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Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- **WTI crude futures dropped to around $73.50 per Bbl on Friday,** but still remained on pace for a 0.16% increase w/w driven by stronger than expected demand estimates going forward from OPEC and the IEA
- **Houthi attacks in the Red Sea continue to affect oil prices** as cargo ship diversions and an increasing cost of transportation are driving prices higher. The US launched strikes on Houthi targets in Yemen, aiming to stop their attacks. Tanker companies are avoiding the Red Sea as much as possible with fears that the conflict could last over a year and cause change in oil prices
- **U.S. natural gas futures declined 20.00% w/w to $2.50 MMBtu, the highest drop in one week since December 2022** due to warmer-than-expected weather and a smaller-than-expected storage draw. Natural gas storages are still 11.20% above the norm, boosted by high US gas production
- **Chesapeake Energy and Southwestern Energy announced a multibillion-dollar merger, creating a new largest natural gas producer in the US.** The deal is not expected to have any major effect on the demand of natural gas, but will increase supply due to combined technology and resources
- Increasing demand for clean energy causes **BP to go with continuity and hire interim-CEO Murray Auchincloss as permanent CEO.** BP and Auchincloss plan to retreat heavily from hydrocarbons compared to their peers
- **The amount of active rigs in the US fell by two this week down to 497.00, down 116.00 y/y.** This decline in oil rigs over the past year leads the EIA to forecast a significant drop in US crude production from 2023, but still producing record high numbers of 13.20 Bbl/d throughout 2024 and 13.40 Bbl/d in 2025

Looking Ahead

The Energy Sector's global outlook for 2024 is for petroleum prices to be similar to those during 2023. At the end of 2023, OPEC and OPEC+ leaders such as Saudi Arabia and Russia have engaged in voluntary production cuts of 1.00 mm Bbl/d and 500.00 k Bbl/d. This policy is aimed at attacking high petroleum inventories, which are 3.00% below the high band of the five-year average petroleum inventory, excluding the Strategic Petroleum Reserve. In the short-term, petroleum inventories, excluding the SPR, are down 2.50 mm barrels w/w, and in 1Q2024, demand is expected to grow 2.00 m Bbl/d y/y. This balancing out of supply and demand in the short term will continue to stabilize prices. For macroeconomics, Houthi, a political and military organization from Yemen, has been attacking all oil tankers passing through the Red Sea, which accounts for 12.00% of petroleum trade. Companies such as BP, Shell, Equinor, and Qatar have avoided shipping channels through the Red Sea. While oil prices have not responded to this risk, derivatives markets moved from contango to backwardation and have priced near-term calls with greater implied volatility than near-term puts. The two most popular calls for the second month of WTI are $80.00 per Bbl and $100.00 per Bbl. The risk is a greater escalation of war, which will impact The Strait of Hormuz, which accounts for 21.00% of global oil trade.

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Weekly Product Report

Equity Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- The major U.S. indices ended the week well following speculation on the Fed cutting rates soon this year. **The NASDAQ was up 1.70%, the DJIA was up 0.12%, and the S&P 500 was up 1.01%**
- **The University of Michigan's preliminary consumer sentiment index jumped to 78.80 in January from 69.70 in December,** well above expectations for a smaller increase to 70.10. This is the highest level the index has reached since **July 2021**
- **Initial jobless claims hit a 16.00 month low of 187.00k**, down from 203.00k the week before. Indicating layoffs are remaining low and the job market remains strong as higher rates help control unemployment
- **Home sales fell in December to 3.78 mm, the lowest level in more than a decade,** as demand continued to exceed the supply of listings for sale. Exceeding the median forecast of 3.83 mm
- **Retail sales reports came out higher than expected at 0.60% m/m**, higher than the forecasted 0.40%. Showing the strength of the U.S. economy following holiday shopping season
- **The Fed's Beige Book,** which came out on Wednesday, **found signs of a cooling labor market across most of the country**, a positive sign that unemployment could be reaching the Fed's target rate
- **Discover Financial Services (DFS) dropped more than 10.00%** after their quarterly earnings **fell short** of expectations. The KBW Nasdaq Bank was off by 0.50%, marking its seventh straight losing session

