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Weekly Report 9.12.2022

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Agriculture Sector

Weekly Product Report

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Summary of Weekly Themes

- September **corn futures continued to rise this week** climbing 5.88% w/w to 697.50¢ per bushel. The December corn futures contract moved up slightly less than September, gaining 4.02% w/w to 685.00¢ per bushel
- **September wheat moved up 9.33% w/w** and is currently sitting at 810.00¢ per bushel. The December contract also rose this week climbing 9.51% w/w up to 872.00¢ per bushel. Wheat and corn's jump in prices this week can be largely attributed to tensions being back on the rise in Ukraine. Recent conflict over a Ukrainian nuclear power plant have caused Putin to **question their treaty** that allows Ukraine to export grains
- Unlike other grains Soybeans saw less price activity this week. The September contract currently stands up 0.65% w/w at 1481.75¢ per bushel while the December contract rose 1.33% w/w to 1413.25¢ per bushel. Argentina is currently attempting to persuade farmers to dump their supply by offering preferential rates, but farmers are hesitant due to fears of currency devaluation as their current **inflation rate is more than 70.00%**
- The October Sugar No. 11 contract was up 1.11% w/w this week to 18.23¢ The March contract however slipped slightly losing 0.28% w/w and ended the week at 17.80¢. India, the largest producer of sugar, is working out a plan for reopening exports after **restrictions are lifted** in October
- The November random length lumber contract rallied after a mixed start this week. **The contract ended up 8.03% w/**w and finished at $510.00. The comeback was fueled by a meeting between all nine of the Amazon Basin countries. They aim to preserve 80.00% of the Amazon by 2025

Looking Ahead

Despite inflationary concerns, Argentina was able to spur exports of soybeans this week. As the worlds leading exporter of soybean oil and meal and the third largest exporter of soybeans themselves Argentina plays a key role in soybean markets. On Monday, an exchange rate of 200.00 pesos per dollar, which is ~60.00 pesos above the normal rate, was offered to soy producers. The result was that weekly exports grew nearly five-fold at 3.10 mm MT this week. Typically, this would send markets in a strong bearish direction however soy prices were kept afloat by a larger bullish trend in grains as a whole. As was mentioned above, recent escalations in the Ukrainian conflict threaten to cripple grain supply just as it was beginning to show signs of strength. While only ~2.00 mm MT of grains have left Ukraine since the trade treaty was formed in July, markets had begun a bearish decent to normal prices under the assumption that exports would scale up. While Ukrainian officials have made claims that the country could get 60.00 mm MT of grains exported by EOY. Turkish leaders urged Putin to keep trade open and plan to speak in depth on the subject during their meeting next week. Overall, this past week has brought with it lots of volatility to Agriculture markets. Grain prices should correct lower if the meeting goes well with Putin, especially soy if exports remain heightened in Argentina. However, prices still have the chance to change if the conflict gets worse.

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Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- WTI and Brent crude **fell below $90.00/Bbl** for the first time since February 2022, with prices falling to **lows of $81.11/Bbl and $87.27/Bbl** respectively. These pullbacks in prices can be attributed to the economy slowing down due to recessionary fears and OPEC agreeing to add supplies in July 2022
- China announced considering **adding 270.00 GW of thermal capacity** through the addition of coal-fired power plants. Additionally, Germany plans to keep two nuclear power plants running, while shifting their focus to coal energy to sustain the **current demand of the E.U. Coal is up 14.43% m/m**
- E.U. countries are considering implementing a price cap on Russian oil based on fair market value minus the risk premium resulting from their invasion of Ukraine. Based on extrapolation under U.S. guidance, the data suggests that **the price could be set at around $60.00/Bbl**
- On Monday, September 5th, OPEC reduced its oil **output by 100.00 k Bbl/d** starting in October. Some consider this a warning shot at western countries
- On Tuesday, September 6th, California's power grid experienced a nearly record-breaking level of demand. The California Independent System Operator thus issued an emergency alert for expected energy deficiencies
- On Wednesday, September 7th, President Vladimir Putin threatened to completely cut off energy supplies if price caps are imposed on Russia's oil and gas exports, thus isolating the E.U. as winter temperatures approach
- Wholesale gasoline prices are expected to continue to fall as U.S. refiners begin to overproduce in the coming months as they attempt to rebuild low stocks of diesel and heating oil. **U.S. gas average prices sit at $3.74/gal**

