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Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- **WTI crude futures rose over $79.00/Bbl on Friday**, reaching the highest levels since November 2023. This was the second consecutive week where WTI continued its gains, rising 3.46% w/w
- Rising geopolitical tensions in the Middle East and **continued efforts by OPEC to lower oil supply** contributed to the rise in oil prices
- **Retail sales dropped by 0.80% in January**, which was a larger-than-expected drop for the month. The forecasted retail sales was 0.40%, and the unexpected drop caused the U.S. dollar to fall. This supported the WTI and Brent climbs on Thursday due to the inverse relationship between the U.S. dollar and crude oil prices
- **Global demand is losing steam,** as the International Energy Agency (IEA) warned that another significant decline in Chinese demand could drag prices down. The IEA changed its 2024 global oil demand forecast to 1.22 mm Bbl/d from its previous estimate of 1.24 mm Bbl/d
- On the flip side of its demand forecast, **the IEA expects a supply increase of 1.70 mm Bbl/d,** higher than its original projection of 1.50 mm Bbl/d. Coupled with record-high production levels in the U.S., these supply levels are only expected to rise in the near term
- **Natural gas futures dropped 13.00% w/w**, reaching their lowest levels since June 2020. This drop was mainly fueled by the EIA reported a smaller-than-expected storage draw for the week
- **Gas in storage is 15.90% above the seasonal norm,** partially due to continued mild temperatures throughout the U.S. and strong levels of production. Weather is predicted to stay mild throughout February

Looking Ahead

The Energy Sector’s outlook on oil and natural gas remains unchanged from previous weeks. WTI crude reached $78.18/Bbl on Friday from $76.49/Bbl at the start of the week. The bullish movements in oil can be directly correlated to a deteriorating relationship between Biden and Netanyahu, which increases the probability of further escalation in Israel. However, ~$78.60/Bbl for WTI crude has been a level of resistance for prices since November of 2023. The sector expects this level of resistance to keep prices from rising. Other factors include the IEA revising production increases upward to 1.70 mm Bbl/d from 1.50 mm Bbl/d. While revising down, demand increases to 1.22 mm Bbl/d from 1.24 mm Bbl/d. Increasing supply with decreasing demand will continue to limit bullish movements in oil. As long as these conditions remain, the sector believes crude oil will remain relatively flat. In the near term, the sector does not believe these conditions will change dramatically. Natural gas has reached historic lows at $1.588 mmbtu. The current price reflects high levels of natural gas inventory of 2.54 bn cf compared to the five-year maximum of 2.45 bn cf. Mild weather has also minimized short-term bullish movements. While prices are at historic lows, the sector sees no bullish indicators. Fundamentals are oversupplied, weather patterns are hotter than normal, and demand is low due to a weak industrials sector. The sector expects bullish movements in natural gas and oil to be suppressed until the supply and demand dynamics change.

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Summary of Weekly Themes

- The major indices ended the week with a downturn, marking the first decline in five weeks. **The NASDAQ was down 1.28%, the DJIA was down 0.07%, and the S&P 500 was down 0.42%**
- **CPI Inflation rate came out at 3.10%** this past week, but came out **higher than expected** of 2.90% with annual core inflation holding steady at 3.90% against expectations of 3.70%
- **CPI inflation rate for the month was reported at 0.30%**, reflecting the most significant rise in consumer prices in the last four months, and surpassing the anticipated market projections of **0.20%**
- **Retail sales declined 0.80% m/m** , falling from the previous month's gain of **0.40%**, and dropping more than the expected. This indicates the steepest drop in sales values since March 2023
- The **CPI index rose by 3.10%** y/y, declining from the 3.40% increase in December, but exceeding market expectations of 2.90%
- **Initial jobless claims were reported** at **212.00 k**, a decrease of **8.00 k** from the previous report. This marks the lowest level in a month, highlighting the ongoing tightness in the US labor market
- **PPI rose higher than expected**. **PPI rose 0.30%** for the month, and core PPI rose 0.50%. Both had expectations of a 0.10% gain
- **Housing starts data released** and had a sharp decline. **It fell 14.80%** in January as home builders scaled back projects
- **Airbnb (ABNB) earnings released** and beat expectations. **They posted $2.22 bn in revenue** beating the $2.17 bn expected

