TBI Holding

Monday, Oct 29 2018

# MARKET NEWS

**Coal News**

The API2 Cal19 contract started the session 45cents lower than Friday’s close at $94.75/t, and it ticked up to $96.50/t as the day progressed. The contract strengthened during the day and closed 85cents higher at $95.60/t. The API2 Cal19 contract failed to move in correlation with German power today, which opened 10cents lower than Friday’s close at €50.95/MWh, and closed 85cents lower on the day at €50.10/MWh. The Zhengzhou Commodity Exchange Jan19 contract closed the day Yn1.00 lower at Yn637.60/t as the market approached its lows for this month at Yn632.00/t set during last Friday’s session. Reports from China indicate power plants currently have little incentive to buy spot supplies at current levels with ample stockpiles with daily usage remaining weak. Since making highs for this year at Yn670.00/t on 09th Oct prices have come under increased selling pressure. Further news however indicated prices at domestic mines remain strong as producers suspend operations with ongoing environmental inspections continuing. Volatility revolved today around the API2 Cal19 x Cal20 spread, which tightened today, trading at 3.00 after closing at 3.70 on Friday. The API2 Cal20 x Cal21 spread moved in line with this and traded at 3.50 during this morning’s session, 20 cents lower than Friday’s close. The Q119 API2 v NEWC spread closed 75cents lower at -$10.15 with the Cal19 API2 v NEWC spread closing 15cents higher at -$9.45. Backwardation across the API2 decreased with the API2 Q119 v Cal19 closing $1.60 lower at $2.50 with the Q119 v Cal19 NEWC spread decreasing to close 70cents lower at $3.20.

| API 2/API 4 | | | | API 4 | | | |
|---|---|---|---|---|---|---|---|
| Bid $ | Offer $ | Mid $ | Chg | Bid $ | Offer $ | Mid $ | Chg |
| 0.45 | 0.95 | 0.70 | 0.45 | 98.20 | 98.70 | 98.45 | 0.00 |
| 0.25 | 0.75 | 0.50 | 0.40 | 98.65 | 99.15 | 98.90 | -0.10 |
| -0.95 | -0.45 | -0.70 | 0.45 | 99.25 | 99.75 | 99.50 | -0.10 |
| -1.95 | -1.45 | -1.70 | | 99.55 | 100.05 | 99.80 | |
| -2.05 | -1.55 | -1.80 | 0.30 | 99.65 | 100.15 | 99.90 | 0.10 |
| -4.40 | -3.90 | -4.15 | -0.20 | 99.60 | 100.10 | 99.85 | 0.55 |
| -5.25 | -4.75 | -5.00 | -0.35 | 99.20 | 99.70 | 99.45 | 0.75 |
| -4.95 | -4.45 | -4.70 | -0.35 | 98.60 | 99.10 | 98.85 | 0.75 |
| -4.30 | -3.80 | -4.05 | | 97.55 | 98.05 | 97.80 | |
| -4.15 | -3.65 | -3.90 | -0.10 | 99.25 | 99.75 | 99.50 | 0.50 |
| -3.95 | -3.45 | -3.70 | 0.00 | 96.25 | 96.75 | 96.50 | 1.30 |
| -4.80 | -4.80 | -4.80 | | 94.35 | 94.35 | 94.35 | |



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## Oil Market News

**Equity:** European stocks ended the week notably lower, tracking the declines in U.S. equities. The market focus remained centred on Q3 earnings on Friday. Meanwhile, fears of escalating Sino-China trade war tensions, rising borrowing costs, elevated U.S. Treasury yields and fears of economic turmoil in Italy continued to weigh on global sentiment. The Stoxx 600 softened 0.77% on Friday amid a broad-based decline across the sub-sectors broadly with the losses on the day being led by media and telecom stocks. The pan-European Stoxx 600 fell by 2.46% for the week. Across the pond, it was another downbeat session with most major bourses ending the session firmly in the red despite a topside surprise in the advanced Q3 GDP reading. The S&P 500 tumbled by 1.73%, while briefly slipping into correction territory after dipping more than 10% below its record high recorded last month. Interesting to note that 7 out of the 11 sub-sectors have slumped by at least 10% from their 52-week highs. Disappointing results from major tech stocks outweighed the healthy GDP print. Even though earnings for both Amazon and Alphabet beat estimates, a downside surprise in revenues weighed. Looking at the session ahead, it has been a mixed start in the Asian markets with the Japanese Nikkei buoyed in positive territory, while the Hang Seng and CSI 300 have kicked off the new week on the back foot, suggesting that there is still a strong cautious undertone amongst investors.

