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Weekly Report 7.10.2022

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Weekly Product Report

Agriculture Sector

Weekly Product Report

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Summary of Weekly Themes

- December corn futures saw limited movement during the past couple weeks only rising 1.50¢ to 654.50¢. July contracts were more active **gaining 49.75¢** in the same time frame. Both contracts saw mild losses last week before rebounding due to a demand bump
- November Soybeans also showed little movement gaining only 4.25¢ in the past two weeks up to 1432.00¢ per bushel. July contracts increased in similar fashion, rising 4.50¢ to 1635.00¢ per bushel. The USDA reported a cancelled order of 465.00k MT from China for week ending July 30
- September wheat futures also remained relatively flat over the past couple weeks, rising 6.00¢ to 923.50¢. In contrast, **July futures fell 31.75¢** in the same period down to 872.25¢ per bushel. Egypt recently completed a successful, yet rare purchase of wheat from Germany this past week
- July random length **lumber futures rose $48.00** these past two weeks up to $659.00. September random length lumber futures gained more significantly, rising **$118.50 to $702.00**. Canada asked the U.S. to lower tariffs on the country's lumber to fight inflationary pressures
- August lean hog futures rose only 4.15¢ to 109.03¢ over the past weeks. July futures rose even less gaining only 3.18¢, up to 112.78¢. U.S. pork production is currently expected to fall 115.00mm in the third quarter
- Live cattle futures saw very little movement again these past couple weeks. August futures prices rose only 0.55¢ up to 134.025¢. December cattle is trading higher at 145.08¢ as production is expected to first **rise 2.10% in the third quarter before falling 5.80%** to close the year

Looking Ahead

While price action was relatively calm for grains across the board, there is growing concern over drought in the corn belt. Drought monitors now show 15.00% of the Midwest as being in a drought, double that of last week. In its current stage of growth this has reportedly had negative effect on both crop and pasture condition. While this typically wouldn't be of too much concern, the U.S. has a larger role to fill than usual as it attempts to fill some of the production gap being caused by the Russia-Ukraine conflict. A conflict which continues to drone on despite hopes for peace. Most recently Russia has launched rockets upon Ukraine's Donetsk region. As the conflict continues to be fought on further towards the eastern side of Ukraine, agriculture should expect to see less production flowing out of the country towards Poland and Turkey. This puts further pressure on the West to strike a deal with Putin. Despite this, the Food and Agriculture Organization's food price index fell 2.40% m/m in June. This exemplifies a key point in current markets; while conflict has created extreme prices, it is almost certainly not a permanent situation. The key questions then become how long will it last, and how severe will shortages be. The Sector hasn't observed any actions towards peace as of late and therefore holds to the hypothesis that Russian and Ukrainian exports of agricultural goods will be limited for the foreseeable future. As such, prices are still going to remain high

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Summary of Weekly Themes

- **U.S. gasoline prices have fallen around 11.00%** following a decline in crude prices. On Thursday, July 7th, 2022, the **national average** for gasoline was **$4.75/gal**, falling significantly from the record set in June at $5.016/gal
- Canada announced plans to return an essential repaired turbine for the **Nord Stream 1 pipeline** to Germany. Throughput for Nord Stream 1 **decreased by as much as 40.00%** when the turbine initially went offline in June
- The French government has started to plan a total cutoff of Russian gas, who **currently export about 17.00% of France's gas supply**. This cutoff comes at a problematic time, as several of France's nuclear power reactors are down for maintenance. The government is also analyzing companies to determine who can be forced to lower production to reduce energy demand
- On Tuesday, July 5th, 2022, WTI crude **dropped about 8.00% falling to $99.50/Bbl**, marking the first time since May that WTI traded below $100.00/Bbl. Additionally, Brent crude dipped slightly below $100.00/Bbl, eventually **settling at $100.69/Bbl** on Wednesday, June 6th, 2022
- The U.S. Energy Information Agency (EIA) reported a **60.00 Bcf** addition into natural gas storage, which was significantly bearish compared to the 75.00 Bcf estimates. This caused gas futures to **trade as high as $6.209/mm Btu**
- **RBOB gasoline futures fell 6.53% this week to settle at $3.337/gal,** marking the largest percentage decline w/w since the third week of June
- On Thursday, June 30th, 2022, OPEC and its allies **agreed to increase production by 648.00 k Bbl/d**. These increases would boost production in July and August by nearly 50.00%, but has not brought down prices so far

