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PENNSYLVANIA STATE UNIVERSITY

Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- **Crude oil prices increased ~7.00% w/w**. The primary drivers were higher than expected depletion of U.S. crude stockpiles of a **forecasted 2.20 mm barrels to an actual 9.20 mm barrels depletion** as well as market participants pricing in greater risk for the war in Israel
- **U.S. dry natural gas production set a record high in December**. Lower 48 dry natural gas production reached **105.50 bn cf/d** and contributed to an increase in associated natural gas production in the Permian region
- **Biden pauses LNG export approvals** for future and pending applications to export LNG from new projects. This is due to **climate activists lobbying** against carbon emissions by natural gas power plants
- **China lowers reserve requirements** in an attempt to stimulate the economy. This is projected to free one trillion Chinese Yuan, which is equivalent to ~139.00 bn USD. China has also **considered** mobilizing **two trillion Chinese Yuan,** which will be invested in equity markets
- **Ukrainian attack on Russian fuel export facility**, which damaged 150.00 k barrels of crude. Russian oil **exports grew 140.00 k Bbl/d in 2023 even after worldwide sanctions**, thus demonstrating it's still a significant source of global oil supply that does affect global crude markets
- **Exxon sues ESG investors** in an attempt to block them from pursuing a bid that would further limit their greenhouse gas emissions as well as its customers. In the past year, **Chevron has also been pressured** by climate activists to limit emissions and production, which can hurt their margins
- **Shell exits from Nigeria's onshore oil sector.** Shell cites the Niger Delta is blighted by pollution, oil theft and pipeline vandalism

Looking Ahead

The Energy Sector's global energy outlook remains relatively consistent compared to the previous week. Our moderately bullish stance on Brent crude and WTI continues to stay strong. On Friday, a Trafigura oil tanker was sent into flames after a Houthi strike near Yemen, causing a slight surge in both WTI and Brent crude. The threat of intensified geopolitical tensions in the Red Sea and the Middle East still remains prevalent, as the U.S. and U.K. sent more strikes toward Houthi targets. The Chinese stimulus offered by its government is boosting demand expectations coming from one of the world's largest energy consumers. The E.I.A is still currently predicting 13.20 mm Bbl/d of output from the U.S. for the rest of 2024, leading the global supply forecast to stay high. Elsewhere, OPEC+ is not expected to make any output changes next week. Earlier in the year, OPEC+ cut production by 900.00 k Bbl/d, which had little effect on prices. Natural gas had a weekly gain of 4.40%, this was expected as it had been in a 24.00% slump. The Energy Sector is still taking a bearish stance on natural gas, as warmer-than-expected temperatures are forecasted going forward. Natural gas storage is still 5.20% above the seasonal norm, even with a larger-than-expected draw this week. Heading into next week, the sector remains focused on monitoring attacks in the Middle East as well as turning our attention to Russia-Ukraine, as Ukraine has begun targeting Russian oil rigs.

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Weekly Product Report

Equity Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- The major indices all ended the the week in the green due to data supporting the possibility of a soft landing. **The NASDAQ was up 0.40%, the DJIA was up 0.50%, and the S&P 500 was up 0.77%**
- The **GDP Growth Rate came out to an annualized 3.30%** in 4Q2023, powered by consumer spending. Spending has been fueled by cooling inflation and job growth, defying predictions of a U.S. recession
- **Netflix (NFLX) earnings** beat estimates for 4Q2023 with revenues **increasing 13.50%**. Subscriber count also increased by 13.10 mm and a new live television deal with WWE improved future expectations.
- **FAA** will **freeze future production of Boeing (BA) 737 Max 9 planes**, moving the stock down (4.21%) this past week, and interrupting a time of surging demand and competition with Airbus SE (AIR)
- **Tesla's (TSLA) earnings underperform estimates for 4Q2024**, coming out with a revenue of $707.00 mm less than expected and EPS surprising by (2.95%), leading to a fall in their stock of (12.90%)
- The **University of Michigan Consumer Sentiment** report showed a reading of **78.80, surpassing the previous of 69.70.** Confidence has stemmed from cooling inflation and higher income expectations
- **Core PCE y/y fell to 2.90% from 3.20%** and below expectations of 3.00%. This marked the first **dip below 3.00% since March 2021**
- **Personal income rose by 0.30% m/m** in line with expectations; **spending grew 0.70% m/m surpassing expectations.** Spending has remained robust due to increases in inflation adjusted incomes

