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Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- **WTI and Brent both rose to their highest levels since October 20th 2023,** driven by the thought of a larger conflict breaking out in the Middle East. Israel is preparing for an attack that is expected to come over the weekend, as Iran vowed retaliation in response to a strike last week
- The most recent ceasefire between Hamas and Israel has completely fallen through, **as the Israeli Prime Minister Benjamin Netanyahu announced they will carry on with the war in Gaza**
- Hamas threatened Israel in response **to an airstrike that killed three of an important Hamas leader's sons.** These events have had a serious impact on the price of oil, and as they get worse will only push prices up
- **Mexico cancelled 436.00 k Bbl/d in crude exports this month**, due to their hope that they can become a self-sufficient energy nation. This would benefit them economically, but will increase the price of oil and countries like the U.S. and China will have to make up for a lack of supply
- **Strong U.S. economic data eliminated the hope for early interest rate cuts,** causing some bearish movement in energy prices during the week. Oil and natural gas prices have an inverse relationship with interest rates due to smaller demand when interest rates are hiked or held
- **EIA data showed a larger-than-expected natural gas inventory build of 24.00 bn cf** this past week, pushing prices below the one-month high seen last week. This is still 39.00% above the seasonal-norm, mainly due to mild weather, low consumption, and high natural gas production
- Weather forecasts are showing **above-average temperatures** for the rest of April, leading to stronger demand for both oil and natural gas

Looking Ahead

This week, Brent declined 0.80%, and WTI fell ~1.00%. The increase in oil last week was dominated by investors worried about heightened geopolitical tensions and tightening global supply. Looking forward, the Sector believes these trends will continue to develop. Guyana has yet to formally announce 400.00 k Bbl/d in production cuts this month; however, the Sector believes this will happen as Guyana wants to upgrade pipeline capacity from offshore oil drives. This will further tighten global oil markets, which will put upward pressure on oil prices. This week, Israel launched an attack in Northern Gaza, which killed three of the Hamas chief's children. Israel has also killed a senior officer in the Iranian embassy, which has increased tension between the two countries. The Sector believes the combination of these two drivers will push oil prices higher in the coming weeks. In the long term, the Sector is bullish on natural gas due to the demand for baseload energy sources increasing at exponential rates. In the near term, the Sector believes natural gas will increase above the $2.00 per MMBtu level. Producing natural gas is not economic until prices reach $2.30 per MMBtu, which will lead to prolonged production cuts from private producers until prices increase. Refined products will continue to rise in price as shortages from Ukraine attacks continue, and maintenance from many refineries around the globe persist. However, the Energy Sector does not believe this will be a long term as supply will come back online.

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Weekly Product Report

Equity Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- The major indices ended the week negative with **the NASDAQ down 0.68%, the DJIA down 2.40%, and the S&P 500 down 1.69%**
- **CPI for the month of March increased 3.50% y/y**, above expectations of a 3.40% y/y increase. This is a significant jump from the 3.20% y/y increase we saw in February, which could complicate rate cuts
- **Core CPI** for March **stayed steady** from last month's reading, coming in at a rate of 3.80% y/y, 0.10% higher than expectations. Both the CPI and Core CPI releases caused downward movement in the equities markets
- **PPI m/m came out lower than expected**. However, PPI came in at 0.20% m/m, a solid 0.40% decrease from the 0.60% m/m reading from February. This softer than expected PPI helped settle some of the nerves felt in the market after Wednesday's hotter than expected CPI report
- **University of Michigan Preliminary Consumer Sentiment decreased** to a level of 77.90, both below expectations and down from the previous reading of 79.40. This could point to a weakening, less confident consumer
- Equities gains have largely been driven from optimism surrounding rate cuts. **Markets are now pricing in a 27.20% chance that the first rate cut will occur in June** and a 55.80% chance that it will occur in July. This is much **more bearish** than what markets were reflecting in the beginning of **the week**, with nearly a 50.00% chance of the cut occurring in June
- **JPMorgan (JPM), Citigroup (C), and Wells Fargo (WFC) all took hits to their stock prices**, as certain aspects of JPMorgan's and Wells Fargo's financials came in below expectations, with Citigroup trading down on the news of these suboptimal financial services earnings releases

