June 2020 Financial Markets Update

A Complete Wrap-Up Across FX, Interest Rates, and Energy Commodities

ATB listens

Table of Contents

Highlights

- *Mark Johnson examines whether the economy is half re-opened or half 'still-closed'*
- *Chris Fricke and Janek Guminski take us through the FX markets amid renewed USD weakness*
- *JP Dore looks at what US oil inventory trends may tell us about future price action; while CJ Hilling delves into the Natural Gas market*
- *In the chart pack we review S&P 500 P/E multiples, as well as dive into what appears to be 'lower' volatility levels across financial markets*

ATB

Central Bank Overview

Mark Johnson, Director Interest Rate Sales

May has been another interesting month in Canadian interest rate markets. Not the volatile, flashy, bicep-bulging home run hitter that was April. No, May was a quiet, pinch-hitting role player with a terrific on-base percentage. But - winning teams need both aplenty. What, exactly, is this team trying to win? Well, survival of the worst crisis that anyone under the age of 80 has seen. It may look like a hollow victory - but we would all take the 'W' right now.

The final weeks of Governor Poloz's tenure at the Bank of Canada have been dominated by the response to the economic impact of covid-19. We have not the time nor space to go over the myriad measures and Open Market Operations here, and we will have discussed the specific actions at length over the last few weeks with many of you - so we will merely conclude that they were swift to arrive and have been immense in nature.

What Poloz and the BoC have done is set the temperature of the recovery to ambient. As the good Governor said himself last week, "the pandemic created a sudden stop in economic activity that was not really addressable by monetary policy". He added that policy would "need to deliver everything available to complement that fiscal action and support the economy".

Have all their efforts worked? Well, May saw swaps and GOCs move in about a 12 point range and CDOR fell 10 bps in the first 2 weeks and has been stable since. The loonie has been less volatile than in April and, as we speak, is breaking higher and looking like the worst is behind it. We have seen some of the programs that the BoC put in place at the start of the crisis discontinued as the dash for cash has slowed and market function and the pricing of risk have normalized. Take the Bankers Acceptance Purchase Facility. Never more has any program been needed than this one at the time of inception.

With credit spreads exploding and CDORs rising, the banks needed someone to take inventory and supply cash. Fully subscribed in its fist 2 weekly auctions (a mere 6 weeks ago), it is now obsolete. CDOR has fallen over 100bps in that time. The rate cuts and the Open Market Operations have helped the market function and they will – in time - help the economy repair.

So what is the state of the economy as we enter June? In late May we saw GDP for Q1 print -8%. We also saw a flash guidance on April – and that was as many have suggested, around -11%. With inflation printing close to -1% of late, these numbers are horrific – but understandably and predictably so. Apparently we are actually quite adept at measuring the unthinkable.

Central Bank Overview

Mark Johnson, Director Interest Rate Sales

Summer is here now and economies are in the process of re-opening. We are at a crucial and unpredictable stage. In the last speech that he made as Governor, Mr Poloz made reference to the term “Knightian Uncertainty”. It is given to the nature of situations where calculating the odds of an outcome is almost impossible. During his lifetime, Frank Knight, an American economist, had worked extensively on classifying the known and unknown unknowns for economists. I think that the next 3 months could easily be referred to as the “Knight Stage” of this wretched affair.

Efforts to re-open are being driven largely by actions south of our border. That will set the tone.Unsurprisingly, the US has been leading the charge within the developed world to get “back to work.” Sure, most countries in Europe and Asia are at this stage too, but they are all weeks further ahead in the pandemic cycle.

This is hardly surprising. The first response to dealing with Covid 19 and its impacts preferred by the vast majority of the developed world has been to close the unessential, shutter activity, minimize movement and interaction, and to allow the state to intervene and dictate large chunks of our lives. This was always going to be a poor fit for the US - philosophically, logistically and politically.

Unlike Europe and Asia, the US is also reopening as a way to remove the need for further fiscal support – not as an accompaniment to it. The EU commission is floating a EUR750 billion grant and loan package (complete with groundbreaking pay-what-you-can sharing of the load) at the same time that further fiscal measures in the US are doomed to fail passage in Washington.

Re-opening in the UK is happening when the central bank is increasing chatter on the possibility of negative rates (the ECB would do this too – but already have.) In the US, while we believe that pressure will be brought to bear on the Fed soon enough, the negative rate chatter is on pause for the big re-open.

If the US citizen is keen to get back at it, then the comeback could be on. It is worth noting that, when confidence and demand return, rates are historically low and there is a mountain of cash held corporately that could be put to work. Certainly, with growing unrest, withering state resources to support closures and the IMF calculating that for every month that it is closed the world economy loses $375 billion in economic output, it appears that momentum is there and nothing short of a devastating second wave could halt it.

Central Bank Overview

Mark Johnson, Director Interest Rate Sales

So that, economically at least, could be brighter news. Where Canada is concerned, Governor Poloz himself is optimistic. He recently said that he felt that many economists and commentators were too pessimistic. He is worried that a preoccupation on current GDP is warping perspective. In other words, of course these numbers are horrendous. We just closed the economy for 6 weeks. But none of this is normal. It is all very abnormal. It isn't a typical negative growth performance (he actually categorized Covid -19 as more like a natural disaster) - and as such we have to be careful not to think of the recovery from it in those terms – historically-influenced "normal" terms. He said that those that did this believe "it is going to be really hard to get up that hill and I really don't think that it will be."

