Market Update
Week ended: 04/24/2020

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Prepared by Joseph Crawford
The Bloomberg Commodities Index (BCOM) continued to decline over the past week, thanks to a historic move in oil, extending losses from last week. With the global economy facing a depression-like shock, commodities have been hard hit by the deflationary environment. On Monday, for the first time ever, oil prices were negative with the May WTI futures contract settling at -$37.63 per barrel, meaning that companies holding the contract were effectively paying to give away oil. This collapse was due to the storage glut caused from the immense demand destruction caused by the coronavirus crisis. Interestingly, the same day, the June futures contract settled at $20.43 per barrel, by far the largest gap ever between the two contracts, underscoring the lack of immediate storage space available. The next day, while the May contract bounced and expired at $10 per barrel, the rest of the futures curve was hit with the June contract falling -43% to $11.57 per barrel and the December contract falling -17% to $26.86 per barrel. Energy prices remained volatile for the rest of the week with the June contract rallying and closing at $16.94 to end the week. Important to note, the BCOM rolls from May to July as the reference contract for WTI, which is why the index did not move much relative to the June contract.

Energies, Grains, Meats, and Industrial Metals all continued to be in a medium downtrend. Softs entered a medium downtrend this week. Bonds, Currencies, Interest Rates, Precious Metals, and Equities all continued to be in weak neutral trends.
Jobless Claims
Initial jobless claims in the U.S. for the week ended April 18th was revealed to be 4.43 million, down from 5.25 million last week, pushing the total above 26 million in the last 5 weeks. In those five weeks, the 23 million jobs created after the Great Recession have been negated. As discussed in detail in last week’s edition, the unemployment rate is likely between 15-20% - the last time it was that high was the early stages of the Great Depression almost 100 years ago. Only a month and a half ago, new jobless claims were in the low 200,000s, near a 50-year low.

U.S. PMI
Private sector business activity contracted at its fastest pace in survey history this month. PMI, a leading indicator for GDP, printed at 27.4, down from 40.9 in March. The manufacturing component slipped -1.1 points to 36.9 and services was -4.5 points to 27.0. According to the release, “the blow has been most heavily felt in the service sector, and especially for consumer facing companies in the recreation and travel industries. Those companies still actively trading meanwhile reported the steepest drop in demand seen since data were first available, and are also struggling against twin headwinds of staff shortages and supply chain delays.”

Eurozone PMI
Eurozone PMI was no better with the Composite PMI for the region printing at 13.5, down from 29.7 in March. The manufacturing component declined -10.9 points to 33.6 and services was -14.7 points to 11.7. According to the release, “The eurozone economy suffered the steepest falls in business activity and employment ever recorded during April as a result of measures taken to contain the coronavirus outbreak...the ferocity of the slump has also surpassed that thought imaginable by most economists, the headline index falling far below consensus estimates.”
The Fed Continues to Feed the Market
The Federal Reserve’s balance sheet increased to a record $6.62 trillion as of April 22 - an increase of $200 billion from the week earlier - as it continues to use its all-but-unlimited buying power to buy up assets to support markets as the underlying real economy continues to freefall. The balance sheet is now roughly 30% the size of the U.S. economy before the crisis began and should continue to grow larger. Its current sovereign bond purchasing as a percentage of GDP has also shot up; interestingly, the Nikkei - the major Japanese equity index - returned 30% in the two years after the Bank of Japan began their QE program in 2013. However, the pace of the Fed’s purchases far exceeds the BoJ’s and is showing no signs of abating anytime soon.

Since early March, the Fed has cut interest rates to zero, restarted bond purchases, and began unprecedented programs to keep credit flowing and shore up business and household confidence. Thus far, they have effectively supported a bottom for equity markets and eased the concerns in the credit markets; it remains to be seen if these actions are sustainable.

Interesting Point on the VIX Term Structure
From Allison Schrager’s Known Unknowns newsletter: “We are living in times of extreme uncertainty, or risks that we have no way of measuring. When we can’t measure risk, we can’t manage it—and that explains why the markets make absolutely no sense these days. Sure, we got some good news last week, but considering the long and still uncertain road ahead, it seems like the stock market went up more than we would’ve expected.

I spoke to Zvi Bodie about how to make sense of risk in this new environment. I was recently asked whether the market will be riskier forever more, and I thought it was a strange question, because stocks are always risky. And as Zvi points out, the VIX term structure is downward-sloping. It is normally upward-sloping, because the far future is normally riskier than the near future. But now it is downward-sloping, because markets expect all of this volatility to stabilize in a several months. And I think that’s right. We get more data with each week that goes by, and that means that we move from uncertainty to risk, and the markets will finally start making more sense.”

