Weekly Product Report

Energy Sector

Weekly Product Report

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Summary of Weekly Themes

- **The European Union agreed to impose new sanctions on Russian LNG imports.** While EU companies will still be allowed to purchase from Russia, they will be prohibited from re-exporting to other countries
- **Russian leader Vladimir Putin visited North Korea,** resulting in a mutual defense pledge, raising concerns of possible threats to allies in Asia Pacific
- **Oil prices finished out the week ~4.00% higher** on upgraded demand estimates from the EIA and OPEC demand forecasts up by 2.20 mm Bbl/d
- **WTI exceeded ~$80.00 per Bbl** as uncertainty over crude demand from China arises. Economic data posted mixed; retail sales beat expectations, but industrial output and investments miss expectations
- **The FERC has authorized the Mountain Valley Pipeline to begin operations,** which allows it to move up to 2.00 Bcf/d of natural gas from South Texas to New York after merging with the existing Transco pipeline
- **Gasoline reported its first strong sign of demand following the onset of the summer driving season,** with gasoline inventories falling by 2.30 mm Bbl compared with analysts' forecasts of a 6.00 k Bbl build
- **The U.S. Senate passed a bill in support of advanced nuclear energy deployment** bringing further development to current projects and shifting away from fossil fuels through further operational incentives
- **Oil prices have experienced volatility due to conflicting fundamental dynamics.** Prices are caught between geopolitical risks from Gaza, potentially denting oil supplies from a key region, and U.S. inventory growth
- **China coal output declined as government focuses on structural reform.** Attention turns towards primary coal exporters Indonesia, Australia and Russia as they may see increased output for the rest of the year

Looking Ahead

The EU's new sanctions against Russian LNG have been discussed since April of this year, and a formal agreement has been signed this week. The sanction will progress independence from Russian energy; however, the Sector believes that challenges in finding a new source will arise due to an already demanding LNG industry. Putin's visit underscores Russia's pivot toward North Korea after two decades of supporting the United Nations' efforts against Pyongyang. The Sector believes that the newly formed collaboration will raise concerns that include the possibility of Russia sharing nuclear and military technology in exchange for munitions to use against Ukraine. Uncertainty over China's economy imposes downward pressure on crude demand expectations; however, the possibility of U.S. inventory drawdowns continues to push WTI prices upwards. The lowering demand is in line with IEA expectations, which is that global oil demand growth would decrease by about 100.00 k Bbl/d, which is lower than previous forecasts. Recent U.S. economic data has shown fewer Americans filing for unemployment benefits. The Sector believes this strengthens the possibility of a rate cut this year. This could increase oil prices after the current dip in global demand from lower borrowing costs, raising demand. Oil prices may also continue to be supported by a geopolitical risk premium driven by the potential escalation between Israel and Iran, in addition to the Russia-Ukraine attacks on energy facilities on both ends.

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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 all finished higher as **the Dow Jones Industrial Average finished the week up 1.61%. The S&P 500 climbed 0.75% w/w**, Nvidia was the largest gainer in the index. The index hit a new record surpassing 5500.00 in intraday trading. **The NASDAQ gained 0.39% w/w**
- **Hong Kong's Hang Seng Index rose 1.01% w/w** driven by gains in the technology sector. Lenovo Group Ltd (LNVGY) posted the largest gains up 11.47% w/w. The U.S. imposed new tariffs on $18.00 bn worth of goods from China, weakening market sentiment and heightening trade tensions between the two countries. FDI increased by 17.40% y/y in the month of May
- **The FTSE 100 finished the week with a gain of 1.12% w/w.** Retail Sales in May soared 2.90% m/m, beating expectations of 1.50%, and increased 1.30% y/y. BoE kept rates at 5.25% during their June meeting
- **France's CAC gained 1.19% w/w.** Both Services and Manufacturing PMIs unexpectedly showed a deeper slowdown, falling to 48.80 from 49.30, and 45.30 from 46.40, respectively. Uncertainty surrounding the upcoming election contributed to underperformance despite ECB rate cuts
- **The Nikkei 225 rose 0.40% w/w** as inflation accelerated to 2.80% y/y, and core inflation increased to 2.50%. The CPI rose 2.80% y/y in May and has raised concerns regarding the monetary policy direction of the BoJ
- **The STOXX Europe 600 finished the week up 0.61% w/w.** The ECB cut its key interest rate to 3.75% from 4.00%, its first rate cut in nearly five years
- **Germany's DAX rose 0.86% w/w.** The Economic Sentiment increased to 47.50 in June, the highest since February 2022. The Services sector expanded less than expected, falling to 53.50 in June, with forecasts of 54.40