Looking Ahead

The effects of the war between Russia and Ukraine are continuing to effect energy markets. Currently, Russia has shut down the Nord Stream 1 pipeline, a natural gas pipeline that can process 59.20 bn cubic meters/yr, which sent Dutch TTF up roughly 30.00%. Additionally, demand for natural gas is expected to increase in the coming months due to colder temperatures. This has caused a shift in demand towards other sources of energy, such as coal. Coal has seen extreme bullish price movements recently, rallying 13.20% w/w. This sector sees the opportunity for profitability in taking a position in coal. If Russia continues to put pressure on natural gas supplies by keeping Nord Stream 1 offline, this Sector will explore taking bullish positions on coal. This will add coal to the AMG Energy Sector portfolio, thus achieving the Sector's initiative of monitoring coal prices to take advantage of tight natural gas supplies. Additionally, the bullish pressure on natural gas will allow the Sector to take advantage of the high prices by decreasing the Sector's exposure to natural gas, thus aligning the portfolio closer to the benchmark. The current state of the energy sector is suffering from extreme volatility caused by the geopolitical tensions between Russia and Ukraine. It will be essential for the Sector to closely monitor the situation to understand how the consequences of the war will impact the pricing of commodities and the Sector's trades.

Weekly Product Report

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Summary of Weekly Themes

- **Federal Reserve Chair Jerome Powell presented a hawkish outlook on Thursday** as he addressed the state of interest rates and remains "strongly committed" to bringing down inflation. The **likelihood of a 75.00 bps hike in the future grew to about 80.00%**, up from 57.00% a week earlier
- Stocks began the week lower on Tuesday but made up over the following days, with banks, manufacturers, and consumer-discretionary companies leading the way. The **Consumer Discretionary sector was up 1.91% w/w**
- On Friday, stocks showed resiliency despite hawkish comments from the Fed earlier this week, with the S&P 500, Dow Jones Industrial Average, and Nasdaq boasting weekly **gains after three consecutive weeks of losses**
- Gains in technology and growth stocks led U.S. stock index futures to rise broadly on Friday. High growth stocks Tesla Inc. ($TSLA), Apple Inc. ($AAPL), Amazon.com Inc. ($AMZN), and Alphabet Inc. ($GOOGL) firmed about 1.00% each in premarket trading
- U.S. stock funds saw t**he biggest retreat in 11 weeks with outflows of $10.90 billion, while global equity funds had outflows of $14.50 billion**. The exodus was led by technology stocks which saw withdrawals of $1.80 billion, according to EPFR Global data from Bank of America
- Corporate earnings this week drove movement among some equities. **Kroger Co. ($KR) posted stronger-than-expected 2Q2022 earnings** on Friday, boosting its full-year profit forecast and adding 4.80%
- All sectors on the S&P 500 ended the week positive. **Energy remains the top performing sector YTD with a 41.45% return**

Looking Ahead

Input from Federal Reserve officials dominated market sentiment this week. After various members reiterated their stance on keeping rates "higher for longer" and the possibility of taking the FFR over 4.00%, the market has now priced in an 80.00% probability of a 75.00 bps hike for the September FOMC meeting. This hawkish dialogue puts more emphasis on the upcoming August CPI report out Tuesday. Investors are expecting an 8.10% y/y increase for headline CPI, down from 8.50% y/y in July, and an increase of 0.30% m/m to 6.10% y/y for core CPI. With a 75.00 bps hike largely priced in for the upcoming FOMC meeting, this print will likely not shift the Fed towards a 50.00 bps move, but it will have a large impact on how the Fed approaches rate hikes and battling inflation going forward. If such readings come in under consensus, it could lead the Fed to take a more dovish path and decrease the magnitude of rate hikes going forward, offering equity markets some economic relief. However, the Sector believes this report will come out level with estimates and leave the Fed to continue on its hawkish path. In addition, the Sector expects a 50.00 bps hike in November, 25.00 bps hike in December, and possibly more into the beginning of 1Q2023. The Sector will continue to take a bearish position within equity markets, but it will closely monitor monthly economic reports used by the Fed in order to capitalize on possible swings in equity market outlooks.

