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Weekly Report 9.23.2022

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Weekly Product Report

Agriculture Sector

Weekly Product Report

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Summary of Weekly Themes

- December corn futures finished the week down only 0.50¢ finishing at 676.75¢ per bushel. The March contract also saw limited movement, only falling 1.25¢ to 681.75¢ per contract. China, the largest importer of corn has seen less demand this year due to the impact of its Covid-Zero policy
- November soybean contracts **traded down 22.75¢** to 1425.75¢ per bushel. The January contract fell similarly, losing 23.50¢ and finishing the week at 1431.75¢. China has **imported 3.00 mm MT of soybeans** from Argentina in the past two weeks due to the preferential exchange rate Argentina is offering to soy producers when they sell their product
- Unlike other grains December **wheat contracts gained 20.75¢** this week, ending out at 880.50¢ per bushel. The March contract also moved up hitting 893.75¢ per bushel after rising 19.00¢ this week. Tensions in Ukraine intensified as the U.S. accused Russia of war crimes. Also, Putin this week threatened to torpedo a ship carrying grains out of Ukraine
- November random length **lumber futures fell significantly**, dropping $46.00 to $435.00. The January contract fell less, losing $24.00 this week and ending up at $456.00. Hawkish Fed activity has been hurting demand for lumber. Canfor Corp., one of Canada's largest lumber producers, recently announced it will drop annual production by **200.00 mm feet**
- The October cotton future fell 6.75¢ this week and finished off at 94.49¢. The December cotton contracts drew down 6.75¢ this week as well and ended at 92.54¢. Negative price movement in the product can be attributed to a strong dollar and a diminishing demand for retail sales

Looking Ahead

Since last week, agricultural products have continued to grow more volatile. On the demand side, China is currently the largest importer of most agriculture products. The country's Covid-Zero policy is currently limiting demand from reaching full strength, but it is far from clear as to when the situation will be resolved. Covid-19 cases will likely rise going into the winter, therefore, China should be locked up for the foreseeable future under this policy. On the supply side of agriculture, there are even more uncertainties swinging markets at the moment. Drought conditions have been reported around the world and hurting crop yields while the Ukrainian situation continues push markets around at a whim. Most recently Putin stated that he is not in a hurry to end the military operation. The pact signed in July only permits 120 days of safe travel for grain exports on the Black Sea, and so far, it is roughly half-way over and there have been no talks of any resigning. Additionally, many have been recently questioning if the pact will hold in the first place. All of this recent noise regarding Ukraine caused wheat prices to hit highs not seen since June, while implied volatility rose to highs not seen since early March. All of this is to say that we are seven months into this conflict and markets are still as uncertain as they were when this started. Overall, agriculture is unstable at the moment and the Sector recommends portfolios hedge their positions to avoid losses.

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Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- **Brent futures fell 4.80%** to settle at $86.15/Bbl and **WTI receded 5.70%** to $78.74/Bbl. These bearish movements are attributed to the U.S. dollar strengthening and rising interest rates alluding to a recession. This marks the fourth consecutive week both WTI and Brent crude experienced losses
- The E.I.A reported another injection into natural gas storages of **103.00 bn ft^3**. This addition supplements the injection reported last week of **77.00 bn ft^3**
- On Monday, September 19th, German buyers reserved capacity to **receive Russian gas via the Nord Stream 1 pipeline**. However, this was later revised, and no physical gas was delivered to Germany via the pipeline
- Germany has decided to **nationalize Uniper SE**, a gas giant, to rescue the countries largest gas importer and avert a German gas crisis. German Chancellor Olaf Scholz's administration will inject €8.00 bn into the company
- After **99.00 consecutive days of price declines**, the national average for a gallon of unleaded gasoline increased $0.01, **to reach $3.78/gal**
- The Strategic Petroleum Reserve (SPR) **declined 7.00 mm Bbl** on the week ending on September 16th, **leaving roughly 427.00 mm Bbl** remaining; the lowest the reserve has been since 1984. Additionally, this marks the first time since 1983 that the SPR holds less than commercial storage
- India announced plans to **boost their coal production by roughly 25.00%** amid rising demand. This will add roughly 56.00 GW of coal power capacity
- Vladimir Putin has requested that all males working in the energy sector enlist in the army to present themselves as recruitment officers. This could have the potential to **add 2.50 mm soldiers to the Russian military**