Looking Ahead

Next week, markets will be getting S&P flash U.S. services & manufacturing PMI, Q42023 GDP growth, and Core PCE prices. Equity markets will also be assessing earnings releases from tech companies such as Netflix (NFLX), Tesla (TSLA), and Intel (INTC). S&P flash services PMI is expected to be 51.00, down from the previous reading of 51.40, indicating that the services sector is continuing to expand. The S&P flash manufacturing PMI is expected to go down to 47.30 from 47.90. A hotter than expected manufacturing PMI reading could spir a broader rally in the equities markets, as it would show optimism for the future condition of the manufacturing industry. Core PCE is expected to drop to 3.00% y/y from 3.20%. A hotter than expected Core PCE reading could further diminish the market's dwindling hope of a March rate cut, causing equities markets to trade down. The Core PCE will be the most sought after economic report next week, as it serves as the Fed's preferred inflation gauge. The GDP growth rate is expected to come out at 2.00% from the previous 4.90% for Q42023, indicating that the economy is shrinking. Lastly, major companies are reporting earnings next week. Netflix is projected to show stronger revenue this quarter, the stock is up 3.08% YTD. Tesla is having a rough start to the year, showing a 14.58% decline YTD. Tesla is projected to show stronger revenue this quarter. Intel is projected to show stronger revenue this quarter, marking an important upcoming week for the tech sector.

Weekly Product Report

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Summary of Weekly Themes

- Retail sales in the U.S. **increased 0.60% m/m** for December up from 0.30% in November and beating expectations by 0.20%. Core retail sales also beat expectations by 0.20% for a reading of 0.40% m/m for December which is the highest reading since September
- U.S. **10.00-year increased over 20 basis points** as a result of slight hawkish comments from Fed Governor Chris Waller saying the cutting process should be carefully calibrated and not rushed
- Existing home sales were reported at 3.78 mm for December, a **6.20% decrease from a year prior**. For the full year, existing home sales totaled 4.09 mm units which is the **lowest 12.00 month total since 1995**
- Philadelphia Fed Manufacturing Index had a reading of (10.60) for January showing manufacturing conditions are still worsening
- FOMC member Raphael Bostic made hawkish comments saying that he believes rate cuts will begin in 3Q2024, fueling the recent commentary by Fed officials and the backtrack of markets cut expectations
- **Eurozone CPI ticked up to 2.90% y/y** for the month of December, up from 2.40% y/y in November. The ECB released a consumer inflation expectation survey that showed the **lowest expectations in nearly two years**. ECB president Lagarde pushed back against aggressive market expectations of cuts saying the market is getting ahead of itself
- Michigan's one year inflation expectations **came out at 2.90%** for January while the five year **came out at 2.80%**. Both expectations were lower than forecasted and lower than December's readings

Looking Ahead

In the upcoming weeks, the Interest Rate Products Sector will be closely following market sentiment around if Fed will start to cut interest rates in March, inflation, unemployment data, housing numbers, and treasury bill yields. This coming week, we are expecting the CME FedWatch tool to decrease predictions of a rate cut in March, as we’ve already seen this week. We are also expecting inflation to tick back up. Seeing this increase will be something for the Fed to analyze closely as they will be monitoring economic activity, especially consumer spending metrics, as they will need to leave rates higher for longer if inflation continues to increase. In addition, initial jobless claims are expected to be released slightly lower than the previous estimate of 205.00 k at 187.00 k. This decrease shows more consumers finding jobs which means more households will be putting more money into the economy, therefore increasing inflation. We also expect treasury bill yields to decrease moderately as markets continue to price in future cuts. We are also tracking global inflation data from the UK, Germany, and France as they all had an increase in inflation driven by energy prices. After seeing the drastic decrease in mortgage rates, as they dropped to their lowest level since May, this will be something to closely follow and something that could have a large effect on markets and provide opportunities for our sector to capitalize on.

