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Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- Crude oil **prices fell** more than 1.00% this week despite news of OPEC to extend production cuts until the end of 2026. This decrease persists with continued analyst projections of a surplus next year amid weak demand
- U.S. oil **rig counts grew** for the first time in eight weeks, rigs rose five to 482.00 this week which is the highest level since mid-October. Despite this significant increase, the total count is still 6.00% below this time last year
- New **economic data**, including the U.S. jobs report showing 227.00 k job additions and a rise in unemployment to 4.20%, has contributed to oil's losses due to a strong rebound in hiring and a slight rise in unemployment
- **Argentina's** crude oil and natural gas production has neared **record highs,** with a rise in crude oil production by 50.00% and natural gas by 27.00%**.** This is being driven by an increase in output from the Vaca Muerta shale formation, offsetting a decline in output from other oil and natural gas fields
- New **economic data**, including the U.S. jobs report showing 227.00 k job additions and a rise in unemployment to 4.20%, has contributed to oil's losses due to a strong rebound in hiring and a slight rise in unemployment
- **U.S. inventories** enter the winter with the **most natural gas** since 2016, 6.00% above the five-year average despite less-than-average injections into storage throughout the injection season. This decline in injections is partly due to starting inventories being relatively full going into the season
- Russia has unleashed its second big **attack on Ukraine's energy** infrastructure, triggering deep power cuts across the country. Russia's future targets could include decision-making in Ukraine's capital, Kyiv
- **Russian exports increased**, weighing further on crude prices. Bloomberg tracking data showed exports rose by 570.00 k bbl/d to 3.36 mm bbl/d

Looking Ahead

OPEC's announcement to extend production cuts until the end of 2026 took the market by surprise as the October 2024 production cuts were only extended by an additional two months, until the end of 2024. Despite this, the market remains focused on global demand concerns, especially in China. The Sector had anticipated this decision by OPEC due to subdued demand and concerns about the economic health of major members. While the market concentrates on demand concerns, the increase in U.S. oil rig counts emphasizes a focus on global energy dominance. Looking ahead, the Sector will continue to monitor how an excessive surplus might alter trade relations, especially if President-elect Trump's proposed sanctions against BRICS and China are implemented. The Sector expected U.S. inventories to report a level 6.00% above the five-year average going into the winter months, considering weak demand from the EU. While natural gas demand is expected to rise this winter, the combination of increased U.S. production and weak economic data from the EU is expected to reduce price volatility in the coming months. After Ukraine's use of ATACMS missiles against Russia, Russia has retaliated by disrupting key Ukrainian infrastructure. While the Sector believes targeting infrastructure will increase the uncertainty premium of energy prices, closely monitoring changes in Putin's nuclear doctrine will be the greater market mover overall, as it affects global energy stability and future trade relations.

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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 with **the NASDAQ Composite up 3.14%, the DJIA down 0.63%, and the S&P 500 up 0.83%**
- **ISM Manufacturing PMI** came out at **a five month high of 48.40,** rising from the previous reading and beating expectations. New orders rebounded from after seven months of contraction, despite weakened demand
- **UnitedHealth Group Inc. (UNH) stock fell 10.63%** this week after its CEO, Brian Thompson, was killed. Given its large weighting in the Healthcare sector, this news sent other healthcare, primarily insurance companies, shares down and revealed the public's anti-insurer sentiment
- **Fed Chair Powell stated that the economy is in a better place than the central bank expected** when they first started their rate cutting cycle. While he said this gives the Fed room to be more cautious with cutting, **CME Fedwatch is now pricing in an 86.00% chance of a 25.00 bp cut**
- **ISM Services PMI unexpectedly slowed to 52.10.** This decrease was driven by declines in **Business Activity, New Orders, Employment, and Supplier Deliveries.** With service prices consistently driving inflation, an easing in growth momentum further supports the soft landing narrative
- **The U.S. economy added 227.00 k in November,** an increase from the last Nonfarm Payrolls report which was revised to 36.00 k. Inversely, the **Unemployment rate ticked up to 4.20% and layoffs climbed 27.00% y/y.** These results contributed to the higher 25.00 bp cut expectations
- **The VIX Index fell to a four month low** as major indices reached new record highs. Strong earnings reports from tech companies like Salesforce Inc. (CRM), as well as the Nonfarm Payrolls report drove equities markets

