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Weekly Product Report

Energy Sector

Weekly Product Report

Aidan Murphy
Associate | Energy Sector
aidanjm13@gmail.com

Niall Marley
Associate | Energy Sector
niallmarley1@gmail.com

Brigette Bednarek
Analyst | Energy Sector
brigettebk@gmail.com

Gabriel Cantero
Analyst | Energy Sector
gabrielhcantero@gmail.com

Summary of Weekly Themes

- **The U.S. Supreme Court blocked the EPA's "good neighbor" emissions regulation and overturned the Chevron deference case.** The block against the EPA is aimed at restricting power plants and industrial pollution. The removal of the Chevron deference opens the possibility for leniency in federal energy regulations as committees' rules are challenged
- **Greece announced a one-off 90.00% tax on domestic energy producers.** The earned revenue will go towards reducing living expenses
- **Oil prices stabilized as worries of an economic slowdown have the market mixed.** A combination of the non-farm payrolls reporting 206.00 k, below the expected 218.00 k, and rising expectations that the Fed might soon cut rates has caused conflicting signals of crude demand
- **Hungarian Prime Minister Viktor Orban wrote a letter addressing concerns of a potential fuel crisis as a result of Ukranian sanctions.** Despite domestic sources used as temporary solutions, the importance of Russian oil threatens the long-term security of Eastern European oil supply
- **The Biden administration announced grants of $1.70 bn towards U.S. auto industries** in an effort to promote electric vehicle production. These funds support the transition away from fossil fuels and come as the presidential election nears, leading to expanded green energy initiatives
- **Exxon Mobil Corporation (XOM) plans to sell its Malaysia oil and gas assets** to Petronas, exiting its position in the Malaysian upstream sector
- **Sustainable aviation fuel (SAF) is projected to increase from 2.00 k Bbl per day to around 30.00 k Bbl per day in 2024.** SAF produced from agricultural and waste feedstocks is forecasted to increase due to the U.S. EPA renewable fuel standard and tax credits, incentivizing use of the fuel

Looking Ahead

The U.S. Supreme Court has made changes that pose potential leniency for domestic energy producers. With the direct block of the EPA "good neighbor" regulation, producers will have more time before the Biden administration's clean-air act is fully imposed. In addition to the block, the 40-year-old Chevron deference case, which has served as a legal handbook for energy regulations, has been overturned, thus further increasing the possibility of a more up-to-date playbook for energy cases. Down ~1.55% this week, crude oil prices react to bullish and bearish indicators of demand growth, the evident economic slowdown, and the increased likelihood of a Fed rate cut. The Sector believes that this is the phase in which either indicator is at equilibrium, meaning either one has to back down before a stronger forecast is made. A surge of Chinese companies constructing U.S. solar manufacturing plants has placed China into a dominating position in the industry against the U.S. Now that China has focused on transitioning its economy away from coal and into renewable energy, this could pose a threat to President Biden's current climate agenda of his plans to decrease U.S. over-reliance on China. Despite the federal subsidies American companies receive, they still struggle to compete due to China's subsidized supply chains and low-cost government financing. The Sector believes that although their presence could help the solar industry mature, this prevents many announced U.S. factories from materializing.

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Weekly Product Report

Equity Derivatives Sector

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Sean Cherry
Associate | Equity Derivatives Sector
seancherry0@gmail.com

Jasmine Mansourov
Associate | Equity Derivatives Sector
jasminemansourov@gmail.com