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Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- **Gold** prices **fell 0.39% w/w** as a stronger dollar and strong retail sales data put downward pressure on precious metal prices.
- **Silver** prices saw a **1.39% drop w/w** as markets scaled back rate cut projections for March and beyond. Going into 2024, markets priced in as many as six cuts for the year with a 90.00% chance of a cut at the March 19th-20th meeting. Currently, CME FedWatch tool projects a 55.40% chance of at least one cut by the conclusion of the March meeting.
- Albemarle, the largest lithium producer, announced labor downsizing in 2024. **Lithium** stocks have lost more than half of their value in the past 52.00 weeks. Lithium fell to 5.19% w/w,
- **Platinum fell 2.28% w/w**, as rising treasury yields pull demand away from the metal. Concerns over demand further put downward pressure on prices over the course of the week.
- **Palladium suffered a 4.37% w/w decline**. A major driver behind this fall is continued use of platinum as a substitute for palladium in catalytic converters. Head of the WPIC also said that palladium is moving towards a surplus, further making investors nervous, driving prices down.
- **Copper decreased 0.16% w/w** due to strengthening of the U.S. dollar as rates remain elevated and cut projections adjust downward. Additionally, an unexpected hold by the PBOC hinders Chinese industrial outlooks. Furthermore, Glencore and Trafigura are pressuring Asian smelters to accept lower prices for their current supplies of copper.

Looking Ahead

Most Fed policymakers currently forecast three rate cuts throughout 2024, a more realistic projection compared to the six that markets priced in coming into 2024. We believe the cuts will come closer to June 2024 as opposed to current Goldman Sachs (GS) projections of a March rate cut. The USD is gaining strength with continued elevated rates, putting downward pressure on metals markets as monetary policy projections adjust based on recent inflation data, consumer retail spending and Fed rhetoric that was reluctant to address rate cuts. The Israel Hamas crisis continues with no end in sight, as both entities have expressed no intention of a ceasefire. This bodes well for precious metals as investors will look to protect their assets in times of economic and political uncertainty. The war will most likely stay localized to Gaza, which support industrial metal markets that are not in proximity to the area. Industrial metals markets will continue to keep a close eye on China's recovery after the nation reported its lowest GDP growth in thirty years, excluding the pandemic. While investors are still wary of industrial metals markets, a projected boom of AI and clean energy as well as an expected Chinese economic recovery will fare well for the industry. Overall, while facing some murky waters in terms of rate cuts projections being pushed back and a Chinese economy in need of further stimulus, industrial and precious metals project well in 2024.

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Index Derivatives Sector

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Summary of Weekly Themes

- **The U.S. Indices performed fairly well as the S&P, Nasdaq, and the Dow Jones indices rose 1.09% w/w, 2.03% w/w, 0.62% w/w**, respectively, despite pessimism surrounding upcoming rate cuts from the Fed due to a 0.60% m/m increase in retail sales. The S&P 500 reached an all time high of 4,839.81 on Friday led by an upbeat earnings report by Taiwan Semiconductor Manufacturing (TSM) pushing up semiconductor stocks
- **The Nikkei 225 has continued its rally, gaining 0.85% w/w** as the BoJ is expected to maintain its negative interest rate policy for longer as inflation fell to a 17-month low of 2.60% y/y in December 2023 from 2.80% y/y and 3.30% y/y the prior two months. Governor Ueda still believes prices have not settled around its 2.00% y/y inflation rate target. The weakening JPY boosts export earnings for Japan's industrial manufacturing-heavy economy
- **The Hang Seng Index plummeted (5.84%) w/w** as China's GDP growth rate of 5.20% y/y in 4Q2023 was below its forecasted at 5.30% y/y rate, the weakest rise in more than three decades. New home prices dropped (0.40%) y/y adding to its steep six month drop, driven by its real estate crisis
- **The FTSE 100 dropped (2.14%) w/w** following a (3.20%) m/m drop in U.K. retail sales in December 2023, its largest monthly decline since January 2021. Inflation unexpectedly reached 4.00% y/y in December, above the 3.80% forecasted rate, and increasing from 3.90% in November. The BOE is now expected to keep its target interest rate higher for longer, at 5.25%
- **Brazil's Ibovespa Index fell (2.56%) w/w** after a lack of export demand from China, Brazil's primary trade partner. Its heaviest export, iron ore, dropped (5.84%) w/w, weighing heavily on the index.