Looking Ahead

Next week, the markets will be closely monitoring the release of important economic data in the form of Retail Sales, Building Permits Preliminary, and Housing Starts. The equities markets will also be assessing earnings releases from American Express (AXP), UnitedHealth Group (UNH), ASML Holding (ASML), Taiwan Semiconductor Manufacturing Company Ltd. (TSM), and Netflix (NFLX), along with many other companies. Netflix's subscriber growth and content investment strategies will be scrutinized for indications of consumer discretionary spending and competition within the streaming industry. Equities markets are also waiting for earnings reports coming from major banks like Goldman Sachs (GS), Morgan Stanley (MS), and Bank of America (BAC) next week to see if their M&A activities have been robust. This would indicate strong demand for corporate deals and reflect confidence in the economy despite potential headwinds from geopolitical tensions and uncertainties in Fed interest rate decisions. Retail Sales are expected to come out at 0.30% m/m compared to the previous rate of 0.60%. If this were to decrease as expected, it would mean that there is a weakening in consumer confidence. Building Permits Preliminary is expected to see a decrease from the previous month by 10.00 k. If this were to slow down as expected, the Sector would forecast a slowdown in construction activity and show a potential decrease in demand for new homes or commercial properties because of still high interest rates.

Weekly Product Report

Foreign Exchange Sector

Weekly Product Report

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Summary of Weekly Themes

- The DXY traded up 0.99% w/w, this is mainly due to **CPI coming in higher than expected at 3.50%.** Expectations for the first Fed cut has been pushed back and is now expected to be in September rather than June. Markets are now pricing in a September cut, much later than previously expected
- EURUSD traded down (1.02%) w/w, this move was mainly due to strength in the USD but the ECB also held rates which was expected. The ECB is expected to cut rates in their next meeting as more data will be released in June. **They have indicated that they are not dependent on the Fed**
- GBPUSD decreased by (1.50%) over the past week, again largely driven by strength of the USD. **GDP in the U.K. took a unique step this week, growing by 0.10% q/q.** This being said, there is still weakness in the U.K. which will certainly be something to monitor when considering future decisions by the BOE, as economic certainty is an important factor
- USDJPY increased 1.27% w/w, **the pairing has been testing ¥152.00 since the BoJ hike.** Weakness has primarily been caused by strength in the USD, however if the pairing continues to push past this mark, it is likely that the BoJ will act to control the strength of the Yen as they have indicated this is something they would be open to and have done in the past
- USDCAD increased 1.06% w/w, the increase was mainly because of the appreciation of USD **but the BOC held rates at 5.00% this week,** the BOC should be able to cut soon as their inflation is approaching 2.00%
- USDNZD traded down (0.43%) w/w, this pairing was affected less by the U.S. CPI report **because the RBNZ held rates at 5.00% remaining firm on bringing inflation down.** This will certainly be relevant to watch in the future

Looking Ahead

The Sector will monitor various economic releases in the E.A., U.K., Canada and the U.S. Starting off, in the U.S., Retail Sales are set to be released. The Sector believes the consumer will be an incredibly important factor in a determination of a cut by the Fed. With services inflation remaining sticky, a weak consumer will be instrumental in allowing inflation to come down. Initial Jobless Claims is also set to be released, which is another important factor in determining an outlook for the consumer. In the U.K., much like in the U.S., Retail Sales will be released. Again, this is an important metric in determining an outlook for the BOE, though it may prove slightly less important than in the U.S. because of the current economic situation. Additionally, CPI will be released in the U.K. Considering how CPI has impacted the USD over the past week, this will be an incredibly closely monitored metric. Moreover, like in the U.K. CPI will be released in Canada. The Sector expects that a near-term cut is in the future for Canada. CPI will be a major determining factor in an outlook for the BOC and thus will be monitored heavily. In the E.A., it is possible that CPI may track somewhat similarly to the U.S. If services inflation remains hot, it may push back an ECB cut, however, if we see a cooling, a cut in the near future may be realistic. Considering how CPI has been trending over the past few months, cooling seems to be the most likely scenario for the E.A..