Major Macro Announcements for the Rest of April

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**Cross Asset YTD Returns**

Looking across asset classes, there have been few that have had “immunity” to the virus. Due to the current risk-off environment of markets, U.S. Treasuries, the U.S. Dollar (trade-weighted), U.S. daily inflation-linked bonds, and Global Government bonds have fared the best as investors have flocked to “sure bets”.

European government bonds have fared worse, and are negative on the year, due to credit-worthiness concerns in the Eurozone.

The S&P has recovered from its greater than -30% drawdown, but is still down -13% YTD.

The five worst asset classes year-to-date, from best to worst (based on J.P. Morgan’s chart above), are: English equities (as the U.K. has been hit hard by the coronavirus), Indian equities (hurt by the ongoing national lockdown), Russell 2000, Commodities, and Brazilian equities.

Brazil has been crushed, especially recently, due to a multitude of geopolitical factors. Brazil has been a net oil exporter since 2011 and is the 10th largest producer in the world of oil so depressed prices do not benefit the economy. In recent days, Brazil has been engulfed in political turmoil shaking the confidence in international investors: Brazil’s President Jair Bolsonaro has ignored health experts’ advice about how to contain COVID-19 and has called for a “return to normality,” and has characterized the global pandemic as “just a little flu or a little cold”; last week, Bolsonaro fired his health minister for advocating social distancing and also fired the head of the federal police for undisclosed reasons; on Friday, the country’s justice minister resigned in protest over the police chief's firing; and Axios reported on Friday that Brazil has become one of the coronavirus’ epicenters in Latin America.
Agriculture Update

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Summary: This week, the agriculture market remained relatively steady with some mild upswings in cotton and hogs and slight rebounds in soybeans, milk, and ethanol. As seen in the figure below, since January 1, all major agricultural commodities have struggled amongst the shockwaves from the COVID-19 pandemic growing rapidly around the world. The hardest hit include commodities requiring highly structured, critical, value-added steps along the supply chain. Livestock markets have been devastated by concerns of trade logistic issues and packing plant closures and shift reduction. The structure of milk deliveries is an inflexible chain that has been struggling over decreased fluid milk consumption over the past 10 years and inadequate space to absorb those supplies in dairy product (butter, cheese, cream, yogurt, etc.) manufacturing facilities. Ethanol stocks remain at all-time highs, coupled with no positive outlook for transportation use demand.

Grains remained relatively steady over the last week. Corn markets are optimistic for any reaction to developments in ethanol or trade as corn producers begin to chip away at planting for 2020. Planting is up to 7%, with minimal delays expected at this point in time. Soybean markets largely modeled oil trends this week. Plantings are slowly starting, however, the majority of producers are using this window of time to focus on getting corn in while weather permits then move to beans. Wheat markets are watching Russia and the black sea region as dry weather settles in and the export quota out of Russia is at approximately 60% of the export cap. Domestically, the market was carefully watching recent freeze damage which reduced the good-to-excellent crop down by 5%. In softs, coffee has recently faltered on consumption concerns that came in below expectations and volatile fluctuations in the Brazilain Real. Sugar has seen pressure from steadily higher world supplies. Being impacted from the ethanol shock in demand, sugar markets have been trending similar to oil markets. Livestock markets will be an interesting watch as meat cutout and live animals continue their divergence.
Coffee (JO) Update

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Price Action: On Friday April 24, coffee futures sold off, settling at a 5-week low (106.75 cents per pound); Low volume between 8,000 to 30,000 instead of usual 80,000 to 120,000.

News: Political problems in Brazil (April 24); Brazil quarantine slowing down (April 23); ICE inventories fell to a 2.5 year low (April 24); Vietnam easing lockdown (April 23)