Looking Ahead

Movement in global equity indices this week was largely based on expectations about higher for longer target interest rates from central banks around the world including the Fed and the ECB and negative signals in China's economy. Hong Hong's Hang Seng Index drew large attention from the sector. 4Q2023 GDP grew less than expected at a rate of 5.20% y/y. China's new home prices dropped (0.40%) y/y in December 2023, the steepest pace since March, demonstrating weak demand despite government interventions to lessen the impacts of its housing downturn. Consumer confidence in China will continue to weaken as the country's debt to GDP ratio rose to a record of 286.10%, delaying the recovery of its problematic real estate crisis. The sector has a bearish outlook on the Hang Seng and the Chinese economy as deflation and lack of exporting continues to be a concern. Trade with the U.S. in 2023 dropped (11.60%), the first decline since 2019, while China's y/y inflation rate is currently -0.30%, the third straight month of deflation. China's y/y retail sales increased by 7.40% in December of 2023, slowing from a 10.1% jump in November, representing weak consumer confidence and overall demand in the economy. The Hang Seng has experienced consistent declines over the course of 2023 and early 2024. The sector remains bearish on the index. Expecting to see this trend to continue, the sector will keep a close eye on financial and economic data pertaining to the poorly performing real estate sector.

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Weekly Product Report

Foreign Exchange Sector

Weekly Product Report

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Summary of Weekly Themes

- The DXY experienced slight gains for the third week in a row as releases in key economic indicators came out higher than expected. **The Retail sales report showed a 0.60% m/m acceleration** in December **and weekly jobless claims hit a 16.00-month low**, indicating a stronger economy and increasing expectations that the Fed will maintain rates for longer
- GBPUSD felt modest negative movements **despite U.K. CPI seeing an unexpected rise to 4.00%** putting a dent in expectations for rate cuts from the BOE. **U.K Retail Sales shrank (3.20%) m/m** in December increasing negative pressure against the GBP. With probabilities of a Fed rate cut in March moving below 60.00% the GBP saw losses despite a rise in CPI
- CHFUSD saw bearish pressure this week as the **SNB raised concerns about a disinflationary environment** after rapid appreciation of the CHF towards the end of 2023. Chairman Thomas Jordan warned of the ability of the SNB to maintain above zero inflation if the CHF continues to appreciate
- EURUSD saw slight negative movements **as mixed cues from the ECB** halted investors from making bets on movement of the currency. A lack of economic data this week gave the euro area a reprieve against better than expected U.S. economic data as the ECB enters a blackout period
- NZDUSD felt bearish pressure this week largely due to USD strengthening, while the New Zealand tourism industry has been struggling. New Zealand **Business Confidence has decreased (2.00%) q/q** but this is positive compared to the (52.00%) q/q 3Q2023 reading. This low business confidence is due to the weak tourism industry due to Covid concerns

Looking Ahead

The Sector will monitor economic data releases from the U.S, Japan, Canada, New Zealand, U.K. and the E.A. in the coming week. A multitude of interest rate decisions, CPI reports, and PMI reports are expected to be released in their respective countries. Current projections expect U.S. PCE to come in at 2.60% y/y, but after a higher than expected CPI report for December, the foreign exchange sector expects PCE to come in above expectations. This would further strengthen USD as it could indicate the Fed will likely hold rates for longer. The BoJ is expected to hold rates considering Governor Kazuo Ueda's commitment to ultra-loose monetary policy. The BOC will likely hold rates at 5.00% as inflation stays well above their target at 3.40% y/y. New Zealand CPI will be a major indicator for the RBNZ as inflation has remained sticky at 5.60% y/y in Q3, resulting in higher interest rates of 5.50%. The sector expects RBNZ to hold rates as the New Zealand government has abandoned the dual mandate and switched its focus to price stabilization. The U.K. has struggled with inflation since the pandemic, even with interest rates at 5.25% inflation for December remains at 4.00% y/y. The sector expects the GBP to weaken going forward as business and consumer confidence remains low and unemployment is still high at 4.20%. The ECB releases changes to monetary policy on Thursday, with an interest rate cut likely. A strong PMI report on Wednesday would allow the ECB to hold rates potentially causing a bullish move from EUR.