Looking Ahead

Within recent weeks, energy commodity products have experienced bearish price movements. U.S. gasoline prices have increased by $0.01 after decreasing for 99.00 days, crude plunged roughly 5.00% to reach 8.00-month lows, and U.S. natural gas has reached 6.00-week lows. These prices have retreated, likely due to a strengthening U.S. dollar and worsening recessionary fears, as the Fed hiked interest rates 75.00 bps. Additionally, this week the energy Sector pitched a front spread with puts on Brent crude. Since then, the price of Brent has fallen to $85.54/Bbl, only $1.14 away from the max profit achieved at $84.00/Bbl. This Sector foresees the price of crude dropping even further as the effects of hiked interest rates spread throughout the market. Although general commodity prices are cooling down, rising demand due to colder winter temperatures will continue to drive demand in the E.U. among limited supply. Conditions are so bad that high prices are causing European factories to close temporarily. On top of that, the Dutch Government has taken the decision to proceed with the closure of multiple natural gas wells in the Groningen region. This Sector can diversify the portfolio by taking bullish positions on coal, due to the rising prices of European natural gas causing more demand for the product. Coal has traded extremely bullishly within recent months, reaching a high of $457.80/T and currently sitting at $435.65/T.

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Weekly Product Report

Equity Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- Equities fell Friday after a tumultuous week in the market as surging interest rates and foreign currency turmoil heightened fears of a global recession Friday marked the **fourth negative session in a row** for the major averages
- **The Dow Jones Industrial Average fell more than 800.00 points** and well below 30,000.00 to a new low for the year. The index is poised to enter what many analysts regard as bear market territory
- Shares of Chevron Corporation ($CVX) and Boeing Co. ($BA) retreated Friday. **Chevron's shares are off 4.70% and Boeing's shares are off 2.80%**, combining for a 74.00-point drag on the Dow
- For the week, the **S&P 500 is on track to fall 5.40%** and the **Nasdaq Composite is set to notch a 5.60% weekly loss**
- Stocks fell on Wednesday after the Federal Reserve announced its **third consecutive 75.00 bps rate hike** and laid out an aggressive path of rate increases for the remainder of the year with Fed Chairman Jerome Powell stating there is no "painless" way to bring down inflation
- The 0.75% hike was in line with most investors' expectations but uneasiness in the market persisted as fears about the central bank's increasingly hawkish stance and a potential recession frightened investors
- The CBOE Volatility Index, known as Wall Street's fear gauge, **shot above 30.00** on Friday to its highest point since late June
- Goldman Sachs added to recessionary fears by **trimming its 2022 S&P 500 target by 16.00% to 3,600.00 points.** That is down from their previous estimate of 4,300.00 points, claiming a hard landing scenario is "inevitable"

Looking Ahead

Wednesday's FOMC meeting and a continued hawkish Fed outlook were the main market drivers this week. After the Fed raised interest rates by a third consecutive 75.00 bps and raised their terminal rate for 2023 to 4.60%, markets ended much lower as investors began to price in more Federal Reserve rate increases. This hawkish dialogue puts even more emphasis on next week's release of the PCE Price Index for August. Investors are expecting a 0.10% m/m increase for headline PCE, and an increase of 0.30% m/m to 4.50% y/y for core PCE. As the Fed's preferred inflation gauge, a higher-than-expected PCE reading could lead the Federal Reserve to hike interest rates by larger amounts in their November and December meetings. The Sector believes this report will be in line with consensus and will do little to change the Fed's current hiking path. In addition, as 3Q2022 comes to an end next Friday, the Sector will be closely monitoring any preannouncements ahead of earnings season. With the bottom-up estimate for 3Q2022 S&P 500 EPS down an outsized 6.00% since the start of the quarter, many investors believe consensus estimates are still too high amid demand destruction and margin pressure from historically high inflation. The Sector will continue to take a bearish stance within equity markets and closely monitor upcoming inflation and earnings reports in order to profit off heightened volatility as midterm elections approach.