Summary: Coffee continues to see mixed fundamentals and uncertainty in the market. Initial forecasts of high demand in the beginning of COVID-19 have changed as decreased consumption is said to take over. Comexim Ltd, one of the largest coffee trading and exporting companies in Brazil, forecasts a surplus of 8 million bags with no demand growth on Wednesday, April 22. However, filled far forward bids are still lined up several months ahead (likely to be consumers) and the July market is quite densely populated on the buy side which contradicts current low consumption forecasts. On Friday, April 24, coffee futures sold off, settling at a 5-week low due in part to oil prices falling to below $0 and the Brazilean Real weakening, stemming from political and financial issues within Brazil. Fund selling intensified as the Real slumped by -3.37%. Coffee futures and the Brazilean Real are quite closely correlated because Brazil is the largest arabica coffee producer by far. In Brazil, influential and popular Justice Minister Sergio Moro has resigned causing citizen protests and setting Brazil up for more political conflict to come for President Bolsonaro and the country. Bolsonaro has continued to call for Brazil to end its lockdown and social distancing. Many malls have reopened as the quarantine begins to slow down. However, Brazil’s COVID-19 death toll continues to increase exponentially, hurting supply chains and infrastructure as mentioned in previous reports. Meanwhile in China, Starbucks has reopened most of its stores as COVID-19 appears to have slowed down despite a second wave of the virus being a continued concern. At the same time, ICE inventories are bullish as they fell to 1.864M bags, a 2.5 year low.
On the supply end, weather forecasts show dry weather as Brazil and Colombia move into harvest. Rainfall was 60% of the historical average at 10.4 mm over the week in Minas Gerais, Brazil’s largest coffee growing region (Somar Meteologica). Many forecasters continue to foresee a record breaking harvest crop in Brazil. Vietnam, a large arabica and robusta producing country, has resumed business and trade as lockdown restrictions have eased, but producers are unwilling to sell at such low prices while exporter demand is unappealing (Reuters).

**Outlook:** Due to extreme low volume in the market in addition to uncertain demand, it is difficult to see where the market is heading over the next few months. Lack of any real fundamental news beyond macro ones on Brazilian politics and weather makes it difficult to see where prices will converge at least into June. Low volume and Open Interest in the ETN, JO, which COINS trades in the current contract shows a bearish trend until JO rolls over into the summer months. In June, I expect to see a better market more adjusted to COVID-19 uncertainty and where weather has a greater impact on crops.

**Supporting Material:** Oil prices are at an extremely depressed state currently, and it is interesting to see how such a commodity has spillover effects on coffee. Interestingly, the following chart implies a positive relationship between the conditional volatility series of the two commodities and indicates that the returns on these commodities rise or fall together.
**Price Action:** The CORN ETF declined this week from $12.25 to $12.03. December corn is trading at 338 cents per bushel, coming up from contract lows of 326.

**News:** Crop Progress: 7% of the US Corn Crop is planted (April 20)

**Summary:** The second weekly crop progress report of the season showed an increase to 7% planted versus 3% a week ago, 5% last year, and 9% five year historical average. The corn belt states all saw significant progress, with Illinois planting 8% of their expected crop. Analysis done by Scott Irwin and Todd Hubbs at the University of Illinois (4/16/20) find that despite larger planting implements, the number of suitable field days needed to plant the corn crop in the major growing states remains about 14 days. The USDA releases a weekly map displaying days suitable for field work [here](#).

Ethanol production and demand remains an important factor to follow as plants all across the country continue to slow or stop operations. Silos are full and tanks are to the brim as firms struggle to sell their existing supply.

**Outlook:** The market seems to have priced in an accurate assessment of ethanol demand destruction. US corn continues to look competitive on the global market. As more of the US crop is planted, markets will be looking at weather as a major price driver. Summer is often referred to as the “silly season” in Ag markets. While our analysis did find evidence of seasonality, we were unable to tease out a statistically significant relationship.
Supporting Material:

Shown above are (i) the corn crop conditions over the past 4 years as a percentage, (ii) the current year's condition, and (iii) progress of the planting and harvest compared to previous years.

Source: National Agricultural Statistics Service (NASS), Crop Progress Report
Livestock (COW) Update

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Price Action: In the past week, live cattle futures saw moderate downward pressure. The current price is nearing a potential support. Lean hogs have seen steady upward movement in the past week after testing a contract low at the end of last week.

