

## CME Market Tidbits

**4<sup>th</sup> August 2021**

### 1. Energy

<b>WTI crude oil</b>						
<p>Summary: Crude oil futures price remain strong despite rising concerns over the resurgent spread of covid-19 in China, parts of South-East Asia and Europe. Micro-WTI futures were successfully launched in July, with 43 thousand lots trading daily on average.</p>						
<b>Fundamentals</b>						
- Supply	<p>The OPEC+ group agreed to increase collective crude output by 400,000 barrel per day starting August 1<sup>st</sup>.</p> <p>However, this expected increase is not changing the overall outlook that the crude oil market is tightening as reflected by US inventories.</p>					
- Demand	<p>While there is a growing confidence that the ongoing vaccination campaigns in the industrialized countries will prevent any reintroduction of widespread mobility restrictions, the recent outbreaks in several tourism-heavy cities in China and Europe are weighting on oil prices.</p>					
- Inventories	(million barrels)	U. S	Cushing	U.S Gulf Coast		
	Week 7/23/21	436	35	239		
	vs. previous week	-4	-2	+1		
	vs. 5-year average	-33	-14	-7		
<b>Geopolitics</b>						
<p>Iran president Ebrahim Raisi has shown support for a nuclear deal that would result into the lifting of US sanctions on oil, but no progress has currently been made in the negotiations.</p>						
<b>Macroeconomy</b>						
- Cross Correlation		S&P 500	Gold	Copper	Soybean	10-y Notes
	WTI	0.16	0.07	0.18	0.15	-0.16
<b>Futures &amp; Options market</b>						
- Average Daily Volume		WTI futures (CL)		WTI options		
	Week 26-30/07/21	645,000 lots		60,000 lots		
- Open interest	<p>With 2.3 million lots the Open Interest remains strong and stable.</p> <p>Net long position hold by Investors climbed to 277 thousand lots (7/27/21).</p>					<a href="#">Pace of the Roll Tool</a>  <a href="#">Commitment of Traders</a>
- Volatility	<p>The implied volatility remains stable at 31% while the historical volatility increased to 40% signaling that option premiums are currently cheap compared to the recent prices movement.</p>					<a href="#">QuikVol Tool</a>
- Heatmap	<p>The most active options over the past five trading days were Sep'21 Calls at \$80 strike, followed by Sep'21 Calls at \$78 and \$75 strikes.</p>					<a href="#">Most Active Strike</a>

Price Analysis & Forecast	Goldman Sachs revised down its oil price forecast for Q3 to \$75 per barrel (Brent) from \$80.
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<b>Henry Hub Natural Gas</b>							
Summary: Henry Hub price retreated slightly after closing at \$4/MMBtu on Wednesday July 28 <sup>th</sup> . Natural gas prices around the world are trading at historical high level for the season, boosted by strong demand in all key regions.							
<b>Fundamentals</b>							
- Supply	Dry natural gas production decreased by 0.4% compared with the previous report week to average 92.6 billion cubic feet per day (Bcf/d).						
- Demand	Total U.S. consumption of natural gas rose by 3.6% compared with the previous report week's increase of 1.5%.						
- Inventories	The net injections into storage totaled 36 Bcf for the week ending July 23, compared with the five-year (2016–2020).  Working natural gas stocks totaled 2,714 Bcf, which is 168 Bcf lower than the five-year average and 523 Bcf lower than last year at this time.					<a href="#">EIA dashboard</a>	
<b>Weather forecast</b>	U.S. maximum temperatures continued to be higher than normal across parts of the western and northern United States.					<a href="#">NOAA</a>	
<b>Macroeconomy</b>							
- Cross Correlation		WTI	S&P500	Gold	Copper	Soybean	<a href="#">Cross Correlation Tool</a>
	Henry Hub	0.14	0.07	-0.04	0.06	0.15	
<b>Futures &amp; Options market</b>							
- Open interest	The Open Interest increased to 1,4 million lots  Investors net position reported by the CFTC reached 75 thousand lots over the past two weeks (7/23/21), much higher than the 45 thousand lots hold one year ago.					<a href="#">Commitment of Traders</a>	
- Volatility	Implied volatility remains at 43%, 10 points higher than the historical volatility.					<a href="#">QuikVol Tool</a>	
<b>Price Analysis &amp; Forecast</b>	The \$4/MMBtu resistance was broken last week and all natural gas markets in key regions (Asia, Europe, US) are at historical highs for the season.						