Looking Ahead

In the coming week, markets will be looking for the release of important economic data in the form of Core CPI Inflation Rate and PPI. Equities markets will also be assessing earnings from Costco Wholesale Corp. (COST) and Broadcom Inc. (AVGO). Due to the sector's recent pitch on The Materials Select Sector SPDR Fund (XLB), the sector will monitoring volatility in markets. Core CPI Inflation is expected to remain unchanged at 3.30% y/y and 0.30% m/m. Given the equities markets recent rally, along with the Trump Administration's plans on tariffs and corporate tax cuts, inflation is expected to remain sticky in the coming months. While a weakened U.S. dollar would be beneficial for Materials, the sector's overweight holdings would benefit from the strength the dollar currently maintains. November PPI is expected to increase from 0.20% m/m to 0.30% m/m. Since Materials products have an impact in over 97.00% of supply chains in the U.S., this report is not only essential to their valuation but the rest of our portfolio. Higher producer inflation and demand would be beneficial in helping the Sector's recent pitch. Costco's earnings will be indicative of consumer strength. Personal Income and Personal Spending has remained strong, and exceeded expectations by 0.30% m/m and 0.10% m/m respectively. As the Sector plans pitches and briefings for the coming year, inflationary data and consumer preferences will be essential to monitor, especially as the December Fed meeting approaches.

Weekly Product Report

Foreign Exchange Sector

Weekly Product Report

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Summary of Weekly Themes

- **The DXY** realized minimal gains throughout the week as various economic reports were released. On Thursday, the DXY fell as initial jobless claims came in hotter than expected at 224.00 k jobs filed. The DXY rebounded after the hotter-than-expected NFP report. The DXY **climbed 0.25% w/w**
- **USDJPY gained 0.28% w/w** as the prospect of a BOJ rate hike is still on the table. The BOJ could hike rates in their December meeting, but are showing no cards before the meeting. Along with the NFP report coming in slightly hotter-than-expected holding the USDJPY around the ¥150.00 mark
- **EURUSD carried losses from last week falling 0.17%.** The pairing gained back early week losses as the Fed is likely to cut rates in their meeting after unemployment ticked up to 4.20% y/y. The euro avoided disaster this week as the French President Macron promised to appoint a new prime minister
- **GBPUSD** experienced a week of low volatility, but gained moderately through the trading day Friday despite a hotter-than-expected NFP report. Tax hikes continue to weigh on the U.K. economy moving forward and BOE's Dhingra is calling for further rate cuts. GBPUSD **dropped 0.88% w/w**
- **AUDUSD fell a substantial 1.84% w/w** as the Aussie dollar weakened amid a possible rate cut from the RBA in December. GDP data out of Australia's economy grew by only 0.30% q/q, missing expectations of 0.40% q/q. Concerns over China's economic struggles are weighing on AUD as well
- **CADJPY** had a very volatile week. Much like USDJPY the possibility of a rate hike by the BOJ has created uncertainty in the market. The NFP report Friday morning dropped the pairing by roughly 100.00 bps as both of these currencies react significantly to U.S. policy. CADJPY **fell 0.21% w/w**

Looking Ahead

The Sector will continue to monitor various reports coming out this week, especially news regarding USDCHF. The pairing fell 0.19% this week, as the franc significantly appreciated against the dollar. In Switzerland, there is a big interest rate decision coming on Thursday. The Swiss National Bank launched a rate cut cycle in February and it is expected to continue at this December meeting. The current policy rate is set at 1.00%, and markets are projecting a 25.00 bps cut down to 0.75%. A surprise pause for this meeting would be a bullish indicator for the franc and further depreciate USDCHF. As for the United States, inflation data releases on Wednesday. CPI is projected to tick up to 2.70%. Inflation has been sticky in the U.S. recently, and if there is an unexpected drop in inflation, it will allow the Fed to cut rates. If the Fed does cut at the December meeting, it will depreciate the dollar against franc. If the Fed decides to hold rates steady the Sector will see it's recent EURUSD bear put spread trade further into the money. Core PPI for the U.S. releases on Thursday and is forecasted to come in at 3.30%. This is a significant increase from the 3.10% October reading, and a high reading is seen as a bullish indicator for the dollar. The weekly Initial Jobless Claims print on Thursday is projected to come in low, at 221.00 k. A tightening labor market would allow the Fed to cut rates, which would diminish the dollar's value in relation to the franc.