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Index Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- Benchmark U.S. indices ticked down this week. **The S&P 500, Nasdaq Composite, and Dow Jones Industrial Average fell (1.69%), (0.68%), and (2.40%) w/w respectively**. The annual inflation rate rose to 3.50%, increasing the chance of hawkish moves in the next several Fed meetings. The yield on the U.S. 10.00-Year Treasury jumped to 4.59% on Thursday
- Hong Kong's **Hang Seng Index experienced high volatility and ended the week up 0.43%**. The annual inflation rate in China fell far below market forecasts to 0.10%. China's trade surplus also declined in March 2024 to a level far below forecasts, complicating economic concerns in the country
- Japan's **Nikkei 225 Index fluctuated heavily as well and finished the week up 0.30%**. The USDJPY exchange rate rose above ¥153.00, largely due to the strengthening U.S. Dollar on expectations for high borrowing costs for longer. Technology stocks pushed the index up despite weak data regarding industrial production and manufacturing operations
- The **STOXX Europe 600 ended a volatile week down (0.19%)**. The ECB held interest rates at record highs for the fifth consecutive meeting. With inflation falling to the central bank's 2.00% target and weak E.A. economic growth, rate cuts are on the horizon. GDP growth was 0.00% in 4Q2023
- France's **CAC 40 ended the week down (0.49%)**. Luxury stocks pulled down the index amid diminishing hopes of economic recovery in China
- Germany's **DAX also retreated (1.28%) this week**. Expectations of a hawkish stance from the Fed weighed on the index as well as pessimistic economic data from China. Germany's balance of trade also missed market forecasts, further adding to the country's recent economic struggles

Looking Ahead

Movement in global equity indices this week was driven by strong inflation data coming out of the U.S. where annual inflation came out above forecasted 3.40% and previous reading of 3.20% to 3.50% y/y. In addition, investors reacted to the ECB meeting on Thursday where they held their interest rate at 4.50%, causing a ~(1.00%) drop in most EA markets on Thursday. Indices around the world have yet again stalled this week with such an emphasis on higher for longer central bank policy within the past few weeks. The Brazilian Ibovespa Index has garnered the Sector's attention due to its sluggish performance at the start of FY2024, following a robust 23.16% gain in 2023. YTD, the index has seen a decrease of 5.09%. Recent Retail Sales figures, significantly outperforming expectations with a monthly increase of 1.00% against a forecasted decline of 1.30%, indicate resilience among Brazilian consumers despite the high interest rate environment of 10.75%. After doing some research, the Sector found it interesting that investment bankers anticipate a surge in Brazilian IPOs as interest rates drop below 10.00%, potentially increasing equity investments and reducing fixed-income holdings. With over 100.00 companies poised to launch IPOs, market activity could inject as much as R$70.00 bn into Brazil's economy, fostering market growth. Looking forward, it is important for the Sector to monitor what the BCB does with their high rates and specifically the business confidence report next week.

Weekly Product Report

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Summary of Weekly Themes

- Headline CPI was released **at 3.50% y/y and 0.40% m/m for March**. This is the third consecutive hot CPI reading, and rate cut expectations have been pushed back significantly. Services have been the sticking point inside of CPI and will need to come down before the Fed cuts rates
- The **U.S. 10.00-Year jumped over 20.00 bps** as a result of hot inflation data. Markets are now pricing in only two 25.00 bp cuts for 2024FY with about a 57.00% chance of the first cut coming in the July meeting
- PPI was surprisingly weaker than expected at a reading **of 0.20% m/m for March**, while **Core PPI was at expectations of 0.20% m/m for March**
- The **ECB left interest rates at 4.50%** but provided forward guidance around monitoring high wage growth and a likely 25.00 bp June cut
- Fed Member Neel Kashkari stated that **rate cuts will be in question if inflation continues to stall** and that the Fed needs more progression in order to make any decisions around the future of interest rates
- Initial Jobless Claims was slightly better than expected at **a reading of 211.00 k** while markets were expecting 216.00 k for this week
- Fed's Raphael Bostic **remained strong on his stance of only seeing one cut for this year**. He did say he was open to changing his opinion if the economic data in the coming months showed a different signal
- Germany, France, and Spain all had inflation readings in line with what markets were expecting for the month of March**. Germany was released at 2.20% y/y, France was 0.20% m/m, and Spain was 3.20% y/y**
- FOMC Meeting Minutes showed they want **more proof that inflation is falling** and provided some clarity around slowing quantitative tightening