Mark Ruccio
Associate | Equity Derivatives Sector
markruccio24@gmail.com

Alexandra Iosava
Analyst | Equity Derivatives Sector
sasha.iosava05@gmail.com

Summary of Weekly Themes

- The major indices ended the week with **the Nasdaq Composite down (4.11%), the DJIA up 0.37%, and the S&P 500 down (2.36%)**
- In his testimony to Congress, **Fed Chair Powell remarked that the U.S. economy is no longer overheated.** His statement, along with cooling inflationary data, has boosted market expectations of a September rate cut
- **Core CPI Inflation Rate increased by 0.10% m/m and 3.30% y/y**, which was below analyst expectations. Anticipation of a rate cut boosted small-cap stocks while large-cap technology stocks were more volatile
- **PPI m/m came in hotter than expected with an increase of 0.20% m/m.** Counter to recent data which shows inflation slowing, **the price of services increased by 0.60% m/m** and caused the overall increase in the reading
- **U.S. Retail Sales fell in line with analyst expectations at 0.00% m/m,** down (0.30%) from the last month. Due to inflation, consumers deviated away from discretionary spending and instead spent on essential items
- **JPMorgan Chase & Co. (JPM), Citigroup (C), and Wells Fargo & Co. (WFC) stocks fell following their 2Q2024 earnings report.** While these banks largely beat expectations, underwhelming net interest income data supported bearish sentiment regarding profitability in a high-rate economy
- **Technology stocks took a hit during a sell-off in the semiconductor industry.** The Biden Administration reported plans to place sanctions on Chinese technology companies and increase trade restrictions on semiconductors, creating uncertainty for markets as political tensions rise
- **Crowdstrike Holdings Inc. (CRWD)** shares plummeted during technology outage, impacting computer systems running Microsoft's (MSFT) Windows

Looking Ahead

In the coming weeks, markets will be looking at important economic data in the form of Durable Goods Orders m/m, GDP Growth Rate q/q, Core PCE Price Index, Fed Interest Rate Decision, and Unemployment. Equities will be assessing earnings releases from Tesla Inc. (TSLA), Alphabet Inc. (GOOGL), NextEra Energy Inc. (NEE), Microsoft Corp. (MSFT), Meta Platforms Inc. (META), and Amazon.com Inc. (AMZN). Durable Goods Orders are expected to rise 0.30% m/m for June. An increase in this index would further support the notion that the U.S. economy is steadily improving due to slowing inflation. GDP Growth Rate is expected to rise from 1.40% q/q to 2.00% q/q. With recent data showing inflation cooling, a higher reading in this index may indicate that consumer spending is picking up again, likely in anticipation of a rate cut. Core PCE Price Index is expected to remain unchanged at 0.10% m/m. Analysts do not see the the Fed lowering rates from the current reading of 5.50% in July. However, markets are confidently pricing in a September rate cut, supported by Fed Chair Powell's most recent testimony. Earnings releases from technology companies will shed light on the health of the sector, which will be essential to monitor after the Big Tech sell-off this week. Since many communication services companies performance currently relies on AI development, markets will also closely monitor their earnings. Key indicators and important earnings releases will show if market preferences are shifting in light of cooling inflation.

