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Polar Futures Guarded Opportunity

July 2018

Monthly Performance = -4.12%
YTD = -3.80%
**net of fees*

The program was down 4.12% this month as both existing positions and newly established positons moved against us. This brought the year to date loss into the negative down 3.8% net of all fees and charges. With our goal of moderate volatility, this was about as large a down month as I would expect to see given almost all positons had a move against us. We took a small loss on a short term US 10yr trade; however the bigger erosion this month came from a longer term trade on Gold and looking for the Canadian dollar and the Euro to break down against the USD. The major currency markets continued last month's consolidation against the USD, while many of the 2nd and 3rd tier currency markets were breaking lower. For me this foreshadows a move higher in the USD is still likely. Equity markets proved resilient to trade issues as all US equity indices moved higher, with the NASDAQ hitting another record high, and stock market volatility down through the month.

We remain long of the Corn market with a longer time horizon. The multiyear lows were tested near the middle of the month and corn has since seen a move higher from those lows that have our position up slightly from the close of last month. The grain markets in general performed better throughout the month with the wheat markets leading the way. The ongoing trade feud with China will likely continue to be a key driver for the price of corn going forward along with upcoming yield/quality harvest reports. We are looking for the reversal from mid-month to continue.

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The one other position we carried over from last month was a short in the Canadian dollar. We established this position after CAD had broken through what we thought was strong support at the 77.00 cent level in mid-June. The Bank of Canada raised rates on July 11th as we and the market expected which allowed CAD to trade lower on the day. However the interest rate differential with the US has narrowed in a CAD supportive manner as the market has started to price in higher chance of another rate hike in October. I continue to believe that the Bank of Canada is more likely to take a slower approach and might raise rates again in December, but not sooner. This slower move by the Bank of Canada and the Fed raising rates in September should see the interest rate differentials work against CAD. The oil market isn't offering CAD any support as it turned lower from $75 to trade back under $69 and at the same time the Western Canada Select oil price discount grew to almost $30. As trade issues continue to go unsolved, I believe that any USD strength should see CAD trade much lower and likely take out the recent lows of 75.00 cents.

At the start of the month we shorted the US 10yr note on a low risk setup as the notes had traded up to a very clear technical ceiling and I still thought it was likely notes could see a sizeable move lower. However the employment report on July 6th caused more volatility in the notes than I expected to see causing our low risk setup to get stopped out. Notes did trade lower into month end; however the trade was a clear tight stop setup. The positioning in speculative shorts on the US 10yr are now absolutely huge and I believe this positioning will be a big factor in this market in the months to come. I will continue to look for these technical setups that present good risk/reward opportunities, unfortunately they won't all work.

We had closed out a short position in Gold at the end of last month as I thought we would likely see Gold hold the $1240-50. In middle of this month as Gold looked to be putting in a double bottom at that level we established a long position with a longer term view. However that level didn't hold as the downward momentum in gold continued and tested the $1220 level before picking up into month end. Given the struggle of interest rates to move much higher than the 3% on the 10yr I think it is likely that higher inflation levels will start to lower the real interest. I think real rates will be a long term driver for higher gold prices. As this is a longer term view on the price of gold I want to give this trade some room, but I would want to see promising signs of rally by early fall.

Near the end of the month we established a short position in the EUR. The EUR has spent the last 2 months within a rather tight 2 cent consolidation range. By taking the short position at this time we are using prices in upper end of this consolidation range to limit risk as we look for a breakdown out of the bottom of the range. The 2yr interest rate differentials between Germany and the US have widened to 325bps that will weigh on the common currency and I believe this pressure will continue as the Fed continues to raise rates as the ECB is on hold. I also believe that we will see stress come into the sovereign interest rate spreads between Germany and the other Euro countries as the ECB stops adding to its monthly bond purchases. The ECB has been a massive purchaser of sovereign and corporate bonds, keeping rates artificially low and if the market starts to price in the true higher risk of the periphery nations we could see these spreads widen dramatically. A big upcoming test will be if we see any issues come back as Italy's government has to table a budget that won't make officials in Brussels happy. We have structured this position looking for a large break lower in the EUR in the coming months.

While the erosion in our longer dated positions this month were unpleasant, I believe that some of the calm that has come over markets this past month will likely be setting up some larger moves as we head into the fall. As equity markets climb back towards (or at new highs in NASDAQ) I will be looking for failed new highs that roll over. This could present a short stock/long bond opportunity as well as an environment that should help my view for better gold and US dollar prices.

Until next month, Drew Zimmerman

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