looking Ahead

Metals markets this week followed the overall trend in the macroeconomic landscape. Precious and industrial metals rallied along side stocks as the economy had one of its best months since 2020, even after the Federal Reserve raised 75.00 BPS. The rally experienced in July will be short lived as we move into the future, the economy will experience a heavier influence from the aggressive actions from the Fed. With a strong jobs report the Fed may be more inclined to continue their aggressive rate hikes in the future which will fair negatively for metals markets. As inflation remains high and job growth continues to outpace expectations, there are still many headwinds for metals markets moving into the future, the primary one being the Federal Reserve's actions. Metals markets are uniquely susceptible to geopolitical conflicts; tensions with China are at a new all time high and with no diplomatic solution in sight, metals markets can and will continue to see volatility. Exports are already limited due to the Russia-Ukraine conflict and tensions with China will be a driving force into the future. Russia and China are essential to metals markets due to their supply of precious and industrial metals. With the large percentage of supply, these countries are easily able to influence metals prices. As conflicts develop and tensions deepen, the U.S's relationship with these countries will be a theme to closely observe in the future.