He added that "there will be some legacy issues to work on after, and that it could take a year or more to get back to trend line" but that he was "relatively optimistic compared with what the talk is".

Exactly what "talk" he is referring to is speculation, but it must include the thoughts of the highly respected and broadly read Canadian economist David Rosenberg. He recently said that he believed that we could be five years away – likely at least three - from any form of real recovery. He sees the issue as a lack of demand in the economy moving forward. Other street star-gazers are less pessimistic, but most still see 2022 before we might look like 2019 again.

So, with all Knightian Uncertainty, we plow forward in to the unknown with very differing views as to what it will all become. What does that mean for interest rate policy?

As Gov. Poloz also said last week, our central bank has built its reputation on a predictable, stable and on target inflation rate. That target, for some time now, has been +2%. It is probably fair to say that we will not be hitting that any time soon. So, should rates be lower? Should we go negative like others? After all, rates at 0.25% when inflation is -1% is "tight" policy, is it not?

As we have speculated previously, this is not likely in Canada. A week or so ago, Deputy Governor Tim Lane commented that, when it comes to rates below zero, the BoC had decided to "not go there." The benefits are unclear, the logistics troublesome and the "zombifying" of banks (where their margins are destroyed by the inability to pass on the negative rates – which crushes profitability after the initial surge in lending) is a highly undesirable unintended consequence.

Central Bank Overview

Mark Johnson, Director Interest Rate Sales

So, what can and will the Bank of Canada do instead – given that rates are at their Effective Lower Bound and its balance sheet has already become inflated to 20% of GDP by these Open Market Operations? Plenty, as it turns out.

First of all, they can keep rates low for quite a while. Over time (assuming other factors like fiscal policy and trade help pull us from recession), keeping rates at 0.25% is as impactful as lowering them further now, only to raise them as soon as we see some recovery (from unsustainable levels) and introducing the risk of a negative reaction in activity to that raise. Tortoise matches Hare, as it were.

In the past, the BoC has talked of the "time trade off" for growth. Lower rates now, increase growth through debt, but then reduce potential growth down the road as the servicing of that debt hangs overhead and reduces disposable incomes and spending. With household debt already so high, and government debt joining it, it seems that they fear that lowering rates further may have some (limited) positive impact now, but could destroy growth potential in the better times for the economy for many years to come - not to mention increasing vulnerability to another shock event. Far better to set the room to "ambient" and hope that trade and fiscal support carry the weight.

Secondly, they can keep rates down the curve low via their Large Scale Asset Purchases. Sure, the BoC have been active on a scale never previously experienced, and as such holds a lot of securities on its balance sheet, but around 50% of these mature in the next year. In other words, if needed, they get to do this all over again!! Fresh stimulus keep without expanding that balance sheet further.

Finally, they will do Yield Curve Control. Technically, this will turn all this intervention into actual QE. Not just a trolley dash to buy whatever is on the nearest shelf to get the sale rung up, but a controlled and purposeful shop, designed to impact the curve and control actual yields. They will target a point on the curve (likely 5 years) that they can reasonably manipulate to an actual rate. This will act as a pivot, or North Star upon which the market can navigate the dangerous journey that is pricing the full curve. The rate they will choose will likely be very low, keeping the cost of term financing down for some time to come.

Can anything threaten this? Inflation could -eventually. To date, this episode has been a deflationary shock. However, a resumption of activity, coupled with a move to develop more secure supply chains by "making domestic" could push up demand, costs, and prices. Central banks would lean against such a development - trying to keep yields in check to both help the recovery take hold and to keep the cost of financing all that debt manageable.

Gov. Macklem has a big job ahead.

Canadian Dollar

Janek Guminski CFA, Sr. Director FX Sales

The month of May saw many interesting developments relating to the Loonie, starting with the announcement that Tiff Macklem would be the successor to Stephen Poloz as Governor of the Bank of Canada over the other front-runner Carolyn Wilkins, the Senior Deputy Governor, who had been highly visible and indeed prominent in recent BoC activity.

The release of historically poor employment numbers was largely ignored by the market, likely due to the expectation that they would be horrible. Talk of negative rates in the US as well as (to a lesser extent) here at home continued as it is a very public point of contention between President Trump (who wants negative rates) and Fed Chair Jerome Powell.

To end the month, Meng Wanzhou, the Huawei CFO under house arrest in Vancouver lost a key decision that could have seen her extradition to the US be invalidated....it was not.

Looking now at the charts on the next page, you can see in left hand chart the technically significant development that over the month of May, each *high* was *lower* than the previous one and that each *low* was *lower* than the previous one. This is a clear signal of market sentiment and ultimately the direction of the currency. And indeed we have the pace of this trend accelerate as we head into June.

The Canadian dollar continued its highly correlated move to the 'risk on' trade, where the market bid up riskier assets and sold off the safe havens like the USD, Japanese Yen and Swiss Franc.