News: Secretary Perdue outlines COVID-19 aid support (April 18), Tyson Closes Logansport Facility to Test Employees for COVID-19 (April 22), Top 40 Sow Owners Expected to Lose More than $18 Million Each (April 23)

Summary: This week, Secretary Perdue outlined COVID-19 aid support. This new USDA program will take actions to help farmers and ranchers in response to the COVID-19 pandemic. An entire $9.5 billion has been allocated in the Coronavirus Aid, Relief, and Economic Security (CARES) Act for livestock, dairy and specialty crop producers will be paired with the remaining $6.5 billion residual in the Commodity Credit Corporation. In the pork market, the Tyson Foods pork plant in Logansport, Ind., will voluntarily close this week. Meanwhile, more than 2,200 team members of Tyson Foods undergo testing for COVID-19. In the hog market, Dermot Hayes, an economist with Iowa State University, projects that the top 40 sow owners will lose more than $18 million due to the outbreak of COVID-19. Along with these company-mandated and state mandated closure, many employees are electing walk-out of work and not return due to high-density working conditions as they usually operate elbow-to-elbow. Some producers are scrambling to find a destination for their finished animals other than euthanization with some looking at local sales and switching to low-growth maintenance rations.
Outlook: COVID-19 will continue to influence the hog and cattle market. From early April to this week, cattle slaughter has been down about 420k or 22% in total those three weeks compared to this time last year. With continued closure of meat processing facilities expected, live animal futures will see depreciation. There has been divergence in cutout prices and live prices as the essential link in the supply chain sees unsteady time, this will spread wider as time goes on.

Supporting Material:
Sugar (SGG) Update
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Price Action: The SGG ETN has slowly dipped down over the past week, posting a new low of $31.18. The front month futures contract fell below $10 this week in a similar price trend.

News: While The World Groans Over Oil, Ethanol’s Suppliers Quietly Weep (April 22); Thai sugar premiums jump up to 22% this week as oil plunge drags down global sugar futures (April 24); How oil price crash impacts sugar, what it means for India (April 24).

Summary: Sugar slightly broke its sideways trading trend dropping down further towards all time lows. These movements came in reaction to energy markets falling off, more specifically USO closing nearly -$38 a barrel earlier in the week. Another factor in the current bearish trend for sugar has been the Brazilian Real. Brazil's currency posted new lows this week and has lost nearly 27% of its value since the start of the year. Brazil is one of the top producers of sugar, making its currency vital in factoring sugar prices.

Another important currency to sugars price is the Indian Rupee. Unlike previous weeks the Rupee saw gains that hit two-week highs. Prakash Naiknavare is the managing director of the National Federation of Cooperative Sugar Factories, he projects India’s sugar consumption to drop by 1.5-2 million tonnes in 2019-20, from normal 25.5-26 million tonne levels. Brazil on the other hand continues to push for the production of cane for crushing and consumption rather than it’s usually preferred ethanol production. Brazilian mills are estimated to produce 36 million tonnes of sugar and only 26 billion litres of ethanol this year. These numbers are prevalent when compared to last season's production of 26.7 million tonnes of sugar and 31.6 billion litres of ethanol. COVID-19 has continued to take its toll on sugars supply and demand due to restaurant closures, production mill’s closing, and weaker ethanol markets. Brazil's two largest distributors declared force majeure at the end-March due to the outbreak, as they were unable to
sell scheduled cargoes. Force majeure is a contract that removes liability for companies during catastrophic events. The virus will continue to weigh down on price until new developments and research is released.

Outlook: Sugar’s past week and current price suggests the ETN/futures still have room to fall. Current energy markets have shown extreme volatility which has aided in the downtrend of sugar. If energy markets can find footing then positive gains may be seen in the near future for sugar. Although sugar's price has dropped close to all time-lows these decreases have been seen gradually and may show a sign of a short term turnaround. The Indian Rupee recently made a positive turn in price, which lessens some pressure on exporting their supply. The Real has continued to take hits as well but could trigger a bullish run in sugar if positive gains are seen in the coming week’s. Sugar has taken extreme hits from correlated markets over the past month and seems to have slowed, after the past week in energy its possible sugar’s price will find more support in the near future.

Supporting Material:
With futures falling to historically low prices sellers are being forced to raise cash premiums in order to make flat prices reasonable.

**THAI RAW AND REFINED SUGAR PREMIUMS HIT YTD HIGH**

Source: S&P Global Platts
Wheat (WEAT) Update
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Price Action: Futures Prices rose 1.7% on Monday but closed 8.6 cents/ bushel lower on the week.

News: Russia will suspend grain exports for 6 weeks if its quota runs out in mid-May (April 17), Reduction in Crop Conditions Report (April 20)

Summary: The price moved higher on Monday due to the expectation that Russia will meet their export ban. Russia set an export quota of 7 million tonnes of grain from mid- April to the end of June. It was originally expected that this quota would not be met, however on Friday, it was announced that they are expecting to meet this quota by mid-May. In addition, Ukraine is expected to meet their wheat export quota as they have had record exports to date this year. Since the Black Sea is a large wheat exporting region, a halt on exports out of Russia and Ukraine would open the market for U.S. and European exports. On Monday the crop conditions report reflected good to excellent condition of 57% which is a 5% decrease from the previous week. This came at a surprise as analysts expected only a 1% decrease but is likely due to the cold weather in Texas and Oklahoma. The market experienced pressure from currency prices and spillover from other grains. The sharp fall in crude oil caused the corn price to decrease and therefore dragged the wheat market down.

