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Weekly Report 10.3.2022

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Weekly Product Report

Agriculture Sector

Weekly Product Report

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Summary of Weekly Themes

- December corn futures traded up only 1.25¢ w/w and finished at 678.00¢ per bushel. The March contract traded up slightly more gaining 2.75¢ w/w and ending up at 684.50¢. In corn markets this week we saw **Taiwan agreeing to a $2.60 bn deal** to buy U.S. corn and soybean products
- December wheat futures traded up significantly**, rising 42.75¢ w/w** and finishing out at 923.25¢ per bushel. The March contract traded similarly hitting 932.75¢ per bushel after climbing 39.00¢ w/w. Prices spiked after President Zelenskiy said **Russia is preparing to disrupt black sea exports**
- Unlike other grains, soybeans treaded down again with the November contract falling to 1366.00¢ per bushel **after losing 59.75¢ w/w**. The January contract is trading slightly higher at 1365.00¢ per bushel. Negative price action was fueled by **Argentina releasing data stating that they will be increasing their soybean production by 2.50% y/y**
- November random length lumber future contracts continued to move in a bearish direction posting a $13.00 loss and ending the week at $422.50. The January contract finished the week at $444.90 after losing $10.10 w/w. Lumber futures have fallen back **to pre-pandemic price level**s this week
- **December cotton futures fell 7.78% w/w** and finished up at 85.34¢ while the March contract fell 6.94% and ended at 83.45¢. World cotton supply is currently under threat as **Hurricane Ian continues to gain strength**. In years past the U.S. cotton supply has been crippled by large storms and with the U.S. as the top exporter of cotton, the world cotton market is affected. If the storm reaches the top producer, Texas, supply could be largely affected

Looking Ahead

Although markets have been extremely volatile lately, there are an increasing number of factors that are beginning to push the sector in a bearish direction. One of these factors is the strengthening U.S. dollar. This year the U.S. became the number one exporter of grains as the world leaned on them during the supply crunch in Ukraine. Since the U.S. commenced their cycle of interest rate hikes prior to other nations, the dollar has gained strength. Since importers pay more for these goods, demand is driven down and so is price. Another driving factor is the recessionary environment that the U.S. may soon be sent into. Although consumer spending has increased the past two months, the Fed has been growing in hawkishness with these 0.75% rate hikes. This move is rather unprecedented, and it is too soon to see how things will play out. Another bearish driver is the slowing import of goods into China. With the Yuan being at its least favorable exchange rate to the dollar since 2008, goods have become more expensive to import. China has been striking deals over soy products with Brazil lately, but there are many products in which China needs to import some goods from the U.S.. There has also been some volatility in markets caused by the situation over in Taiwan. Markets are still very risky now and the Sector advises making safe plays and hedging bets. However, commodity prices should begin to decrease as the market corrects itself over the coming months.

Weekly Product Report

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Summary of Weekly Themes

- On Monday, September 26th, Russian-owned **Nord Stream 1 began to leak in two locations**. Swedish seismologists have stated that the leaks were obviously caused by an explosion. Russian President Vladimir Putin has stated that the west is to be blamed for the issues of Nord Stream 1
- On Thursday, September 29th , Germany unveiled a wide-ranging **price cap on energy commodities** pricing. The government has stated that they plan to cap the price of electricity and natural gas. Critics of this have said that the price cap will cause disruptions in Germany's industrial sector supply chain
- Slovakia's prime minister announced that the country would **halt electricity exports to the E.U.** if they are not aided in coping with soaring energy costs
- E.U. ministers met on Friday, September 30th, and **approved levies on energy farms' windfall profits** to attempt to contain soaring energy prices. The agreement covers a levy on fossil fuel companies profit and excess revenue that low-cost power producers make due to high electricity costs
- The Danish Energy Agency stated that the leaks in the Nord Stream 1 pipeline could potentially cause **778.00 mm cubic meters of natural gas to escape**. This amounts to 2.00% of all U.S. methane emissions in 2020
- On Friday, September 30th, Brent Crude futures **slipped $0.53 or 0.60% to reach $87.96** as OPEC+ announced they are considering an additional oil **production cutback of 0.50-1.00 mm Bbl/d** at their next meeting
- On Friday, September 30th, Putin signed treaties **to annex four regions of eastern and southern Ukraine**. Following this, U.S. President Joe Biden warned Russia that America would defend every inch of NATO territory