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Weekly Product Report

Index Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- Global markets are on the descent these week acting in tandem with several existing and emerging bearish pressures within their economies, particularly regarding tighter monetary policy and recessionary fears
- The **S&P 500, NASDAQ, and DJIA** fell **4.07%, 4.15%, and 3.69%** respectively, as the Fed continued their aggressive rate hiking cycle, raising the Fed-Funds rate **75.00 bps** and increasing the likelihood of a ”rough-landing” with many banks, such as Bank of America, forecasting an economic slowdown and increasing unemployment within the next year
- The **2-Year and 10-Year** Treasury hit their highest levels in over a decade peaking at **4.27% and 3.83%** respectively on Friday as the decision by the Fed this week signaled that they would continue their path to combat ceaseless inflation, even if it means a recession for the U.S. economy
- **The Euro STOXX 600** was down **4.32%**, its lowest level since January 2021 led by fears of a looming recession fueled by an increasingly hawkish central bank and a worsening energy crisis. The index saw a **20.00%** decline from January indicating the index has entered bear market territory
- **The FTSE 100** sunk **3.62%** for the week after a new mini-budget that proposes fiscal support and tax cuts to help citizens cover soaring energy bills caused the pound to lose **~3.00%** of its value against the dollar
- **The Nikkei 225** hit a two-month low of **27,167.62** on Wednesday awaiting the Fed’s 75.00 bps rate hike, and fell **2.58%** for the week
- **The Hang Seng** plunged to **decade lows, 17,953.21,** in response to the Fed and uncertainty surrounding China’s Covid-19 related lockdown

Looking Ahead

The Euro Stoxx 50 is Europe’s leading blue-chip index, composed of 50.00 large capitalization companies from 11.00 countries in the Eurozone. The index has faced bearish price movements in 2022, down 22.70% YTD, as a result of geopolitical tension, high inflation, and an increasingly hawkish ECB. Going forward, the Sector believes that these macroeconomic themes will continue to wreak havoc on the index, lowering prices even further. Surging energy and food prices led inflation to 9.10% in August 2022, and costs will likely increase into the winter months with low energy supplies and continued sanctions on Russia. Furthermore, economic growth across the Eurozone is supposed to decline from 3.10% to 0.90% as a result of government spending remaining high from energy relief packages, slowed production from supply chain issue, and electricity costs rising so high that factories are beginning to shut down.
The negative growth projections have caused both E.U. Economic Uncertainty and Economic Sentiment to reach new lows in Europe. In addition, the ECB is expected to hike interest rates several more times going into 1Q2023 as inflation approaches double-digits. With the ECB commencing its cycle of rate hikes much later than the FOMC, it is widely expected that further hawkish monetary policy is mandatory to slow down the economy. The Sector maintains its bearish stance on the Euro Stoxx 50 going into the reminder of 2022.

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Summary of Weekly Themes

- On Wednesday, the FOMC voted to increase the target range for the federal funds rate **by 75.00 bps to 3.00% - 3.25%**, as the Fed looks to substantially decrease the ~8.30% inflation rate the U.S. economy currently faces
- Jobless claims increased by ~5.00 k w/w, signalling a potential weakening in the broader labor market as the Fed undertakes monetary policy action
- The U.S. 10-Year Treasury Yield **increased ~6.97% w/w** to ~3.70%, reflecting a broader bond selloff following the rate increase from the FOMC
- The CBOE VIX **increased to 29.92**, representing a ~12.90% increase w/w, as equity markets continued to trade down with recessionary fears mounting
- The Japanese Yen **strengthened significantly** after the Japanese government became involved within the FX markets to prop up the currency
- The Reserve Bank of Australia reported that it had lost ~$30.00 bn due to the fixed income purchases the bank made during the COVID-19 pandemic
- The 2-10 U.S. Treasury spread reached a **year-long low of (51.00 bps)** as the Fed's monetary policy agenda continues to deteriorate credit markets
- The Swiss National Bank **hiked rates by 75.00 bps** to 0.50%, as Switzerland faces a ~3.50% inflation rate. The rate hike removed the economy from a negative rate environment, strengthening the Swiss franc
- The BoJ decided to maintain its negative interest rate policy, keeping its prime interest rate at (0.10%), forcing the bank to buy up the Japanese Yen
- The BoE voted to **increase interest rates by 50.00 bps**, lower than consensus estimates of a 75.00 bp increase, as the central bank seeks to lower the ~9.90% inflation rate that England faces and prop up the Pound

