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PENNSYLVANIA STATE UNIVERSITY

Weekly Report 6.26.2022

Weekly Product Report

Agriculture Sector

Weekly Product Report

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Summary of Weekly Themes

- Corn futures fell over the course of the week. December prices **peaked at 735.00¢ on June 16 and have since fallen to 653.50¢.** Price movement was largely driven by potential peace talks between Russia and Ukraine. However, July corn futures have risen back up as conflict has escalated
- Soybean futures have also seen bearish movement with November contracts **declining 126.25¢** in the last two weeks to 1408.25¢ per bushel. Large selloffs were observed due in part to favorable weather changes. July contacts moved similarly, falling 94.25¢ to 1613.00¢ per bushel
- September wheat futures traded down as well, falling 152.00¢ to 934.00¢ per bushel. Movement was partially due to India helping ease global supply issues, **exporting 180.00 k MT of wheat** to Egypt
- Lumber futures have **risen $85.10 to $613.10** over the last two weeks. June 15 Fed meeting brought a 0.75% rate hike, the largest since 1994. As a result, mortgage rates have continued to climb higher
- August lean hog futures have increased 2.43¢ to 106.25¢. The National Pork Producers Council announced that April **hog exports fell 20.00%,** largely driven by a decrease in demand from China and its lockdowns
- Soybean oil futures have **traded down 14.60¢ to 64.91¢** over the past couple weeks. While many of the factors that caused soybean contracts to fall brought this price movement, Crude oil also saw a similar drop
- Live cattle saw little movement over the past two weeks, falling only 0.55¢ to 133.33¢. The most recent USDA carcass data showed that this year's cows were three pounds lighter than that of this time last year

Looking Ahead

While peace talks between Russia and Ukraine have brought bearish movement in Agriculture it may be too early. Russian military action indicates the conflict has all but slowed between the two nations. Recently, on June 26 Russia launched missiles on Ukraine's capital Kyiv for the first time in weeks. Also, as has been stated in previous reports there is still the issue of removing mines from the black sea to open trade routes, a process which could take months. Upon hearing of Ukraine's candidate status to join the E.U. Putin stated that there would be consequences. While the Russian president has been open in claiming that he wants to help ease the supply issues being caused by the conflict, his actions have contradicted these words. However, the widening of the spread between July and December wheat futures shows that there is growing optimism that the conflict may conclude within the year. Another factor playing into heightened prices comes from Argentina where truckers are currently protesting high fuel prices. There are factors drawing prices down such as favorable weather in the U.S., alternative trade routes out of Ukraine, and Indian exports. However, they are not enough to bring prices back down to normal ranges. Overall, the Sector hypothesizes that the draw downs being seen in Agriculture are an overreaction. The Ukrainian conflict is still likely far from over, and as a result agricultural prices will remain high.

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Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- On Thursday, June 23rd, Energy Secretary Jennifer Granholm urged major conglomerates to address record-high gasoline prices by adding supplies. The national average fell to $4.94/gal driven by investor concerns that fuel prices will hinder demand and inflation will dampen economic growth
- On Thursday, June 23rd, Germany raised its gas emergency status to the second highest level primarily due to a Russian gas company, Gazprom, reducing flows last week along Nord Stream 1. Natural Gas EU Dutch TTF has since risen roughly 51.00% to reach €129.24/mm Btu
- European leaders have formally supported granting E.U. candidate status for Ukraine. All 27 members of the alliance expressed support for this motion
- Poland and Ukraine are increasing their annual production targets of thermal coal, the most polluting fossil fuel, by 1.50 mm tons to cope with the energy crisis created by the Russia-Ukraine war. Similarly, Germany, Austria, and the Netherlands are to boost coal-fired power generation
- On Friday, June 23rd, Brent crude rallied 2.80% to reach $113.12/Bbl and WTI crude settled up 3.20% to hit $107.62/Bbl likely due to tight supplies. However, this still marks the second weekly decline based on concerns of rising interest rates pushing the U.S. and world economy into recession
- On Wednesday, June 22nd, President Joe Biden called upon congress to suspend the federal gas tax, which is currently ¢18.00/gal regular gasoline and ¢24.00/gal diesel gasoline, to cope with surges in prices at the pump
- Plans were announced for the E.U. and Kyiv to open a channel for Ukraine to export electrical power into the bloc to support the E.U. energy crisis