Looking Ahead

Movement in global indices this week was largely impacted by the question of sustainability of the AI-driven rally this year. Nvidia briefly captured the title of the world's most valuable company, accounting for 34.50% of the S&P's market cap gains YTD. U.S. indices started the week off strong with the S&P500 and Nasdaq Composite reaching record highs until Nvidia dragged the tech sector down after near term profit taking pull back. Markets experienced increased volatility this week as investors grappled with mixed economic data, with some fearing a potential slowdown while others remained optimistic about the AI-driven rally. Retail sales data for May edged up 0.10% m/m, revealing that the pace of consumer spending is cooling. Composite PMI rose to 55.10 for the month of June, pointing to the sharpest expansion in services sector activity since April 2022. Existing home sales declined (0.70%) to a seasonally adjusted annualized rate of 4.14 mm, the lowest in four months. Weakening labor and housing market data could potentially push the Fed toward a rate cut in the coming months to prevent sparking a recession. Main points in the coming week include PCE data, reports on personal income and spending, as well as the final reading of 1Q2024 GDP growth. Looking forward, it is important for the Sector to monitor the potential trade war between China and the EU as tensions escalate over the EU's new tariffs on electric vehicle imports. In its preliminary stage, the outcome may be a potential catalyst for price movement.

Weekly Product Report
Interest Rate Product Sector

Weekly Product Report

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Summary of Weekly Themes

- **The U.S. CPI rate in May slowed to 3.30%, below expectations of 3.40% y/y**, as inflation moves closer to the Fed's 2.00% target
- **U.S. Core CPI rate slowed to 0.20% in May 2024, below the expected 0.30% m/m,** marking its weakest rise in seven months
- **The Fed unanimously voted to hold interest rates steady during its June meeting** leaving the Fed Funds Target Rate unchanged at 5.25% to 5.50%. The FOMC Dot plot shows expectations for one rate cut this year
- **The Swiss National Bank reduced its key rate from 1.50% to 1.25%**. Swiss policymakers have been cautious about the Swiss Franc's appreciation against the euro, as this could weaken the country's exports to its largest market. So far this year in Europe, central banks in the Czech Republic, Hungary, Sweden, and Serbia have similarly cut borrowing costs
- **U.S. Retail Sales reported at 0.10% coming in below forecasts of 0.20% m/m,** suggesting a potential easing in consumer spending
- **U.S. Building Permits fell by 3.80% in May 2024,** the lowest since June 2020FY and below market expectations of 1.45 mm. Indicating potential challenges ahead for the housing market amidst a weakening consumer
- **U.S. PPI reported at negative (0.20)% in May, below market expectations of 0.10% m/m**, after a steep 7.10% decline in the price of gas
- **Japan's Inflation rose to 2.80% in May, exceeding expectations of 2.50% y/y, marking the highest figure since February**. In response, the Bank of Japan may consider maintaining interest rates higher for longer
- **Chinese Industrial Production expanded by 5.60% in May missing expectations of 6.00%**, suggesting further economic weakness for China

Looking Ahead

In the upcoming weeks, the Interest Rate Products Sector is set to carefully observe key macroeconomic indicators that not only reflect the trajectory of the U.S. economy but also influence major global economies. As we approach a potential rate cut, our focus will be on upcoming inflation data releases, which are important for assessing the timing and effects of monetary policy adjustment. The forthcoming reports on U.S. PCE, Personal Income, and Personal Spending will be particularly significant. PCE holds particular importance as it is the Fed's preferred gauge of inflation. Furthermore, our attention will be on other important U.S. economic indicators including Durable Goods Orders and the GDP Growth Rate q/q. These metrics provide important insights into the overall health of the U.S. economy and will help guide market expectations over the coming months. Looking ahead to Europe, we anticipate the release of inflation data from France and Italy next week. Additionally, inflation figures from Canada will also be forthcoming. This data holds significant importance, especially given that the Bank of Canada has already implemented rate cuts and is poised for further reductions in 2024FY. Shifting focus to Asia, upcoming economic indicators include the NBS and Caixin Manufacturing PMI from China. In the bond market, our attention will be on how bonds respond to both foreign and domestic policies. With several countries contemplating rate cuts, U.S. bonds may become increasingly attractive.