Looking Ahead

As the energy industry has holistically cooled down as compared to previous weeks, the future of the sector remains uncertain and still highly dependent on the Russia-Ukraine crisis. However, things are beginning to look slightly more optimistic for Europe in terms of the availability of energy with the re-installation of the Nord Stream 1 pipeline turbine and the reduction of crude prices. Additionally, the announcement of more OPEC production increases has the potential to put downwards pressure on crude prices if output goals are met, but price directions remain uncertain. The Kremlin stated that it would increase gas supplies to Europe if the Nord Stream 1 turbine were returned. However, Ukraine has urged Canada to not return the repaired part, as it undermines the sanctions placed against Russia. If Canada goes through with their plans of returning the part, further geopolitical tensions may emerge, thus adding more intensity to the situation. The uncertainty of future gas and oil prices makes alternative forms of energy attractive investments. This Sector is continuing to explore the possibility of taking bullish positions on coal to hedge the risk created by the uncertainty of future price movements. Additionally, Germany, Austria, and the Netherlands are planning to boost coal-fired power generation to limit the use of Russian natural gas in the future, further supporting short-term coal investments, which recently rallied 3.40% w/w to reach $426.00/Ton.

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Weekly Product Report

Equity Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- All three major U.S. indices gained this week, with the **NASDAQ up 4.60% w/w, S&P 500 1.90% w/w, and the Dow Jones up 0.80% w/w.** However, stocks ended flat Friday due to investors focusing on recession fears and a potentially hawkish Federal Reserve rate-hiking path
- U.S. nonfarm payrolls came in at 372.00 k for the month of June, which was **well above the consensus of 275.00 k**. However, it was still less than the downwardly revised 384.00 k reading for May. In addition, the unemployment rate was left unchanged at 3.60% for the month of June
- Fed officials Christopher Waller, James Bullard, and Raphael Bostic all stated this week that they were in **support of another large 75.00 bps rate hike** at the upcoming July FOMC, citing a strong labor market and economy that is slowing but not fast enough given the current level of inflation.
- The average rate on a 30.00-year fixed-rate mortgage **fell to 5.30% from 5.70%** last week, recording the largest weekly decline since 2008. This data comes in light of growing recession fears as investors start to pile money into U.S. Treasuries, signaling a possible equity outflow into safer assets
- Helen of Troy Limited ($HELE) dropped almost 9.00% w/w after **slashing their FY EPS guidance by more than 20.00%**, citing a shift in consumer buying habits and adaption to higher inflation and interest rates. This shows how inventory issues continue to remain a factor in the retail space
- Upstart Holdings Inc. ($UPST) fell nearly 20.00% on Friday after it reduced its revenue expectations for 2Q2022, due to concerns over credible lenders and uncertain market participants in the current macroenvironment

Looking Ahead

The labor market reported Friday that nonfarm payrolls rose 372.00 k m/m, which caused stock futures to increase slightly over the weekend. In the coming weeks, the major indices may see a pull-back in fear of more aggressive rate hikes. However, next week officially marks the beginning of corporate earnings season as many U.S. banks and financial services are set to release 2Q2022 earnings. Both CPI and PPI are expected to be released Wednesday and Thursday, respectively. Along with this, retail sales data will be released Friday of next week. All of which will provide valuable insight into consumer confidence. PepsiCo, Inc. ($PEP) earnings are set to be released before the market opens on Tuesday. These earnings will give insight into the performance of the consumer staples sector. The consensus estimate is set at $1.72. The Sector will look to monitor the consumer staples sector specifically as analysts predict the possibility of a potential recession. An additional indicator of inflation affecting consumers has come from Costco Wholesale Corporation ($COST) this past week. Analysts are factoring in their hike in food prices as a rise in ingredient costs. Costco Wholesale Corporation maintained an increase in revenue posting a 16.90% increase y/y. As the Sector approaches the coming week, it will be beneficial to monitor both consumer staples as well as corporate earnings to give transparency on economic health.

