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Weekly Report 7.25.2022

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Weekly Product Report

Agriculture Sector

Weekly Product Report

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Summary of Weekly Themes

- September **corn futures fell 67.50¢** to 569.50¢ per bushel. December futures saw less movement falling only 23.00¢ to 550.25. Corn is in a critical stage as it begins to pollinate, however recent droughts pose issues
- November **soybeans also fell, dropping 84.50¢** to 1322.00¢ per bushel. August soybeans also fell similarly, losing 81.00¢ to 1441.00¢. Grain's recent bearish push has been driven by talks of trade treaties in Ukraine
- September wheat futures moved similarly to other grains losing 79.00¢ to 776.00¢. December contracts lost 77.50¢ coming down to 795.00¢. President Zelenskiy recently stated that the country has up to $10.00 bn of grains that are available for export if the treaty were to work out
- September random length **lumber futures fell $113.30** these past two weeks down to $583.50. November contracts fell less significantly losing $94.70 down to $586.00 per contract. Price movement was driven partially by the Fed's **50.00 bps rate hike**, stifling new home demand
- August lean hog futures rose slightly gaining 10.23¢ to 118.60¢. October contracts gained less significantly rising 3.85¢ to 96.30¢ per contract
- August live cattle futures saw very little movement again these past couple weeks rising 3.85¢ to 137.15¢ per contract. Similarly, the October contracts gained only 2.40¢ up to 142.83¢ per contract. Recent news released showing that **Ukraine has lost ~100.00 k cows** in the conflict
- August soybean oil showed limited movement over the past two weeks losing 3.25¢ down to 60.37¢ per contract. September contracts moved only marginally more, losing 3.60¢ down to 58.78¢ per contract

Looking Ahead

The most prominent mover of agricultural markets has been the talks of a treaty allowing Ukraine to export grains out of the black sea. However shortly after coming to an agreement Russia sent a missile strike on the port of Odesa. The good news is that the missile strike failed to damage grain storage areas. However, if strikes were to continue to rain down on the port it would be merely a matter of time until trade was affected. Also, Ukraine has made it abundantly clear that this treaty to export grains is far from a cease fire. Despite setbacks Ukraine is eager to continue its efforts in growing grain exports back to the 5.00 mm MT it saw before the conflict. Oleh Ustenko, a Ukrainian analyst estimates that the country has the potential to export up to 60.00 mm MT over the next nine months but with the disruptions it has suffered from he claims it would take 24 months to do so. Meanwhile, in the U.S. drought alerts have been put in effect in half of Missouri's counties while the Governor, Mike Parson states that the state doesn't see expect conditions to improve soon. As has been stated in previous reports the Ukraine conflict makes U.S. grains have more prevalence than previous years. Overall, these past two weeks bearish movement seem to be overly ambitious. While Ukraine's recent push to get grains out of the country show promise, their actual ability to do so has barely changed. Overall, Agriculture expects prices to return to higher levels.

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Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- On Thursday, July 21st, Russia resumed exporting gas to Europe through Nord Stream 1. The operator's website reported **throughput increasing from 0.00 kW/h to 29.28 mm kW/h** after the maintenance concluded
- On Friday, July 22nd, crude oil posted its third consecutive weekly loss as **Brent fell 0.60% to hit $103.20/Bbl** and **WTI declined 1.70% to $94.70/Bbl** following the E.U. announcing they would allow Russian state-owned companies to ship oil to specific countries following sanction adjustments
- On Wednesday, July 20th, **natural gas futures jumped roughly 10.00% to reach $8.007/mm Btu** due to the heat wave affecting most of the U.S. This weather is expected to continue into August and may continue to increase raw material prices**. Natural gas futures are up 48.00% this month**
- Data released indicates that global coal-fired electricity generators are producing more than ever before after setting a record of 10.24 k TWh produced in 2021, which surpassed the previous record of 10.10 k in 2017
- The **national average for unleaded gasoline fell to $4.467/gal** on Wednesday, July 20th. This has decreased from the high of $5.01/gal set on June 14th. Data from the EIA suggests that drivers are cutting back on gasoline consumption, which has led to loosening supplies decreasing prices
- The U.S. launched a trade war against Mexico claiming that Mexican President Andrés Manuel López Obrador favors Mexico's state-owned utility and oil companies at the expense of American businesses
- Russian central bank Governor Elvira Nabiullina announced that Russia will not supply oil to countries that impose a price cap on its oil in a press release