Looking Ahead

Tensions between Russia and Ukraine have continued to worsen as the Nord Stream 1 pipeline leaks natural gas into the Baltic Sea. As sentiments of "sabotage" continue to reverberate through the market, the potential exists for massive price swings, like what was seen when Russia invaded Ukraine and Brent crude rallied to $139.13/Bbl on March 7th, 2022. To add on to the tensions, Russian President Vladimir Putin has already stated that Russia is not to blame for the pipeline leaks, although the Danish Energy Agency has stated that the leaks are likely due to explosions. This Sector expects to see the energy supply crisis in the E.U. to continue to worsen, thereby creating major bullish pressures on natural gas. Slovakia's decision to reduce electricity exports to E.U. countries will add supplemental bullish pressures as well. Additionally, this Sector will monitor the price of coal, which typically moves in tandem with natural gas prices since coal is an alternative form of energy for natural gas. The effects of this relationship are already coming to fruition within the market. For example, Germany has announced that they plan to extend run times for coal-fired powerplants to boost supply. Moving forward, this Sector plans to monitor price swings of energy products and volatility more closely, as the Nord Stream 1 situation and annexation of Ukrainian territories demonstrates that the war between Russia and Ukraine is long from over.

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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 ended lower this week as investors continue to gauge the path of upcoming earnings reports and global economic health going into the final quarter of 2022. **NASDAQ declined 2.69% w/w, S&P 500 declined 2.91% w/w, and DJIA dropped 2.92% w/w**
- **August PCE price index surprised to the upside with a gain of 0.30% m/m** and 6.20% y/y, above consensus for 0.10% m/m increase. **Core PCE was up 0.60% m/m, slightly hotter than 0.50% m/m estimate**
- The average rate on a **30-year fixed mortgage rose to 6.70%** from 6.29% last week, reaching its **highest level in 15 years** and adding additional pressure to an already cooling housing market. High rates have pushed many buyers out of the market as the Fed continues to hike rates
- **Weekly initial jobless claims came in at 193.00 k, well below consensus for 216.00 k** and last week's reading of 209.00 k. This report brings jobless claims to a five-month low, and it will further complicate future Fed decisions as the **labor-market continues to show resilience**
- **Nike, Inc. (NKE) shares plummeted 12.81%** on Friday after reporting fiscal 1Q2023 earnings, highlighted by a **44.00% increase in global inventory and citing further economic headwinds**. This shows how inventory issues continue to remain a factor in the retail space
- **Meta Platforms Inc. (META) informed employees** on Thursday that it will be implementing a **hiring freeze and will taking steps to cut down the company's FY2023 budget**. This continues the recent trend of tech companies adjusting staffing amid a period slowing economic growth

Looking Ahead

Next week, the U.S. labor market will be front and center with the release of the Labor Department's September nonfarm payrolls report, the August Job Opening and Labor Turnover Survey (JOLTS), and ADP's private-sector payrolls report. These reports will be an indicator of if the jobs market has remained resilient against the Federal Reserve's hawkish moves. It is likely that the Fed will remain hawkish in the upcoming FOMC meetings, with a Fed Funds Futures probability of a third consecutive 75.00 basis point hike for the November FOMC meeting at 66.00%. However, another CPI and PPI report will be released before the November meeting, which makes this probability subject to change. Key insights into the U.S. manufacturing sector will also be available next week through Purchasing Managers' Index (PMI) from S&P Global and the Institute for Supply Management (ISM). An increase in value in this report is perceived as bullish for equity markets, implying that there are rising profits for companies in the manufacturing sector. The regular 2Q2022 earnings season is officially over and five companies have already reported their earnings for 3Q2022. As earnings season approaches, we can expect key earnings reports from beverage giant Constellation Brands ($STZ) and Levi Strauss ($LEVI) on Thursday. The Sector plans to monitor upcoming labor market reports and corporate earnings reports to capitalize on the prevalent market volatility.