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Index Derivatives Sector

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Summary of Weekly Themes

- **Benchmark U.S. indices ended mixed this week** with the **S&P 500 up 0.83%**, the **NASDAQ Composite up 3.14%**, and the **Dow Jones Industrial Average ending (0.63%).** Important economic indicators came out this week with **Non Farm Payrolls beating forecasts** as well as the **Unemployment Rate ticking up** to further **support a soft landing**
- **The French CAC 40 Index ended the week positively up 3.93%,** following the **collapse of France's government** as Marie Le Pen's right wing coalition allied with the left and forced **Prime Minister Barnier to resign** following a **no confidence vote** due to his budget proposal for 2025FY
- **The Nikkei 225 Index** rose **2.29% w/w**, **driven** primarily **by the aviation sector,** which rose 0.79% due to a drop in crude oil prices. This **offset** the negative impact of **weak performance** from **U.S. chip companies**
- **India's Nifty 50 Index ended in the green, rising by 2.69% w/w** as their **central bank** kept rates the same but **cut the cash reserve requirement** for banks **by 50.00 bps**, reflecting **easing** of their **monetary policy**
- **The DAX Index saw gains of 4.08% w/w** following the **French government collapse,** with **strong performances** from its **technology and industrial sectors** this past week **despite** Germany's **economic weakness**
- **Brazil's Ibovespa ended up 0.22%** following **surprises** from its government's **fiscal budget plan** to combat the rising deficit, as well as a strong performance from **Eletrobras (EBR) gaining 5.24% w/w**
- **The FTSE 100 Index rose 0.26% w/w** as the **BoE** stated they are **expecting four interest rate cuts** in 2025FY as well as AstraZeneca (AZN) having a volatile week following a cut to its target price by HSBC analysts

Looking Ahead

Going forward into the upcoming week, the Sector will closely monitor the Ibovespa Index as Brazil approaches a pivotal monetary policy decision and navigates fiscal challenges. Recent volatility in the index has been influenced by higher expectations of a 75.00 bps hike in the Selic rate to 12.00% at the next BCB meeting, driven by inflationary pressures. Mega-cap stocks such as Petrobras (PBR) fell 2.20% amid declining oil prices and leadership changes. Vale (VALE) dropped 1.60% due to weaker iron ore demand. Fiscal uncertainties, including skepticism about the effectiveness of proposed social spending cuts and tax reforms have further eroded investor confidence. Despite these headwinds, the approval of the urgency regime for Brazil's fiscal package has provided some cautious optimism, signaling accelerated progress in addressing fiscal imbalances. Key indicators, including November's PMI data showing slower private sector growth and a surprising decline in industrial output, will be pivotal in shaping market momentum. Additionally, investor focus will remain on 3Q2024 GDP growth, which surged by 4.00% y/y, reinforcing the economy's resilience and setting the stage for further market shifts. Developments in key sectors such as energy and mining will influence market sentiment. Investors will also closely watch movements in the Brazilian real, which has rebounded slightly from record lows, reflecting renewed optimism surrounding fiscal consolidation and softer U.S. economic data.

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Summary of Weekly Themes

- **U.S. Non-Farm Payrolls gained by 227.00 k, marking a strong recovery in job growth from a 36.00 k gain in October.** The health care sector added 45.00 k jobs, leisure and hospitality added 53.00 k, and government jobs increased by 33.00 k, while retail trade lost 28.00 k jobs
- **The U.S. Unemployment Rate increased to 4.20% in November 2024, in line with market expectations, as the number of unemployed individuals increased by 161.00 k.** Following the report, rate cut expectations shifted, with the market-implied odds now indicating an 85.00% chance of a 25.00 bps cut in the Fed's December meeting
- **U.S. ISM Manufacturing PMI increased to 48.40 in November,** beating forecasts of 47.50 and increasing from 46.50 in the previous month, marking a softer contraction in the manufacturing sector. New orders rebounded after seven months of contraction as business optimism improved
- **U.S. ISM Services PMI fell to 52.10 in November 2024** from 56.00 in October, well below forecasts of 55.50. This marks the slowest growth in the sector in three months, primarily driven by declining business activity
- **U.S. Personal income increased by 0.60% m/m, marking the biggest rise in seven months** as the U.S. consumer remains strong, mainly driven by increases in compensation and personal income receipts on assets
- **The U.S. 10-Year Treasury Yield declined to 4.14%,** while the yield curve spread sits at 0.05 as a 25.00 bps cut in December becomes likely
- **U.S. Core PCE, the Fed's preferred gauge of inflation, rose by 0.30% m/m while PCE increased by 2.30% y/y.** Services prices contributed to much of the gain, rising 0.40% while goods prices fell by 0.10%

