Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- **Hamas leader Ismail Haniyeh has been killed in a Tehran missile strike.** The Israeli government did not claim responsibility for the attack and said it would make no comments. Concerns grow as the conflict may turn into a wider Middle East War. Brent Crude futures climbed ~2.92% w/w following the announcement, consolidating in the ~$80.00 per Bbl key level
- **Russian energy sanctions imposed by the EU no longer pose any threats to other countries from a newly found loophole.** Member of the European Commission for Trade, Valdis Dombrovskis, stated that Russian oil now becomes the property of the trading companies at the Russian-Ukrainian border, and thus allows it to bypass sanctions
- **U.S. crude oil stockpiles fell by 3.40 mm Bbl in the week ended July 26th, marking its fifth consecutive week of declining stockpiles.** Refineries ran at 90.10% capacity, down 1.50% from the week prior
- **WTI crude oil fell 2.00% w/w as worries about the U.S. economy outweighed growing tensions in the Middle East.** July nonfarm payrolls came out at 114.00 k, well below the expected 190.00 k. Consequently, unemployment rates edged up 0.20% m/m from June at 4.30% y/y. FOMC members ensure that chances of a September rate cut still remain strong
- **Crude oil imports from Canada have become increasingly important for the U.S**. Imports from Canada to the U.S have grown 4.00% every year since 2013, providing a reliable source for the U.S. to meet its feedstock
- **OPEC oil output rose in July**, a result of a rebound in Saudi Arabian supply and small increases elsewhere neutralizing the ongoing supply cuts by members. The largest supply boost was from Saudi Arabia of 70.00 k Bbl per day. This marks a rebound after lower-than-expected imports

Looking Ahead

The assassination of Hamas leader Ismail Haniyeh has further stirred conflict in the Gaza region. While Israel's Netanyahu made no direct comment on the attack, in a televised press conference he stated, "Israel will exact a heavy price for any aggression against us from any arena." The Sector believes that the Middle Eastern region must be followed closely for any newly developed allies and future press releases from Israel. Slovakia's Prime Minister, Robert Fico, threatened to halt diesel supplies to Ukraine unless Kyiv restores oil flows from Russia. By making up ~10.00% of Ukraine's diesel together with Hungary, protest continues to stir tensions within the union. The effects of a slowing economy have taken a toll on WTI crude oil prices, outweighing the upward pressure of growing geopolitical conflict. The Fed's rhetoric in this week's FOMC meeting showed promising signs of a rate cut in September. The Sector believes that if economic figures continue its fast rate of slowing, the Fed may consider a greater than 25.00 bps rate cut this September. An announcement regarding Chevron Corporation's (CVX) acquisition of Hess Corporation (HES) has caused the company's shares to tumble down ~3.00%. This results from the chance to close the acquisition, which will be further delayed if not blocked entirely. The acquisition delay would prevent Chevron from gaining a foothold in Guyana's oil assets, which has given Exxon Mobil Corporation (XOM) record production, reflected in the company's 2Q2024 earnings report.

Weekly Product Report

Equity Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- The major indices ended the week in the red with **the Nasdaq Composite down (3.83%), the DJIA down (2.28%), and the S&P 500 down (2.37%)**
- **Durable Goods Orders fell dramatically by (6.60)% m/m in June,** down from the previous month's report of an increase of 0.10% m/m. The sharp decline was largely caused by a 20.50% decrease in transportation orders
- **Core PCE Price Index unexpectedly rose 0.20% m/m in June, hotter than analyst estimates** of a 0.10% m/m increase. Meanwhile, **the saving rate came out at 3.40%**, its lowest value since November 2022, indicating that consumers will have less spending power in the coming months
- **The Fed held rates steady at 5.50% for the eighth consecutive meeting,** in line with analyst expectations. Fed Chair Powell's rhetoric indicated that a rate cut could come in September, given the contractionary state of the labor market and economic data still showing easing inflation
- **Meta (META) shares surged 7.00%** following their earnings release on Wednesday. The company not only beat revenue estimates, but also reported $8.47 bn in capital expenditures to be used on AI development
- **ISM Manufacturing PMI came out cooler than anticipated at 46.80 points,** missing expectations by two points. This was caused by a decline in new orders, emphasizing the diminished purchasing power of consumers
- **The unemployment rate unexpectedly rose to 4.30%** which sparked recessionary concerns. Furthermore, the U.S. economy added 114.00 k jobs, missing analyst expectations by 61.00 k, contributing to the panic
- **Amazon (AMZN) stock fell more than 8.00%** after missing revenue expectations, sending multiple tech stocks down as investors grew cautious