Looking Ahead

As the war between Russia and Ukraine rages on, the world is witnessing its consequences through continually rising energy prices. Recently, at the forefront is the gas crisis that the E.U. is facing, with current benchmark prices sitting at € 128.50/MM Btu. Although the E.U. is attempting to address this through diversifying available energy with coal production increases and opening a channel to import electrical energy through Ukraine, this Sector expects the situation to worsen. With Russian company Gazprom reducing Nord Stream 1 throughput, 12 E.U. countries have been affected. The next step for countries like Germany, who are facing extreme gas shortages, is to begin rationing the current supply, with gas storage facilities only being 58.00% full. E.U. officials have called upon the European Commission to develop policies to handle the possibility of Russia cutting off all Ukraine supporters from their gas completely. If this happens, this Sector can capture profit by taking bullish positions on alternative forms of energy, such as coal. After a fire broke out at a U.S. Freeport LNG facility, which has been supplying roughly 20.00% of U.S. LNG exports, the E.U. has been forced to seek alternative forms of energy as the factory has been forced to close for 90.00 days. This Sector expects the E.U. to become more heavily reliant on coal as an alternative form of energy as their natural gas crisis worsens due to a likely reduction of gas imports

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Weekly Product Report

Equity Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- U.S. stocks closed solidly higher this week and snapped a three-week losing streak for the broad-based S&P 500 Index which had posted weekly declines in 10 out of the last 11 weeks. The S&P 500 is **up nearly 6.50%** for the week, while the Nasdaq Composite **gained 7.50%**. The Dow is **5.40% higher**
- Stocks showed resiliency in the face of high inflation, which has forced the Fed to get more aggressive with its monetary policy. Chairman Jerome Powell reiterated this week on Capitol Hill that the Central Bank will need to remain aggressive to restore price stability
- Cruise line stocks led the S&P 500 gains. Shares of Carnival Corp ($CCL) rallied 12.40% after booking volumes nearly doubled in its most recent quarter, experiencing their best quarterly booking volumes since the beginning of the pandemic in 2020. Royal Caribbean Group ($RCL) surged about **15.80%**
- The **financials sector was up 3.80%** this week. Shares of several of the nation's largest banks climbed after the Federal Reserve released the results of its annual "stress test." The test showed that all 34 participants have enough capital to weather a severe economic downturn
- Wells Fargo & Co ($WFC) stock price jumped nearly 7.60% and Capital One Financial Corp ($COF) rose 5.60%
- Shares of FedEx Corporation ($FDX) surged about 7.20% despite a mixed fourth-quarter report after the logistics company delivered an upbeat earnings forecast

Looking Ahead

Equity markets regained ground recently as fears of aggressive Fed rate hikes begin to momentarily subside. Investors have been uneasy after the Fed's 75.00 bps hike in June in response to the accelerated rate of Inflation seen in the May CPI report. However, after the University of Michigan Sentiment index dropped to its lowest level ever recorded and the U.S. composite purchasing managers index fell to a five-month low, markets are becoming slightly optimistic the Fed's approach will be less aggressive as demand begins to soften. In the coming week, investors will be awaiting the PCE report that comes out on Thursday. If the data comes in below consensus, it could negate any chance of another 75.00 bps rate hike in the July FOMC meeting. Also, as 2Q2022 comes to an end this week, markets will be on the lookout for pre-announcements on upcoming earnings reports. With rising labor costs, supply chain issues, and geopolitical tensions still at play, companies may cut their forecasts before they are due to report. In other news, NIKE, Inc. ($NKE) and Jefferies Financial Group Inc. ($JEF) set to report quarterly earnings on Monday, followed by General Mills Inc. ($GIS) and McCormick & Company, Incorporated ($MKC) on Wednesday. As the sector looks forward, we see a drop in equities as recession fears persists and Fed approach remains hawkish.

Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- Gold futures traded down **0.20%** this week after multiple volatile trading sessions. To start the week, gold traded lower but rallied through the weekend. Investors remain conflicted in the current financial environment of high inflation, rising rates, and relative strength of the dollar. Gold will continue to remain in spotlight with consumer sentiment at extreme lows
- The front month silver futures contract **fell 2.00%** this week**.** Investors remain extremely cautious and weary of future rate hikes. Fed Chair Jerome Powell reiterated his intent to attack inflation with aggressive rate hikes, even saying that a **100.00 point rate hike** is not off the table. Silver should see more pressure as further rate hike expectations mount
- Palladium futures **gained 3.80%** this week after a **10.00% decline** the prior month**.** Palladium may experience further bearish price movement as decreasing demand begins to close the global palladium supply shortage
- Aluminum futures declined **1.20%** this week. Industrial metals markets are being driven by fears of aggressive rate hikes causing global slowdowns. In addition to broader industrial metal market declines, aluminum is experiencing bullish price movement from China's Zero-Covid policy
- The price of nickel **fell 12.00%** this week following a broader industrial metals sell caused by fears of a global decline and further economic turmoil
- Copper futures plummeted **over 6.00% this week,** tumbling to 16-month lows. Prices fell due to fast rate hikes, fears of an increased global slowdown, and decreasing global industrial metal demand. These fears combined with slowed manufacturing growth in Asia and increased covid lockdowns have created a bearish investor sentiment in the market

Looking Ahead

As the economy braces for a recession in the near future, metals markets will be driven by the performance of the overall macro economy. Metals markets will closely reflect the actions by the Federal Reserve moving forward. Jerome Powell has been adamant about the desire for a "soft landing" in a rate hiking environment, but economists have consistently stated that a soft landing may not be possible if the goal is to tame runaway inflation. Anticipation of unprecedented rate hikes will be a major theme influencing the performance of the sector throughout the second half of the year. Shifting focus to future costs affecting the sector, metals markets will be influenced by fuel prices moving forward as fuel is the largest expense in terms of the production process. The sustained elevated fuel prices does threaten the costs of production for the entire sector. If fuel prices retreat down to levels seen during 2021 or prior, it will likely bring bullish price movement for the entire economy along with the metals sector. A major theme moving into the future will be the industrial application of silver. With the rise in demand for electric vehicles, the demand for silver cannot be overstated. Silver is a unique metal that encompasses both precious and industrial uses and the driving force in the future will the widespread use and demand for this metal. As companies ramp up electric vehicle production, the demand for silver will be strong in the years to come.

Weekly Product Report

Index Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- The S&P 500, NASDAQ, and DJIA rose 6.71%, 8.51%, and 5.31% respectively w/w, **breaking a 3-week decline**, as a result of investors purchasing **stock dips** and investors eyeing the potential of a less hawkish Fed due to Jerome Powell's testimony to Congress
- Swedish EV company, **Polestar (**$PSNY), started publicly trading on the NASDAQ due to the **SPAC Merger** with Gore Guggenheim, as it became a new **EV competitor** during the index's rally of **8.51%** w/w
- EURO STOXX 600 grew 2.37% w/w as **investor sentiment increased** from **lower equity** evaluations and growth in the **defensive** and **technology** sectors, since investors see these as safer equities from high inflation and the ECB's expectations of 150.00bps total rate hikes through the rest of 2022
- The FTSE 100 **rose** 2.74% from **defensive stocks** rebounding due to the BoE's decision to **hike rates 25.00 bps** in the fifth consecutive meeting as industrial stock Ashtead Group ($ASHTY) grew 5.41% Friday and **Carnival Corp** ($CCL) rose 21.77% w/w due to ~ **50.00% revenue growth** in 2Q2022
- The Nikkei 225 remained **volatile** amid recession fears and BOJ stagnant in its monetary policy, but rose **1.28%** w/w due to growth in the **transportation** and **Food** sectors as **COVID** restrictions get lifted and **demand rises**
- The Hang Seng gained 3.68% w/w from stronger **corporate earnings** and growth in the **technology** sector as investors are hopeful that China will extend **EV subsidies,** causing **Li Auto** ($LI) to grow 21.83% w/w
- The DAX 40 declined 0.68% w/w from losses in the industrials and construction sectors as **geopolitical tensions** with Russia continue to threaten the market and cause **tight energy** supplies in the Nord Stream

