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PENNSYLVANIA STATE UNIVERSITY

Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- WTI crude futures continue **recovery from a sell-off last week up ~4.00% to $72.09.** Despite supply fears in the Middle East, prices remained stable as the market waits for Chinese economic indicators and the U.S. election
- European rally in natural gas prices propped **U.S. prices up 1.51%** closing at $3.02 on Friday. U.S. winter weather forecasts reported a colder-than-average winter, coupled with higher-than-expected production
- Baker Hughes reported an **unchanged U.S. oil and gas rig count** this week. The count, an early indicator of output, held at 585.00 on Friday
- BRICS nations met Wednesday in Russia, where they discussed the **need for U.S. and EU involvement to reduce tariffs**, which could lead to a reevaluation of administrative goals and reshape global trade dynamics
- The Chinese government **increased the 2025FY crude oil import quota for private refiners by 6.00% y/y to ~5.10 mm bbl/d.** This marked the first hike in quota after keeping it unchanged for four consecutive years
- Constellation Energy (CEG.O) announced plans to restore an operating license for its **Three Mile Island nuclear power plant** under a signed 20.00 year power purchase agreement with Microsoft. The reactor is expected to provide up to 835.00 megawatts by 2028 to power data centers
- The Israeli military continued its attacks on Hezbollah while holding off retaliatory strikes on Iran for a **third consecutive week**. On Tuesday, Israel confirmed the **killing of Hashem Safieddine**, who was widely known to be the second-most powerful figure within the militant group Hezbollah
- European diplomats announced plans to tighten **sanctions on Russia in anticipation of a potential Trump win**. Talks include a 15th sanctions package, targeting at least 45.00 more ships to reinforce the oil price cap

Looking Ahead

The unexpected delay in Israel’s retaliation against Iran has cooled the market as tensions shift away from crude infrastructure. Speculation suggests that the U.S. may be playing a larger role in the Israeli military's approach, possibly delaying strikes until after the election. The Sector believes that cooling crude prices reflect not only election uncertainties and regional tensions but also pending economic data from China, which will be released next week. Both the NBS and Caixin PMI reports will mark the first set of manufacturing data since China’s aggressive stimulus announcement in early October. Additionally, the European natural gas rally has propped up U.S. prices, with colder winter forecasts fueling expectations of higher energy demand in the coming months. Diplomatic moves in anticipation of the U.S. elections are also impacting markets, as BRICS and G7 discussions on tariff renegotiation and new sanctions on Russia underscore the potential for a reshaped trade landscape in 2025. With BRICS members seeking U.S. and EU engagement to address tariff reduction, there’s a sense that the global trade order may be redefined. European diplomats are pressing for further sanctions against Russia, signaling continued tension as markets brace for potential disruption. While news coverage maintains a positive tone on these talks, the Sector advises caution given the added market uncertainty and will monitor both the diplomatic shifts and member countries' responses to election results as they unfold.

Weekly Product Report

Equity Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- The major indices ended the week all in the green with **the NASDAQ Composite up 0.34%, the DJIA up 1.11%, and the S&P 500 up 0.60%**
- **The Existing Home Sales** report released a **1.00%** decline from the previous month, bringing sales to their **lowest point since October 2010**. This highlights the challenges within the housing market and underscores the impact of current economic conditions on homebuyer activity
- **Initial jobless claims dropped by 15.00 k**, reaching their **lowest level this month.** This drop reinforces the view that the U.S. labor market remains relatively resilient despite the Federal Reserve's interest rate policies
- **Durable Goods Orders** report shows a **$2.20 bn decline**, marking the second consecutive monthly drop, driven by ongoing challenges at Boeing
- **GE Aerospace (GE)** released its earnings, which came in **below expectations**. The reported third-quarter revenue of **$8.91 bn** was about **$10.00 mm short** of analysts forecasts, which sent shares down 7.00%
- **RTX Corporation (RTX)** released earnings, surpassing market expectations with strong growth. Revenue surged by **49.00% y/y**, reaching **$20.10 bn**
- **Tesla (TSLA)** released earnings which caused shares to sky rocket. **The better than expected report** caused shares to rise **22.00%** on the day. Earnings per share reached **$0.72** as expectations were **$0.60**
- **Coca-Cola (KO)** exceeded market expectations in its latest earnings report, delivering robust results. The company posted revenue of **$11.95 bn** and earnings per share of **$0.77**, with the help of price changes in products
- **Honeywell International (HON)** released earnings and beat expectations, but **shares still fell** due to **sales being lighter than expected**