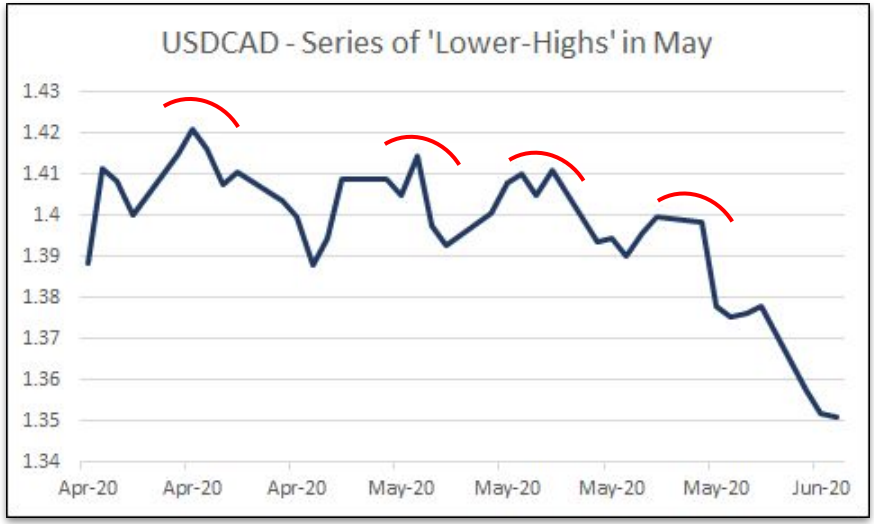
I must admit that I am at a loss as to why the market is bidding up equities so acutely (and by extension the CAD) at the moment, but the market will do what the market will do.

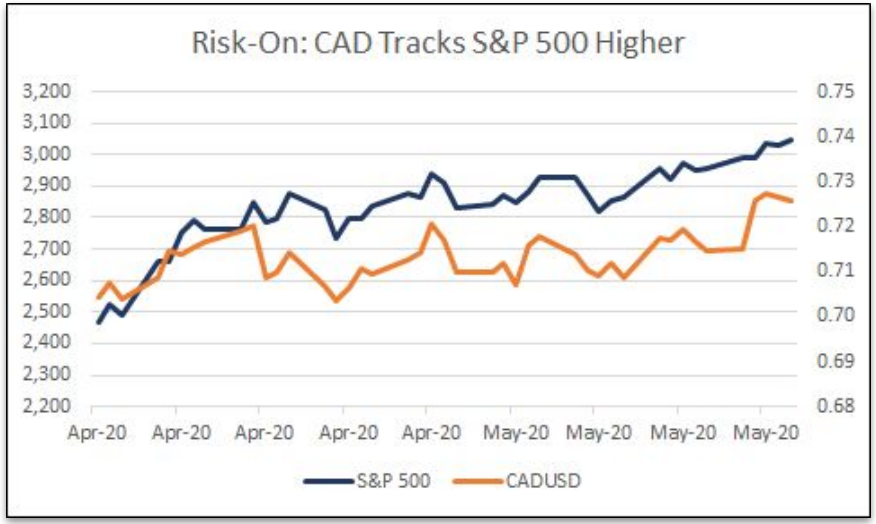
The right hand chart on the next page shows a good visual representation of that correlation: The Canadian dollar tracked equities higher all month and held true to its calling as a "high-beta" currency that correlates well with broad risk-on sentiment.

Many USD sellers have anchored their targets in the 1.40's which I'm afraid we may not see again for some time....my view is that we are highly unlikely to get back to those levels in 2020 unless of course we get a second wave of Covid-19 (or some other massively disruptive event) and the inevitable market turmoil that would go along with that. Price action in early June may well be overdone and we will likely see a pull-back which might be the last best chance for USD sellers. I see current levels as a buying opportunity for importers and those short the USD.

Canadian Dollar

Janek Guminski CFA, Sr. Director FX Sales





- USDCAD made a series of lower-highs throughout the month of May that now look rather ominous for this pair…
- On the right, you can see that the CAD tracked equities higher all month: A High-Beta Currency, indeed
- The 1.40's and beyond may be a tough slog for USDCAD now with ultra-low rates and massive QE firmly gripping the USD and dragging it lower - unless we see another bout of severe risk-aversion due to a second wave of Covid-19 outbreaks or renewed US/China tensions

USD Index & G10 FX

Chris Fricke MBA, Director FX Sales

The month of May proved to be a good month overall to be short the USD vs. almost any major currency. In fact, the only currencies you would have lost on were the Japanese Yen and the Great British Pound, and even then, your losses would have been sub 1%. The largest benefactors over the month were commodity and high-beta currencies, led by the Norwegian Krone (6%), Swedish Krone (4.4%), and Australian Dollar (3.9%), particularly as the S&P 500, and with it WTI, both rallied on optimism over deemed (net) positive developments on Covid-19, and certainly despite ongoing concerns over U.S. / China tensions.

If we look at the DXY over the course of the month it was largely range bound, until that is we managed late in the month to break through recent support levels, first near 98.85, then at 98.30.

As you would expect with the DXY being largely weighted to the EUR, this was largely as a result of EUR positive developments, in this case being late May's proposal by Germany & France for a large EC relief package primarily consisting of grants (rather than loans).

Similar themes abound for the month ahead with the following items of note:

Germany: Expected to announce further fiscal stimulus measures this week though infighting in the reigning coalition means totals are unclear

EZ: Push back from some members to agree to the German & French proposals for grants vs. loans to member nations; total figure and/or its makeup is subject to change in the days ahead

ECB: Will update economic forecasts this week, particularly following the admission that the economic contraction has been worse than originally expected. While they are not expected to move on rates, they are expected to add to their QE program called the Pandemic Emergency Purchase Programme (PEPP)

UK: 4th round of Brexit negotiations begins, along with a mid-month EU summit. We still have until the end of the year before the UK officially bows out of their current trade and customs arrangements with the EU, and expectations are growing for positive developments to emerge later in the year. Should talks collapse there will be greater expectations for further stimulus from the BofE.