Outlook: There is potential for upside in the wheat market. These export bans provide opportunities for the US to take over export market share. The market is still waiting to see if there will be significant rain in the Blacksea as the past 6 weeks have been very dry. Previously, there was rain in the forecast for this week, but the forecasted rain got pushed to next week. If the Black Sea remains dry, a large price appreciation is widely expected. However, if there are sufficient rains, the weather premium will be priced out and the price will depreciate. Once rain either leaves the forecast or occurs, there will be a significant market reaction.
Summary: Energy markets have had an extremely turbulent week, starting off with US front month May contracts dropping to -$40.32 a barrel due to the lack of available storage. The USO ETF experienced massive capital influx to the tune of $1.5 billion due to its extremely low price, with even mom and pop traders hopping on expecting price to bounce back from its record low. Due to this USO was restructured 3 times this week, finally settling on a new 4 contract strategy. The original strategy had all holdings in front month WTI oil using the NYMEX and ICE exchanges respectively. This structure had a major flaw in the way of steep month to month contango in the market, causing ETF devaluation compared to its underlying asset. To combat this as the contango worsened dramatically, the ETF has now structured itself by holding approximately 25% front month, 49% second month, 17% third month, and 8% fourth month. They also announced an 8:1 reverse stock split in the hopes of cutting down on the massive amount of shares outstanding and buoying the price to safer levels. Energy markets are still very much reliant on the speed and ability of the US to reopen so that consumption may in fact rebound to levels which are sustainable for producers. Gasoline and Natural Gas both followed the downward movement of crude early in the week and all four energy commodities had slight rallies through the rest of the week.
Crude Oil (USO/BNO) Update

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**Price Action:** Prices on both the ETFs of USO (WTI ETF) and BNO(Brent Crude ETF) have been mostly in a downward trend within the past week, as the underlying contracts for West Texas Intermediate (WTI) and Brent Crude (Brent) oil have fallen tremendously. The May contract for WTI oil on Monday, 4/20/20, touched -$40, as the price collapsed. However, the May contract for Brent did not crash like WTI, staying positive at $25.57 on that day. As the May contract closed on 4/21/20, the June contract is now the front-month contract, and volatility has been muted, with WTI and Brent at $16.94 and $21.94, respectively. The USO and BNO finished at $2.57 and $6.63 each.

**News:** Oil Prices Skid, With May Contract in Negative Territory (April 20), The Fund That Ate the Market (April 21), Oil Rebounds After Trump Signals Fresh Iran Tensions (April 22), Behind Oil-Market Gyration: Few Places Left to Store Unwanted Crude (April 24).

**Summary:** This week has been one of the most interesting and historical in the crude oil industry, starting off as futures prices on West Texas Intermediate oil were negative on the second to last day of the contract. This was caused mainly by the glut of oil already in storage, and was compounded by the fact that oil producers have been struggling for weeks to offload their product. This caused a massive dumping of oil price as producers scrambled to find firms to take the product on hand, and began to pay firms to store the oil, in which a functioning oil market storage firm would be paying the futures price upon delivery of the item. Most of these storage woes can be attributed back to OPEC and OPEC+ members having reserved much of the available space during the Saudi-Russian price war, which these two countries had expected a global glut in oil supply, buying up space in both refineries and in pipelines themselves, effectively turning off the tap on those pipelines. Thus, these countries have worked to find creative ways to store oil, with the United States relying on storage centers throughout the continent, and with the rest of the world using shipping tankers and parking the tankers just outside worldwide ports, and using countries like Malta and Libya to hide the oil, as most countries have laws forbidding this very tactic. Some boats are being parked just outside of the international waters zone in the United States, in an effort to avoid these laws as well. However, there was some relief to the oil market on Wednesday, as the United States upped its war rhetoric with Iran, saying that it would strike any Iranian gunboats if they came into close contact with and harassed any United States-flagged ships, civilian or military. This caused prices to rise, as a conflict in the Middle East would cause the flow of oil to slow, due to a war causing producers to shut down production, divert the oil, or the production and transportation lines could be destroyed.