Looking Ahead

Holistically, energy markets are beginning to appear more bearish than the beginning of 2021. With lessening U.S. average gas prices, currently sitting at $4.467/gal, and reduced crude prices, price movements have continued to show bearish behaviors. In turn, this has bettered the E.U.'s chances of being able to effectively ween themselves off Russian energy. Currently, Russia is still able to sell oil to certain countries. However, Russian oil is sold around $30.00/Bbl cheaper than the global average. This greatly limits the Russian oil industry, thus decreasing their ability to effect global oil markets. Conversely, natural gas remains elevated, currently sitting at $8.007 mm Btu. This high price is attributed to the current heat wave affecting the United States and an initiatial bearish supply injection of 60.00 Bcf into the natural gas storage by the EIA. Following this, the EIA was expected to post another injection of high-forties Bcf. However, only a 32.00 Bcf injection was made, thus fueling bullish price movements. With the current state of the energy market, this Sector foresees several options to capture profitability. Firstly, this Sector is exploring the possibility of taking bearish positions on crude as recession fears linger and consumer spending lessens. Additionally, this Sector is watching coal, as the E.U. continues to try to fill the demand created by the sanctions on Russia. This Sector is also watching natural gas for short-term bullish price movements.

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Weekly Product Report

Equity Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- **The NASDAQ fell 1.90% on Friday** after results from Snap Inc. ($SNAP) weighed on the sector and sent concerns of a decrease in advertising sales. **Snapchat** was **down 39.00% after its record low quarterly report**
- Apple Inc.($AAPL) announced plans to slow hiring, sparking many other companies in tech to follow, citing decreases in tech company revenues
- Shares of **Meta Platforms Inc. ($META) were down 7.00%** due to worries surrounding upcoming earnings release on Wednesday prior to market open
- The two largest U.S. companies by market capitalization, Microsoft Corporation ($MSFT) and Apple Inc. ($AAPL), report this week on Tuesday and Thursday, respectively. The two tech blue chips will give insight into both business and consumer spending of the past quarter
- American Express Company ($AXP) posted an EPS of $2.57, above the expected $2.42. An increase in **revenues of 31.00% y/y** shows a cardholder increase in spending of **30.00%,** a possible bullish indication for retail stocks
- The S&P Small Cap Index posted returns of 4.23% in the last five days. This is a sharp turnaround as small-cap stocks historically have performed poorly this year. The **index is down 15.44% YTD** on recessionary fears
- Blackstone Inc. ($BX) also fell short over the course of the second quarter, **posting a loss of $29.40 mm.** The company also stated that its corporate private-equity portfolio lost 6.70% in the quarter, beating the S&P 500 Index
- On Monday of the past week, major banks like Goldman Sachs Group Inc ($GS), Bank of America Corporation ($BAC), and Charles Schwab Corporation ($SCHW) released earnings posting mixed reviews on the possible underlying fears of recession and possible reductions in profit

Looking Ahead

U.S. flash PMIs reported on Friday came in at their lowest levels in nearly two years, with flash manufacturing PMI down 0.40 points m/m to 52.30 and flash services PMI down 4.80 points m/m to 47.50. This shows U.S. business activity contracting for the first time since May 2020, and it will put even more focus on the July FOMC meeting this week. With the market largely pricing in a 75.00 bps rate increase, the Sector will look for information regarding the Fed's future rate path, specifically the September FOMC meeting. In addition, big tech companies are expected to report earnings this week. With a recent shift in consumer spending to non-discretionary items, drop in advertising revenue, and hiring pauses seen across the industry, the Sector believes they will come in below consensus, leading to a further drop in equities. On top of earnings, the first GDP reading for 2Q2022 comes out Thursday, with the Atlanta Fed projecting a -1.60% q/q drop in output. It would be the second straight quarterly decline of 2022, signaling a contracting economy in light of decreasing consumer and enterprise demand. The sector believes this could lead to a series of layoffs seen across all industries, further reducing the level of demand in the economy. As data is released this week, the Sector will continue to watch for signs of consumer pullback in order to allocate our portfolio into industries better equipped to handle a slowing economy over the next 12.00 months.

