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Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- **WTI crude oil futures fell to around $72.00 a barrel** on Friday, marking an 6.00% loss on the week. This drop in prices is due partly to The Federal Reserve's meeting on Wednesday and stronger than-expected U.S. jobs data, indicating that interest rates in the U.S. will remain higher for longer
- OPEC's decided on Thursday to **maintain their current production policy, with production cuts of 2.20 mm Bbl/d** throughout 1Q2024
- Concerns about China's economy increased after the **International Monetary Fund predicted a slowdown in China's growth in 2024 to 4.60% y/y.** Chinese demand is a significant driver of oil prices
- **Israel and Hamas are getting closer to a ceasefire** and the release of hostages being held in Gaza, easing concerns about transportation issues for cargo ships in the Red Sea. Qatar announced that Hamas has an initial interest in the deal and could potentially accept it in the coming weeks
- **The U.S. retaliated harshly against Iran-backed groups in Syria and Iraq** on Friday with a series of airstrikes on their facilities. This comes in response to a drone attack in Jordan earlier in the week. The Biden administration announced the strikes could carry on for days, with potential sanctions on Iranian natural gas and crude oil in order to indirectly confront the nation
- **U.S. natural gas futures fell below $2.10 mmBtu this week,** reaching its lowest levels in nine months partially due to the EIA storage report being larger than expected. Storage still remains 5.10% above the seasonal norm
- Heating demand is expected to stay low as the **weather forecast remains warmer-than-expected.** This causes fewer withdrawals from storage, and an increase in production this week leaves storage levels high

Looking Ahead

During this week, key events highlighted consumer and producer sentiment toward oil. To begin, OPEC held voluntary production cuts at 2.20 mm Bbl/d due to forecasts showing waning global demand throughout this year. The energy ministry told Saudi Arabia's Aramco to abandon a plan to increase sustainable capacity from 12.00 mm Bbl/d to 13.00 mm Bbl/d by 2027. Chevron reported earnings of $21.40 bn, and Exxon reported earnings of $36.00 bn. Even after reporting the second-highest annual profits in a decade, both company's stock prices were flat. These three events highlight investors' lack of confidence in oil prices as global renewables investments reached $1.74 T in 2023 compared to fossil fuels at $1.05 T, according to the IEA. The sector's thesis of neutral oil prices and temporary bullish price action due to geopolitics still holds. According to JP Morgan research analysts, the Red Sea supply chain disruptions are expected to cost suppliers an extra $2.00 per barrel and a nine-day increase in shipping times. Natural gas prices remain at low levels due to forecasts of continued hotter-than-normal weather. Fundamentals remain constant as storage this week is 5.00% above the five-year average. Depletion of natural gas storage is unlikely to happen without cold weather. Investment in liquefied natural gas production remains elevated as capacity is expected to double to 24.50 Bcf by 2028 if all approved projects are built.

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Equity Derivatives Sector

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Summary of Weekly Themes

- The major indices all ended the the week in the green following this week's Fed meeting and earnings releases. **The NASDAQ was up 1.02%, the DJIA was up 1.41%, and the S&P 500 was up 1.34%**
- The FOMC met on Wednesday and the **Fed decided to keep rates steady at 5.25%- 5.50%** for the fourth consecutive meeting. They said they are going to approach cuts on a meeting-to-meeting basis
- **Initial jobless claims came out at 224.00 k**, higher than expected of 212.00k and the highest reading since November, pointing to a small slowdown in the labor market. With claims rising the most in California, New York, and Oregon, and the biggest decline in Illinois and Missouri
- ISM manufacturing **PMI came out at 49.10**, above expectations of 47.00, showing an improvement from last month of 47.40, resulting in one of the highest ratings since October 2022, but still pointing to a contraction
- **Earnings for Meta came out higher than expected**, with revenue jumping 25.00% from last quarter and their expenses decreasing 8.00% y/y. The stock soared in extended trading by 14.00%
- **Earnings for AMZN beat expectations**, with revenue jumping 14.00%. The stock also climbed up 8.00% in extended trading
- **Non farm payrolls was released** and the labor market starts the new year on a high note. **Creating 353.00 k new jobs** blowing past Wall Street expectations by 185.00 k, signaling the labor market remains tight
- **Unemployment rate holding steady at 3.70%**, defied expectations of a slight increase, showcasing the job markets resilience