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Weekly Product Report

Index Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- The S&P 500 rose 3.13% w/w due to **energy stocks** such as Exxon ($XOM) and Occidental Petroleum ($OXY) reporting 3.31% w/w and 5.58% w/w gains respectively on Wednesday as **crude oil** prices rose back to $104.00
- The Nasdaq is up 5.71% w/w as **Tech rallied** from chip makers Intel ($INTC) and Nvidia ($NVDA) rising 2.29% w/w and 6.38% w/w respectively after **Samsung** ($SSNLF) sees revenue reaching **₩77.00 T** for 2Q2022
- The DJIA gained 1.95% w/w due to the Fed minutes showing the markets pricing in a 93.00% chance of a **75.00 bps** rate hike and the labor market remaining strong, fighting recession fears, after adding **372.00 k jobs**
- The FTSE 100 rose 0.38% w/w as traders see U.K. Prime Minister **Johnson's resignation** and Rishi Sunak's campaign for PM as sign of **financial security** along with a rally of **energy stocks** as oil prices rise
- EURO STOXX 600 closed 1.96% higher w/w after Norwegian oil and gas workers **ended a labor strike** which eased supply concerns, and **tech** and **retail** shares saw 3.00% growth due to Amazon ($AMZN) buying a 2.00% stake of European food-service company, Just Eat Takeaway ($TKWY.AS)
- The Nikkei 225 grew 1.65% w/w from investors buying **stock-dips** and **demand rising** in Tech, causing Advantest ($ATEYY) to rise 2.75%, but closed 0.43% lower Friday due to Former PM **Shinzo Abe's assassination**
- The Hang Seng grew 0.38% w/w as Alibaba ($BABA) and NIO ($NIO) grew 6.62% w/w and 1.75% w/w respectively, as tech sentiment increased from **rising production** and **demand**, but remained volatile from resurging **COVID** concerns in Shanghai and growing **recessionary fears**

Looking Ahead

The NASDAQ rose 5.67% w/w, but fears over another 75.00 bps rate hike have made labor issues in IT and fears of recession more prevalent. The FOMC minutes showed a hawkish sentiment to get inflation to 2.00% as higher prices and supply-chain issues create difficulties for consumers and big corporations. In addition, labor earnings rose 5.10% y/y and 372.00 k jobs were added to the U.S. economy in June, which is another indication that the Fed is likely to hike rates again by 75.00 bps. Tech companies have been affected by these high labor costs and supply issues as Netflix ($NFLX) and ($TSLA) are experiencing a high number of lay-offs and Amazon ($AMZN) is expecting deteriorating margins from global operations issues and consumer sentiment reaching 50.00. Due to these macroeconomic trends, the sector foresees bearish price movements in the NASDAQ for the remainder of 2022. Although EUROSTOXX 600 grew 1.96%, continued inflation and the ECB's plan to hike rates by a total of 75.00 bps by September could indicate bearish price movements. Furthermore, the exchange rate reached €1.00 for $1.02, a twenty-year low, due to recession worries. On top of this, economic sanctions induced from the Russia-Ukraine war, and an energy crisis have all been major contributors to the EUROSTOXX 600 14.87% YTD decline. These economic challenges give the sector a bearish outlook on the index for the second half of 2022.

Weekly Product Report

Interest Rate Products Sector

Weekly Product Report

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Summary of Weekly Themes

- The minutes from the June FOMC meeting were released, where Fed officials noted that a **50.00 or 75.00 bps rate hike** would be needed during the July FOMC meeting, even if it means slowing the economy
- Currently, fed funds futures markets indicate that the fed funds rate could reach **~3.40%** by the end of CY2022, but traders indicate the Fed could undergo a series of rate cuts in CY2023 as the economy weakens
- U.S. jobless claims continued to edge higher this week **to ~235.00 k** for the week ending Sunday, July 2, exceeding consensus estimates of ~230.00 k, furthering analysts' expectations of a worsening broader labor market
- The U.S. Dollar strengthened after the release of the minutes of the June FOMC meeting, as the U.S. Dollar Index **increased ~1.67% w/w to 106.90**
- Total mortgage applications **decreased ~5.40% w/w** even as mortgage rates decreased, as the 30-year fixed mortgage rate **decreased to 5.74%**
- The minutes from the June ECB meeting showed that the ECB could undergo a more aggressive rate hike cycle throughout this year as the eurozone currently faces an ~8.60% inflation rate as of June of CY2022
- The ICE BofA Corporate Index Option-Adjusted Spread **increased to 167.00 bps** on Tuesday, July 5, exposing a weakening U.S. credit market
- U.S. Treasury Yields saw a broader increase this week, as the U.S. 10-Year Treasury Yield **increased to ~3.10%**, representing a 7.08% w/w increase
- Economists are predicting that the Bank of Canada will hike its interest rate by **75.00 bps** on Wednesday, July 13, as the country continues to face the threat of inflation, as the May of CY2022 inflation rate was ~7.70%