Looking Ahead

In the coming weeks, the Interest Rate Products Sector will look closely for key macroeconomic indicators from the U.S., as the Sector recently pitched a Long Iron Condor on 3-Month SOFR Futures. This is an important week with many macroeconomic releases, most notably inflation and PPI reports, which should help investors and consumers understand whether the economy is slowing or continuing to show resiliency. The Sector is hoping for releases to come in line with expectations or slightly below expectations, as it could help the trade move closer to profitability as we are looking for low volatility and at least 3 25.00 bps cuts by May. The Inflation rate is forecasted to increase from 2.60% to 2.70% y/y while staying stagnant at 3.30% m/m. In addition, PPI and Core PPI are both expected to increase by 10.00 bps on Thursday, which would hurt the Sector's trade as it could pressure the Fed to be more hawkish in upcoming meetings while slightly increasing volatility if it comes in higher than expectations. Lastly, export and import prices m/m will be released on Friday, and it will be important for investors to keep note of this indicator in the following months as Trump's fiscal policies could have a large effect on the growing trade deficit, as well as the price of goods for consumers. The Sector is hoping that Trump's tariff policies are overstated; if they were implemented to the full level the President states, it could push inflation higher and pressure the Fed to hold rates.

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Summary of Weekly Themes

- **Gold** prices were able to slightly rebound on the week after U.S. labor market data helped support a 25.00 bps Fed cut at their upcoming meeting. While the economy did add more jobs than expected in November, the **unemployment rate ticked back up to 4.20%** from 4.10%. This helped prices gain back some losses and the metal ended **down 0.92% w/w**
- Like gold, **silver** prices were able to capitalize on increased expectations for rate cuts and came close to one-month highs of $31.00 per troy oz. Silver was also able to benefit from **demand for its safe-haven qualities** due to heightened global tensions from countries like South Korea as well as France. Prices gained back some monthly losses and ended **up 1.07% w/w**
- **Copper** price gains this week have mainly come from **expectations for further Chinese stimulus** to help boost their manufacturing sector. Chinese policy makers decided not to release a readout of their November policy meeting, causing investors to speculate that they could be announcing more stimulus in the next few weeks. This caused prices to **increase 1.45% w/w**
- Similar to copper prices, **iron ore** prices also increased on the week due to expectations for further Chinese stimulus measures. Earlier this week, **Chinese Manufacturing PMI also came in at its highest reading since April** and was the second straight month of increases in factory activity. This helped boost demand expectations, causing prices to end **up 3.76% w/w**
- **Palladium** prices were down on the week after news of potential U.S. tariffs caused a weakened demand outlook. This week, Trump announced a **potential 100.00% tariff on BRICS nations** which are responsible for majority of global palladium supply. This caused prices to **fall 3.15% w/w**

Looking Ahead

In the upcoming weeks, the Sector will continue to monitor copper prices and how they could potentially be impacted by future U.S. tariffs as well as Chinese demand for the metal. A key focus during Donald Trump's campaign was the idea of increasing tariffs on foreign goods. Just in the past few weeks, the president-elect has talked about potentially imposing a 25.00% tariff on goods coming from Canada and Mexico. He also warned BRICS nations that he would impose a 100.00% tariff on them if they try to create a currency to rival the USD. This would likely result in weakened foreign demand for the metal since it is priced in USD and would become more expensive to purchase. The Sector will continue to monitor further news on potential tariffs and their impact on copper prices. The Sector will also continue to monitor Chinese demand for the metal as they are the top global consumer. China's Caixin General Manufacturing PMI grew greater than expected in November and for the second straight month in a row. The report also showed that factory activity expanded at its fastest pace since June, showing how their current round of stimulus could be helping to stimulate growth. Investors are also now speculating that Chinese officials could be announcing further stimulus measures at political meetings later this month, further boosting the demand for the metal. The Sector could potentially look to capitalize on the future uncertainties with copper prices through a volatile options play.