AMG
PENNSYLVANIA STATE UNIVERSITY

Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- **WTI and Brent Crude Oil both gained over 2.00% on the week as an improved demand outlook from the U.S. boosted prices**
- Supply risks continue in the **Middle East as geopolitical tensions have not slowed**. Israel increased the amount of air strikes they launched on Rafah, defying allies such as the U.S. telling them to stop
- **U.S. Crude inventories dropped 6.37 mm Bbl,** a much larger-than-expected decrease. The expectation was a 1.60 mm Bbl increase, which was overestimated greatly. This helped contribute to the 2.00% rise in crude oil prices throughout the week
- U.S. GDP came out weaker than originally expected, **leading to increased sentiment for the Fed to cut interest rates.** Oil and interest rates have an inverse relationship, so rates being cut would boost prices
- **The U.S. Senate recently passed a foreign aid package that would expand sanctions against Iranian oil.** Iran is OPEC+ third largest supplier, and the U.S. already has somewhat strict sanctions on them
- Natural gas futures fell towards $1.90, **the lowest in two weeks.** This was mainly caused by a reduction in feedgas to Freeport LNG's, as well as a large surplus in natural gas storage. The average storage was at 12.10 Bn cf/d, while it is still 37.00% above the seasonal norm
- **The latest EIA report showed U.S. utilities added 92.00 Bn cf of gas into storage** at the end of this week, a larger-than-expected rise
- Officials and countries are concerned that **a full-on invasion into Rafah from Israel could be looming.** This would increase the geopolitical risk significantly, and cause even larger spikes for the oil market

Looking Ahead

Brent closed at $88.07 per Bbl from ~$87.10 per Bbl at the start of the week. Brent consolidated this week, which is in line with how oil has traded since the start of the year. The Sector believes oil will continue to rise as global supply tightens and emerging market demand increases. This week, U.S. commercial crude inventories fell 6.40 mm Bbl after five consecutive weeks of builds. As industrial production increases and seasonality effects begin, oil will remain at elevated levels. Global supply will remain tight as OPEC+ cracks down on overproduction and various countries pause production for operational maintenance. The Sector believes the war risk premium will remain in oil prices throughout the next three months. Henry Hub natural gas prices rose ~17.40% to ~$1.92 per MMBtu on Friday. The move higher was due to contract rollover, which caused a spike in prices. Natural gas prices have risen consistently throughout the months as producers begin to cut production. The Sector believes that natural gas prices will continue to rise throughout the year as demand for baseload energy sources increases. Utilization of other energy sources such as hydro, nuclear, and coal have been falling, which is bullish for natural gas. Countries such as China have been consuming natural gas at record levels due to their industrial economy returning to historical performance. The Sector believes petrochemical consumption will promote demand for refined products as economies demand more packaged goods.

Weekly Product Report

Equity Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- The major indices ended the week all in the green with **the NASDAQ up 3.45%, the DJIA up 0.32%, and the S&P 500 down 2.26%**
- **Consumer Sentiment report** for April **slips lower than expected,** dropping to **77.20** compared to the **79.40** coming out in March which was it's highest level since July 2021. This has subsequently affected the inflation expectation for the next year which went from **3.10% to 3.20%**
- **Personal Spending** report for March showed an increase of 0.80%, over market expectations of 0.60%. Indicating stronger consumer spending than initially anticipated, suggesting continued resilience in the consumer
- **Alphabet Inc. (GOOG)** recently reported its earnings, outperforming expectations for both revenue and profits. The company's shares soared to an all-time high following the announcement that it would begin paying dividends. This is largely credited to the strong performance of Alphabet's artificial intelligence sector, which played a huge role in growth
- **Microsoft (MFST)** released their earnings and **beat expectations**. With the company highlighting that there revenue significantly jumped due to the **artificial intelligence push within the company**
- **Gross Domestic Product (GDP)** came out for 1Q2024 lower than expected. Starting the year growing at a slow rate at **1.60%**
- **Meta Platforms (META)** came out with earnings and came out **higher than expected.** Shares traded down due to the huge talk on artificial intelligence spending, making investors uncertain
- **Personal Saving rate** fell to **3.20%**, down **0.40%** from February. Consumers are saving less and are confident with spending also jumping