## 2. Agriculture

	Price	2 Weeks Price Change	%	30 Day Low	30 Day High
<b>Soybeans</b>	1349.25	-42.50	-3.05%	1305.00	1399.00
<b>Soybean Oil</b>	63.04	-2.18	-3.34%	58.78	65.22
<b>Soybean Meal</b>	353.9	-12.30	-3.36%	353.9	388.7
<b>CBOT Wheat</b>	713	13.25	1.89%	623.75	719.75
<b>Corn</b>	545.25	-6.75	-1.22%	517.00	589.00
<b>Kansas Wheat</b>	684.25	22.25	3.36%	595.50	685.25

- a. **Grain and Oilseeds** were mixed over the last two weeks as weather continues to play a central role in price movements. Market attention is now turning to wheat, as a heat dome over the Northern Plains threatens spring wheat crops while the main corn and soybean growing regions have largely not been impacted by the weather.
- b. **CBOT Wheat** and **Kansas Wheat** prices rallied in the US on the back of higher world prices. The wheat complex is being driven higher by two major factors – the adverse weather in the spring wheat areas and the reduction in estimates of the Russian crop size.
- c. **CBOT Corn** and **CBOT Soybeans** on the other hand fell despite some dryness in the Western corn belt, as the markets digested the fact that the overall conditions of the crop are only slightly below average. The markets are de-risking the weather premium with each passing day without a major weather problem.
- d. Markets will now turn its attention to the **Aug 12 World Agriculture Supply and Demand Estimates report** (<https://www.usda.gov/oce/commodity/wasde>) for more direction.
- e. More information of the **CBOT Wheat** and **Kansas Wheat** futures and options contract can be found here <https://www.cmegroup.com/cn-s/trading/agricultural/grain-and-oilseed/wheat.html> (in Chinese) and <https://www.cmegroup.com/markets/agriculture/grains/kc-wheat.html> (in English)
- f. More information of the **CBOT Corn** and **CBOT Soybean** futures and options contract can be found here <https://www.cmegroup.com/cn-s/trading/agricultural/grain-and-oilseed/corn.html> (in Chinese) and <https://www.cmegroup.com/cn-s/trading/agricultural/grain-and-oilseed/soybean.html> (in Chinese)
- g. Sign up for a free weekly market analysis at <https://go.cmegroup.com/AG-CN-S-pretb-weekly-report> (In Chinese)