Looking Ahead

Despite predictions of a market rally to close out 2Q2022, markets remained relatively flat for the week, only to stay in the green to begin 3Q2022. The Nasdaq had its longest winning streak of the year, staying in the green for five days. While it's possible that concerns over a recession in the near term are lifting, the Sector continues to expect heavy resistance in the coming weeks. With inflation data and earnings on the horizon for the week ahead, it will likely be a decisive week in the markets. With the most pessimistic scenarios already being priced in, a lower-than-expected CPI figure could give investors much needed breathing room, although the Sector believes that the worst of the storm may still be in front of us. An interesting indicator of economic downturn, Caterpillar Stock ($CAT), has fallen heavily from it's 52-week high. Given the historically elevated cost of living, surging mortgage rates, and tightening financial conditions, the Sector believes that there will be a large contraction in household spending. The Sector also anticipates that a large collapse of corporate margins is imminent, as historically consumer sentiment closely tracks corporate margins. Considering the great divide between the two, it is becoming increasingly clear that the future ahead is looking grim. As one of the most key earnings seasons is on the horizon, the Sector will continue to monitor the ever- changing conditions of the market given its current condition.

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Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- Gold futures **fell 3.90%** this week. This is the fourth week in a row gold futures have fallen. Prices were hurt this week from **the dollar moving higher** and as bets for **aggressive rate hikes** gained further traction after healthy U.S. job data was released earlier in the week
- Silver continuous contract prices **decreased 2.00%** this week**.** Investors continue to sell off precious metals due to fear of **aggressive rate hikes** by the Fed. Nothing has fundamentally changed in the silver market. Prices are continuing to be driven by gains in the dollar and increasing rate hike bets
- Palladium front month futures contracts traded **up over 9.00%** this week. palladium has climbed over the past few weeks due to **shortage fears** caused by the Russia-Ukraine conflict. Russia accounts for **40.00% of the global palladium supply** and new batches of sanctions against Russia continue to drive shortage fears in the market driving prices up
- Front month aluminum contracts **rose 0.50%** this week. Refining aluminum is a very energy-intensive process. With energy prices skyrocketing across Europe and **natural gas shortages** increasing, the aluminum market faces serious problems. This leaves investors preparing for **extreme scenarios**.
- Nickel future prices **dropped 5.00%** this week. Nickel future prices are dropping in correlation with other industrial metals. Industrial metals investors have been weary of large rate hikes by the Fed and fear a **global slowdown** that will lead to a period of decreased production and demand
- Copper futures **slid 2.20%** this week to **17-month lows**. Prices are being driven by **shortages** from new covid restrictions in China. In addition, people have sold off copper due to fears of a **prolonged global slowdown**

Looking Ahead

Many economists around the globe predict that the U.S. economy is heading for a recession in the near future. Whether a recession hits by the end of 2022 or sometime in 2023, bearish price movements for the metals market will follow. Copper is seen as a bellwether of the global economy and dropped to 17-month lows; this is a sign of what is to come for the overall economy. A drop in consumer demand is one of the biggest risks for the sector and as the economy begins to slow down, metals markets will react strictly to decreases in consumer spending. The U.S. dollar has seen strong gains in 2022 as the Fed aggressively hikes rates. The strengthening dollar will be a headwind for precious metals such as Gold and Silver moving into 2023 as interest rates are expected to push higher. Investors could turn to precious metals as a hedge for market volatility in what would provide bullish price movements for Gold and Silver. A key metal to watch closely over the next few months will be Palladium and the subsequent actions of the Kremlin. Since Russia holds over 40.00% of global supply, they can easily drive prices higher and use this precious metal as leverage over NATO's sanctions. If tensions continue to worsen between Russia and the rest of the world, global shortage problems could continue to mount and cause further bullish price movement, creating potential for bullish price trades as a sector in the palladium market.