Weekly Product Report

Index Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- All three major U.S indices reported **gains** this week, with the S&P 500, DJIA, and NASDAQ **rising**, 2.00% w/w, 1.34% w/w, and 2.36% w/w respectively, as investors speculate that markets are already near **bottom**
- The NASDAQ is up 2.36% as a result of a rally in the tech sector due of **technology** companies showing **strong corporate earnings**, as Tesla ($TSLA) rose 11.25% w/w after a 42.00% in 2Q2022 revenue growth and Netflix ($NFLX) anticipates stronger customer growth in 3Q2022
- The FTSE 100 remained **volatile**, growing 1.64% w/w as a result of the approved $773.00 mm **merger** between Warner Bros Discovery ($WBD) and BT Group ($BTGOF) **boosting investor sentiment** in the U.K., in addition to the continued **political efforts** to replace PM Boris Johnson as Rishi Sunak and Liz Truss lead the race for Prime Minister of the U.K.
- Euro Stoxx 600 rose 2.65% w/w as a result of Russia resuming **gas** flows through Nord Stream 1 and **stronger corporate earnings** reports, helping investor sentiment, but ended flat due to the **ECB's 50.00 bps rate hike**
- The Hang Seng dropped 1.15% w/w after a **resurgence in COVID** cases in China halting economic activity and a decline in the property sector as China faces a **large mortgage boycott** amid labor issues with construction
- The Nikkei 225 reported gains of 2.48% w/w as the **BOJ remained dovish**, keeping interest rates on hold, which helped boost investor sentiment along with a **4.75%** jump in the **shipping industry** as companies boost corporate **earnings predictions**, and widespread growth in the Technology sector

Looking Ahead

Although the S&P 500 rose 2.00% w/w, recessionary fears, another 75.00 bps rate hike, and troubles with inflation still put pressure on the performance of the index. The Fed's expectation of another 75.00 bps rate hike comes after the June CPI report of 9.10% indicated a 40-year inflation high. The rate hike will further raise the cost of credit and discourage companies and consumers, alike from making large investments, which will prove negative to equities. Additionally, 2Q2022 GDP is expected to fall due to record low investor sentiment, inflation, and global-supply chain issues as personal consumption and business investment is likely to have dropped from rising rates. As a result of these macroeconomic drivers, the sector foresees bearish price movements in the S&P 500. The Hang Seng dropped 1.15% w/w as COVID restrictions resurfaced in China. The Zero-COVID policy has a large impact on Chinese manufacturing, consumer spending, and exports as economic activity significantly declines. In addition, Hong Kong is to follow suit with the Fed for a prime interest rate hike which is likely to decline consumer sentiment in the region. China also saw GDP growth of 0.40% in 2Q2022, down from 4.80% in 1Q2022 indicating that supply-chain issues and COVID restrictions have negatively affected the Hang Seng. Due to ongoing macroeconomic issues in China the Sector foresees bearish price movements for the remainder of 2022.

Weekly Product Report

Interest Rate Products Sector

Weekly Product Report

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Summary of Weekly Themes

- On Thursday, July 21, the ECB surprised investors by **hiking its prime interest rate by 50.00 bps** to quell the eurozone's 8.60% inflation rate
- Financial institutions within the Financials benchmark of the S&P 500, such as The Goldman Sachs Group, Inc. ($GS) and American Express Company ($AXP), reported 2Q2022 earnings, **beating consensus estimates**
- For the week of Monday, July 11, **mortgage applications fell ~6.30% w/w**, representing the lowest point of housing demand in the last 22.00 years
- Total jobless claims increased ~2.87% w/w to 251.00 k for the week of Monday, July 11, reaching the highest point since November of CY2022
- The U.S. 10-Year Treasury Yield **decreased ~5.48% w/w** to 2.76% as inflationary pressures cut into the real returns of fixed income investments
- The Bank of Russia **lowered its prime interest rate by 150.00 bps** to 8.00% as the country continues to see stabilization of the ruble and inflation
- On Friday, July 22, the CBOE VIX decreased to 23.03, representing **a ~4.95% decrease w/w**. The decrease was largely attributed to decrease in broader market volatility as equity markets experience capital outflows
- Fed funds futures markets indicate the there is a **~78.70% chance of a 75.00 bp rate hike** during the July FOMC meeting and a ~21.30% chance of a 100.00 bp rate hike, as the Fed looks to control persistent inflation
- The PBOC has continued to keep interest rates at the same level as the central bank looks to balance rising inflation with sustained economic growth
- The U.S. Dollar weakened this week, as the U.S. Dollar Index **fell ~1.23% w/w** to 106.73 even as investors await the July FOMC meeting