Looking Ahead

Although the S&P 500 reported 6.71% gains w/w, ending a 3-week slide, concerns of record-high inflation and a continued hawkish Fed is prevalent. In his testimony to Congress, Jerome Powell vowed to bring inflation to 2.00% and acknowledged the fact that a recession is possible in the next 12-months given the current economic state. The Fed plans to hike interest rates by 75.00 bps again in July, which may indicate future losses in the index for 3Q2022 and 4Q2022. In addition, consumer sentiment reached 50.00 in June, an all time low, due to rising costs of credit and high inflation dragging energy prices up. In turn, this has caused investor sentiment to reach a low of 19.86%, according to the NAAIM Exposure Index. Due to these macroeconomic trends, the Sector maintains a bearish outlook on the S&P 500 for the remainder of 2022.

The DAX 40 fell 0.68% w/w as volatility continues to halt the German market. Since Germany is reliant on 35.00% of Russian gas imports, the country along with other EU nations, will re-instate coal-fired power plants to reduce gas consumption as Russia tightened its supply through the Nord Stream. This will see a rise in energy prices and keep inflation high, which may call for the ECB to implement aggressive interest rate hikes and subsequently have an adverse effect on German equities. The Sector foresees the DAX 40 declining into a bear market in the next 6-months as inflation continues to harm the economy.

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Weekly Product Report

Interest Rate Products Sector

Weekly Product Report

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Summary of Weekly Themes

- On Thursday, it was reported that the largest banks, with over $100.00 bn in assets under management, **passed the Fed's annual stress test**, showing that these banks have enough liquidity to survive a severe market downturn
- U.S. Treasury Yields saw a broader decrease this week, as the U.S. 10-Year Treasury Yield declined to ~3.13%, representing **a ~3.58% decrease w/w**
- Jobless claims decreased for the week of Monday, June 13 to 229.00 k, a **drop of 2.00 k claims w/w**, exceeding consensus estimates of 227.00 k
- Total mortgage applications **increased 8.00% w/w**, primarily driven by a substantial increase in adjustable-rate mortgage demand, even after the average interest rate on a 30-Year fixed rate mortgage **increased to 5.81%**
- The CBOE VIX decreased to 27.23, **representing a ~13.39% decrease w/w**, following a broader trade up across equity markets this week
- On Thursday, the Swiss National Bank **increased its policy rate by 50.00 bps**, largely after increasing its inflation projections for CY2022 to 2.80%
- Norway's central bank announced a **rate increase of 50.00 bps**, with the intent of curbing the ~5.40% inflation rate that the country currently faces
- The University of Michigan Consumer Sentiment Index **fell to a record low of 50.00**, as investors begin to price in a higher likelihood of a recession
- Increased short positions on Japanese bonds, substantial weakening of the yen, as well as an extensive quantitative easing program laid out by the BOJ has caused investors to believe that rate hikes are possible in the future
- PBOC advisor Wang Yiming stated that there are several economic headwinds **preventing China from reaching its 5.50% GDP growth target**

Looking Ahead

Due to a low level of liquidity in combination with an oversold market, the Sector expects substantial movements out of U.S. markets this coming week. As 2Q2022 draws closer to a close, there is an increased likelihood of quarter-end buying streak driving prices higher. Analysts at JPMorgan anticipate the markets to move north as much as 7.00% in the upcoming week. Earlier in the year, markets rallied 7.00% with a week remaining until the quarter's end while the S&P 500 was down ~10.00%. With the market down 13.66% nominally in 2Q2022, the street is already pricing in the possibility of history repeating itself. With cash balances at record levels and shorting activity at some of the highest levels since 2008, it is imperative to remember that markets do not continue in one direction forever, and a rally and subsequent correction is extremely likely for the coming weeks. Internationally, the Sector is closely monitoring the nation of Japan, where the Yen is trading at a 24-year low, weakening near ~18.00% y/y. In recent weeks, the BOJ has sought to keep ultra-low interest rates and vowed to defend its policy of yield curve control, which effectively caps the yield on the 10-year Japanese government bond at 0.25%. In a global environment of tightening and raising rates, the Sector believes that opportunity can present itself in the face of the nation of Japan, as the case of the BOJ holding its yield control at 0.25% seems somewhat unrealistic given macroeconomic certainties.