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Polar Futures Guarded Opportunity

November 2018

Monthly Performance = -3.38 %
YTD = -1.32 %
**net of fees*

After a very strong performance in October the program had a small move backwards in November with performance down 3.38% on the month. This was largely due to a sharp move in our USD trade at the start of the month. This move took us back into negative territory for the year, but my expectation that volatility and the risk off sentiment will prevail should provide good opportunities in the final month of the year.

 CQG 19.9.8040

We had established a long USD position at the end of September and held it through October as it rallied nicely. I wanted to try and hold this position as we went into yearend thinking that the Federal Reserve is still set to raise interest rates in December that will continue to drive tighter monetary policy in the US compared with other global central banks. However the mid-term elections in the US near the start of the month, in which the Republican party lost control of the house but kept control of the senate, cause some serious short term volatility. Unfortunately the spike lower in the USD on the election stopped us out of the position before it went on to rally to new highs later in the month. Given the event risk of the election I had tried to give the position ample room, however the large moves were just big enough to trigger the stop while keeping the risk in the trade under control. While not closing out the trade where we wanted to, and down for the month, we still closed out with strong gains.

 CQG 19.9.8040

Through the month of October the Canadian dollar had been trading continually lower after spiking higher to start the month at the conclusion of the new USMCA. This seem to be a perfect case of “buy the rumour, sell the news”. We lowered the risk on CAD by taking a smaller position as it sold off at the start of the month. CAD continued to trade lower throughout the month, but we didn’t see the meaningful move lower I thought we might see given the sharp move lower in crude oil. However the steadying of financial markets seemed to steady some of the currency moves. As we got knocked out of our long USD position this trade is a function of long USD exposure.

 CQG 19.9.8040

US rates had moved sharply higher through the months of Sept and October and it seemed that everyone “knew” that rates were headed higher. This resulted in speculators building, by far, the largest short positions against most durations of the US bond market. Once bonds stared to catch a bid, which took longer than I thought given the equity selloff in October, we could see the long end rally. We established a long position around the middle of the month looking for bonds to continue to rally as speculators would unwind their enormous positions. I still think that Fed will raise rates next month, but even in the face of that, concerns about inflation may fall back given the continued selloff in the energy markets. If we are to see further weakness in the equity markets this could also put a serious safe haven bid into US treasuries as well. Either or both of these scenarios could cause a sharp "short squeeze" on speculators.

In the middle of the month we also established a long Japanese Yen position. This worked to offset some of the risk of our long USD exposure, but more importantly I thought that a "risk off" move into the USD it would also see the Yen appreciate at the same time. The Yen had traded higher when equities sold off through October but was back near the lowest level it had been at over the past year. This presented a good opportunity to get long of the Yen to offset further USD weakness but also have sharp gains if we saw further equity weakness. After initiating the position we saw a good move in our favour, however by month end we were near flat. I expect to hold this position into December to see if we see further equity downside that drives safe haven flows into the Yen.

Toward the end of the month we establish a short position in the New Zealand dollar. This was still on the thesis of wanting long USD exposure and the NZD had rallied strongly through October and November even though the equity market was going through a "risk off" sentiment. It was my view that we had a good technical opportunity to get short of the currency and if we saw renewed USD strength and further selling in the equity markets that the "risk off" trade would come back to the NZD which could then see a sharp correction lower.

Volatility remained high through the month as I had expected, however half of the markets had choppier price action and finished the month largely unchanged. While the other half such as CAD and the US long bond had firmer trends in place. As we head into the last month of the year I am looking for volatility to continue, but I think we will also see more sustained price trends through the month rather than some of the chop we had throughout this month.

Until next month,

Drew Zimmerman

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