**Outlook:** Overall, outlook on crude oil remains bearish for the foreseeable future. After seeing prices on the May contract turn negative this week, it is unclear where the bottom for crude could actually be, although we know its current level is not sustainable for companies to remain in business. Despite a small rebound late in the week, fundamental information remains bearish as it’s become clear that storage for crude stocks is all but full. We do not foresee a significant shift within oil prices merely based off of supply news, as last week’s OPEC news proved fruitless. In total, it will take a substantial shift in demand and the reopening of the global economy to see an oil recovery, and it’s unlikely that we will reach the levels seen over the past few years anytime soon.
Price Action: Prices have declined -0.24% since the 16th. This small bearish movement has been in relation to an oversupply in oil causing a crash in the futures contract (May contract for crude oil going negative for the first time in history) gasoline was brought down with oil only to slightly recover the following days due to US virus news and more favorable crack spread movement.

News: Prices increased after April 21st due to stock increase (April 22) EIA report showed less builds than expected (April 22) Gasoline did not fall negative despite oil doing so (April 21). Crack spreads for gasoline began to recover (April 24), CME crack spreads (April 24).

Summary: Market volatility is at an incredibly high time for energy markets, with 8%+ swings occurring weekly. Volume has played a key role in the large swings that have occured. Oil and gas prices have fallen so low it has begun to pique the interest of amateur investors - causing increased purchasing of ETFs such as USO. Increased speculators, along with massive supply and demand issues that have continually changed estimates have caused a rapidly changing energy market. Covid-19 in America has been attributed to the direct demand decline for gasoline domestically - causing crack spreads to fall despite oil prices declining as well - causing futures to drop for gasoline. The EIA has reported only a 1 M barrel increase in gasoline stocks w/w which is part of the bullish sentiment seen in recent days. Along with this, is the possibility of states to reopen. This will take time and is something that ultimately up to
the states, but is an important fundamentally bullish factor that could increase demand for gasoline in the near future. Crack spreads have seen a recent recovery to approximately 50% their previous levels. This is in part driven by the bullish sentiment for reopening of states within the US along with the seasonality of gasoline traditionally causing a spike in demand.

**Outlook:** The market is currently so volatile it is likely any trade placed would be completed within a week or less. With this being said, it is currently too risky to place a position. Market outlook is long term bullish. This can be supported by the contango of the futures curve as well as the fact that once the virus is gone and states reopen, people will drive again and demand will increase (unless fundamental societal shifts occur changing gasoline demand forever). Oil prices will play a key role in affecting the movement of crack spread in relation to changing consumer gasoline demand. Ultimately the UGA ETF is unlikely to see a truly bullish run and return to previously traded levels until gasoline demand in the USA returns to normal and oversupply is curtailed. Crack spread favorability, the opening of states within the US, and the summer seasonality of gasoline are all potentially bullish factors for the near future, assuming a second lockdown doesn't occur.

**Supporting Material:**

Gasoline crack spreads are based on the profitability of gasoline refining. This takes into account the demand for gasoline and the price of the crude oil input. This 6 month chart shows that in the last two weeks crack spreads have seen a significant recovery from their previous levels which saw them dip below zero, but they are still far below their previous levels. This can be attributed primarily to the demand spread for oil and gasoline. While UGA only covers US gasoline, crude oil prices are affected by global oil demand - demand in things such as factories and refineries. Crude oil demand globally has certainly not recovered, but US gasoline demand has seen marginally bullish news with the reopening of US states. As demand for gasoline increases, and Oil demand and prices stay relatively constant, crack spreads will rise as the profitability of refinement increases.
Price Action: After gaining some momentum to start the week, prices started to decline. These sways were primarily due to the waning demand as a result of the economic slowdown. Moreover, industrial consumption was noticeably lower than the mean. The May contract is down seven cents, and the June contract fell 4.7 cents heading into the weekend.

News: US Natural Gas to be World’s Priciest Amid Virus Upheaval (April 24)

Summary: Due to the fallout in Oil prices, domestically produced natural gas is expected to peak in price compared to global spot markets. Historically, US natural gas has been affordable due to the innovation in shale processes and excess production that has caused the bear market we’ve seen in recent months. US exporters are facing significant struggles competing with Europe and Asia, as price levels are falling and the US’ competitive advantage is slimming. A primary threat for domestic exporters is the rising level of transport cancellations due to the climbing Henry Hub price levels.

