PI FINANCIAL
experience. driven.

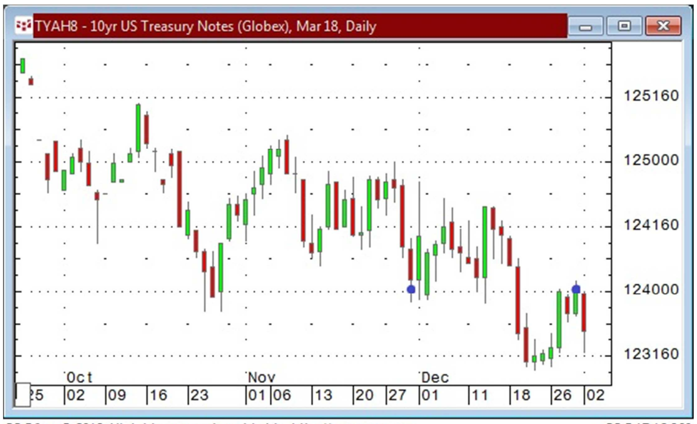
Polar Futures Guarded Opportunity

December 2017

Monthly Performance = -2.78%
YTD = -4.72%
**net of fees*

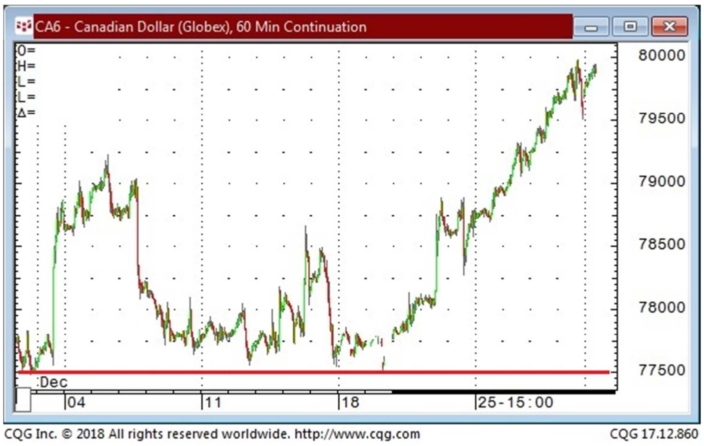
The key themes shaping my outlook weren’t aligned with what we were seeing in price action through the month December. When this happens, the best form of action to take, is that of less action. While I’m not happy with a near 3% loss in the month, having been wrong on market themes over the past two months, it was a drawdown that I can live with and (more importantly) get past. We had some larger moves through the holiday season, most notably a much weaker USD that was part of the poor performance on the month.

We had two positions roll off the board that came into the month with very little value. Both the remaining EUR puts and the oil puts expired out of the money. These positions were not a big difference maker for the month of December as the majority of the value was lost in November and they came into the month with very little value.



We held our short 10yr note position through the entire month, although it closed the month at the exact same value we started the month at (blue dots on chart to the right), attributing no change to monthly performance. We are trying to stay with this position while also making sure to keep some of the achieved gains. It is one of my key themes that rates are likely going to be heading higher through the start of the 2018, and may move abruptly higher given global influences and the multi-decade technical picture. In the US I see upward rate pressure from a strong employment picture, tax cuts, Fed balance sheet trimming and the Fed looking to normalize rates. If we are to see wage pressures and other forms of inflation, rates could possibly be much higher….QUICKLY! In Europe, the economic picture continues to heat up, especially in Germany and the ECB is pulling €30 billion worth of bids from the bond market with the possibility of more withdrawn later in the year. The economic picture also seems to be turning in Japan and the “controlled” yields are starting to pick up and may apply some pressure to the current BoJ policy. Rates are continuing to move higher in China as well. It was one thing when rates were trying to rise in the US alone, however when rates are rising globally in concert, the odds of that move continuing are much higher.

The losses realized through December came from two different attempts to be short the Canadian dollar. Through the month CAD spent a large portion of the time hovering above the 77.50 cent support level (red line on chart, next page). With the view that Canada faced many obstacles going forward related to widening interest rate differentials, uncertainty around NAFTA negotiations, upcoming mortgage rule changes, widening oil discounts and a central bank that seemed to be on pause, it was my view that the support level was going to be taken out. The first trade attempt was after the Fed raised rates and put out what I viewed to be a fairly hawkish statement. CAD had rallied sharply at the start of the month from the November employment report but had quickly given back the gains which I took as an indication of weakness. The position quickly hit risk control levels and was stopped out the next day as Stephen Poloz made remarks while giving a scheduled speech about the Canadian economy being at a “sweet spot” in the economic cycle and that companies were running flat out. This caused a sharp rally, but again CAD wasn’t able to sustain higher prices, again dropping back down to the previous support levels. With the thesis still intact that CAD would likely take out the 77.50 cent support level and move lower the next bounce was used to enter a limited risk trade looking for CAD to break down through that support level. However through the holiday season the USD weakened dramatically which pushed CAD higher, and by month end the position was too far offside to become profitable.



While my current themes aren’t in sync with market price action I will continue to trade cautiously, even though continually taking little hits never feels good, it is important to protect your capital and keep volatility at a reasonable level. We have risk controls in place so that no single trade idea causes a setback too large, as we want to try and stick with the trades that work for us and boot the ones that aren’t.

Until next month, Drew Zimmerman

DZIMMERMAN@PIFINANCIAL.COM 604-664-2842 POLARFUTURESGROUP.COM