Looking Ahead

In the coming week, the Interest Rates Products Sector will be monitoring various economic indicators in order to formulate a clearer outlook on future rate cuts by the Fed and other global central banks. U.S. m/m Retail Sales will be released for the month of March, giving a look into the strength of commercial stores amid sticky inflation and high rates. Retail Sales m/m are forecasted to come in at 0.40%, below a previous reading of 0.60%. Building Permits will also be released on Tuesday, April 16th, giving investors and economists an idea of how the construction market is performing in the current economy. Building Permits are forecasted to come in below a previous reading at 1.51 mm. In terms of global macroeconomic data, there are crucial readings that are set to come out next week that will affect markets and investors internationally. China has a slew of economic data coming out on Monday, April 15th. China is set to release GDP Growth, Industrial Production, and Retail Sales. All of these readings are Forecasted to come in lower than previous readings with most notably GDP Growth decreasing from 5.20% to 5.00% y/y for 1Q2024. Staying in the Asian region, Japan is set to release its Balance of Trade and Inflation Rate y/y. The BOJ will be following the Inflation Rate reading as it will give a clear outlook on the state of their economy and how monetary policy has been affecting consumers and businesses. The Inflation Rate is forecasted to stay at 2.80%. Lastly, investors are also anticipating Great Britain's release of both Inflation Rate and Retail Sales.

Weekly Product Report

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Summary of Weekly Themes

- Mixed inflation data and a tumultuous close to the week for markets contributed to minimal price changes for **Gold, as the metal's price dropped by 0.14% w/w**. Gold climbed to new all-time highs above the $2400.00 level over the beginning of the week, but prices dropped to early week levels as earnings season began with a trade down in markets
- **Silver price levels had a similar fate as Gold, as they increased by only 0.25% w/w** despite significant momentum to begin the week. Geopolitical tensions and signs of Chinese recovery continue to support prices despite market sentiment dropping significantly to end an initially strong week
- Increased optimism surrounding China's manufacturing sector supported **Copper prices, which rose 1.65% w/w**. Recently, both the NBS and Caixin Manufacturing PMI moved into expansionary territory and beat expectations for March. Moreover, Chinese copper imports climbed by 16.00% in March
- Geopolitical tensions continued to support precious metals, as **Platinum prices saw a 4.88% boost w/w**. Additionally, China has solidified the industrial outlook for Platinum, as its manufacturing activity shows growth
- **Palladium,** much like Platinum**, experienced a 5.17% surge w/w**, largely boosted by optimism surrounding China in its economic recovery. A delayed transition from internal combustion engines to electric vehicles has supported Palladium in the short-term, but an inevitable shift to carbon friendly, electric vehicles threatens the relevance of palladium as an input
- **Aluminum prices grew 2.30% w/w to 14.00-month highs,** supported by recent promising Chinese manufacturing demand data and tightened supply in the nation that has persisted throughout the early months of 2024

Looking Ahead

In the coming weeks, the Sector will look to monitor continuously climbing precious metals prices despite the recent strong and persistent inflation data. These metals have performed exceptionally well, subverting expectations as the high-interest environment persists. The Sector predicts that the precious metals market will continue to grow even with "higher for longer" sentiment from the Fed. The Sector predicts a maximum of one cut in 2024 considering consistently strong inflation data, but does not think that precious metals will struggle as a result. The Sector forecasts that industrial metals will rally alongside precious metals due to increased Chinese sentiment as well as inflation staying high. With metals such as Copper and Aluminum, whose price is highly dependent on Chinese consumption, the Sector predicts an upward pressure on demand in light of low supply, creating a deficit which will, in effect, create an upward pressure on prices. Industrial metals lagged behind precious metals and were cause for concern for experts at the beginning of 1Q2024, but they have performed well as Chinese consumers have responded well to various stimulus efforts. As the Chinese government continues to push stimulus and encourage production and consumption of products such as EVs, which are large users of industrial metals, the Sector calls for continuous rallying of prices. Overall, the Sector remains largely bullish towards precious and industrial metals alike even in times of sticky inflation.