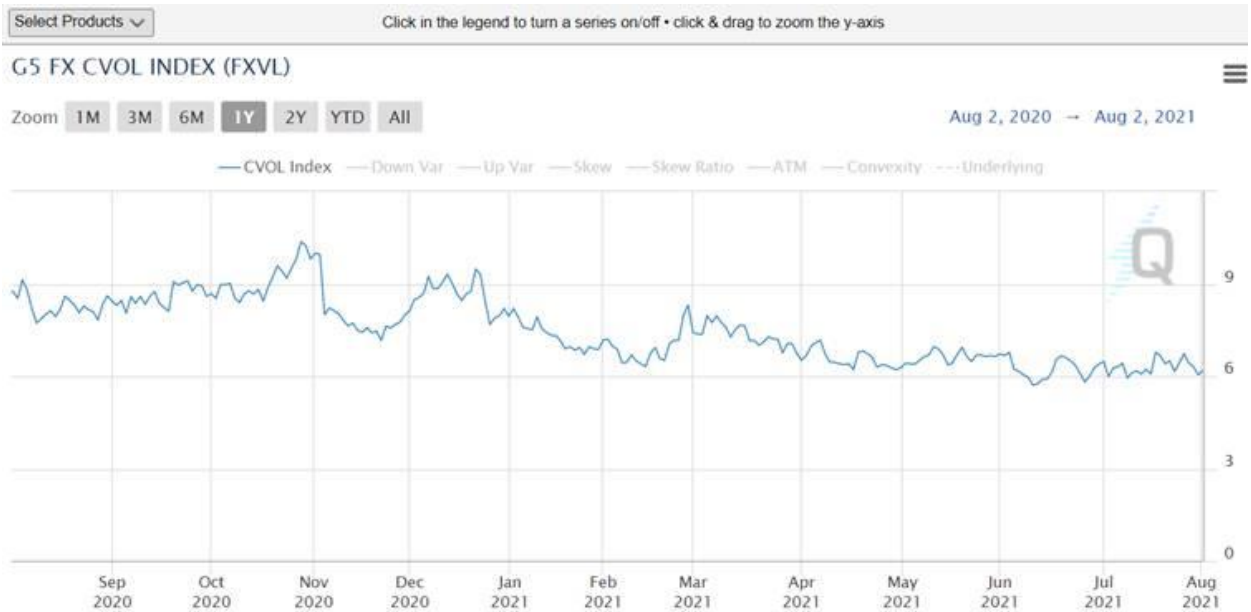
### 3. Rates

- a. FOMC last week:
  - i. Powell mentioned that Fed officials had taken a first deep dive as to how to go about scaling back purchases (tapering)
    1. No decision on timing
    2. “some ground to cover before they get there” – to begin tapering
    3. Making progress & if the progress continues they would reach that goal
  - ii. Still feel inflation is transitory
  - iii. Don’t feel the current wave of Delta variant will have as much of an impact on the economy
  - iv. Made permanent the standing repo facilities launched at the onset of the pandemic last year (help’s smooth out repo rates)

- v. Treasuries sold off initially on the comment re discussion of tapering but then rallied as the comments continued & indicated that besides the mention of taper discussion, not much had changed
- b. "SOFR First" kicked in on 26<sup>th</sup> July.
  - i. SOFR First is a phased initiative for switching trading conventions from LIBOR to the Secured Overnight Financing Rate (SOFR) for U.S. Dollar (USD) linear interest rate swaps, cross currency swaps, non-linear derivatives and exchange traded derivatives.
  - ii. OTC US IRD brokers are quoting SOFR OIS as the main products
  - iii. Expected to kick start OTC trading of SOFR
  - iv. From Oct 22<sup>nd</sup>, only SOFR OIS will be available as directly quoted IRD from the interdealer brokers; Libor IRD would be via SOFR-Libor basis swaps
- c. CME Term SOFR rates endorsed by ARRC on July 29<sup>th</sup>. The rates are available for licensing for cash products & end user hedging via derivatives of cash product issuance
- d. CME ED & TY Options skewed towards Puts; P/C ratio for ED options around 1.5 & for TY Options around 1.9; these positions are holding steady in spite of last week's FOMC statements
- e. Market will look to Non-farm payrolls for further direction this Friday & Inflation next week