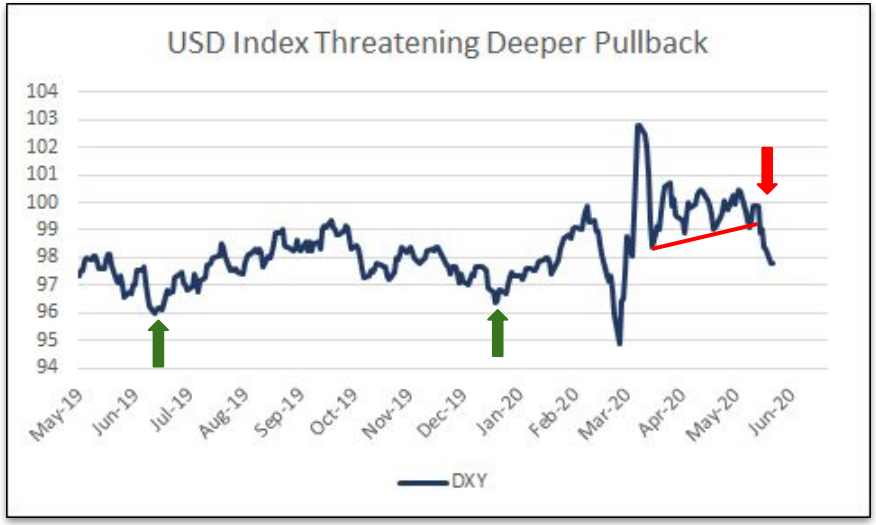
All else being equal I would expect further moderate gains for the EUR from here with resistance likely to emerge in the mid 1.12s; JPY to remain stable as gains made via a weaker USD battle losses from buoyant equity markets; GBP to struggle with any gains into the 1.25 area as Brexit uncertainties persist; and AUD to find resistance in the 0.68/0.70 zone similar to what had happened in late 2019.

USD Index & G10 FX

Chris Fricke MBA, Director FX Sales

FX Returns: Month of May Against USD	
Mexican Peso	10.83%
Norwegian Krone	5.95%
Swedish Krona	4.41%
Australian Dollar	3.88%
Brazilian Real	2.82%
New Zealand Dollar	2.34%
Canadian Dollar	2.24%
Danish Krone	1.17%
Euro	1.09%
Swiss Franc	-0.02%
Japanese Yen	-0.85%
British Pound	-1.30%

Source: Bloomberg, ATB Financial Markets



- The USD broke through key near-term support c. 98.60-98.20 recently and this has increased the risks of a deeper USD pull back settling in over the coming months
- Next major levels of support to watch for are 96.60 and then 95.60

WTI Crude Oil

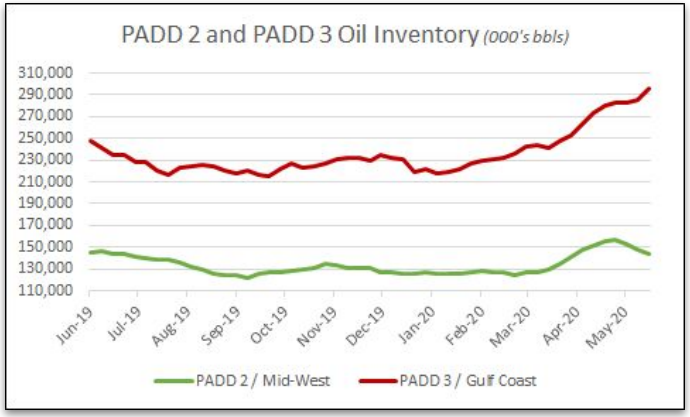
JP Dore, Markets Analyst

In last month's update we noted that the market was past the inflection point that had caused negative prices but that demand remained tepid at best and thus patience was likely needed before we got significant price appreciation...Well we may have been correct that demand was tepid as refinery utilization is still hovering in the low 70% range as we head into June, but we certainly underestimated the potential for crude prices to appreciate: WTI surged some 80% during the month of May.

So what's fuelling the resurgence and is it sustainable?

First, crude inventories in the US have moderated as supply shut-ins alleviated a 'tank-tops' scenario. However, the moderation seen across inventories was essentially the drawing of storage from the Mid-West/Padd 2 region, along with an associated increase inventories across the Gulf-Coast/Padd 3 region. Padd 3 is a refining and export hub and given that we saw neither an increase in refining activity nor an increase in exports, the trend of inland storage draws and coastal builds does not look sustainable. Another point to be aware of is that floating storage that was made profitable due to the steep contango a few months ago is now going to start being off-loaded and shipped inland - this dynamic along with surging US imports into PADD 3 have the potential to create an influx of physical supply in the coming months.

Mid-West Draws...Lead to Gulf-Coast Builds...