Looking Ahead

Next week, markets will be getting crucial economic data in the form of the Federal Reserve interest rate decision, Job Market data, and ISM manufacturing. Equity markets will also be assessing earnings releases from five Magnificent Seven companies such as Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Meta Platforms (META), and Amazon (AMZN). JOLTs Job Openings are expected to come in at 8.69 mm, down from the previous reading of 8.79 mm, indicating that the labor market is cooling as less openings are becoming available. The Fed is expected to hold rates steady this meeting, but the Fed Press Conference could reveal details about the timeline for rate cuts through further dovish or otherwise hawkish tone. Equity markets have been extremely reactive to any changes in rate cut expectations and this trend does not look like it's going to change soon. ISM Manufacturing PMI is expected to fall slightly to 47.20 from a December reading of 47.40. We have seen the manufacturing sector in contractionary territory for 15.00 straight months. Non Farm Payrolls recently showed 216.00 k jobs being added in December, but is forecasted to show a cooler addition of 175.00 k jobs in January. A cooler labor market report could point to a cooling economy, which could lead investors to become more optimistic of rate cuts once again. This optimism could lead to further gains and potentially new highs for equity markets. The sector plans to monitor the upcoming Fed meeting and job data in order to best position itself.

Weekly Product Report

Foreign Exchange Sector

Weekly Product Report

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Summary of Weekly Themes

- The DXY index gained slightly after an unexpected move in **GDP for the fourth quarter, which showed a 3.30% y/y increase despite an expected increase of 2.00% y/y.** This supports expectations that the Fed will likely maintain current rates for longer as the economy remains stable. **U.S. PCE came in as a 2.60% y/y** increase for December, providing a counter to GDP data in supporting sentiment that the Fed may delay cuts
- EURUSD traded down despite rates remaining unchanged at the ECB meeting this week**. The ECB suggested it remains data-dependent,** which did not help support the euro against U.S. GDP data. **Weak PMI data in the E.A. came in below expectations at 47.90** contributing to Euro weakness
- USDCAD traded up this week after a sentiment shift from the BoC. Previously, the BoC indicated that rate hikes were still on the table, but after the recent meeting this week it was suggested that **peak rates have been reached and a rate hike is likely off the table in Canada**
- USDJPY remained relatively stagnant despite strong GDP news in the U.S. **The BoJ reversed the dovish sentiment it displayed in December,** and while rates were maintained at (0.10%), Governor Ueda indicated the 2.00% inflation target was gradually becoming achievable. Additionally, **Tokyo CPI grew only 1.60% y/y in January**, potentially impacting the BoJ outlook
- **GBPUSD declined (0.25%) w/w** despite strong PMI readings out of the U.K., **Manufacturing PMI increased by 1.10 and Services PMI rose by 1.40** representing strength in many of the U.K.'s industries. U.S. GDP coming in strong for 4Q2023 caused this pairing to trade down this week

Looking Ahead

The Sector will monitor monetary policy decisions from the Fed and BOE along with data from the E.A. including inflation and GDP. After no change in the December PCE reading, the probability of a January hold is 97.40% and in the March meeting, there is a 52.60% probability the Fed holds. Nonfarm payrolls data is set to be released on Friday and a positive reading would benefit the DXY as it is a major indicator in the Foreign Exchange Sector. Data from the E.A. this week will likely point towards a March cut from the ECB as inflation reports have shown the E.A. is approaching the 2.00% target rate. E.A. GDP is released Tuesday and is currently projected to be 0.00% for 4Q2023, a weak GDP report would force the ECB to cut as the consumer is still extremely weak and has not shown signs of strengthening. HICP and unemployment for the E.A. releases on Thursday which will signal how strong the E.A. consumer is. The BOE has a major policy decision on February 1st, rates are expected to be held as inflation is still well above the 2.00% target, currently at 4.00% y/y. PMI data being positive should also give the BOE confidence that the U.K. economy is more resilient than previously thought. Switzerland releases real retail sales on Wednesday, and after an increase by 0.70% y/y in November, a significantly lower reading might force the SNB to switch back to a more dovish policy and move towards a negative rate to get their economy to grow at a faster rate as inflation is under the 2.00% target rate and consistently has been.