**Bonds:** Last week saw a meaningful rally across the entire UST yield curve, with long-end outperformance culminating in the curve resuming a flattening bias. Haven demand was the catalyst behind the retreat in yields as global markets were subject to a fresh bout of volatility. Stock markets suffered material losses and investors have generally adopted a more risk-averse bias. It does appear as though the VIX has stabilized above the 24% level and in the absence of any fresh catalysts that trigger a renewed bout of selling out of equities, USTs could be in for a period of consolidation in coming sessions. Month-end position squaring should meanwhile also be expected, whilst many in the market could opt for the side lines later in the week ahead of the monthly payrolls report that is due on Friday. Bunds were the flavour of the day on Friday amid a broad-based global rally in sovereign debt as the market pared back its expectations for policy tightening in the shared bloc from the ECB to 2020. Adding to the tailwinds was a risk-off tone amongst international traders which saw Bund yields across the curve being bid lower on the session. In today’s budget, Chancellor Hammond is expected to lower bond issuance in the UK to the lowest level in over a decade. The DMO is forecast to cut supply by around GBP 5bn which should provide a further tailwind to Gilts as they remain in favor amid Brexit uncertainties.

**Currency:** The final session of the week saw the USD pull back from its multi-week highs to end lower on the session as most of the majors managed to recoup some losses vs. the dollar in the European and US sessions. However, the dollar ended notably stronger on the week and remains underpinned ahead of the European open around 94.67 at the time of writing. Whilst the large twin deficits in the US continue to feature prominently, these fragilities are evidently being ignored at the moment as investors have rushed into the perceived safety of USTs in recent sessions as the rout on global stock markets continues. This risk-off bias could keep the USD relatively supported in the near term, especially as investors steer clear of some of the other majors such as the GBP and EUR given Brexit risks and ongoing political risks in Europe. Beyond the short term, risks remain that the USD undergoes a meaningful correction as the market is likely to eventually come to grips with the risks presented by the large trade and fiscal deficits.

**Credit:** It was a lacklustre week for the corporate credit market as the decidedly risk-off tone that dominated markets forced many prospective issuers to the side lines. High-grade issuers only raised $6.015bn, yet high-grade funds did manage to attract $414.986mn in inflows, according to Lipper data. On a year-to-date basis, the IG market



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has seen $1.060trn in issuance vs. $1.71trn in the corresponding period of 2017. The week ahead, meanwhile, is expected to see $15-20bn in issuance. In the HY market, issuers were forced to pay a premium to raise debt and this is likely to remain the case in the week ahead, where some $3bn in new HY debt is expected to come be issued.

**Energy:** The oil markets were better bid on Friday however the bulls were not able to regain all of the losses seen on the week and as such both benchmarks finished the session in the red for the week. Global growth concerns on the back of falling equity markets coupled with an increase in US Inventories were the major driving factors of the session, added to that we had the complexities of the OPEC and OPEC allied members questioning whether or not the market would in fact move into oversupply shortly and we had the perfect storm last week. The oversupply issue remains core at the moment however mixed signals are being received at the moment. Russia has suggested over the weekend that it may keep its output at current levels are even perhaps raise it slightly – Bloomberg reported that Russian Energy Minister Alexander Novak told reporters in Istanbul he sees no grounds for reducing output and that there are risks of a deficit in oil markets. The nation's oil production in September rose by almost 150,000 barrels a day to 11.356 million, a post-Soviet high, from a month earlier. The country suggested its output rose further in October. From a trading perspective, hedge funds continue to trim bullish oil positions given the fact that much of the negativity around the Iranian situation has been priced in and the question now is around global growth. They have cut their combined futures and options position in New York and London by 42,644 contracts to 216,733 in the week to Oct. 23, the lowest level since September 2017.



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