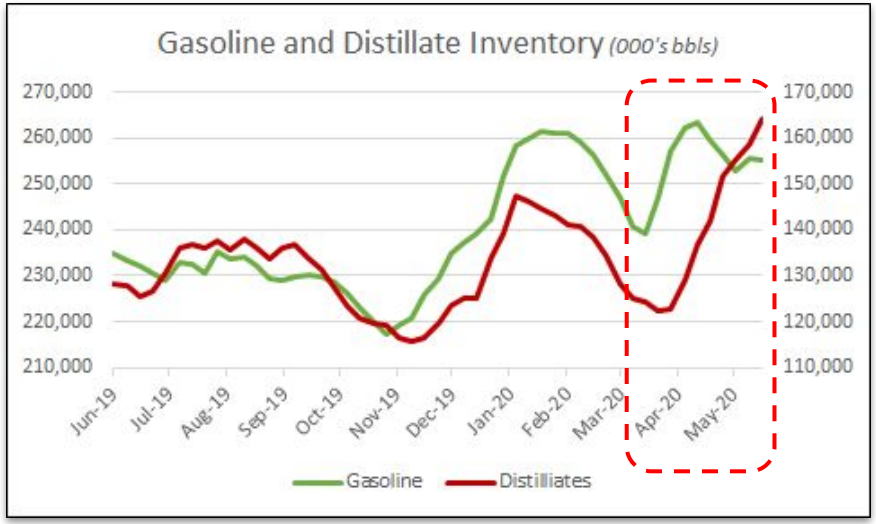
Source: Bloomberg, EIA, ATB Financial Markets

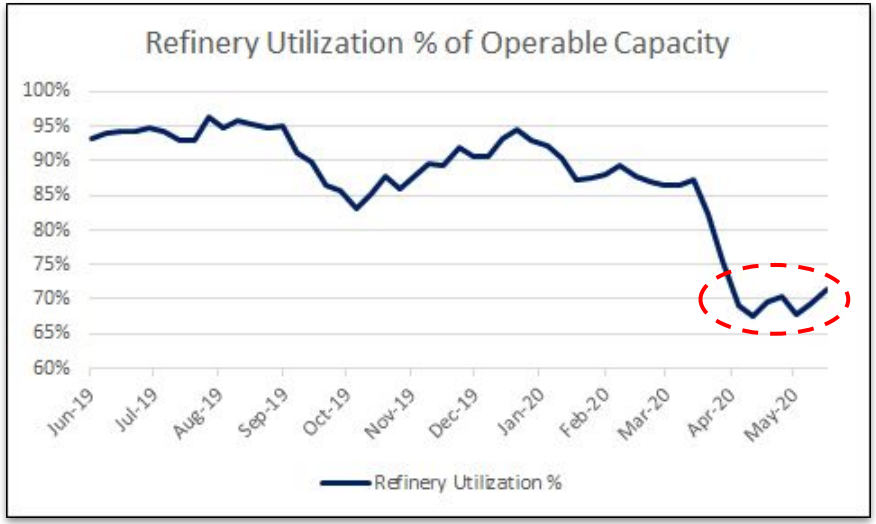
Supply shut-ins also represent a dual risk to the outlook. One the one hand, they create the conditions where the market could be short barrels should demand normalize faster than expected thus creating an inflationary environment for oil prices. While on the other hand, they represent a backlog of readily available barrels waiting to come on-line once the economics make sense. US shale has operating breakevens of approximately US$15/bbl, and most companies are profitable in the US$37-40/bbl range - which implies that we are close to the point where some of the shut-in supply is going to start coming back online.

That dynamic, coupled with still depressed refining activity and a backlog of product that needs to be churned through, could keep a lid on prices into the early summer months.

WTI Crude Oil

JP Dore, Markets Analyst





Source: Bloomberg, ATB Financial Markets

- Gasoline inventories remain elevated but have moderated (green), while Distillate inventories (red) continue to surge on reduced air travel (jet fuel) and the increase in diesel supplies as refiners make the switch in anticipation of an uptick in mobility....
- However, we are still yet to see a meaningful increase in refinery utilization highlighting that the recovery has a ways to go

Natural Gas

CJ Hilling MBA, Associate Director Commodity Sales

The bullish narrative on AECO is unchanged; gas rig activity is at an historical low of 13, supply is softening and any significant decline in the basis will spur up demand at the borders and provide support for higher fixed prices. TC Energy mainline settlement for 2021 – 2025 allows for Market Driven Services and if successful, it would lift AECO demand and support prices. Field receipts have been below 12 bcf/day since late April and expected to erode slowly throughout the summer. Producers were more than happy to lock in prices throughout the month, with prices fetching high $2's Cad/gj in the early weeks, and mids thereafter.

AECO day prices settled at $C 1.97/gj on Saturday, while July closed Friday at is $C1.93 and Winter 2020/21 at $C 2.56/gj. July AECO basis is trading at $US (0.38)/MMbtu and winter 20/21 is trading at $US (0.81)/MMbtu, a multi year low for the latter.

This week's EIA report forecasts a 112 Bcf weekly build from U.S. natural gas stocks, with a bias towards being higher given the modest weather conditions most of NA is experiencing.

As the world continues to grip with the effects of Covid-19, the commodity players try and keep their finger on the pulse of the demand side of the equation. Many industry experts feel the remaining part of 2020 will be a wildcard with respect to gas prices before 2021 provides an extremely bullish scenario for prices.

Publicly held exploration and production (E&P) companies collectively have indicated they plan to curtail more than 1.5 million b/d of oil this month. That action is set to have two "contrasting effects" on domestic supply: "As all shale wells have a material natural gas component, nearly 6 Bcf/d of natural gas production will be shut-in alongside targeted oil volumes," said analysts.