Outlook: In addition to decreased consumption levels we are experiencing an overall rise in storage levels. Facilities are touching above average storage levels, very early on into the injection season. If producers engage in a price war, we could see a similar scenario play out as the May Crude Oil contract. Furthermore, working gas levels were reported to be 827 Bcf above the 2019 levels, at 2,140 Bcf. Currently, this level sits roughly 360 BcF above the five year mean.
Supporting Material:

**Lower 48 states natural gas inventories**
(Jan 1, 2017–Dec 31, 2020)

billion cubic feet (Bcf)


Note: Data for March 31, 2020, is an interpolated value, based on the *Weekly Natural Gas Storage Report*.

**Heating season withdrawals from working gas (2010–11 to 2019–20)**

billion cubic feet (Bcf)

Source: U.S. Energy Information Administration, *Weekly Natural Gas Storage Report*

Note: Data for March 31, 2020, is an interpolated value, based on the *Weekly Natural Gas Storage Report*. 
Summary: In the past week we saw mild increases in the price of Gold (IAU), being up 2.36%, coming to a 1-month high at $16.57 on Tuesday. Nagging concerns about the global economy helped support the metal via dollar weakness. Based on fundamental safe haven movement, gold could remain supported by the oil market mayhem, as well as other concerning themes encouraging investors to take a guarded approach towards riskier assets. There is major speculation in Aisan markets, with reports that they have been getting hit the hardest from the virus and the drop in oil on Monday. Bank of America raised their 18-month price target on gold to more than 50% above a nine-year record to $1,921, with particular focus on seemingly endless monetary expansion from the Federal Reserve, to limit the economic damage from the COVID-19 pandemic. “The Fed can’t print gold”, has been a strong point for the bull rally. Other metals made gains as the U.S. Senate approved a $500 billion aid package for small businesses and hospitals. Safe haven assets tend to benefit from widespread stimulus measures from central banks because it is widely viewed as a hedge against inflation and currency devaluation. Copper prices bounced on Wednesday as major miners warned that the coronavirus crisis would cut output and financial markets stabilised after two days of chaos caused by oil price falls. Earlier on in the week a major Chilean miner cut capital expenditure for the year and forecasted copper production to be lower end of its guidance of 725,000-755,000 tonnes. Friday, CPER is down 1.2% on continued fears of a global recession and pessimism over the development of drugs to treat COVID-19. In today's market, there are no truths. Reports come out day after day, conflicting with one another, causing major unprecedented uncertainty, leaving analysts going back to the drawing board the next day.
Price Action: Prices opened at $2.34 on Monday and declined until hitting lows of $2.21 on Tuesday. Prices recovered on Wednesday and remained at the $2.31-$2.32 range on Thursday. On Friday, copper closed at $2.35, a high for the week.

News: U.S. PMI drops to 27.4 for April compared to 40.9 in March (April 23). With China’s slow growth rates, economic recovery is going to be gradual (April 22). Chile and Canadian mines expect significant drawbacks in production (April 22).

Summary: In the U.S., this PMI drop marks the lowest reading since October 2009. This significant fall indicates that several sectors, including manufacturing, are seeing a dramatic contraction. According to JP Morgan, GDP is falling at an annualized rate of 40% in April through June. Some analysts believe PMIs are bottoming out due to the necessary ease of restrictions, but this all depends on containment precautions and economic recovery rates. Both America and Europe will release estimates for the first quarter next week, which are forecasted to show more substantial falls. Meanwhile, in China, GDP is expected to only grow by 1.3%, and the economy is anticipated to expand by 1.8% in 2020. This statistic marks the country's weakest annual performance since 1976. Clearly, recovery is going to occur at a languid pace, and recession risk is high. Therefore, Chinese consumption improvements are uncertain due to efforts taken to prevent the second wave of COVID-19 despite sending citizens back to work. Many companies are refusing to fill up inventory with a collapse in demand across the world.
Supply-wise on Wednesday, major miners are warning that COVID-19 will cut output. For example, Antofagasta, a mining area in Chile, will reduce capital expenditure for the year and that copper production would be between 725,000 and 755,000 tonnes in comparison to 770,000 tonnes in 2019. Speculators estimate production levels to be closer to 725,000 tonnes. Also, Tech Resources, a Canadian miner, posted massive falls in quarterly profit and are suspending operations at the Antamina copper mine. Lastly, Freeport unveiled cuts to operating costs by $1.3 billion dollars, which is 18% lower than its original plan.