Looking Ahead

In the next two weeks, markets will be looking at important economic data in the form of ISM Services PMI, initial jobless claims, PPI, Core CPI Inflation Rate, and retail sales. Equities will be assessing earnings releases from Duke Energy Corp. (DUK), Constellation Energy Corp. (CEG), Eli Lilly and Co. (LLY), and Walmart Inc. (WMT). ISM Services PMI is expected to rise from 48.80 points to 51.00 points; an increase in this index would indicate that the services economy is rebounding from its contraction in the previous month. Initial jobless claims are expected to rise from 249.00 k to 250.00 k. This report will be important to monitor as unemployment continues to rise, which puts pressure on the Fed to cut rates in order to maintain their dual mandate. If PPI were to come out hotter than expected, consumers may grow worried about future price changes. A consistent Core CPI Inflation Rate would be beneficial to equities, as it may settle growing recessionary concerns, in the short term. Retail sales will give insight to consumer purchasing power, which will be crucial to understanding how increased unemployment is impacting customers. Earnings releases from utility companies, such as Duke Energy Corp. and Constellation Energy Corp. will provide insight into the performance of the sector, especially given their contribution to powering AI data centers. Walmart Inc. earnings release will shed light on consumer preferences, especially for lower and middle income households who are most impacted by high rates.

Weekly Product Report

Foreign Exchange Sector

Weekly Product Report

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Summary of Weekly Themes

- **The DXY fell 1.01%** this week amid apparent Fed comfortability regarding receding inflation. This comes **after the weekend's Fed meeting pointing towards a September interest rate cut**, devaluing the USD in comparison to foreign currencies due to interest rate differentials. **Nonfarm payrolls also came in below expectations at 114.00 k, devaluing the USD**
- **GBPUSD traded down (0.57%) this week**, highlighted by a (0.90%) slide on Thursday, touching its weakest level in nearly a month, below 1.2710. This slide came **after the BOE announced a 25.00 bp cut**, but with a U.S. Fed cut likely coming in September, the currencies should appreciate or depreciate similarly, as both central banks are looking to lower rates
- **USDJPY traded down (4.51%) as the July jobs report came in very weak on Friday**. The USD weakness will likely continue during 2024 as the market will be pointed toward Fed rate cuts, while the BoJ unexpectedly announced they were raising their policy rate by 15.00 bps, sparking a Yen rise
- **USDCAD traded up 0.21%** this week as it starts to plateau off of 2024 highs. Both currencies seem to be falling **as the BOC has implemented two consecutive rate cuts**. Oil has been trading down recently which has a direct relationship with the CAD and could signal bearish CAD movement
- **AUDUSD fell (0.41%) with a slight rebound of 0.29%** on Friday after the U.S. announced missed jobs expectation by over 60.00 k. Australia's PPI rose by 4.80% y/y in 2Q2024, a 0.50% increase from 1Q2024
- **NZDUSD traded up 1.27% after nonfarm payrolls missed their mark**. The RBNZ decided to leave rates at 5.50%. 2Q2024 CPI came out at 3.30%, falling (0.70%) from 1Q2024 devaluing the NZD, a bearish factor for the NZD

Looking Ahead

The Sector will monitor various reports coming out this week, including economic data from the U.S., Germany, and China. On Monday, U.S. ISM services PMI will be released. This comes after June's reading showed a contraction in the U.S. services sector. Additionally, on Monday global composite PMI will be released, which gauges U.S. private business activity in the manufacturing and services sector. Eurozone PPI will also be released Monday, which has been steadily trending downwards since February. Eurozone retail sales will be reported Tuesday with readings above expectations causing bullish Euro movement and below expectations causing bearish movement. On Friday, German HICP will be reported. This reading will reflect inflation in Europe. High readings will cause bullish Euro movements and lower readings will cause bearish Euro movements. Chinese Caixin Services PMI, which measures Chinese business activity in the Chinese service industry, will be released on Monday. Chinese CPI will be reported on Friday which came in lower than expected in June. On Tuesday, the RBA will release its interest rate decision. Australian inflation rose to 3.80% in June which could influence the RBA's decision. New Zealand's 2Q2024 employment change will be reported on Tuesday. The RBNZ will release its inflation expectation on Thursday. This will influence market sentiment toward RBNZ rate decisions.