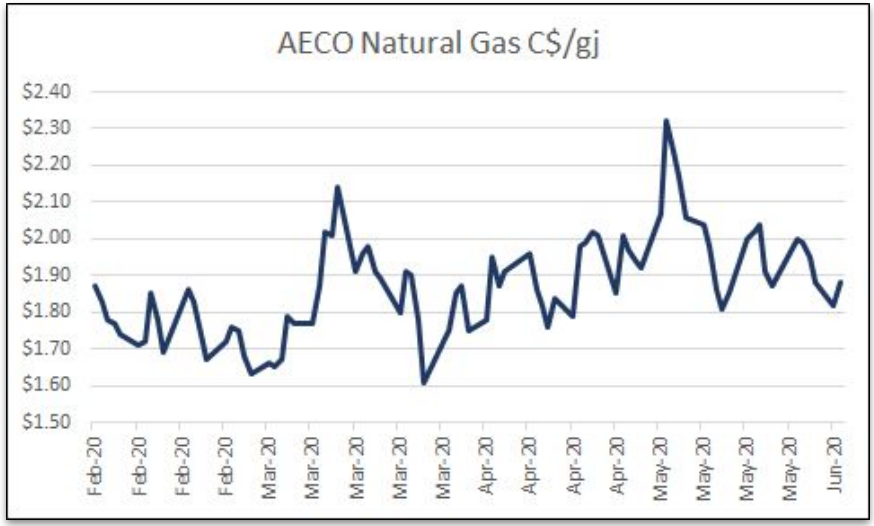
In addition, the improving gas strip and fewer takeaway constraints should cause a 0.5 Bcf/d reduction in flaring, mostly from the Permian Basin and Bakken Shale.

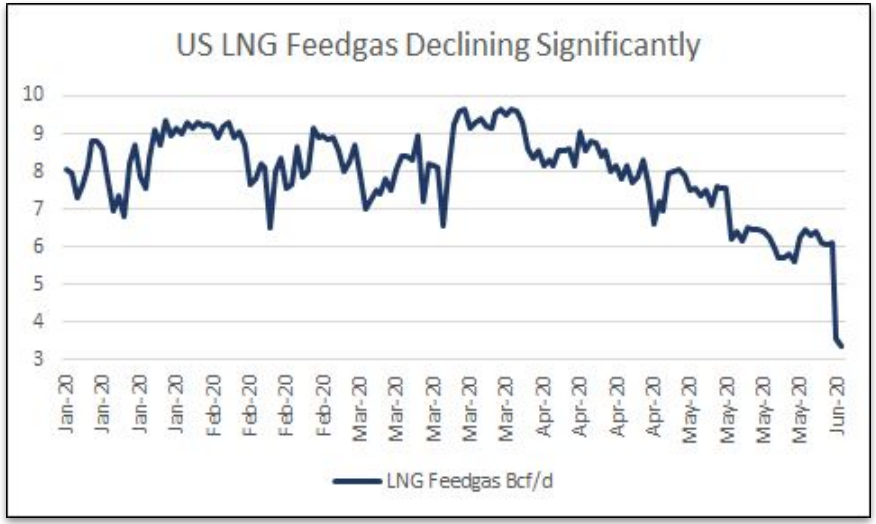
According to Raymond James, the shut-in gas figure is based on 3 Bcf/d gross, using an assumption of a 66% oil and 33% gas mix by public E&P-disclosed oil curtailments, forecast at 1.4 million b/d, plus an additional 0.6 Bcf/d of estimated curtailments by the private E&Ps.

Furthermore, US LNG markets seem to be experiencing some cracks in the hull. The bearish outlook for the summer is unchanged driven by the loss of LNG export demand in Europe: Up to 45 US loadings representing 5bcf/d of NG feedstock are to be cancelled. This is helping U.S. NG storage to fill at a faster rate despite the decline in U.S. production. LNG exports remain significantly out of the money until the Winter; NYMEX July contract settled at $US 1.85 on Friday, down 0.03/MMbtu on the week and Europe TTF for July closed at $US 1.43, 0.42/MMbtu below July NYMEX.

Natural Gas

CJ Hilling MBA, Associate Director Commodity Sales





Source: Bloomberg, ATB Financial Markets

- AECO prices have performed well since the onset of Covid as declining supply and rig activity has lead to tightening basis and strong fixed prices
- Meanwhile, US LNG exports have fallen on hard times with cancelled cargoes as industrial demand from Asia and Europe dries up
- The impact can be seen on declining Feedgas, which just recently dropped below 4 Bcf/d - this should result in US Natural Gas inventories rising faster than they otherwise would and could keep Nymex prices capped for the Summer