Looking Ahead

Next week, markets will be getting economic data in the form of ISM Services PMI, RCM/TIPP Economic Optimism Index, initial jobless claims, and a plethora of Fed governor speeches. Equity markets will also be assessing earnings releases from Eli Lilly (LLY), Toyota (TM), L'Oreal (LRLCY), PepsiCo (PEP), and McDonald's (MCD). ISM Services PMI is expected to come in at 52.00, up from the previous reading of 50.60, indicating that the non-manufacturing economy is generally expanding. RCM/TIPP Economic Optimism Index is expected to rise slightly to 45.20 from a January reading of 44.70. This level would still indicate pessimism, but a trend toward optimism would occur if consensus is correct with an increase. This index in particular measures Americans' opinions and outlooks on the economy for the next six-months. What is probably most important for next week are the speeches to come from five Fed Governors. Their speeches could indicate very important Fed sentiment in terms of the rate cut timeline, which continues to be pushed back after a very strong non farm payrolls report came out this week. Initial jobless claims is also forecasted to slightly cool, which would be a good sign for rate cuts. The earning release from Eli Lilly (LLY) could provide valuable information about the uber-popular weight-loss drugs. PepsiCo (PEP) and McDonald's (MCD) could provide key indicators for the consumer staples and consumer discretionary sectors, respectively.

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Summary of Weekly Themes

- The DXY traded up slightly this week following a strong nonfarm payrolls report, **nonfarm payrolls almost doubled expectations coming in at 353.00 k** for January. The Fed holding rates and having some higher for longer rhetoric at the January 31st meeting also contributed to the increase
- GBPUSD traded up this week as **the BOE stated that "further tightening" is still on the table** at the meeting this week. Six BoE officials voted to maintain the current rate, as two officials voted for a hike and one voted for a cut. **Market expectations for rate cut in May dropped from over 65.00% to under 50.00%** despite GDP growth being basically stagnant for 2023
- EURUSD traded down (0.51%) w/w as strong data has come out of the U.S. along with weak inflation readings from the E.A., **core harmonized index of consumer prices came in at 3.30% y/y**, missing expectations. GDP for the E.A. did beat expectations coming in at 0.10% y/y for 4Q2023
- USDJPY was trading down until the strong Nonfarm Payrolls report was released. **Consumer Confidence in Japan was reported at 38.00**, which is 0.80 increase since the December reading and has been increasing since September. **Japan unemployment was lower than expected, at 2.40%**
- AUDUSD was trading up until Nonfarm Payrolls data released, **Australian CPI came in lower than expectations at 4.10% y/y for 4Q2023.** Tourism in Australia has been increasing and is starting to reach pre-covid levels
- **NZDUSD traded up 1.10% w/w before Friday's releases** and has since traded down. New Zealand business confidence increased further to 36.60 representing high investment and overall confidence across the economy

Looking Ahead

The sector will monitor data releases from the Eurozone, U.S., and Canada. Firstly, major data is set to come out in Canada next week. The BOC is set to meet next Tuesday. The sector will monitor rhetoric to gain an understanding of the BoC's position on interest rates. Further, Canada's unemployment rate for the month of January will be released and could provide further insight into the labor market in Canada and how this will impact the BoC's decisions on rates. In the Eurozone, PPI is set to be released potentially giving an indication as to where their economy is headed. The sector will monitor what this means for businesses and how it could influence future ECB decisions. Similarly, retail sales will also be released in the E.A. which is another important economic indicator and can influence ECB decisions. The sector believes that these readings may be negative and likely would drive the value of the Euro down next week. Additionally, the economic bulletin that contains information regarding how the economy influenced the ECB's decisions is set to be released, providing insight into the ECB. Finally, in the U.S., Jerome Powell is set to speak on Monday about the economy and inflation. Depending on his rhetoric this could help the sector better understand what the Fed is planning regarding rates. Going forward, the sector expects the dollar to gain strength as more economic data is released and we learn more about the Fed's rhetoric.