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Weekly Product Report

Foreign Exchange Sector

Weekly Product Report

Nick Bauco
Associate | Foreign Exchange
nickybauco@gmail.com

Michael McGinley
Associate | Foreign Exchange
michaelmcgin3@gmail.com

Yossi Feldman
Analyst | Foreign Exchange
yossijfeldman@gmail.com

Summary of Weekly Themes

- **DXY traded up 0.27%** this week **amid** U.S. political uncertainty and **thoughts that former President Trump will win the election**. This comes after Trump's assassination attempt and the possibility that President Biden will drop out of the race. **Trump advocates for tight trade policy which** lowers supply of the USD, **strengthening the currency**
- **GBPUSD traded down (0.40%) this week as U.K. retail sales data came in lower than expected**. **Retail sales came in at (0.20%) y/y**, deviating from the predicted 0.20% increase. While this unexpected data affects the pairing, it does not have a large affect on interest rate decisions
- **USDJPY traded down (0.45%)** as **Japan's June CPI came in at 2.80% y/y,** the highest it has been since February. The USD remains strong as Treasury yields continue to appreciate, however, the pairing could continue to decrease as a soft U.S. labor market increases expectations of a rate cut
- **USDCAD traded up 0.51%** this week as **CPI came in at 2.70% y/y** which was lower than the expected 2.90%. Canadian retail sales decreased to 0.80% and sales excluding automobiles decreased to 1.30%
- **AUDUSD fell (1.30%)** this week **as the USD appreciated globally. Higher-than-expected employment** data indicated a tight Australian labor market, **raising the market sentiment for a RBA rate hike**. Employment change in June was reported at 50.20 k, beating expectations of 20.00 k. The RBA will likely be the last central bank to cut rates, appreciating the AUD
- **NZDUSD fell (1.63%) this week as the USD appreciated with expectations of Fed rate cuts**. Additionally, higher-than-expected drops in inflation have increased market sentiment for New Zealand rate cuts

Looking Ahead

The Sector will continue to monitor various reports coming out this week, including economic data from the U.K., U.S., Germany, and Japan. On Monday, German retail sales will be reported with unexpected gains appreciating the currency and losses depreciating it. On Wednesday, Germany will report the HCOB Composite PMI for Germany and the Eurozone which will help gauge European inflation. PMI reports above 50.00 should result in a bullish movement of the Euro and lower reports result in a bearish movement. The Eurogroup is also expected to meet on Wednesday, an irregular occurrence. Additionally, on Wednesday, U.K. and U.S. PMI will be released. The BOC will also release their decision regarding interest rates on Wednesday. It is expected that the BOC will cut rates twice more before the end of the year. The Governor and Senior Governor will hold a televised press conference where their rhetoric is a key indicator for markets. On Thursday, 2Q2024 U.S. GDP will be reported. Unexpected increases in GDP will lead to USD appreciation and decreases will lead to its deprecation. Furthermore, Japan's CPI will be released on Thursday. On Friday, U.S. PCE will be released, providing critical insight to the direction of inflation. May's PCE reading trended down for the first time in months. The Fed is now looking for similar data to cut rates. A PCE reading deviating from expectations will likely impact the Fed's decisions.

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Alex Micca
Associate | Index Derivatives Sector
alexmicca04@gmail.com

Cole Woolard
Associate | Index Derivatives Sector
colewoolard05@gmail.com

Jennifer Hsu
Analyst | Index Derivatives Sector
jenniferyhsu0@gmail.com

Summary of Weekly Themes

- Benchmark U.S. indices were mixed this past week. **The S&P 500 fell (2.36%) and the Nasdaq Composite plummeted (4.11%). The Dow Jones Industrial Average experienced high volatility,** starting the week with a strong rally and reaching a record high before plunging, **ultimately ending the week with a slight gain of 0.37%.** Concerns over U.S. trade restrictions on China caused a tech selloff and movement within small-cap stocks
- **Japan's Nikkei 225 retreated (3.85%) w/w** as investors reacted to inflation figures released earlier in the week. June's inflation remained unchanged at 2.80% y/y while core inflation rose to 2.60% from 2.50% m/m. This data reinforced expectations of a potential rate hike in the upcoming July meeting
- **The STOXX Europe 600 Index traded down (2.46%) w/w.** As expected, the ECB kept interest rates unchanged, while signaling that future monetary policy decisions depend heavily on future data, keeping the possibility of a September cut wide open. Investors continue to evaluate the potential impact of tightened U.S. trade restrictions on China in the chip sector
- **The FTSE 100 Index fell (1.18%) w/w.** Retail sales in the U.K. declined (1.20%) m/m in June, below expectations of a 2.50% increase, and following a 2.90% rise in May, rising expectations of an August rate cute by the BOE
- **Hong Kong's Hang Seng Index experienced continued volatility, ending the week down (4.31%).** Investors were left disappointed by China's Third Plenum, a significant conference held every five years to introduce major reforms and economic strategies. The lack of detailed plans on addressing sluggish consumer spending, the persistent property sector slump, and the mounting debt crisis contributed to the negative market sentiment