Weekly Product Report

Index Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- The **S&P 500**, **DJIA**, and **NASDAQ** were all up this week **1.82%, 1.19%, and 2.11%** respectively, **reversing three weeks of losses** as traders lean to a 75.00 bps in the September FOMC meeting. The turnaround was led by positive earnings reports among U.S. corporations
- European markets closed higher w/w in response to the European Central Bank's **historic 75.00 bps** rate hike in order to combat inflation. On Friday, the **Euro Stoxx 600** closed at a **weekly high of 420.37**
- The ECB stated that they expect to continue **raising rates**, as inflation is "far too high and is likely to remain above target for an extended period of time."
- European governments have proposed a **price cap** on Russian natural gas in order to reduce the impact of price increases passed on to consumers
- Ukraine is advancing on Russia after months of being defensive, making its way into the city of Kupyansk, a **crucial city** whose possession could isolate Russian forces and push them further South
- The commodity heavy **FTSE 100** fell 0.80% Thursday driven by weak oil and metal prices, but ended the weak higher, **rising 0.96%** w/w on account for PM Liz Truss's proposal for an Energy Relief package for the U.K.
- The **DAX** slid **~2.00%** on Monday after the Nord Stream 1 pipeline shut down, closing off one of Germany's main natural gas sources, but **rose 2.03%** w/w as investors weigh the recent 75.00 bps rate hike
- The **Nikkei 225** was up **2.35% w/w**, following Wall Streets gains this week, as the dollar hits a 24.00 year high versus the yen
- The **Hang Seng** closed up **0.33%** for the week, as inflation reports came in at 2.50% for the month of August, **0.20%** higher than the previous month

Looking Ahead

Although Euro Stoxx 600 rallied 1.37% w/w, a worsening European energy crisis, hawkish ECB, and record-high inflation are areas of large concern regarding the economy. The index saw bullish price movements over the last trading week as a result of the financials sector reporting 2.85% gains w/w and investors navigating the rising costs of credit. However, the Sector believes that these gains will be temporary and that prices will begin to see bearish movements through 4Q2022. The Euro Stoxx 600 is down 14.11% YTD and will most likely continue to face declining prices. On Thursday, the ECB announced a 75.00 bps rate hike to combat the 9.10% Eurozone inflation, which will prove to have an adverse effect on the Euro Stoxx 600. In addition, the ECB announced that further rate hikes would be needed in its October and December meetings as inflation is expected remain above the target percentage for an unforeseen amount of time. Additionally, the announcement of Nord Stream 1 closing indefinitely is going to exacerbate the European Energy crisis to severe levels going into the winter as gas prices skyrocketed 30.00%, reaching a record high of €343.00 per megawatt hour. The Sector will continue to monitor future Eurozone CPI and GDP data as we maintain a bearish outlook on the Euro Stoxx 600 going through the remainder of 2022, and we plan on allocating our portfolio accordingly.

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Weekly Product Report

Interest Rate Products Sector

Weekly Product Report

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Summary of Weekly Themes

- On Thursday, the ECB announced a **rate hike of 75.00 bps** after the bank adjusted its inflation projections to an average of ~8.10% for CY2022
- The 2-10 U.S. Treasury Yield Spread continues to show an inverted yield curve, closing at (23.00 bps) on Friday foreshadowing a potential recession
- Mortgage applications **fell 1.00% w/w**, or 23.00% y/y, following a broader increase in mortgage rates, reflecting a decrease in housing demand
- The U.S. 10-Year Treasury Yield **increased ~3.36% w/w** to 3.30% following increasingly growing hawkish sentiment surrounding global central banks
- Christopher Waller, a Fed governor, made a statement on Friday where he spoke in support of a 75.00 bp rate hike in the September FOMC meeting
- The *National Bureau of Statistics* reported that the Chinese CPI **increased ~2.50% y/y** reflecting increased COVID-19 cases and further lockdowns
- The ICE BofA Corporate Index Option-Adjusted Spread closed at 149.00 bps on Thursday, reflecting an overall deterioration of credit markets
- Fed funds futures are currently pricing in **a ~90.00% chance** of another rate hike of 75.00 bps during the September CY2022 FOMC meeting
- The BoJ announced that it would increase its bond purchases to ~$3.80 bn as the country faces a substantial bond selloff leading to a broader increase in Treasury Yields. The Japanese 10-Year Yield is **closing on 0.25%**
- The Chinese Yuan **has continued to weaken** on expansionary monetary policy from the PBOC, as the bank looks to stimulate a struggling economy
- Chinese corporate debt issuance has surpasses that of the U.S. as American credit markets have worsened with growing recessionary fears