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Index Derivatives Sector

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Summary of Weekly Themes

- The U.S. Indices had a volatile week, as **the S&P, Nasdaq, and the Dow Jones indices rose 1.34% w/w, 1.02% w/w, 1.41% w/w.** Midweek, stocks were down as Jerome Powell used hawkish rhetoric, pushing back investors' ideas on rate cuts. Employment data surprised investors, as non-farm payrolls came out at more than double expectations at 353.00 k
- **The Nikkei 225 traded up slightly at 0.96% w/w**, as Japan's consumer confidence rating came out above expectations of 37.80 to 38.00. In addition, retail sales surprised as it dropped to 2.10% y/y, under expectations of 4.50% y/y and previous 5.40% y/y
- **The Hang Seng Index fell (3.20%) w/w** due to renewed concerns about geopolitical risks following a proposed U.S. legislation targeting Chinese biotechnology firms and continued rumors about a tariff on EVs
- **The FTSE 100 dropped (0.26%) w/w**, as the BOE held rates which was widely forecasted across analysts causing little to no move in the Index
- **CAC 40 stayed relatively flat as the index fell (0.66%) w/w**, as inflation showed disinflation in preliminary readings as it dropped to significantly to 3.10% y/y from 3.70% y/y, although estimates were a 2.90% y/y reading
- **India's Nifty 50 traded up 1.43% w/w**, fueled by a strong manufacturing PMI report that came out at 56.50. In addition, strong gains by Reliance (RELI.NS) and Infosys (INFY.NS) stocks which are two of the five heaviest weighted stocks in the Index boosted the Index late in the week
- **Brazil's IBOVESPA fell (1.39%) w/w**, as their central bank dropped interest rates 50.00 bps to 11.25% in line with expectations while their unemployment rate continued falling and came out at 7.40% y/y in 4Q2023

Looking Ahead

Movement in global equity indices this week was largely based on the Fed's cautious sentiment after Wednesday's rate pause. European stocks dipped, as the market continues to push back expectations for cuts. The ECB will likely mimic the Fed's moves again in 2024. Despite weekly losses, the sector has taken a bullish stance on France. The consumer confidence indicator in France increased to 91.00 in January 2024, the highest level since February 2022, beating forecasts of 89.00. This headline points to stronger consumer sentiment in France. The CAC 40 has gained 2.43% m/m largely due to the world's largest luxury group LVMH rallying 10.73% m/m. The firm posted higher-than-expected sales of 86.15 bn EUR ($93.34 bn) for 2023 equating to 13.00% growth from the previous year and raised its annual dividend. Additionally, it became the first European company to surpass $500.00 bn in market capitalization. The CAC 40 is largely driven by luxury stocks, as the consumer discretionary sector weights over a quarter of the index. As different fashion week events approach in 1Q2024, the sector expects increased demand for luxury products and a rally in the index across the consumer discretionary sector. The sector will closely monitor ECB rate cut expectations and how they will mimic the Fed in 2024 and upcoming fashion week events and their impact on France and its luxury-heavy benchmark index. A major dovish pivot into a cutting cycle would accelerate stock markets in Europe.

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Interest Rate Products Sector

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Summary of Weekly Themes

- JOLTs job openings reported at **9.03 mm for the month of December,** the highest reading since the report of September
- U.S. unemployment rate beat expectations and was reported at **3.70% for the month of January**, staying flat from December
- Nonfarm payrolls nearly doubled market expectations at a reading of **353.00 k for January, increasing 20.00 k from December**
- Average hourly earnings **increased 4.50% y/y and 0.60% m/m** for January, beating expectations by 0.40% and 0.30% respectively
- ISM Manufacturing PMI was reported at **49.10 for January**, still showing declining conditions but it is **the highest reading since Nov. 1, 2022**
- Eurozone CPI increased **2.80% y/y in January, but saw outright deflation of 0.40% m/m,** while December saw a 0.20% increase m/m
- China's Manufacturing PMI was reported at **49.20 for January**, meeting market expectations and increasing by 0.20 from December
- FOMC gave vague remarks at their January meeting leaving markets continuing to debate when they will cut. Futures markets now believe there **is a 6.20% chance rates will be at their current level after the May meeting, down from 11.90% chance just one week ago**
- Spain and Great Britain saw upticks in inflation while France had flat readings and Germany saw slight disinflation