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Weekly Product Report

Index Derivatives Sector

Weekly Product Report

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Summary of Weekly Themes

- Benchmark U.S. indices dipped this past week following the Fed's decision to hold rates and the release of a weak jobs report. **The S&P 500 slid down (2.37%) w/w, the Nasdaq Composite retreated (3.83%) w/w, and the Dow Jones Industrial Average fell (2.28%) w/w.** Nonfarm payrolls rose by 114.00 k, well below expectations of 175.00 k. The U.S. unemployment rate jumped to 4.30% m/m, above market expectations of remaining at 4.10%
- **Japan's Nikkei 225 tumbled (5.85%) w/w** as the BoJ surprised markets by a 15.00 bps hike to 0.25%, in addition to announcing a plan to cut its monthly bond purchases by roughly 3.00 T Yen m/m and 400.00 bn q/q
- **The U.K.'s FTSE 100 Index slid (1.34%) w/w** as the BOE cut interest rates by 25.00 bps for the first time since 2020 to 5.00% from a 16.00-year high of 5.25%. Inflation returned to the 2.00% y/y target in May and remained unchanged in June, easing some economic concerns. The BOE stated it will proceed cautiously with further rate cuts to ensure inflation remains subdued
- **China's Hang Seng Index fell (1.46%) w/w** amid concerning PMI data showing contractions in manufacturing, tumbling down to 49.80 from 51.80 m/m, as well as slowing growth in the service sector, from 49.40 to 49.50 m/m. A shift in government focus towards boosting consumer spending rather than infrastructure projects weighed heavily on investor sentiment
- **The STOXX Europe 600 ended the week down (3.17%).** The Eurozone economy reported to have grown by 0.30% in 2Q2024, exceeding expectations of a 0.20% increase. France and Spain led growth in the Eurozone while the German economy contracted. Inflation accelerated to 2.60% y/y in July, compared to expectations of a slowdown to 2.40%

Looking Ahead

Movement in global indices this week was largely affected by a global equity selloff amid mounting concerns of a slowing U.S. economy, in conjunction with shifting monetary policies among major central banks. In the U.S., disappointing nonfarm payroll figures and a rise in the unemployment rate to 4.30% have heightened speculation of more aggressive rate cuts by the Fed, potentially up to 50.00 bps in the upcoming meetings. This dovish outlook has resulted in a significant drop in bond yields, with the 10.00-year Treasury yield hitting a 31.00-week low of 3.79%, and has shifted investor focus towards fixed-income assets, which contributed to a broad selloff in equities globally, particularly impacting technology and large-cap stocks. In Japan, the BoJ's unexpected move of a 15.00 bps rate hike coupled with declining manufacturing activity, which fell to 49.40 m/m from 49.50, has raised concerns about Japan's economic outlook, indicating broader economic challenges. The BOE's decision to cut rates by 25.00 bps reflects the cautious approach regarding ongoing concerns about wage growth, which is currently double the rate consistent with their 2.00% inflation target. The Euro Area has hinted at potential further rate cuts, with markets pricing in two more for the remainder of the year. Looking ahead, the Sector will closely monitor key economic indicators that could further influence market direction. In the U.S., the upcoming Services PMI and trade balance report will provide further evidence of the health of the U.S. economy.

Weekly Product Report

Interest Rate Product Sector

Weekly Product Report

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Summary of Weekly Themes

- **The U.S. PCE rose by 2.50% y/y in June, down from 2.60% the previous month.** Core PCE, the Fed's preferred gauge of inflation, increased by 0.20% m/m in June, slightly above market expectations of 0.10%. Although this report shows minimal change, it indicates a slight downtrend in inflation, aligning with the Fed's goals and providing a positive sign for markets
- **U.S. personal spending increased by 0.30%, in line with market expectations** and slightly lower than the 0.40% increase the previous month
- **U.S. nonfarm payrolls increased by 114.00 k in July, well below market forecasts of 175.00 k and marking the lowest growth in three months.** Markets fell significantly following this news as fears of a hard landing grew and investors adjusted their expectations towards extra rate cuts
- **The BOE lowered its interest rate from 5.25% to 5.00%, marking its first rate cut in over four years** as inflation has eased closer to their 2.00% target. Following the cut, U.K. bond yields slipped by around 10.00 bps
- **The BoJ raised its benchmark rate from 0.01% to 0.25%, marking the highest rate since 2008.** They also announced plans to halve their bond purchases as they look to normalize monetary policy. Following this announcement, the Yen strengthened by over 1.50% against the USD
- **During its FOMC meeting, the Fed left interest rates unchanged at 5.25%-5.50%, aligning with market expectations.** Fed Chair Powell acknowledged the possibility of a rate cut, stating, "A reduction in our policy rate could be on the table as soon as the next meeting in September"
- **U.S. Manufacturing PMI fell to 46.60% in July, below expectations of 48.80% m/m.** This data suggests U.S. manufacturing is contracting