Looking Ahead

Next week, markets will be getting economic data in the form of initial jobless claims, S&P Global Manufacturing and Services PMI Flash, and existing home sales. Additionally, markets will be parsing through FOMC minutes to spot any rhetoric that could be indicative of the future path of rate cuts. Equity markets will also be assessing earnings releases from Nvidia (NVDA), Walmart (WMT), Home Depot (HD), and Nestle (NSRGY). Initial jobless claims are expected to come in at 217.00 k, up from the previous reading of 212.00 k. If this measure were to increase, we could see that markets take this reading as a sign of a weakening labor market - which could allow the Fed to consider rate cuts sooner rather than later. S&P Global Manufacturing PMI Flash is expected to slightly decrease to 50.20 from a previous level of 50.70. S&P Global Services PMI Flash is expected to come in at 52.00, down from a level of 52.50. If both of these decrease as expected, it could show a slight slowdown in both the manufacturing and services industry, while still being in an expansionary state. However, once again, a decrease could show that the economy is weakening, further supporting dovish moves by the Fed. If these, along with initial jobless claims, come out hotter than expected, it could show continued and further strength in the economy, which could prompt the Fed to take a more hawkish stance in terms of rates. The FOMC minutes will be critical for markets, as it could reveal where the Fed's mind is at in terms of cuts.

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Weekly Product Report

Foreign Exchange Sector

Weekly Product Report

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Summary of Weekly Themes

- The DXY traded mostly sideways this week after two major data releases in the U.S. First, **CPI came out higher than expected at 3.10%** as compared to the expected 2.90% increase. Later in the week, **retail sales came down significantly at a (0.80%),** which is against the consistent positive trend
- GBPUSD traded down with the strong U.S. CPI report and weak U.K. CPI report. **U.K. CPI was released at 4.00% y/y which was lower than the 4.20% that was expected.** Lower CPI reports are good for the consumer but hurt the pairing. U.K. GBP came in at (0.20) y/y which could force a dovish switch from the BOE. Signals were mixed from the U.K. as retail sales more than doubled expectations at 3.40% m/m for January
- EURUSD traded sideways this week despite the strong U.S. CPI report, impacted by retail sales. **Industrial production increased by 2.60% m/m, beating expectations that projected a drop to (0.20)% m/m**
- USDJPY rose 0.62% w/w, climbing above 150.00 for the first time since November 2023. This increase was due to the U.S. CPI report and the weak Japanese GDP report. **GDP was reported as (0.10)% q/q coming in significantly below expectation**s and proving detrimental for the Yen.
- NZDUSD traded down (0.36)% w/w and it is becoming more likely that the RBNZ will be able to cut rates as inflation expectations fell. **Business PMI for New Zealand rose to 47.30**, showing that their economy is improving
- USDCHF declined (0.70)% w/w, Swiss CPI came in well below expectations at 1.30%, the SNB could start cutting back towards a 0.00% interest rate. U.S. retail sales had little effect on the pairing compared to other pairings

Looking Ahead

The sector will monitor multiple reports from the U.S., E.A., Canada, and Japan. In the U.S., PMI is set to be released after initial jobless claims on Thursday. These two reports are important to keep an eye on as they provide good indications about the economy, business, and the labor market. This is especially important at a time when the Fed has indicated that they are heavily data-dependent. In the E.A., the preliminary reading of consumer confidence comes out. A strong consumer could indicate a turnaround, but the sector believes it will likely remain relatively low considering past trends. Much like in the U.S., PMI is also set to be released, which could have similar impacts. Major countries like Germany and Italy are also releasing their PMI, which helps to give the sector a better understanding of specific areas in the E.A. as it relates to the Euro. In Canada, big metrics like CPI and retail sales are being announced. These are two incredibly important metrics to monitor as a sector, and potentially could even pivot what the BoC wants to do. If CPI and Retail sales come out in conjunction with each other it could move the CAD significantly. Finally, Japan is another important country the sector will be keeping an eye on next week. Imports and exports are set to come out, and with exports being such a major factor in Japan's economy, especially at this time we could see the Yen trade off of this significantly.