#### 4. FX

- a. G5 FX volatilities continue to hover around multi-year lows



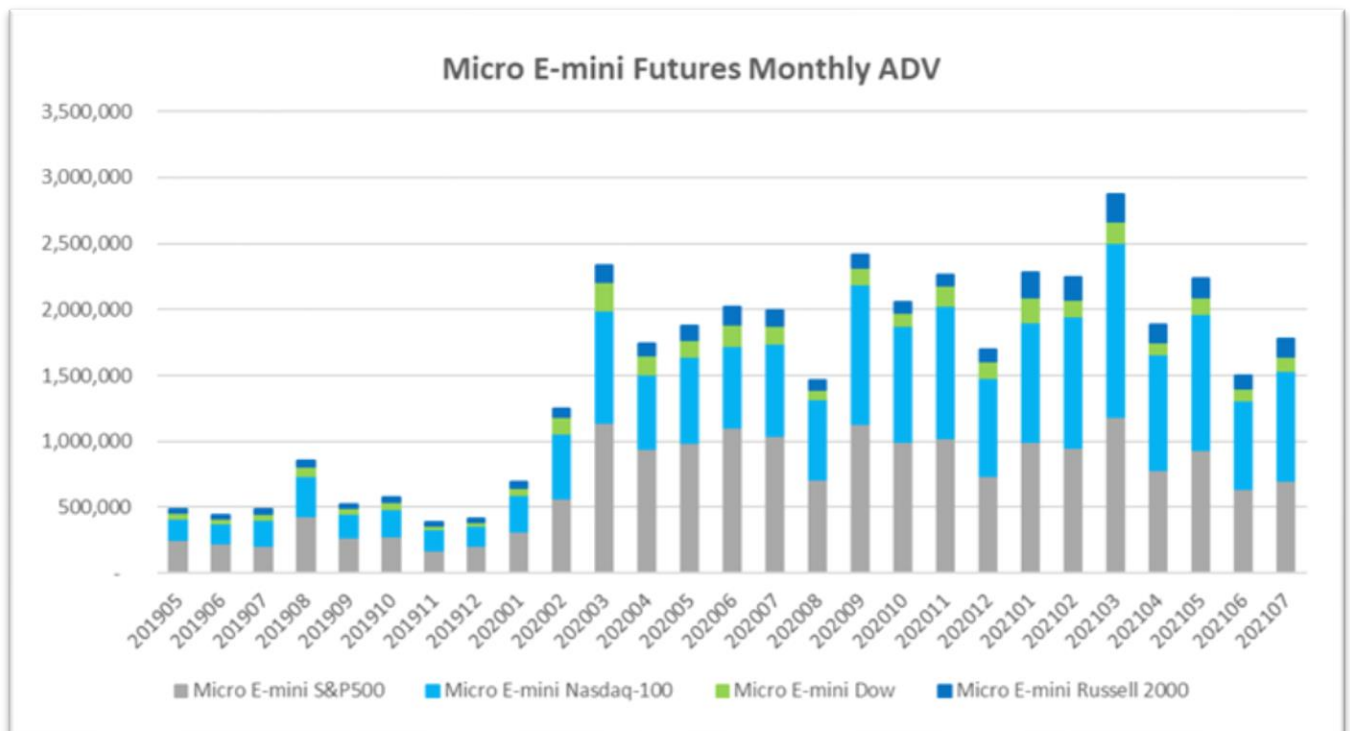
- b. FX markets are tending to track activity in US rates market currently
- c. Commodity currencies among the G5 (AUD & CAD) seeing Puts still dominate calls in Open interest; the others are fairly neutral.

- d. An enhanced FX Market profile Tool ([FXMP](#)) was launched last week
  - i. Futures & EBS liquidity on 18 currency pairs
  - ii. Includes FX Link liquidity
  - iii. Historical spread & traded volume by hour information now available
  - iv. Up to 10 levels of book depth available

## 5. Equities

While Asia equities declined in July led by heavy losses in China as a result of Beijing’s clampdown on the tech companies, major three indexes in the US were up for July and continued its monthly gains for the year. S&P500 continued to post new closing highs in every month since November 2020. The strong Q2 corporate earnings also played a supporting role in the second half of the month with more than 80% of those reported beat estimates while margins remain high and guidance improved. The disparity between Asia indexes and US equity indexes have widened – gain exposure or effectively manage risk using micro e-mini futures and options.

- a. [Why the S&P500 Matters to China](#)
- b. Why (Chinese) investors should consider overseas market opportunities (video versions in Chinese)
  - i. <https://mp.weixin.qq.com/s/rZOu8rE3vo6w5yYa2KfVbQ>
  - ii. <https://xueqiu.com/8801912051/191822354>



Micro E-mini Options Monthly ADV

