Polar Futures Guarded Opportunity

June 2018

Monthly Performance = -0.42%
YTD = 0.33%
**net of fees*

The program was down slightly through the month of June, while staying marginally positive on the year. Trading action continues to be choppy as trade wars are a major focus. Even with this choppiness US equity, interest rate markets and the USD were close to unchanged over the course of the month, as the latter consolidated after the previous 2 months of gains. Even though we didn't see much movement in key North American markets, we did see some sharp price declines through commodity prices (other than oil) along with emerging markets equities and currencies. Maybe the most notable and important when considering the trade issues was the continued drop in the Chinese Yuan. With large price swings staying off the centre screen, much is happening in periphery markets which tells me that our main markets won't stay quiet for long.

We had been carrying a short position in crude from last month that we traded out of in the first few days of the month. This position had little time remaining and trading out early allowed us to put some of the premium paid back in our pocket. We were happy to be out before the oil market saw an incredible rally as outages and supply concerns took oil prices to new 3 year highs. I continue to think that the mid 70's level in oil will prove to be a formidable "cap" on oil prices as Saudi and Russia have both proven they are will to increase production at that level. However, there are numerous different supply concerns/constraints creating serious volatility that is likely to continue.

After the gold market had a month long consolidation under the $1,300 level we took a short position in gold looking for prices to pull back to the multiyear trend line and previous support level at the $1,240-1,250 level. I thought that ongoing USD strength, real interest rates pressure and continued closing out of long positions would cause a further pullback in gold. This was a short term view on gold and we were fortunate enough to get rather fast price action in our favour as gold move down to the target. Once the target area was reached we closed out the trade for a good gain.

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We closed out our spread position in EUR this month. This position turned into a spread at the start of last month and with the EUR chopping sideways there wasn't a strong enough risk/reward to setup to do much else with the position. Closing out the positions allowed us to clear it off the books and look for better setups in the currency going forward without having to juggle the existing position.

Mid-month we established a short position in the US 10yr notes looking for interest rates to continue to move higher after the spiking lower at the end of last month on the existential Italian crisis. I believe the shock induced pullback in US rates is short term and will continue heading higher as the Fed and other central banks around the world look to "normalize" interest rates. Unfortunately the notes found a bid and took us out of this position after only 4 days as our risk management levels overruled my market view. I continue to like the short side of 10yr notes as I believe we have seen a structural shift in interest rate markets. However given the huge speculative short positioning and ongoing headline driven trade/geopolitical risk, the price action has become increasingly choppy. An emphasis on entry levels will be crucial for risk management going forward. While a very quick loss, this was the main draw on the program for the month.

Also in the mid-month period we established a long position in corn. The price of corn has sold off significantly over the past month and is down to multiyear support levels. It is my view that even though weather and crop condition reports have been positive, a negative for prices, the overarching issue has been the trade issue with China. This is a longer term view as I look for the multiyear levels to hold. If crop conditions started to sour or if we see any improvement in trade issues we could see a significant rally in the price.

At the end of the month we established a short position in the Canadian dollar. My view is that CAD is still facing a number of headwinds. Trade uncertainty is not looking to resolved anytime soon, which should keep the Bank of Canada on the sidelines after a rate hike that is already priced in for July. This patience by the Bank of Canada will continue to drive interest rate differentials against CAD. Rising oil prices also helped support CAD into month end as oil hit almost $75, but at these elevated levels any further help will be limited. Confirmation to stay short CAD will come from a break below June's low or a strong break above the 95 level on the US Dollar index.

The recent choppy price action that we have seen throughout markets seems to be coming more from political developments (tariffs/trade negotiations/sanctions/fiscal policy) than the central bank policies we had grown accustomed to trading. While central bank policy is still important, it seems to have taken a back seat to political issues. It is my view that this is likely to continue as we head into the US midterm elections. I see two likely paths going forward, Trump will either blast out "campaign rhetoric" to gain support for the republicans as he did throughout his election campaign or he will use the recent pressure applied through trade policies for a "win" before the midterms. I believe this uncertainty will likely see this recent choppy price action continue which means we will likely try to look for shorter term tactical trades alongside long term positions.

Until next month, Drew Zimmerman

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