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Weekly Product Report

Index Derivatives Sector

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Summary of Weekly Themes

- The U.S. Indices had a volatile week as **the S&P 500, Dow Jones, and Nasdaq indices fell (0.42%) w/w, (0.07%) w/w, and (1.28%) ww,** respectively. Markets reacted apprehensively as core inflation and retail sales both surprised; 3.90% y/y and (0.80%) m/m respectively
- **The Hang Seng Index rose 4.01% w/w** with its largest jump in two weeks on Friday as reports showed major fund managers have turned upbeat on China's largest technology companies as valuations cheapened
- **U.K.'s FTSE 100 had a strong end to the week as it rose 1.84% w/w** as retail sales came out strongly above forecasts of 1.20% m/m at 3.40% m/m. U.K.'s unemployment and inflation data provoked optimism as both data points came out below forecasts, at 3.80% y/y and 4.00% y/y, respectively
- **Japan's Nikkei 225 continued its strong YTD start as it rose 4.26% w/w** as hopes of the BOJ keeping its ultra loose monetary policy with GDP shrinking (0.10%) in 4Q2023 and heavyweight technology stocks like Arm Holding (ARM) jumped over 5.00% pulling up the index
- **The French CAC 40 Index rose 1.23% w/w** as their inflation data fell along with forecasts of 3.10% y/y from a previous 3.70%, although their inflation rate remained at 7.50% for 4Q2023, missing forecasts of a small drop
- **Argentina's Merval Index continued it's downturn this week as it dropped (3.84%) w/w** with continued conflicts for president Milei to pass economic reforms while their inflation rate came out at 254.20% up from previous 211.20%, putting more pressure on dollarizing their economy
- **The STOXX 600 had little movement, gaining 1.25% w/w** as E.A. data such as employment and GDP meeting forecasts with few surprises

Looking Ahead

Movement in global equity indices this week was largely driven by a multitude of data points coming out from the U.S. and the U.K. Inflation data from the U.S. Inflation data in both countries showed disinflation data but in the U.S. it missed forecasts as core inflation stayed constant which gives the Fed more reasoning for holding rates at 15.00 year highs. The sector is currently monitoring Germany's benchmark DAX 40 Index, which has performed strongly at 10.56% y/y despite pour economic data domestically. In January, Germany's Manufacturing PMI continued its upward momentum of the past few months reaching 45.50, up from 38.80 in July. This past week, Germany showed increasing signs of improvement as their important ZEW Economic Sentiment Index surprised forecasts when it came to 19.90, reaching its highest level in a year and surpassing market expectations of 17.50. Marketwise, the DAX has overcame multiple billion dollar short bets against the index with the ideology that Europe's largest economy demand is halting. The sector looks to keep a close eye on the volatility index for German stocks as it starts to rise with an uncertainty of how well businesses will continue to do in a slumping economy. Looking forward, the sector will keep an eye out for FOMC Minutes next week on Wednesday as it could have global implications on indices with an outlook of Fed policy. In addition, in Germany it will be important for the sector to monitor manufacturing report PMI flash and business climate data coming next week.

Weekly Product Report

Interest Rate Products Sector

Weekly Product Report

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Summary of Weekly Themes

- U.S. **headline CPI was reported at 3.10% y/y while core was released at 3.90% y/y**. Both readings were hotter than expected and futures markets now price in a **66.70% chance of a rate hold at the May meeting**
- The **U.K. and Japan both missed on GDP expectations** for 4Q2023 at readings of (0.30)% and (0.10)% q/q, respectively. **Both countries are now in a recession,** and Germany has now taken over Japan as the third largest economy in the world despite also missing expectations at (0.30)% q/q
- **Core retail sales dropped significantly to a reading of (0.60)% m/m** for January, down from 0.40% m/m in December. **Headline had a reading of (0.80)% m/m** for January, down from a reading of 0.40% in December
- **PPI increased to 0.30% m/m and a reading of 0.90% y/y for January** while December saw a reading of (0.10)% m/m. **Higher PPI puts upward pressure on inflation** and will be monitored closely as PPI is a forward-looking indicator of inflation and will give insight around future numbers
- Fed members Daly, Bostic, and Kashkari **all spoke out against premature rate cuts** this week, though they all lean on the hawkish side
- Eurozone 4Q2023 GDP came out **at expectations of 0.00% q/q, barely avoiding a recession** as it was an increase from (0.10)% q/q in 3Q2023
- **U.K. headline CPI was reported at 4.00% y/y** for January and (0.60)% m/m. CPI saw a massive drop from Decembers reading of 0.40% m/m
- Nvidia is now the **third largest company in the world** after a strong week on the market. It has surpassed Alphabet with a new market cap of 1.83 T
- **The U.S. 10-Year rallied to 4.32%** as a result of strong numbers from the week. It is up over 40.00 bps in the past two weeks