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Weekly Product Report

Index Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- The U.S. Indices continued an excellent start to the year. **The S&P, Nasdaq, and the Dow Jones rose 0.77% w/w, 0.40% w/w, and 0.50% w/w**, respectively. Economic data showed signs of a soft landing. U.S. GDP grew 3.30% y/y in 4Q2023, beating the 2.00% forecast. The 2.90% core PCE reading was its lowest since March 2021, heightening rate cut debates
- **The Hang Seng Index soared 3.93% w/w** after Beijing's stimulus to fund and stabilize equities markets with 2.00 T yuan ($278.00 bn). The PBOC cut the reserve requirement ratio by 50.00 bps, accelerating borrowing activity, providing 1.00 T yuan ($139.00 bn) in liquidity to the market
- **The Nikkei 225 fell (1.50%) w/w** moving inversely with Chinese equities. The BOJ held rates at (0.10%), maintaining it's ultra-loose monetary policy. The index fell briefly after sentiment about a hawkish BOJ at its most recent meeting, but rebounded later in the week as foreign investors shifted their investments into ETFs tracking Japanese equities
- **France's CAC 40 rose 2.66% w/w** as consumer confidence reached 91.00, the highest level since February 2022, beating the forecast of 90.00. The luxury-heavy index was largely driven by Louis Vuitton's resilient 4Q2023 sales. The stock jumped 16.43% w/w. The ECB held interest rates at 4.00%, stating that inflation has not yet converged toward their 2.00% y/y target
- **The DAX rose 1.66% w/w** hitting an all time high. However, Qube Research and Technologies engaged in a $1.00 bn short on some of Germany's largest stocks including Volkswagen and Deutsche Bank AG as a result of a weaker global demand. Further, German GfK Consumer Confidence recorded a level of -29.70, an 11.00 month low

Looking Ahead

Movement in global equity indices this week was largely driven by strong U.S. GDP growth, increased liquidity in Chinese markets, and global central bank hawkish sentiment. Japan equity performance drew large attention from the sector this week. The Nikkei 225 has fell in the last few trading sessions, however, Chinese investors have been shifting their investments into China-listed ETFs tracking Japanese equities. Four China-listed ETFs tracking the Nikkei 225 index recorded about $3.30 bn in trading volume this week. The Nikkei has already climbed 7.40% YTD. The sector strongly believes that this is largely due to the government's efforts to stimulate investments in financial markets. Declining inflation readings have increased sentiment about the BOJ holding on to it's ultra-loose monetary policy for longer than expected, at a rate of -0.10%. Additionally, Japan's program that exempts investors from a 20.32% tax on capital gains was revamped in early January. The tax-exemption period is now unlimited and annual investment ceilings were increased. The large post-revamp spike in the Nikkei drew large attention from the sector. The Nikkei has soared 30.56% y/y and the sector remains bullish on Japanese equities. Moving forward, the sector will also be monitoring the USDJPY exchange rate and the overall strength of the JPY. A weaker JPY supports Japan's exports, a critical component to the health and performance of the world's third largest economy, as the industrials sector weights 19.20% of the Nikkei 225 index.

Weekly Product Report

Interest Rate Products Sector

Weekly Product Report

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Summary of Weekly Themes

- **Pending home sales in the U.S. increased 8.30% m/m** for December up from 0.30% in November and beating expectations of a 1.50% increase up from a revised 0.30, showing a stronger housing market than expected
- U.S. **10-year Treasury note bond yield increased 0.35% m/m** as markets continued to assess the latest data for hints on the timing and extent of rate cuts that the FOMC may deliver this year, forecasted to decline
- The **U.S. ISM PMI improved slightly to 47.40** in December, up from a November reading of 46.70, and beating market forecast of 47.10
- **CME FedWatch Tool gave a 50.70%** chance that the FOMC will cut rates in May, as the economy is showing strong resilience a May cut is likely
- **GFK consumer climate indicator for Germany unexpectedly fell to (29.70)** heading into February 2024 from a revised (25.40) in January, pointing to the lowest figure in 11.00 months, and possible future rate cuts
- **Core PCE rose by 2.90% m/m** for the month of December, less than market expectations of 3.00%, the monthly gauge was up by 0.20% compared to a 0.10% decline in November, signaling increased inflation
- **Personal spending grew by 0.70% m/m** for December, following a 0.40% increase for November, beating market expectations, forecasting inflation
- **GDP deflator in the U.S. increased 1.50%** on quarter to a record high of 123.22 index points in Q42023, compared to a market forecast of a 2.30% rise, and this number is expected to increase to 129.34 index points by 2025
- **Annual rent inflation in the U.S. eased to 6.20%** in December 2023, the lowest since July 2022, showing rate cuts may in fact come in mid Q12024