Looking Ahead

In the next week, markets will be looking for the release of important economic data in the form of Core PCE Price Index, Personal Income, Personal Spending, Non-Farm Payrolls, and the Unemployment Rate. Equities markets will also be assessing earnings from Alphabet Inc. (GOOGL), Meta Platforms (META), Microsoft Corporation (MSFT), Amazon Inc. (AMZN), and Apple Inc. (AAPL). After Tesla's rally this week, the Sector looks to monitor consumer spending power to keep driving gains in Consumer Discretionary companies, like Amazon. Both Personal Income and Personal Spending are expected to rise from 0.20% m/m to 0.40% m/m, demonstrating a resilient consumer. Communication Services companies, like Google and Meta, will also be impacted by these reports. Both companies have been continuing to drive growth in AI development, which puts them in a strong position to report better than expected earnings. Another insight into how AI has impacted earnings will be Apple's earnings report. With the company's recent release of Apple Intelligence, a significant increase may reignite interest in Information Technology. Despite these releases indicating a recovering U.S. economy, unemployment is expected to rise back up to 4.20% and Non-Farm Payrolls are expected to fall; Core PCE inflation is also expected to rise. Weak labor and inflationary data, especially a week out from the Fed meeting, may lead to increased market volatility and diminish the impact of these earnings.

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Weekly Product Report

Foreign Exchange Sector

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Summary of Weekly Themes

- **The DXY gained 0.82% w/w** as bets towards interest rate cuts gradually decreased. The CME FedWatch tool predicts a 90.00% chance of a 25.00bps cut in November, compared to a month ago, there was a 50.00% chance of a 50.00bps cut. T-note yields climbed, strengthening the dollar
- **USDJPY continued its strengthening over the week gaining 1.85%.** Japan called for a snap election this week which could lead to further complications in monetary policy. The Liberal Democratic Party could lose its long-held power in Japan leading to greater volatility between the currencies
- **EURUSD** fell this week as the ECB continues to slash rates amongst September inflation falling to 1.70% m/m. The dollar continues to strengthen, especially as investors consider a Trump victory, which would come with inflationary tariffs. EURUSD **experienced a loss of 0.59% w/w**
- **GBPUSD** traded down on the week**, dropping 0.62%.** BOE Governor Andrew Bailey failed to talk about the future of monetary policy in her recent meeting leaving investors wary about where the BOE will take rates. U.S. Treasury yields rose around two basis points helping the dollar strengthen
- **AUDUSD** is trading near its 200.00-day moving average this week as it saw a considerable **fall over the week of 1.42%.** This was mostly due to the significant rally in the dollar although Australian three-year bond yields climbed to 3.94%, and 10.00-Year Treasury Yields jumped to 4.45%
- **CADJPY gained 1.22% w/w.** The 50.00bps cut by the BoC was fully priced in and did not help the yen appreciate against the Canadian Dollar. Core CPI in Japan fell m/m from 2.00% to 1.80%, which won't encourage the BoJ to hike interest rates. The snap election creates volatility in the yen as well

Looking Ahead

The Sector will continue to monitor various reports coming out this week, especially news regarding USDCHF. The pairing has gained throughout the month and through the week up 0.27%. In the following week, Switzerland is set to release CPI for October after dropping to three-year lows of 0.80% in September. If inflation comes out lower than expected it will motivate the SNB to cut rates in their next meeting in December, depreciating the Swedish franc against the U.S. Dollar. Along with inflation, the Switzerland ZEW survey gets released on Wednesday and is a strong indicator of business sentiment and economic growth. The survey has been showing contraction within the economy for two consecutive reports which was (3.40) in August and (11.10) in September. A third negative reading in the ZEW Survey will force USDCHF to appreciate further. In the U.S. investors are awaiting a week full of important economic data. PCE releases on Thursday and will help the Fed decide on where to take rates in the November meeting. After seeing CPI come in hotter than expected at 2.40% y/y, if PCE follows suit, it will help the dollar strengthen against the franc. Along with PCE, Non-Farm Payrolls comes out on Friday and will be a vital metric on where the labor market is heading after the previous NFP beat expectations by 154.00 k jobs. As the USD appreciates against the franc, the Sector could see the pairing trade up further in the coming weeks.