Looking Ahead

Movement in global indices this week was largely affected by the tech selloff attributed to the escalating U.S. and China trade restrictions. These restrictions are part of a broader strategy to prevent the potential military use of U.S. advanced technologies by China, such as semiconductors, AI, and quantum computing. European and Asian markets have experienced increased volatility within the tech sector due to heightened scrutiny on Chinese investments in technology by EU countries such as Germany, as well as Japan re-evaluating trade and aligning with U.S. policies. The Sector will continue to monitor how these restrictions might disrupt supply chains; this could potentially lead to prolonged negative impacts on the U.S. market and affect how global markets react accordingly. Investor expectations of Fed rate cuts in the upcoming months have also further encouraged a shift towards small-cap stocks that stand to benefit from a low interest rate environment. Notably, small-cap stocks have seen a recent uptick, with the Russell 2000 Index gaining 8.28% m/m. Adding to the turmoil, the cyber outage on Friday caused by a software update malfunction from cybersecurity company CrowdStrike (CRWD), crashed millions of Microsoft (MSFT) Windows devices, causing havoc worldwide for airlines, hospitals, banks, and governments globally. Global markets are monitoring the U.S. closely, focusing on the resilience of tech infrastructure and the potential economic ripple effects of these geopolitical tensions.

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Ryan Criste
Co-Associate | Interest Rate Products Sector
ryancriste2@gmail.com

Andre Johnson
Co-Associate | Interest Rate Products Sector
andretimothyjohnson@gmail.com

Jatin Patel
Analyst | Interest Rate Products Sector
jatinpatel05@yahoo.com

Summary of Weekly Themes

- **U.S. CPI fell for the third straight month to 3.00% y/y, slightly below forecasts of 3.10%,** indicating a continued downtrend in inflation. Following the CPI report, market expectations for a 25.00 bps rate cut in September surged, with implied odds rising by over 16.00 percentage points
- **U.S. Retail Sales fell in June to 0.00%, missing expectations of a 0.10% increase m/m,** suggesting a decline in consumer health as interest rates remain high, potentially prompting the Fed to lower interest rates sooner
- **During Fed Chair Powell's testimony in the Senate, he highlighted the two-sided risks now facing the economy**: the need for further positive inflation data and the potential impact of a weakening labor market. He emphasized that while they require more favorable inflation data to lower rates, **a weakening labor market could alter their approach**
- **U.S. PPI increased by 0.20%, exceeding expectations of a 0.10% increase m/m.** Prices for services, auto parts, and equipment gained while prices of goods declined, mainly due to a 5.80% decline in gasoline prices
- **China's GDP grew by 4.70% y/y in 2Q2024, falling short of the 5.10% forecast and marking the weakest annual growth since 1Q2023.** This lack of growth can be attributed to a significant real estate downturn, weak domestic demand, a depreciating yuan, and trade tensions with the West
- **China's retail sales grew by 2.00% y/y in June 2024, falling significantly short of market expectations of 3.30%.** Sales fell drastically for clothes and cosmetics, suggesting weakness in Chinese consumer demand
- **U.K. GDP grew by 0.40% m/m beating forecasts of 0.20%,** bouncing back from April as retailers, wholesalers, and construction posted a strong month