Looking Ahead

In the coming week, IRP will be monitoring multiple economic events and indicators to get an insight on the state of the economy and aggressiveness at which rates will be cut. The biggest event next week will be the FOMC decision and press conference on Wednesday, January 31st. While rates will remain unchanged, the rhetoric from Chair Powell will be crucial in telling when, and how often, rates can be expected to be cut, as well as when the Fed may end quantitative tightening. There will also be a BOE decision the following Thursday, where we can expect to get some more insight on their respective cut timeline. Throughout the week, companies such as Apple, Alphabet, Microsoft, Facebook, Mastercard, and Samsung will report their 4Q2023 earnings. These will provide valuable insight as to how these companies performed as well as some forward guidance on 1Q2024 and trends they have seen from consumers. Earning calls can be some of the first indications as to the state of the consumer and specific industry and can show what may happen in the economy before it's released in the form of a backward-looking indicator. Besides that, we will get 4Q2023 GDP data and CPI figures from across Europe. In the U.S., we will get the unemployment rate, average hourly earnings, multiple manufacturing PMI figures, and some job reports all for January. This coming week will be a huge indication as to the state of the consumer, economy, and speed at which the Fed and BOE will cut.

Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- **Gold prices fell 0.43% w/w** as markets continued to scale back Fed cut projections for March from 75.00% to 39.00% chance of rate cuts. The 10-year treasury yield dropped 5.00 basis points to 4.13% and Gross Domestic Product increased 3.30% in 4Q2023, improving confidence in markets across the U.S. and increasing interest in fixed income assets
- **Silver prices experienced a rise of 1.17% w/w** supported by strong U.S. data and Chinese economic recovery actions, an equity market rescue, slashed reserve requirements, and sanctioned stimulus increase
- **Aluminum prices rose 2.95% w/w**, as markets reacted to a report that the EU is considering a ban on all aluminum imports from Russia. In December, the EU barred imports of aluminum wires, tubes, pipes, and foil as sanctions for the Russia-Ukraine war, but this has only accounted for 12.00% of EU imports, prompting calls for a wider ban of Russian aluminum
- **Platinum plunged 2.20% w/w** as the gap between platinum and palladium prices closes, reducing the attractiveness of platinum as an automobile manufacturing input. A projected deficit puts upward pressure on prices. Political instability in major platinum producing regions also acted as a point of concern for platinum prices
- **Palladium suffered a 3.26% w/w decline**. The market share of EVs is projected to increase in 2024. There is still a cloudy outlook on traditional combustion vehicles despite recent EV struggles from companies like Ford
- **Copper prices increased 1.98% w/w** as markets experienced increased optimism for China’s economy. The PBOC cut its reserve requirements at its Wednesday meeting, and pledged 2.00 T Yuan to rescue equity markets

Looking Ahead

Fed watchers were met with new data as the U.S. economic growth report was released, indicating that the U.S. economy grew 3.10% y/y in 2023. Coupled with this report, the ECB has also held interest rates at a 22.00-year high, further pushing back the initial predictions for a rate cut in the March meeting. Therefore, short-term growth prospects for precious metals are dampened as the upward potential of gold and silver is closely tied to rate cuts. Investors should remain cautious towards precious metals as a strong economy does not allow for a 1Q2024 price boost for gold and silver. This sector believes that precious metals will climb later than the initial prediction and will grow in 3Q2024. Our sector expects industrial metals to perform well in the upcoming weeks. Iron ore is expected to face an increase in production, allowing the metal’s shares to increase. The industrial metals market is expected to stay afloat throughout 2024 due to the support they are provided by the clean energy and EV market, and the 2.00 T yuan stimulus increase in China. Copper and nickel, some of the most crucial products in the boom of EVs and clean energy, can be expected to tick up and surpass bearish expectations set previously in 2023. Overall, the precious metals market will trail as their industrial counterparts that are defying investors' predictions and are expected to perform well in the face of increased EV and clean energy production.