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Weekly Product Report

Metals Sector

Weekly Product Report

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Summary of Weekly Themes

- **Gold** prices went up earlier in the week as hopes for a Fed cut increased. U.S. single family home building fell 5.20% in May, showing signs of a cooler housing market, and retail sales released last week suggested lackluster economic activity which helped gold prices hit two-week highs. PMI released Friday hit 26-month highs and resulted in **gold prices dropping 0.43% w/w**
- Cooler economic data helped raise **silver** prices earlier in the week. Like gold, silver is supported off increased hopes of a Fed cut. May CPI data coming in cooler that expected had analysts pricing in a 64.00% chance of a cut in September. The higher PMI report on Friday hurt these expectations, resulting in silver to lose it's gains and **finish the week narrowly up 0.87%**
- **Copper** experienced a volatile week, but was able to recover some loses amid further supply concerns and **ended down 1.87% w/w.** Housing market data from China showed that new home prices fell 4.00% y/y causing prices to hit eight-week lows. Prices were able to rebound after operational setbacks in a Chilean copper mine caused uncertainty for future availability
- **Zinc prices retreat on the week down 2.83%**. Zinc imports in China fell 24.00% through the first four months of the year, presenting signs of a tightening industrial metals market in China. The International Lead and Zinc Study Group (ILZSG) saw a 3.00% y/y decline in first quarter global zinc production backing off a full 1.00% drop in production in 2023
- **Aluminum** prices dropped to their lowest in two months **down 1.64% w/w** after increased output in Chinese production of the metal erased fears of potential weakened supply. Heavier than expected rainfall in the Yunnan province increased the availability of hydropower which helped boost output

Looking Ahead

In the upcoming weeks, the Sector will look to continuously monitor key economic data releases and their relationship to the metals market. After the Fed meeting earlier this month, analysts are now predicting at least one rate cut with the first one most likely coming in September. Next week's PCE report looks to provide further guidance on the Fed's decision and will be a key driver of precious metals like gold and silver, which become a more attractive investment in lower interest rate environments. New Home Sales release next Wednesday for May and could show a weaker real estate sector, which would help the Fed lower rates sooner. The Sector will continue to monitor the operational setbacks in the Chilean copper mines as supply issues loom and increasing demand continues. Unfortunately tensions with the Russia-Ukraine conflict continues with more U.S. involvement after Biden agreed to a 10 year defense contract with Ukraine mandating the U.S. to support Ukraine's war efforts for the next 10 years. The Israel-Hamas War shows no signs of cooling after Hezbollah threatens Cyprus if they decide to aid Israel in the war. These ongoing geopolitical tensions will only continue to bolster demand for safe haven assets. The Sector will keep an eye on China's real estate sector as the year continues and no strong signs of recovery are apparent after a recent report of new home prices in 70 Chinese cities dropping 0.71%. Metals will continue to monitor cooling economic data and geopolitical tensions.

Weekly Product Report

Foreign Exchange Sector

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Summary of Weekly Themes

- **DXY traded up 0.30%** despite **weak U.S. economic data** this week. After initially falling due to retail sales coming in lower than expected at 1.00% m/m as well as housing data coming in lower than expected, the DXY rebounded on Thursday, **gaining 0.35%, attributed to treasury yields**
- **EURUSD traded sideways** this week after initially increasing early in the week. This is **due to Eurozone political uncertainty** as there are worries that France's elections could weaken the economy. The **HCOB PMI report also declined to 50.80**, staying **above the 50.00 recession threshold**
- **GBPUSD fluctuated throughout the week, falling (0.35%).** The BOE left interest **rates unchanged** this week **at 5.25%. This** dovish sentiment **put downward pressure** on the pound, reaching monthly lows of 1.2660. Further mixed U.K. economic data on Friday further caused the pairing to fall
- **USDJPY rose 0.40% this week,** tallying for **a total rise of 2.16% this month** mainly due to U.S. treasury yields as well as hawkish Fed rhetoric**.** Similar to May/April, **the pairing nears the "intervention zone"** where **the BoJ might make open market Yen purchases to prevent inflation**
- **USDCAD** fell (0.21%) this week as U.S. PMI came in at 51.70, beating the 50.00 expectation. Canadian Retail Sales came in higher than expected on Friday at 1.30% y/y, but low raw material prices limited CAD appreciation
- **AUDUSD rose 0.37% this week, nearing 0.6650**. The pairing rose early this week mainly due to Australian rate decisions, **as the RBA left rates unchanged at 4.35%. The pairing depreciated later in the week due to** U.S. economic **data beating expectations and forecasts the Fed will hold rates longer** than most influential global central banks