Weekly Product Report

Index Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- The S&P 500, NASDAQ, and DJIA faced **bearish price movements** during the trading week, dropping 2.64% w/w, 2.38% w/w, and 2.75% w/w respectively. **Economic growth concerns** and continued hawkish monetary policy from the Fed have continued to drive U.S equities down in September
- The **Euro Stoxx 600 remained volatile**, overall falling 0.20% w/w but rising 1.19% on Friday as construction and media equities rose 2.40% and 2.30%, respectively. After the BoE intervened in the bond market, European equities began reversing losses from earlier this week
- **Eurozone inflation continued to rise** in September, reaching **10.00%** as electricity and natural gas prices soar on account for Russia-Ukraine tensions intensifying and keeping supplies low as the **energy crisis** persists.
- The **FTSE 100 continued its steady decline** as the index dropped 1.78% w/w, closing off 3Q2022 down 3.80%. Bearish price movements in the index are due to **rising costs of living** amid high inflation, the BoE remaining hawkish with interest rates, and PM **Liz Truss's tax cut proposition**
- The Hang Seng suffered a 3.14% w/w loss as **technology equities continue their declining price movements due to** the Fed's stance and global recessionary fears. The Yuan reached its weakest level since the financial crisis of 2008 indicating more economic issues in the Asia-Pacific
- The Nikkei 225 dropped 3.15% w/w as **negative investor sentiment drove equity prices down**. The value of the yen sharply declined against the dollar, reaching $1.00 to ¥144.74, as Japan remains in a trade deficit and the BoJ remains dovish in its monetary policy, while the Fed hikes interest rates

Looking Ahead

The Sector believes the main factor putting downward pressure on global markets is widespread hawkish monetary policy shifts among several central banks. Persistent inflation in Europe, for example, hit 10.00% for September and will likely prompt the European Central Bank to aggressively hike interest rates again in their next meeting. If this is to occur, we will likely see the Euro Stoxx 600 fall to lows like those observed during the Covid recession. In the U.K., we saw the pound fall to its lowest levels against the dollar as Liz Truss' proposed tax-cut sent markets into a downward spiral as investors question the government's ability to finance these fiscal policy initiatives ,without jolting the domestic economy. A falling pound makes importing goods from other countries more expensive, so this will likely contribute to rising inflation within England, acting as another factor that will impact how aggressive the BoE will be in their monetary policy decision in November. Currently markets are pricing in a 100.00 bps rate hike as core and headline inflation are both on the rise. In Asia, the BoJ is maintaining its current level of low interest rates, but is now planning a major bond buyback in order to prop up a weak currency and push down rising yields, which may have adverse impacts on consumer prices and increasing inflation for the country. Holistically, the Sector is bearish long-term as many countries are entering recessionary territory amid rising rates.

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Weekly Product Report

Interest Rate Products Sector

Weekly Product Report

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Summary of Weekly Themes

- U.S. mortgage rates saw a substantial increase this week among plummeting mortgage refinancing rates as well as economic turmoil
- PCE was reported to have **grown ~6.20% y/y**, and 0.30% m/m, showing that inflation continues to be persistent and impact the Fed's hiking cycle
- The U.S. 10-Year Treasury Yield **increased ~4.78% w/w** to 3.88% following a bond sell off and expectations of a hawkish Fed moving through 2022FY
- The BoE announced that it will temporarily **halt its bond sell off** and begin buying back many of these fixed income securities as new government policies have caused government bond yields to reach historic highs
- Fed Vice Chair Lael Brainard mentioned in her speech that enacting dovish monetary policy too soon could have significant negative effects
- The 2-10 U.S. Treasury Yield spread **reached (33.00 bps),** continuing to generate negative investor sentiment surrounding a large scale recession
- The Reserve Bank of India **raised its key interest rate by 50.00 bps** as the bank looks to quell the 7.00% inflation rate the country faces
- The Chinese Yuan reached its **lowest level since 2008FY** as the PBOC continues to enact its dovish monetary policy for the beginning of 2022FY
- It was reported that the BoJ has **spent over $20.00 bn** in its effort to stabilize the Japanese Yen, as the currency has seen substantial weakness
- Jobless claims were reported to have **decreased to ~193.00 k**, signaling potential strength in the labor market amid a hawkish Fed
- Consumer confidence was **reported to have increased** in September of 2022FY amid immense market volatility due to high persistent inflation