Looking Ahead

In the coming week, IRP will be following various economic events and indicators to gain a clear picture on the state of the economy, as well as the time and level at which the FOMC will cut rates. On Wednesday, January 31st, Jerome Powell and the FOMC held a press conference and decided to hold rates, as the IRP sector expected. While rates will remained unchanged, the rhetoric from Chair Powell still helped investors and economist better predict when and how often rate cuts may occur. Post-analysis of the commentary leads the IRP sector to believe the FOMC will start cutting rates in May, as they begin to end their quantitative tightening. There will also be a CBO briefing surrounding their budget and economic outlook on Wednesday, February 7th that will show the government's stance on the future of this economy . Throughout the week, multiple economic reports will be released which will give a indication on the state of the economy and where it is presumed to be in the near future. Initial jobless claims, Wholesale inventories, ISM services, consumer credit, and CPI seasonal factor revisions will show the direction in which the job market is headed, and the rate at which consumers are spending to start 2024FY. Inflation data and the job market will continued to be watch closely as it is one of the leading factors for the FOMC when deciding the time and severity of rate cuts. While employee cost has slowed, productivity of U.S businesses rose in the fourth quarter showing the economy could grow faster then expected even as inflation slows.

Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- **Gold prices rose 0.51% w/w**, after a tumultuous week for metals markets. The precious metal approached all-time highs to begin the week, but ultimately staggered after the January Fed statement and the recent strong nonfarm payroll data suggested a delay in projected rate cuts in 2024
- **Silver prices fell 1.11% w/w**, plummeting after U.S. nonfarm payrolls nearly doubled projections. The metal traded relatively flat earlier in the week, as markets prepared for the Fed's statement following its January meeting
- **Palladium prices experienced an uptick but ultimately fell flat, dropping 1.04% w/w**, as Russian-based Nornickel, the world's leading Palladium producer, announced that a further decline in mining production in 2024 fueled by geopolitical tensions and internal difficulty with mining procedures. The metal still faces risk of tightening gasoline vehicle market share
- **Copper traded relatively flat, falling 0.74% w/w.** China, which accounts for roughly half of global Copper demand, edged out expectations in its Caixin and NBS Manufacturing PMI, despite pessimistic outlooks for China
- **Iron Ore prices dropped 2.91% w/w.** Proposed Chinese stimulus creates some optimism for the metal, used primarily in steel, but the lack of promising data in China's real estate sector puts downward pressure on prices
- **Uranium prices retreated 5.66% w/w,** falling from $106.00/lb. to $100.00/lb. Prices remain near 16.00-year highs, as investors bet on its central role in nuclear energy as part of the long-term clean energy revolution
- **Aluminum prices shrunk 1.19% w/w.** China's demand for the metal remains weak, putting downward pressure on its price despite tightening supply in China and a potential EU ban on Russian aluminum

Looking Ahead

In the upcoming weeks, the Sector will monitor U.S. economic data as it is being released due to its strong impact on the price of precious metals. While the U.S. jobless claims report that came out on February 1st does not have a significant impact on the decision making of the Fed, it acts as a good indicator of consumer sentiment as the FOMC meeting waned on earlier statements of early 2024 rate cuts. The Sector continues to hold onto the possibility of a soft landing, but ultimately believes that precious metals will remain flat for the next few months. In matters of industrial metals, the Chinese markets are not reacting as desired towards the 2.00 T Yuan stimulus as the real estate market still stays in a trough at the end of January. The Sector stays bullish towards industrial metals, however, as the energy transition is still promoting the use of copper, silver, and other industrial goods as such. Along with high demand, increasing deficits in copper due to strikes within mining companies make the Metals Sector bullish towards the industrial metals market. Overall, while precious metals are experiencing delays in previously anticipated highs, the Sector stays bullish on the market but now, at a later date. As upcoming economic data from the U.S. is released, the Sector plans on solidifying bets on later than anticipated rate cuts, which in turn creates a bearish narrative for precious metals in the upcoming months while industrial metals could improve.