Looking Ahead

In the coming week, the Interest Rate Products sector will be monitoring a variety of economic indicators and rhetoric released by FOMC speakers to formulate an idea of when rate cuts will begin in the coming months. U.S. existing home sales are forecasted to increase by 3.00% m/m for January, but climbing mortgage rates could see this number fall for the month of February. U.S. initial and continuing jobless claims are both to be released on Thursday, February 22nd. On Wednesday, February 21st, Atlanta Fed President, Raphael Bostic will deliver welcoming remarks along with Minutes of the Fed's January FOMC meeting. Eurozone headline and core CPI will be released next week as headline CPI is forecasted to decrease to 2.80%, down 0.10% y/y. Germany GDP for Q42023 is also set to be released on Friday, February 23rd, which will give economists and investors a clearer picture of the Eurozone economy as a whole. These international economic indicators are important to watch as 2024FY has been off to a tumultuous start as Japan and the U.K. have been hit by the reality of a recession. The Chicago Fed National Activity Index comes out on Thursday, February 22nd, and is forecasted to be (0.19) points for January, which is a decrease from the December reading of (0.15) points. The CFNAI gauges overall economic activity and related inflationary pressure based on a weighted average of 85.00 existing monthly indicators, which will help the sector gain a better idea of the current and future state of the U.S. economy.

Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- **Gold prices fell by 0.62% w/w,** as Tuesday's CPI report damaged the outlook for sooner-than-later cuts by the Fed. CPI and Core CPI came in at 3.10% y/y and 4.1% y/y, respectively for the month of January, beating their respective forecasts by 0.20% each. Prices have begun to recover since their initial plummet, but Gold's performance will be reliant on lower rates
- **Silver prices rose 2.81% w/w.** Prices dropped off steeply after this week's inflation data pushed back beneficial rate cut projections, but they recovered after initial jobless claims and retail sales reports suggested weakness
- **Copper prices increased by 4.55% w/w,** strongly rebounding from the YTD lows reached at the end of last week. Prices broke through downward pressure from China's continuous struggles and a currently strong USD. Markets are still digesting economic data to predict monetary policy timing
- **Palladium prices surged 9.82% w/w,** bouncing back from its 5.00-year low achieved earlier this week. Producer Sibanye-Stillwater (SSW) and recycling company Heraeus Precious metals teamed up to look for new applications for the metal, which has seen its prices suffer amidst Chinese economic downturn and a shift away from traditional, combustion-engine vehicles
- **Platinum prices experienced an uptick, rising 3.58% w/w** due to the use of platinum in autocatalytics that promote clean energy. Furthermore, as the U.S. election approaches, platinum usage is predicted to increase due to election candidates' commitment to clean energy movements
- **Titanium prices swelled 11.54% w/w** due to pioneering company IperionX (IPX) achieving key milestones in titanium manufacturing. These growth prospects for the metal have garnered significant interest from investors

Looking Ahead

Against the Sector outlook, the precious meals market performed weak in the light of a higher-than-expected CPI report. Due to this, the Sector anticipates rates to stay higher for longer, calling for minimal changes in the precious metals market due to a persistently strong economy. In matters of Gold and Silver, the Metals sector anticipates a downward and stagnant movement in price for the next few months due to strong data further pushing rate cuts, with the Sector anticipating SIlver trading in between $22.00 and $23.50 and Gold trading $1,955.00 and $2,050.00. Furthermore, the industrial metal markets also remain bearish in the Sector's outlook due to their underperformance in 1Q2024. The Sector calls for the industrial metals market to perform better than the precious metals market with uncertainty around the timing of cuts. Within the industrial metals market, the Metals sector anticipates a moderate rise in price for Copper due to increased investor sentiment, its multiple industrial applications, and new technology promoting recycling for the metal. In all, for 2Q2024 and 3Q2024, the Sector expects downward trends in both the precious and industrial metals market. The upside of precious metals markets is very limited in the short term due to a higher-for-longer stance on the table from the Fed. Precious metals markets continue to experience downward pressure on prices due to China's struggles and diminishing hope for early Fed cuts.