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Polar Futures Guarded Opportunity

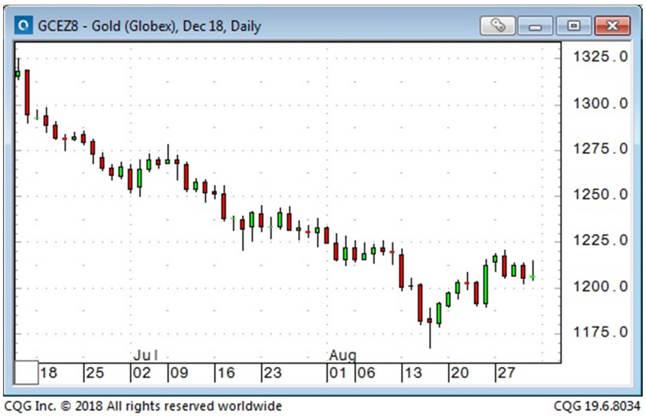
August 2018

Monthly Performance = -4.92%
YTD = -8.53%
**net of fees*

The summer calm continued through most key markets during the month of August. While there was some volatility in the markets we traded there was yet to be any discernible trends established. So while a few of our trade ideas moved against us, we also lost some value as some positions moved sideways. Again, we were faced with taking about a large a loss as we want to see in any given month trading down 4.92% in August. We still see that we are positioned for some upcoming moves and can foresee our trades performing well in a more volatile or trending market.

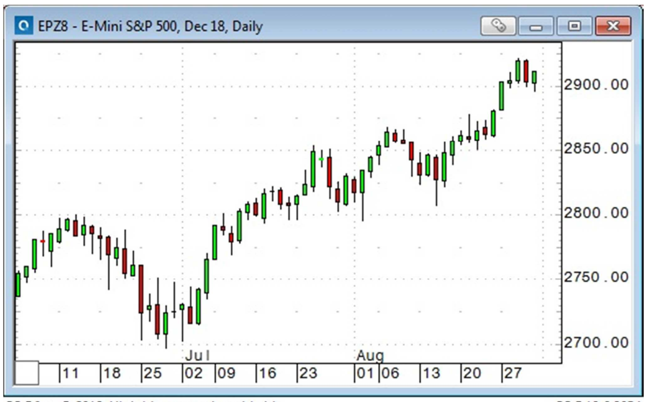
The corn market had several sharp selloffs throughout the month on crop report releases but also on headlines over the trade issues between the US and China. After it looked to hold the multi-year lows and rally significantly last month, those gains were almost completely given back this month. As this was a longer term idea, we were looking for a significant move higher and wanted to give the trade some room. However after the sharp sell-offs this month, this idea doesn't hold much value for the program and will likely be held as a "what if" given the risk reward of covering at this point doesn't justify taking it off.

We had been short the gold market previously and were happy to take gains on that trade as we thought it was likely the $1250 level would be support. After it looked to have found support, we entered the long gold trade in mid-July. We added to this position in the middle of this month as it looked like gold had found more support. The market then broke sharply lower but turned sharply giving us confidence that gold might stage a significant rally after falling over $200 since the first quarter. However after gold rallied back above $1200, but was unable to hold that level we decided to close the trade out.



We continued to hold a short EUR position that was established last month. I still believe that we will see the EUR trade back toward the levels seen at the start of 2017. I thought that as we broke down from a tight consolidation over the past few months that the trade lower would resume. However after the EUR hit new lows for the past year in the middle of the month it rallied sharply to close out the month slightly lower than where the month started. We still believe the thesis for why we got into this trade and will look to hold the position and expect to see the recent lows get tested and taken out.

As CAD rallied back up to 77 cents toward the end of the month we took a short position looking for CAD not only to trade back to the lower end of its recent range, but likely back toward the low 70 cent range. As the summer has dragged on the NAFTA negotiations have done the same without any real progress seeming to be made. This could be a huge negative factor for the Canadian economy that the market seems to be taking the optimistic side on, I'll take the other. The recent rally in crude back towards $70 may have also helped CAD stay a little more supported at these levels; however I also think the "help" CAD has been getting from rising oil prices could come to an end as well. It also looks as though the recent rally in the interest rate differential over the past couple of months has rolled over and could start to weigh on CAD again. While the market seems to be looking for Poloz to move to a rate hiking program, I think he will likely raise rates once this fall and then be happy to wait and see. And, if we don't see a trade deal done, that fall rate hike could be taken away which could cause a sharp drop in the Canadian dollar. CAD has been outperforming against other commodity currencies, I look for that outperformance to wear out shortly.



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The US markets continued to grind higher over the past few months, however we have been seeing signs that the markets could possibly run out of gas near term. The outperformance of the US markets compared to the rest of the world equity markets since the start of May has gotten very wide. With rates moving higher I think the US markets are likely to run into some trouble. I would also look for this move higher in rates and the USD exert more pressure on emerging markets that will likely come back to focus in the US markets. The ongoing trade issues that Trump is forcing aren't helping investment confidence either. As we head into the mid-term elections in the US this fall, I think Trump's "campaign rhetoric" could pick up even more and spook markets. We chose the recent run at the end of the month to try and establish a short position that had limited risk looking for the SP to not get meaningfully through the 2900 level.

Until next month, Drew Zimmerman

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