Looking Ahead

In the coming weeks, the Interest Rate Products Sector will closely monitor key macroeconomic indicators that impact the U.S. economy and global markets. With a potential rate cut likely within the next month, our focus will be on key data points influencing the Fed's decision ahead of the September 17th FOMC meeting, including inflation and the labor market. We'll receive CPI data on August 14th and jobless claims data the following day. Following the huge miss on jobs this week, the labor market has gained significant importance, as acknowledged by Powell. Going forward, it will be important to watch for extremes in labor market data, as overly weak data could fuel fears of a hard landing and emergency rate cuts, while excessively strong data might raise inflation concerns. If the data comes in too soft, we could see increased sentiment in favor of a 50.00 bps cut in September. The yield curve has also become a key focus. After being inverted for nearly two years, we are approaching the closest point to normalization in some time. Currently, the U.S. 2-Year/10-Year spread is around (0.08), a large increase from (0.81) one year ago. The yield curve normalizing without rate cuts would be significant as it would likely reflect improved economic conditions and confidence, which supports a smoother transition to stable economic growth rather than a more severe downturn. In the bond market, we'll continue to monitor the 10-Year Treasury and its response to interest rate expectations and the election.

Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- **Gold** prices are **up 4.27% w/w** after releases of economic data continue to support a Fed rate cut as well as ongoing geopolitical conflicts increasing safe-haven demand. Fears of further escalations in the Middle East have helped lift gold prices after Iranian officials stated that they would retaliate against Israel after the assassination of the Hamas leader early Wednesday
- Similar to gold, **silver** prices were also able to benefit from releases of economic data supporting rate cuts as well as ongoing geopolitical tensions in the Middle East. ISM manufacturing for July came in at 46.80% compared to an expected 48.80%. This helped silver prices surge up **3.06% w/w**
- **Copper** prices continued to struggle as they hit four-month lows of $4.05 per pound, however, they are **up 1.10% w/w.** Despite unexpected Chinese rate cuts, weak construction and industrial demand continue to hurt prices
- **Palladium** prices continue to decline and have hit five-month lows of around $875.00 per troy ounce. The fall in prices is attributed to the continued decrease in demand, as well as increased levels of production and recycling, keeping supply high. Despite this, prices ended **up gaining 0.32% w/w**
- Rising demand for stainless steel in India along with a decreasing market surplus has helped **nickel gain 2.30% w/w**. India's stainless steel industry reported a 4.36% CAGR over the past five years with a 9.33% reported for 2023-2024, showing consistently improving infrastructure within the nation
- **Iron ore** fell on the week following persistent demand concerns. China's housing crisis continues to put downward pressure on iron ore prices leading to an uncertainty over when a sustainable recovery is going to take place in China. After a lackluster week, iron ore **prices ended down (1.30%) w/w**

Looking Ahead

In the upcoming weeks, the Sector will continue to monitor key economic data from the Fed as Powell opened the door to rate cuts in September in the meeting this week. Friday's U.S. jobs report showed that growth in the U.S. came in much lower than expected at 114.00 k jobs added compared to an estimated 185.00 k. The report also showed that the unemployment rate grew to 4.30%, the highest level since October 2021. After a disappointing ISM manufacturing report this past week, ISM Services releases next week, helping give insight into some of the largest U.S.-based service companies. Geopolitical tensions continue to play a crucial role in the global economy as both the Israel-Hamas War and the Russian-Ukraine Conflict escalate. Iran Leader Ali Khamenei ordered an attack on Israel for the death of Hamas's Chief after a coordinated bombing in the Iranian capital of Tehran, showing geopolitical tensions in the Middle East have no intentions of cooling. Russia released its largest drone strike against Ukraine this week resulting in no deaths, but the Sector believes this conflict isn't going to cool down anytime soon. The Metals Sector continues to monitor the Chinese economy as the world's largest consumer of industrial metals shows very weak economic signals. Despite the PBOC cutting key lending rates, it failed to impress investors that the stimulus would provide enough support to help get the economy back on its feet. This resulted in minimal changes in the industrial metals market.