Looking Ahead

Next week, the markets will be looking for the release of important economic data in the form of ISM Manufacturing PMI, JOLTs Job Openings, Non Farm Payrolls, Unemployment, ISM Services PMI, and the Fed Interest Rate Decision. The equities markets will also be assessing earnings from Amazon (AMZN), Eli Lilly (LLY), Coca-Cola Company (KO), Apple (AAPL), Pfizer Inc. (PFE). Analysts and investors are expecting the Fed to keep rates steady going into the meeting on Wednesday. There has been a lot of uncertainty in the markets regarding rate cuts since Jerome Powell came out hawkish a couple weeks ago and with the GDP growth rate coming out slower than analysts expected. ISM Manufacturing is expected to come out at 49.00 compared to the previous 50.30 signaling another contraction in the manufacturing sector after the first expansion data in the past 17.00 months. Non Farm Payrolls are expected to come out at 190.00 k compared to the previous of 303.00 k, and a decline this large would signal a slowdown in the job market. JOLTs Job Openings is expected to decrease by 56.00 k, aligning with the downward trend of Non Farm Payrolls which also points to a cooling job market. The Unemployment rate is expected to remain the same on Friday at 3.80%, showing no change from the previous two-year high of 3.90% in February this year. This slew of indicators combined with key earnings and reports from major companies will provide valuable insights into the health of the economy.

Weekly Product Report

Foreign Exchange Sector

Weekly Product Report

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Summary of Weekly Themes

- The DXY traded sideways this week**, PCE came out above expectations at 2.70% y/y. GDP came in much lower than expected at 1.60% y/y**, indicating the economy is finally starting to slow after remaining strong through the rate hike cycle. **U.S. PMI came in lower than expected with both readings falling m/m.** Fed expectations did not change from this news
- EURUSD traded up 0.46% w/w, this was mainly due to strong PMI data for April from the E.A., the services sector has improved with **Services PMI at 52.90** which indicates the sector is expanding. E.A. Consumer Confidence came in lower than expected at (14.70) but continues to improve
- GBPUSD increased 0.45% w/w, **U.K. Services PMI continues to improve similar to the E.A. coming in at 54.90 for April**. This week's move was mainly do to USD weakening slightly because of the low GDP reading
- USDJPY rose 2.39% w/w to ¥158.28, the pairing hasn't been this high since 1990. **CPI came out lower than expected for Japan at 1.80% y/y** falling (0.80%) since March. **The BoJ held rates at 0.00%** despite the drastic weakening from their currency which could have indicated a hike
- USDCAD fell (0.72%) w/w, the trade down was mainly due to USD weakening. **Retail Sales fell (0.10%) m/m for February which was below the expectation of 0.10% m/m**, poor data could force the BOC to cut
- USDAUD declined (1.71%) w/w, this was due to the combination of USD weakening and AUD strengthening. **Australian CPI came out above expectations at 3.60% y/y** still significantly above the 2.00% target. Australian PMI was mixed, composite and manufacturing PMI both rose slightly from March and services PMI decline slightly but is still above 50.00

Looking Ahead

The Sector will monitor numerous reports over the next week in the E.A., U.S., Japan and Switzerland. The E.A. is set to release the most important data in the coming week. CPI will be released on Monday and likely will have a major impact on future decisions by the ECB. The Sector expects that CPI will come in cooler than expected and push forwards a cut by the ECB. Additionally, Consumer Confidence will be released providing a better idea of where the European consumer is at. In the U.S., the most important release is going to be the Fed's interest rate decision, set to be released next Wednesday. The Sector expects more hawkish rhetoric and for the Fed to hold rates where they are. Additionally, we are set to see more releases in the labor market. Specifically, Initial Jobless Claims will help to understand if the consumer is maintaining strength, which is influential in a monetary policy decision. After an incredibly poor week for the Japanese yen, we will be looking to see if the country can gain any strength going forwards. The Unemployment Rate, which will be released on Monday, may be able to bring some expectation of strength to the labor market and consumer. We will also see Retail Trade which again can help to boost expectations of strength in the consumer. In Switzerland, CPI and Retail Sales will be released. Considering how low CPI has been in Switzerland, continued slowing could indicate that a cut is in the cards going forwards. The Sector expects further weakness of the franc.