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Weekly Product Report

Index Derivatives Sector

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Summary of Weekly Themes

- **Benchmark U.S. indices were mixed this week, with the S&P 500 down 0.85%, Dow Jones Industrial Average down 2.56%, and Nasdaq Composite up 0.34%.** The financial sector was affected over concerns of New York Community Bancorp guidance and resulted in losses from major banks. In contrast, the semiconductor sector saw gains, buoyed by earnings reports. Consumer sentiment upwardly revised from 68.90 to 70.50
- **China's Hang Seng had a volatile week, but ultimately ending (0.68%) w/w.** Foreign direct investment in China continued to decline, falling by 30.40% y/y to CNY 640.60 bn in the first three quarters of 2024FY. The PBOC injected CNY 700.00 bn into financial institutions through a one-year medium-term lending facility, and kept interest rates unchanged at 2.00%
- **Japan's Nikkei 225 saw losses this week of 2.69%** as the 10.00-year bond yield fell to 0.95% at the end of the week. Political uncertainty spurred in anticipation of the election this weekend where the coalition government stands to lose its majority of the parliament, complicating Japan's plans
- **India's Nifty 50 steadily declined this week by 2.86%** as investors grow increasingly concerned of India's inability to sustain the aggressively high growth momentum, driving investors to reduce their positions on Indian equities and fixed-income assets. Lack of significant catalysts and disappointing quarterly reports from companies drove the index down further
- **The U.K.'s FTSE 100 slumped, realizing losses of 1.31% w/w.** U.K. business optimism deteriorated to a two-year low, declining by (24.00) in October, down from (9.00) in July. Manufacturing output volumes also decreased, and expected to remain unchanged over the next three months

Looking Ahead

Going forward into this next week, the Sector will be monitoring the Euro Stoxx 600 Index as earnings from larger companies in the index came out with earnings this past week, leading to its (1.06%) decline on Friday. L'Oreal (LRLCY) fell by 3.80% from missing 2024Q3 sales estimates, as well as Deutsche Bank (DB) dragging the index down as its shares fell by 4.43%. The index saw many auto-related companies come out with weak corporate earnings such a Mercedes-Benz (MBGAF), which missed 3Q2024 earnings by a wide margin. The sentiment among investors this week has primarily based off of these corporate earnings, which is giving them the idea that the European economy is weakening. German business sentiment has improved more than expected with hope that it will be able to have resilience with their industrial problems and weak global demand. Many investors are watching out for the U.S. election in the next couple weeks as well as major central bank interest rate cuts. Three ECB officials have come out stating they will be proceeding with cuts gradually, and that they do not expect bigger rate cuts going forward, however there are worries over the weakening economy and inflation. Policymakers warned that there is a risk of inflation falling below the central bank's 2.00% target, as last month inflation in the eurozone dipped to 1.70%. Going into next week, economic data that is coming out for the Euro Area are Flash GDP Growth Rate q/q and y/y, as well as the Inflation Rate y/y Flash.

Weekly Product Report

Interest Rate Product Sector

Weekly Product Report

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Summary of Weekly Themes

- **U.S. Durable Goods orders decreased 0.80%** above expectations of a 1.10% decrease m/m, matching its previous month as durable goods show signs of slow growth reflected by high borrowing costs in the economy
- **Japan's Tokyo Core CPI rose by 1.80% y/y above expectations of 1.70% and slowing slightly from the previous month.** Within this report, the closely watched services inflation slowed, casting doubt on the BoJ's expectations that higher wages will broaden inflation pressures
- **U.S. September New Home Sales rose by 4.10% m/m** to 738.00 k, above estimates of 719.00 k, marking the highest level in nearly two years as demand rebounds as buyers take advantage of a decline in mortgage rates
- **Existing home sales in the U.S. fell by 1.00% from the previous month** to 3.84 mm, marking the lowest level since 2010FY, as many homeowners continue to be reluctant to sell as they are locked into ultra low interest rates
- **U.S. October Manufacturing PMI rose to 47.80** above market expectations of 47.50, with the manufacturing sector remaining a weak point in the economy and contracting for a fourth consecutive month
- **U.S. Initial Jobless Claims fell by 15.00 k from the previous week to 227.00 k,** well below market expectations of 242.00 k as the labor market continues to remain relatively resilient amidst high interest rates
- **U.S. Services PMI rose significantly to 55.30** in October above market expectations of 55.00**,** marking the fifth consecutive reading of growth fueled by large new orders as the services sector remains a strong point
- **The University of Michigan consumer sentiment for the U.S. was revised higher to 70.50 in October** from a preliminary of 68.90