Looking Ahead

All three major indexes booked strong weekly gains, with the Dow up 2.00%, the S&P 500 up 2.60%, and the tech-heavy Nasdaq up 3.30% despite a somewhat jittery close following lackluster earnings on Friday. Despite stocks gaining in the past week, bond yields continued to slide over fears of a recession. The 10-year fell 2.67% Friday, as weaker PMI's in Europe and the U.S. sent a somewhat unnerving message to investors. The Sector believes that the busiest, and perhaps most important, week of the summer is on the horizon, as the FOMC meets on Tuesday and Wednesday to decide on another interest rate hike. Fed officials have indicated that they are gravitating toward another 75.00 bps, while investors are already preparing to see a historic 100.00 bps hike. As foreign central banks shock global equities markets with rate hikes in the past weeks, with the ECB and Bank of Canada raising 50.00 and 100.00 bps respectively, one can only speculate as to whether the Fed will do the same. The Sector will also be watching the CPI and GDP numbers being released this coming week. U.S. GDP is expected be positive, which will avert the technical definition of a recession, while negative numbers will only further cause investors to panic. With over 175.00 companies in the S&P 500 reporting earnings this week, combined with the increased volatility from fears over Fed rate hikes, the Sector believes there is ample opportunity in the week ahead

Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- Gold futures **rose 1.00%** this week. Gold was able to snap a 5 week losing streak **rebounding from one year lows** at $1,680.25/oz. Prices gained this week after a **pullback in the 10 year treasury yield** and the dollar declined
- The Silver continuous contract **decreased 0.80%** this week**,** struggling to break through the **$19.00/0z mark.** Investors continue to sell off precious metals due to **fear of decreasing demand.** Investors remained skirmish this week as the ECB hiked rates for the first time in a decade
- Palladium front month futures contracts traded **up over 7.00%** this week, continuing its upward trend. Palladium has climbed over the past few weeks due to continued **shortage fears** being caused by the Russia-Ukraine conflict. Russia accounts for **40.00% of the global palladium supply** stoking fears of global supply restraints in the near future
- Front month aluminum contracts **gained 4.00%** this week. Fear of recession is now the dominant theme in industrial metals as **surging energy prices** translate into manufacturing slowdowns. High production prices in the aluminum market are already starting to **reduce production** in the market
- Nickel future prices **gained 5.00%** this week. Industrial metals investors have been **weary of large rate hikes** by the Fed but have tampered rate hike fears this week. Investors will be looking ahead to determine whether **global slowdown** and period of decreased production is imminent
- After a volatile trading week, the copper continuous contract **declined 0.35%** this week. Investors **dialed back rate hike expectations** this week leading to a better trading week for copper. Copper investors continue to be influenced by worsening Covid cases and lockdowns in China.

Looking Ahead

The metals market followed the macroeconomy this week posting overall gains but as the country awaits 2Q22 GDP data, the returns could be short-lived. The U.S. economy is preparing for a recession and as the U.S. dollar continues to strengthen, metals markets could face some turbulence rounding out the year. Elevated energy prices continue to be a theme influencing industrial metals as their manufacturing processes rely heavily on fuels to produce these specific metals. With the rise in the price of fuel and the anticipated drop in consumer demand associated with an economic slowdown, the outlook on industrial metals is not bright. The Russian-Ukraine conflict continues to be one of the main influences over metals markets. Russia can easily influence energy prices which have direct influence over metals prices and Russia also has a large supply of metals like Nickel, Aluminum, and Palladium. Given the volatile nature of decisions coming out of the Kremlin, this makes metals markets very unstable as conflict ensues. Out of all the factors influencing the price of metals, the Federal Reserve's actions in July will ultimately have the largest effect moving forward. With June's elevated inflation numbers, there is a possibility of a 100.00 bps hike. Many economists predict that a 75.00 bps hike by the Fed is already priced in for the short term, but the long-term affect is underestimated. With the rapid increase of rates, the long term will face the brunt of impact.