Weekly Product Report

Index Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- Benchmark U.S. indices rebounded with the **DJIA, S&P 500, and Nasdaq Composite rising 0.52%, 1.14%, and 2.05% w/w, respectively**. Stocks reacted early in the week to New Home Sales m/m outperforming at 8.80% over forecasts of 2.70%. On Thursday, Alphabet (GOOGL) released strong earnings and announced its first dividend, shooting its stock up 9.70%
- The **Hang Seng Index had its best week in 12.00 years, spiking 7.56% w/w,** as investors from mainland and global funds have been pouring in with higher volatility in U.S. and Japanese markets. The index has seen inflows of over $9.30 bn, extending the buying streak to a 20.00th straight day
- Japan's **Nikkei 225 Index rebounded 1.86% w/w,** as the USDJPY rallied to a new 34.00-year high of 157.89 following the BOJ meeting where they held rates near zero. There was a lack of clear guidance from the BOJ moving forward, which kept markets on edge over a currency intervention
- The **STOXX Europe 600 rose 1.74% w/w** with their Composite and Services PMI data coming out over forecasts and an increased sentiment for a June cut. French President Emmanuel Macron said on Thursday that Europe can no longer solely rely on inflation for its central bank policy and should add growth and decarbonization to be added to the criteria
- The **FTSE 100 Index jumped 3.09% w/w** as the U.K. CBI Business optimism Index came out at 9.00 strongly above forecasts of 2.00 reading, which measures confidence looking forward in the manufacturing sector
- Mexico's **MEXBOL Index rose 2.80% w/w** with strong U.S. economic indicators and the Mexican Economic Activity y/y came out at 4.40%, above forecasts of 1.90%, and their unemployment rate hit a 20.00-year low

Looking Ahead

Movement in global equity indices this week was largely driven by further inflationary concerns in the U.S. Thursday's report demonstrated that U.S. GDP grew 1.60% y/y in 1Q2024, below forecasts of 2.50%, while the Fed's preferred gauge of inflation, the Core PCE Price Index, increased more than anticipated in March. This period of slowing growth and rising prices demonstrates that the economy may be experiencing a period of stagflation, pushing up bond yields as it becomes increasingly difficult for the Fed to achieve a soft landing. Amid further rate cut delays and a stronger U.S. Dollar, the USDJPY exchange rate rallied to 157.89. As a result, Japan's benchmark Nikkei 225 Index, which has fallen (6.94%) m/m, drew attention from the Sector. The BOJ left its benchmark interest rate unchanged on Friday, despite the depreciating JPY falling to 34.00-year lows against the U.S. Dollar. The BOJ expressed an optimistic forecast for the Japan, stating that the country's economy is likely to keep growing at a healthy pace above its potential growth rate. Many technology stocks within the Nikkei rallied with large U.S. companies trading up on strong 1Q2024 earnings reports. The Sector will continue to monitor potential plans for Tokyo authorities to intervene to strengthen the JPY. BOJ governor Kazuo Ueda stated on Friday that exchange rate volatility can significantly impact the economy, especially involving a currency that is not aligned with economic fundamentals. Ultimately, Friday's monetary easing by the BOJ lifted the Nikkei.

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Summary of Weekly Themes

- **U.S. Headline PCE was reported at a headline reading of 2.70% y/y for March**, continuing the trend of hot inflation reports and pushing back market expectations of a Fed cut to the November meeting in 2024FY
- **Core PCE was reported at 2.80% y/y for March**, matching February's reading and coming out hotter than market expectations for the month
- **U.S. 1Q2024 GDP was reported at 1.60% q/q**, falling much shorter than expected and slowing significant slowing in the economy
- **Durable Good Orders was reported at 2.60% m/m** for March, beating expectations and rising significantly from February's report of 0.70%
- **Services PMI fell short of expectations at a reading of 50.90** for the month of April, while the March reading was at 51.70
- **Personal Spending remained strong at a reading of 0.80% m/m** for March, beating expectations of 0.60% and matching February's reading
- **The U.S. 10.00-Year Treasury rallied slightly to a yield of 4.66%** as a result of the hot inflation report on Friday. This will continue to put pressure on the growing economy and aid the Fed in slowing down growth
- **New Home Sales was reported at a reading of 693.00 k** for the month of March, rising significantly from February's reading of 637.00 k. This shows some growing confidence in the housing market despite high rates
- **The BOJ left interest rates unchanged** at a level of 0.10%, which was widely expected from markets. They are **currently expected to hike rates by 0.10 bps next in the third or fourth quarter of 2024FY**
- **U.S. Manufacturing PMI showed contraction for the first time in 2024FY** at a reading of 49.90 for the month of April