Looking Ahead

Macroeconomic slowdown worsened this week as the S&P 500 posted losses for three consecutive quarters, a slowdown not seen since 2009FY. Although jobless claims came in stronger-than-expected, it lacked enough substance to bolster broader market sentiment as investors are still concerned over rising rates. As the housing market continues to slow down with the 30-year mortgage rate hitting levels not seen since 2007FY, and Core PCE coming in hotter than expected, investors are bracing themselves for an extreme downtown in financial markets. The U.S. 2-Year and 10-Year Treasury yields remain inverted at a margin of over 40.00 bps. The Sector will continue to monitor U.S. markets in order to mitigate risk that is held in the form of futures contracts. Internationally, the Sector is monitoring the BoE, as they've begun purchasing gilts, or treasury bonds. The BoE intervened on Wednesday after the 10-Year bond climbed as high as 4.59%, the highest level since 2008FY. Treasury officials stated they're willing to intervene to "whatever scale is necessary" in order to calm inflation and restore confidence to the markets. With consumer prices rising at the fastest rate in over 40.00 years and energy costs soaring as a result of the war in Ukraine, it is evident that the BoE has no intention of reversing course in the short-term. The Sector will continue to actively monitor the situation in order to effectively profit off of any decision made.

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Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- Gold spot **prices gained 1.01%** this week ending its **best week since mid-August** as **treasury yields fell from their strongest level** in more than a decade. Gold price levels are being supported **by geopolitical concerns in Russia-Ukraine**, as well as concerns over what the affect of **mounting interest rate hikes** by the Fed will be on the economy
- Silver futures **prices rose 0.84%** this week, **recovering 5.76% this month.** Precious metals prices rose this week after the **Bank of England restarted its bond buying program**, offering financial stability
- Aluminum **futures prices dropped 1.41%** after a volatile trading week. Aluminum fell as much as 2.70% this week before **gaining a record 8.50% intraday** in the prior session. Prices were driven this week by the London Metal Exchange's **potential ban on Russian metals**, intensifying **supply concerns** while **Chinese stimulus measures bolster demand outlooks**
- Nickel contract prices **declined 9.01%** this week. Nickel sales by commodities-dealing banks hit **by soaring borrowing** costs caused **contract prices to plunge** this week. **Nickel is the LME's highest priced metal** making **it increasingly costly** to hold with soaring borrowing costs
- Palladium **prices gained 4.76% this week**. Hedge funds boosted **their net bullish positions** in palladium **to 6-month highs** this week. Prices benefited this week from **supply fears** after talks of a **Russian metal ban**
- Three-month **copper** prices fell **1.80% this week**. Prices were driven by the **dollar surging towards record highs**, piling pressure on buyers in other currencies and putting copper on track for a **sixth straight monthly drop**

Looking Ahead

Looking forward to the last quarter of 2022, metals face a tumultuous road ahead. Recessionary fears are mounting as the economy has seen increased volatility after the Fed raised interest rates in September. Metals markets are bracing for a decline in demand from the consumer in the Eurozone and the United States. There is increasing optimism for a Chinese stimulus package to foster an increase in spending and economic growth in the region. If can jumpstart its economy while limiting the Covid-19 lockdowns that have plagued their nation, industrial metals could see bullish price movements heading into 2023. China is such a large player in terms of metals markets and a large stimulus package will revitalize the economy that is one of the largest consumers of metals in the world. Industrial metals are heavily reliant on fuel prices and their prices tend to be highly correlated with the prices of energy indexes. Recently there was a natural gas pipeline that was thought to be tampered with and will not be delivering any natural gas to Europe for the foreseeable future. With the winter approaching, there will be increased demand for energy worldwide and with crunched supply there will be bullish price movements within energy. With energy expected to increase into the future, industrial metals could see bullish price movements courtesy of energy markets.