Looking Ahead

The Sector will continue to monitor various reports and rhetoric this week including economic data from Canada, Australia, U.S., Japan and the UK. On Monday, BOC's governor Macklem will deliver a speech regarding rate cuts. Hawkish rhetoric will strengthen the CAD, while dovish rhetoric will weaken it. On Tuesday, Canadian CPI and Core CPI will be released, giving further insight to Canadian inflation and potential future BOC rate cuts. Australian CPI comes out on Wednesday. The RBA is looking for lower CPI readings as the last reading came in hot, beating expectations by 0.20% and coming in at a high 3.60% y/y. Additionally, on Wednesday U.S. Bank Stress Information will be released, which will affect future monetary policy, influencing Fed economic goals. On Thursday, the BEA releases U.S. GDP. Strong readings will strengthen the USD and weak readings will devaluing it. Japanese CPI also comes out on Thursday and is a leading indicator for inflation. This data will be essential to the BoJ as Governor Ueda has hinted at possible rate hikes in July depending on economic data. On Friday, UK GDP will be released. This information follows an increase of 0.20% in 1Q2024 GDP. Additionally, U.S. PCE is released on Friday, which is the Fed's preferred gauge of inflation. This reading will be instrumental in terms of rate cuts as Powell has continued to express that Fed cuts or hikes will be solely based on economic data.

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 0.39%, the DJIA up 1.61%, and the S&P 500 up 0.75%**
- **Core CPI Inflation Rate y/y unexpectedly fell to 3.40%** from the previous report of 3.60%. In turn, markets have priced in a 71.00% chance of a September rate cut and U.S. equities rallied in light of cooling inflation data
- Despite the release of easing inflation data, **the Fed decided to hold rates for the seventh consecutive meeting**. Furthermore, the Fed adjusted their previous estimate of three cuts and have instead priced in just one cut
- **PPI came out at (0.20)% m/m,** down from the expected report of 0.10%. A 7.10% decrease in gasoline prices, as well as price reductions in diesel fuel, electric power, and jet fuels, contributed to falling factory gate prices
- **The Preliminary Michigan Consumer Sentiment Index** came out **much cooler than expected at 65.60**. About half of middle and low income respondents cited high prices as the reason for their poor personal finances
- **Retail Sales rebounded** from the previous reading of (0.10)%, but still came in **lower than expected at 0.10%**. High interest rates, dwindling savings, and rising debt have put pressure on consumers finances
- **Existing Home Sales declined for the third straight month** as median sales price reached a record high and mortgage rates remained high. Declining investment in homes has raised more concern in the commercial real estate market, with some analysts anticipating a crash
- **Nvidia Corp (NVDA) became the most valuable publicly traded company**. While some analysts doubt the sustainability of their growth, others expect high earnings following the release of their new AI processor

Looking Ahead

In the next two weeks, markets will be looking for the release of important economic data in the form of Durable Goods Orders, Core PCE Price Index, Personal Income, Personal Spending, JOLTs Job Openings, Non Farm Payrolls, and Unemployment Rate. Equities markets will also be assessing earnings from Nike Inc (NKE) and FedEx Corp (FDX). Durable Goods Orders are expected to come in cooler at 0.30% m/m, down from the previous report of 0.70% m/m. With decreasing consumer confidence, a slip in Durable Goods Orders may point to a weakening economy and demand for lower prices. Core PCE Price Index is expected to fall to 0.10% m/m; cooling inflationary data would be a good sign for equities. Fed Chair Powell will be speaking on July 2nd and markets will be watching his speech to gain insight on the timing of a rate cut in 2024. During the last FOMC meeting, officials stated that they have seen “modest” evidence of a natural slowing in the economy. With recent data signaling an economic slowdown, the Fed may be ready to start the rate cutting cycle that markets have been anticipating and trying to time for months. Furthermore, analysts expect both Personal Income and Personal Spending to rise by 0.10% m/m. Increases in these reports would contradict the notion that prices are unsustainable for U.S. consumers. JOLTs Job Openings, Non Farm Payrolls, and Unemployment Rate will be important to monitor in order to assess the strength of the labor market, which has been weakening.