**Outlook:** Price changes in the future will depend highly on the enactment of government stimuli to reopen economies and Chinese demand. In this situation, China serves as the lab rat being the first nation to attempt to establish this revival. Consumption uncertainties due to fears of a second wave demonstrate that sending people to work does not precisely correlate with company or personal expenditures. Therefore, as other countries begin to follow such legislation, consumers will continue to be hesitant when resuming normal behaviors, and weak demand will continue to persist for longer than expected despite restorations, which is relatively bearish.

**Supplementary Material:**

The decline of the PMI among the United States, Japan, and significant European nations. France, the U.K., and Germany reported extremely low readings of 11.2, 12.9, and 17.1, which demonstrates the strain COVID-19 has put on the manufacturing sector of these industrialized nations.
Gold (IAU) Update
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Silver (SLV) Update

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Silver May ’20 (SLV20) - Barchart.com

Silver Rolling 1 Month Return Distribution, Annotations: Today (Red), 2 Weeks Ago (Blue)

3 Month Return Distribution

1 Year Return Distribution
Precious Metals

Price Action: In the last week, gold and silver prices have increased slightly. Both precious metals continue to mirror movements in the equity markets.


Summary: Investors and analysts are beginning to get a clearer picture of the economic situation as major economic reports are released. Protests in the United States have brought reopening the economy to the center of the public eye. Equity Markets have held onto their recovery. The rate of new COVID-19 cases has slowed in the major world economies. There are few new government restrictions with the notable exception of the US immigration restrictions (4/21/20)

Outlook: Since April 1974, Gold has increased with a CAGR of 5.18%. We consider this to be our base case. Our research indicates that real rates are perhaps the best predictor of gold returns. Given the low current real rates, we are mildly bullish. We view the increase in the Gold/Silver ratio as a symptom of silver’s industrial use. Without changes in the industrial situation, we see silver increasing at a similar pace.

Supplementary Material:

<table>
<thead>
<tr>
<th>Name</th>
<th>Previous Week (4/20/2020)</th>
<th>Economic Indicator Calendar</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU: Trade Balance</td>
<td>19.2B</td>
<td></td>
</tr>
<tr>
<td>Tuesday</td>
<td></td>
<td>Monday Russia: Unemployment Rate 4.80%</td>
</tr>
<tr>
<td>US: Existing Home Sales</td>
<td>5.4M</td>
<td>4.60%</td>
</tr>
<tr>
<td>CAN: Retail Sales MM</td>
<td>5.77M</td>
<td>Tuesday Japan: Unemployment Rate 2.40%</td>
</tr>
<tr>
<td>Wednesday</td>
<td>6.30%</td>
<td>US: CB Consumer Confidence 95</td>
</tr>
<tr>
<td>UK: CPI YY</td>
<td>1.50%</td>
<td>0.70%</td>
</tr>
<tr>
<td>CAN: CPI Bi Core MM</td>
<td>0.40%</td>
<td>China: Manufacturing PMI 52</td>
</tr>
<tr>
<td>US: Crude Oil Inv.</td>
<td>14.7M</td>
<td>EU: Consumer Confidence -22.7</td>
</tr>
<tr>
<td>EU: Consumer Confidence</td>
<td>-20</td>
<td></td>
</tr>
<tr>
<td>Thursday</td>
<td></td>
<td>Thursday US: Initial Jobless Claims 4350K</td>
</tr>
<tr>
<td>JPY: CPI, Overall Nationwide</td>
<td>0.40%</td>
<td>France: GDP Prelim. QQ Q1 -0.10%</td>
</tr>
<tr>
<td>US: Initial Jobless Claims</td>
<td>4427K</td>
<td>Germany: GDP QQ 0.40%</td>
</tr>
<tr>
<td>UK: New Home Sales Units</td>
<td>-664M</td>
<td>CAN: GDP MM 0.10%</td>
</tr>
<tr>
<td>CAN: Retail Sales MM</td>
<td>-4%</td>
<td></td>
</tr>
<tr>
<td>US: U Mich Sentiment Final</td>
<td>-30%</td>
<td>Friday US: ISM Manufacturing PMI 49.1</td>
</tr>
</tbody>
</table>

*Marked in Green/Red are those outside analyst expectations or deemed of special importance. Despite being marked, may be within estimate error, not representing a significant change Ordered temporally, not by importance
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Gold & Silver


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Data: Economic and price data used in calculations from Thomson Reuters Eikon.