Looking Ahead

Markets continued to sell-off this week after the Fed raised interest rates by another 75.00 bps on Wednesday. The U.S. 2-Year Treasury Yield topped 4.20% on Friday, seeing its highest level in over 15.00 years. With continuing jobless claims continuing to fall, economic deceleration is becoming more apparent in the U.S. macro-environment. As bond yields continue to rise under recessionary fears and a stagnating economy, the Sector will continue to actively monitor its futures positions so as to effectively mitigate our downside risk. Internationally, the Sector is continuing to monitor the BOJ after the injection of over 1.20T Yen in order to stabilize the falling value of the Yen. The Yen saw its weakest level in over 24.00 years compared to the U.S. Dollar on Wednesday, breaking the 145.00 mark. Although the Yen has bolstered in the short-term as a result of this, the reserves will simply not be enough to prop-up value in the long-term. Traders are beginning the price in the possibility that the BOJ will abandon its policy of Yield Curve Control, and raise their benchmark interest rate in the BOJ's next meeting in October. With a changing political landscape as a result of the death of the former Prime Minister, Shinzo Abe, in conjunction with the economic turmoil seen this year, the Sector will continue to monitor this situation in order to determine if swaps should be purchased in order to profit off of actions taken within the BOJ.

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Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- Gold followed overall trends in the market this week **trading down 1.90%**. The downward trajectory of gold continued after the Fed raised interest rates 75.00 bps. **As the dollar continues to soar, gold prices have retreated to their lowest levels in over two years**
- Pressure in the macro environment **pushed silver down 3.52% this week**. Government yields have skyrocketed putting added pressure on the overall precious metals market. With the 10-year treasury reaching 3.70%, it's highest level in over 11-years, silver will continue to feel downward pressures into the future as government rates continue to climb
- **Platinum traded down 5.38%** following the Fed's decision to continue its fight against in inflation. As the market approaches peak hawkishness, platinum will face the pressures of the macroenvironment
- **Aluminum trended down 1.5%** this week as industrial metals braced recession fears worldwide. As consumer spending continues to diminish, industrial metals will face a tumultuous end to the year
- Nickel future prices **jumped 6.20% this** week, **continuing its strong gains this quarter** as the best performing metal. Port inventories **in China added 322,000.00 wmt this week** continuing its strong supply gains of the industrial metal. The **import volume has increased due to the uptick in demand for metals before the rainy season in China**
- The copper continuous futures contract **traded down 3.81% this week** as energy benchmarks reached their lowest levels in months. Despite signs of a future metals shortage, copper followed trends of other industrial metals

Looking Ahead

Metals markets continued to experience bearish price movement this week after the Fed announced an additional 75.00 bps hike and signaled further aggressive monetary policy. Gold and silver fell 1.85% and 3.55% this week, respectively. We should see these negative price movements continue as the Fed increases rate hike predictions and the dollar continues to surge. Metals markets should expect to experience further volatility throughout the year as more developments come out of the Russia-Ukraine conflict. Hostilities increased this week with Vladimir Putin threatening nuclear warfare in the conflict prompting widespread condemnation. As investors rush to shed risk of a global recession, a key gauge for commodities prices, the Bloomberg Commodity Spot Index dropped 3.10% Friday. This is a significant loss of more than 20.00% from its peak in June. In addition, China continues to suffer from massive lockdowns and quarantine periods while they are in the midst of the Covid-19 pandemic. This will continue to be a major theme in industrial metals markets heading into 2023. In the coming months, metals markets face a number of headwinds stemming from the Russia-Ukraine conflict, aggressive monetary policy, and Covid-19 lockdowns in China. The Sector will continue to look towards a resolution of the geopolitical conflicts for future bullish price and increases in demand in metals markets.