Looking Ahead

In the coming week, the Interest Rate Products Sector will be keeping track of key macroeconomic reports that showcase the direction of the U.S. and other global economies. Labor market data will be the bulk of the talk around next week's economic calendar releases, as ISM Manufacturing, Services PMI, JOLTS Job Openings, Foreign Trade Figures, CB Consumer Confidence Index, and Factory Orders are all set to be released throughout the week. In addition, most notably Unemployment Rate will be released and is forecasted to remain at 3.80% while wage growth is also expected to remain at 0.30%. In terms of corporate America, there will be multiple earning reports released throughout the week, such as Apple, Amazon, Pfizer, Moderna, and Mastercard. These earnings reports will give further insight into how companies have been performing amid decade-high interest rates, and if the Fed will shift their calendar forecast for the next rate cut. In terms of global data, Germany, France, Spain, and Italy will be releasing their GDP for 1Q2024. E.A. CPI and Unemployment will be monitored closely by the ECB, and investors as many economists are predicting a rate cut in in the near future. Moving towards Asia, the public will be focusing on the release of PMI for China as it is forecasted to show a decrease from its previous reading in March. In Japan, Macroeconomic releases such as Consumer Confidence, Unemployment Rate, Retail Sales and Industrial Production will be watched closely by the BOJ as they decide if interest Rate hikes in the coming months would help their economy.

Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- After reaching all-time highs of over $2,400.00 per oz, the price of **Gold has decreased 7.00% w/w**. Inflation concerns are most likely the source of investors' confidence in the haven asset. However Gold has settled to its current spot price of $2,350.00. The metal has been resistant to high rates due to ongoing geopolitical tensions and central bank buying.
- **Silver**, after reaching a 10.00-year high in mid-April, has seen **a 3.09% price decrease w/w**, a similar investor confidence pullback to Gold. Silver's involvement in electric vehicles, solar energy, green energy initiatives, and numerous other industrial applications should keep sentiment for the precious and industrial metal strong and constant
- **Copper prices** have remained steady even after reaching all-time highs recently, the industrial staple has **increased in price by 1.00% w/w** and nearly 5.00% over the past two weeks. Demand-wise, China beat expectations for GDP in 1Q2024, showing signs of promise from the manufacturing sector and increasing future sentiment for Copper.
- Strong supply outlooks for **Palladium put major downward pressure on prices, which saw a 1.68% decrease w/w**. The metal has seen some support, however, as the PBoC abandoned a minimum down payment on new cars along with the improving sales of internal combustion engines that have exceeded that of electric vehicles in 2024, so for the short term, Palladium demand should be constant.
- **Platinum** has shown very volatile price movements over the past five days, with its spot price ranging everywhere from $945.00 to $908.00, **w/w the metal value has decreased by 2.24%.** The decrease in price and volatility can be tied to the automobile market, with combustion vehicles leading short term sales but an EV takeover seems inevitable.

Looking Ahead

Looking ahead, several factors are worth monitoring in the precious metals market. Firstly, Gold's recent retreat from all-time highs attributed to inflation concerns, federal interest rates, and central bank policies will be crucial in assessing its future price movements. Silver's dual role in industrial applications and green energy initiatives positions it positively, with its resilience likely to stick despite short-term price fluctuations. Copper's steady prices amidst global supply concerns underscore the importance of monitoring mining output and demand trends, particularly in key manufacturing hubs like China. Palladium faces downward pressure due to supply dynamics but may find support from policy shifts favoring traditional combustion engines. Meanwhile, Platinum's volatility, tied to evolving sentiment in the automobile market and the rise of EVs, warrants close observation, with fluctuations likely to persist as the market adjusts to changing preferences and technologies. Overall, a balanced understanding of macroeconomic trends, industry developments coming out of China, and policy shifts coming from the Federal Reserve will be essential in navigating the complexities of the precious metals market in the coming months. Precious Metals have shown resilience to high rates however inflation data is very important as this behavior may be unsustainable, we as a Sector believe that when inflation decreases, rate cuts will come proportionally in order to approach a soft landing in the economy.. In terms of Industrial metals, the sector will be closely following China's earnings as the production and consumption superpower poses immense input in the market as a whole.