Looking Ahead

The Sector is actively monitoring a vast array of global central banks and their current views on global inflation in the slowing global economic cycle. With the ECB hiking rates by 75.00 bps on Thursday in order to cool their elevated inflation rate, the Sector is looking in the EU in order discover opportunities within specific nations' treasury futures. Moreover, the Sector has continued to monitor the situation in Japan, as the BOJ continues to scramble over the falling value of the Yen, as it continues to slide to record lows. With FX markets punishing the Yen around the clock, traders believe that intervention in the form of breaking the policy of Yield Curve Control is imminent. With heightened market volatility surrounding the Yen in tandem with a large volume of speculative trades, the Sector is considering a swaps position within these markets. Swaps allow for the sector to offset risk that is created by the volatility in interest rates while becoming less exposed to the changing conditions of the market. Incoming CPI data for August is set to release on Tuesday, with most forecasts anticipating inflation to be in the range of 7.70-8.10%. Data within this range will provide some much needed relief in markets, although institutions will be looking to assess trends in sub-components of the market, such as food and housing costs. All things considered, the Sector believes that the Fed is likely to hike 50.00-75.00 bps in the upcoming FOMC meeting in September.

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Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- Gold spot prices **gained 0.20%** this week. Metals experiences a bit of relief this week due to **a pullback in the Dollar**. The Dollar dropped as much as 1.00% Friday. Gold has been hovering around **$1700.00/Oz** as expectations of a **75.00 bps rate hike** grow and the Dollar continues to perform well
- The Silver continuous contract **rose 4.20%** this week. Silver experienced relief this week with the overall market but **net short positions** in the asset are at the **most bearish levels** in more than three years. Money managers have increased their bearish silver bets by 3,573.00 net-short positions to 24,632.00, weekly CFTC data on futures and options show
- Palladium futures contracts **traded up over 7.00%** over the past five days. Palladium experienced **a boost from a pullback in the dollar** as well **as supply constraint fears** coming out of the Russia-Ukraine conflict
- Front month aluminum contracts **fell 1.20%** this week. Aluminum fell this week due to **demand concerns** sparked by **worse than expected Chinese trade data**. Aluminum **stockpiles** tracked by the London Metal Exchange **surged 11.00%** Tuesday, the biggest increase since February 2022
- Nickel future prices **increased 7.10%** this week, representing **the biggest weekly gain since July**. Nickel received an initial boost from a **weaker dollar. High energy prices** have caused **supply reductions** and **smelter shutdowns** which extended nickels gains this week
- The copper continuous futures contract **gained 2.80%** this week, after its **fifth consecutive monthly loss last week**. Industrial **metal demand concerns** have continued to flare as a potential **global slowdown** remains in investors minds

Looking Ahead

Looking ahead to the coming months, metals markets will face a tumultuous end to 2022. The Fed has doubled down on their dedication to fulfill price stability. As the U.S. dollar continues to strengthen, metals markets will face these pressures into the future. The Fed remained committed to taming inflation in Jerome Powell's Jackson Hole speech in which he said that higher interest rates could "bring some pain to households and businesses." An overall pullback in the macro economy could spell disaster for precious and industrial metals which have already seen declines of 18.00% and 38.00% YTD respectively. If consumer spending continues to see declines, metals markets will see unprecedented price drops fueled by a lack of demand. One specific market that could potentially be a sole driving force for the sector is China. Still plagued by President Xi Jingpin's "zero-covid policy," China's economy has been held back from reaching its full potential. If and when China elects to move away from their Covid-19 policy, industrial metals will see drastic bullish price movements. Geopolitical conflict and tensions are continuing to be a driving force in the economy and will be present heading into the future months. The tensions will specifically influence energy prices especially as we move into the winter months. In turn, energy prices will drastically influence metals markets as the industrial processes for metals rely heavily on energy prices.