CHARTPACK

ATB listens

Monthly and YTD Returns

Cross Asset			
Crude	**Last**	**1MΔ**	**YTDΔ**
WTI	$35.45	79.22%	-41.94%
Brent	$38.32	44.93%	-41.94%
WCS Differential	-$6.50	-14.04%	71.11%
MSW Diff	-$2.25	2.17%	64.00%
Syncrude Diff	-$1.25	-1150.00%	0.00%
Edmonton C5 Dif	-$2.75	-3.77%	-237.50%
LLS Diff	$1.60	-73.33%	-57.33%
Midland Diff	$0.55	-81.67%	-21.43%
Gas	**Last**	**1MΔ**	**YTDΔ**
Henry Hub	1.779	-5.87%	-18.73%
AECO C$	1.646	17.57%	-4.80%
AECO Basis	-0.373	7.44%	14.25%
AECO Cal20	2.041	-11.18%	14.28%
Sumas Basis	-0.265	45.70%	11.07%
Dawn Basis	-0.145	-22.88%	-98.63%
Chi. Basis	-0.173	-15.33%	-57.27%
Waha Basis	-1.298	32.99%	27.57%
NGL's	**Last**	**1MΔ**	**YTDΔ**
GC Jet Fuel	$ 85.15	66.60%	-55.94%
GC Diesel	$ 94.53	36.29%	-51.28%
NY RBOB	$ 101.54	44.27%	-40.37%
Conway Propan	$ 0.46	29.27%	1.66%
Mt. Bel Propane	$ 48.13	47.51%	16.67%
Equity	**Last**	**1MΔ**	**YTDΔ**
Dow	25475.02	7.38%	-10.73%
SPX	3055.73	7.95%	-5.42%
NDX	9598.888	10.10%	9.91%
TSX	15236.21	4.21%	-10.71%
TSX Energy	79.57	7.73%	-45.48%
S&P500 Energy	563.96	10.13%	-33.38%
SHCOMP	2915.431	1.94%	-4.42%
DAX	11586.85	6.68%	-12.55%

G10 FX			
FX	**Last**	**1MΔ**	**YTDΔ**
AUD	0.6800	5.79%	-3.15%
NZD	0.6268	3.64%	-7.00%
SEK	9.3826	5.01%	-0.19%
NOK	9.5909	7.67%	-8.40%
GBP	1.2510	0.54%	-5.63%
CAD	1.3544	4.01%	-4.09%
CHF	0.9609	0.43%	0.59%
JPY	107.78	-0.96%	0.77%
DKK	6.6991	2.08%	-0.54%
EUR	1.1127	2.02%	-0.77%

- Crude benchmarks rallied in May with physical differentials remaining strong as well, notably WCS and MSW on increased pipe capacity due to Canadian shut-ins
- Energy equities saw more moderate returns inline with the broader market with the TSX Energy Index up 7%
- In FX the USD lost ground - could this be a new trend?

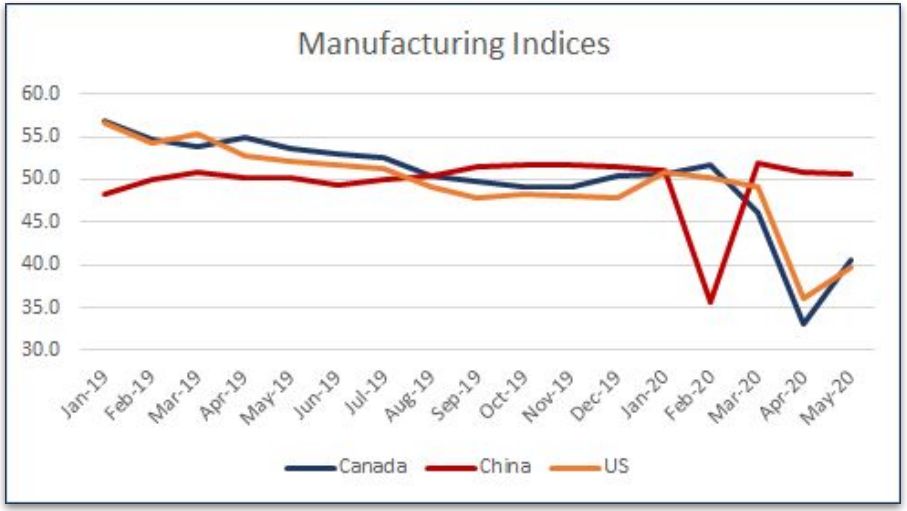
Source: Bloomberg, ATB Financial Markets

Global PMI Data

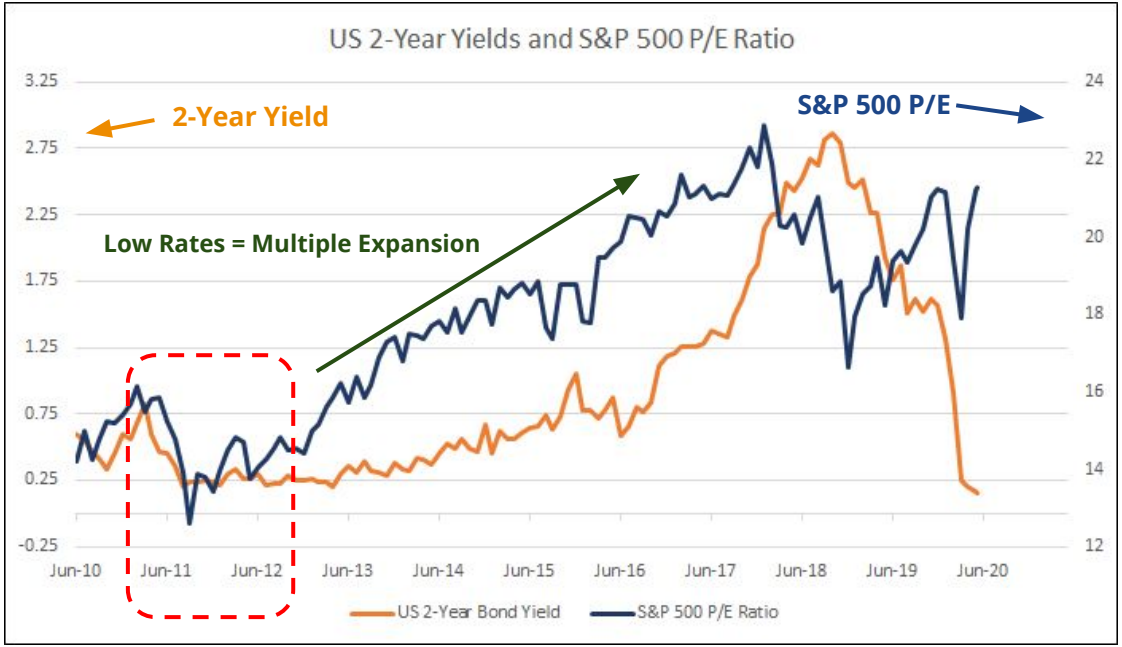
PMI Heat Map	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20
Canada	54.6	55.0	54.3	54.4	54.7	55.9	55.6	55.7	55.5	56.2	57.1	56.9	56.8	54.8	53.9	54.9	53.6	53.0	52.6	50.5	49.7	49.1	49.2	50.4	50.6	51.8	46.1	33.0	***40.6***
China	51.5	51.6	51.0	51.1	51.1	51.0	50.8	50.6	50.0	50.1	50.2	49.7	48.3	49.9	50.8	50.2	50.2	49.4	49.9	50.4	51.4	51.7	51.8	51.5	51.1	35.7	52.0	50.8	***50.6***
US	59.1	60.7	59.3	57.9	58.7	60.0	58.4	60.8	59.5	57.5	58.8	54.3	56.6	54.2	55.3	52.8	52.1	51.7	51.2	49.1	47.8	48.3	48.1	47.8	50.9	50.1	49.1	36.1	***39.8***