Looking Ahead

In the coming weeks, the Interest Rate Products Sector will closely monitor key macroeconomic indicators that reflect the trajectory of the U.S. economy to determine the future path of Fed monetary policy due to past pitches on the approved Bear Put Spread on iShares 20+ Year Treasury Bond ETF (TLT). This upcoming week will be a big tell for investors and economists on the current state of the U.S. economy, as we have a lot of coincident, lagging, and forward-looking indicators set to be released. To start next week, Jolts Job Openings will be released for September and should show how the labor market is operating under current interest rates after showing resilience the past few weeks through multiple reports. Following that, GDP growth for 3Q2024 will either confirm or dispel rumors of a weakening economy amid further easing from the Fed. There will also be key readings circling the strength of the consumer as Personal Income and Personal Spending will be released on Thursday. If these numbers were to come in stronger than expected, showing further strength in the economy, it would help the most recent bear put spread as the Fed would move to more hawkish sentiment, helping the contract price decrease towards max profit. To end next week, the most important indicators that will further substantiate reports of either a resilient or slowing labor market will be released, including non-farm payrolls and the unemployment rate.

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Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- **Gold** prices once again were able to hit an **all-time high** earlier in the week at just under $2,758.00 per troy oz. The increases were mainly due to further demand for gold's safe-haven qualities as well as uncertainties regarding the U.S. election. Rising Treasury yields towards the end of the week brought gold back down from record highs, causing the metal to end **up 0.97% w/w**
- **Silver** prices reached their **highest levels since September 2012** at $34.70 per troy oz. The record prices came after the PBOC lowered both their one-year and five-year loan prime rates by 25.00 bps each. Similar to gold, silver prices came back down later in the week due to rising Treasury yields as well as investors who took profits, causing prices to **drop 0.07% w/w**
- **Copper** prices traded **relatively flat** on the week as investors awaited further news on Chinese stimulus measures. Like silver, copper prices saw some gains after the PBOC lowered the one-year and five-year loan prime rates. Despite this, the industrial metal still ended the week **down 0.22%**
- News of potential **supply constraints** with **palladium** caused prices to **increase 10.94% w/w.** The fourth-largest global producer of palladium recently made plans to cut roughly 150.00 k oz in U.S. mines due to pricing issues. This also comes after it was reported that the U.S. asked allied countries to consider tariffs of Russian palladium, further boosting prices
- **Iron ore prices hit a four-week low** due to reports of increasing supply, causing the metal to trade **down 0.91% w/w**. Australia Fortescue reported a 4.00% increase in their first quarter iron ore shipments while BHP Group also recently posted higher than expected output of the metal. Further expectations for Chinese stimulus also continue to influence prices

Looking Ahead

In the upcoming weeks, the Sector will continue to monitor aluminum prices and how they will continue to be affected by the upcoming U.S. presidential election as well as further developments with potential supply constraints. Both candidates have very different viewpoints on many policies, with clean energy being one of the biggest. With the election less than two weeks away, there is still no clear leader in the polls, causing uncertainty in many different markets. This could lead to increased volatility in aluminum prices as the metal is widely used in different clean energy initiatives such as EVs, solar panels, and wind turbines. The Sector will continue to monitor upcoming news regarding the presidential election and how aluminum prices react to it. The Sector will also monitor news of potential supply constraints coming out of China, a top producer of the metal. China's top supplier of bauxite, which is used to make aluminum, recently had to halt exports from Guinea after shipments were blocked by the country's customs authorities. With Chinese stockpiles of aluminum already down roughly 20.00% since their peak earlier this year, increased input costs for smelters could continue to drive prices upward in the near future. The Sector will continue to monitor any updates with Chinese aluminum production and their impacts on prices. The Sector may also look to potentially add aluminum to our portfolio through futures or options strategies as we are currently underweight compared to our benchmark.