Looking Ahead

In the upcoming weeks, the Interest Rate Products Sector will monitor important macroeconomic indicators that shape the U.S. economy and influence major global markets. As we edge closer to a potential rate cut, our focus will shift to key data points affecting the Fed's decisions as well as the FOMC meeting on July 31st. This meeting is crucial, as the Fed may provide guidance on a possible September cut and give the market a timeframe, something they have yet to do. The upcoming U.S. PCE report will be the most important data point as we approach the next FOMC meeting, given that Core PCE is the Fed's preferred inflation gauge. Additionally, as Powell has highlighted the growing importance of the labor market, we will pay close attention to JOLTS data. Personal Spending will also be crucial, as consumer health is a factor in the Fed's decision. In Europe, we will keep an eye on key data such as inflation, consumer behavior, and economic growth, as the ECB nears potential further rate cuts. For China, we will track economic growth and consumer health, given China's substantial impact on the global economy. In the bond market, we will continue to observe the 10-Year Treasury, especially as it reacts to election news. We have seen recent spikes in the 10-Year yield correlated with increasing odds of a Donald Trump victory. We anticipate ongoing fluctuations due to political volatility. As Trump's odds increase in the future, we could see yields rise as bonds sell off in anticipation of Trump's pro inflationary policies.

Weekly Product Report

Metals Sector

Weekly Product Report

Sougi Akurathi
Associate | Metals Sector
sou.akuathi@gmail.com

Anthony Buoscio
Associate | Metals Sector
anthonybuoscio1@gmail.com

Matthew Hoban
Associate | Metals Sector
matthoban12@gmail.com

Max Lee
Analyst | Metals Sector
maxlee71704@gmail.com

Jacob Pausley
Analyst | Metals Sector
jpausley32@gmail.com

Summary of Weekly Themes

- **Gold prices were able to reach record highs of over $2,483.00** earlier this week after the release of cool economic data helped boost support for a September rate cut. June's CPI decreased (0.10%) compared to May and was the first time since May 2020 that the monthly rate declined. Prices have come down from their record highs, ending the week **down (0.92%) w/w**
- **Silver prices are down (4.20%) w/w** after demand uncertainties in China erased earlier gains which came from increased hopes for a Fed cut. Notes from this week's Chinese Third Plenum meeting look to provide insight into future economic policy as well as potential increased stimulus measures
- **Copper** prices have fallen to their lowest levels in three months and are **down (6.49%) w/w.** The drop in prices has been mainly due to continued concerns over Chinese industrial demand as well as high inventory levels
- **Platinum prices dropped to their lowest levels this month** after weak Chinese economic data hurt demand outlooks. Chinese GDP for 2Q2024 came in lower than the expected 5.10% at 4.70%. EV market growth is also putting pressure on prices, with platinum falling (2.21%) w/w
- The Biden administration announced new tariffs on **aluminum** imports from Mexico that were originally made in another country. The tariffs are meant to prevent other countries like China, Russia, and Iran from avoiding U.S. import taxes. Since then, prices have dropped and are **down (1.88%) w/w**
- **Zinc** prices have hit a one-month low and are **down (5.70%) w/w** due to disappointing Chinese economic data as well as an increasing supply. Chinese refined zinc output rose by 6.26% while inventories at London Metal Exchange (LME) warehouses grew by 9.00%, showing a market surplus

Looking Ahead

In the upcoming weeks, the Sector will look to continuously monitor key U.S. economic data releases as well as news regarding the Chinese economy. Another cool reading from next week's PCE report would likely solidify expectations of a Fed rate cut coming in September, helping bolster prices for both precious and industrial metals. The U.S. unemployment rate releases next week representing the strength of the labor force. A reading above 4.10% will strengthen Jerome Powell and the Fed's expectations of a September cut. The Chinese economy had one of its worst weeks as the economy grew at its slowest rate in five quarters, while retail sales showed its worst growth since December 2022. The Sector will continue to monitor China as efforts to boost consumer spending continue to have lackluster results causing industrial metals to continue to underperform. China's Third Plenum meeting showed very weak signs of a stimulus release pushing industrial metal prices further down. A potential shift from copper to aluminum within China is on the table as State Grid, China's largest copper consumer, has been buying more aluminum than copper recently, showing potential of a large-scale transition that will have rippling effects throughout both the copper and aluminum industries. The Sector does not believe this is a huge threat to copper as prices have been high causing a resiliency to purchasing the metal, but the possible transition is something to keep a close eye on.