Source: Bloomberg, ATB Financial Markets

- Readings of global economic activity are represented here by Purchasing Managers Indices (PMI) from Canada, China, and the US
- Readings above 50 indicate an overall expansion of activity, below 50 would indicate an outright contraction
- China reported a massive drop in activity for February, an impressive rebound in March, and then stagnation during April and May
- May data for the US and Canada improved - how quickly will activity resume throughout the summer?



The Price of Money and P/E Ratios…

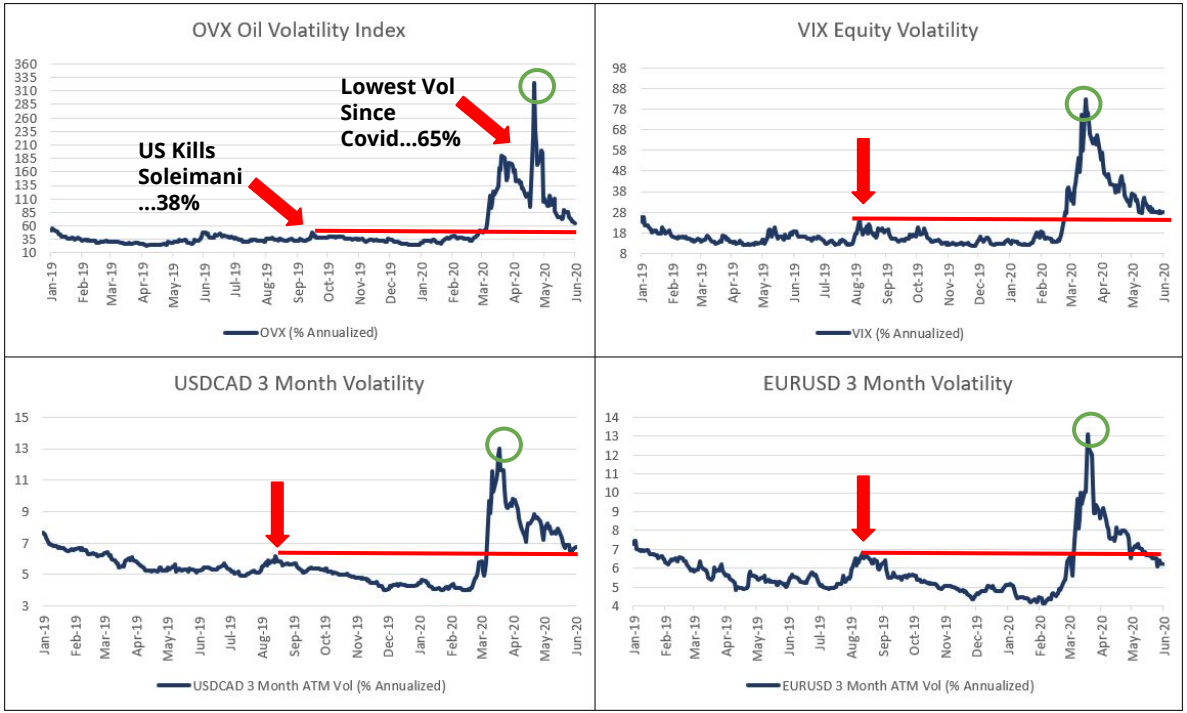


Source: Bloomberg, ATB Financial Markets

- In April's update we mused about Price-to-Earnings multiples for equities: They seemed attractive…(**Here** p. 19)
- Now, with borrowing rates at historic lows (orange), earnings multiples (blue) are starting to look a little pricey
- Indeed at ~21X earnings the S&P 500 looks a little dear compared to the past 2 years
- However, if we look at what happened when rates were this low back in 2011 we can see that P/E multiples expanded steadily for almost 6 years: Free money forces investors to chase yield in riskier assets like equities
- Will we see a similar trend this time around? Or has the market gotten ahead of itself?

Volatility "Normalizes"...Somewhat

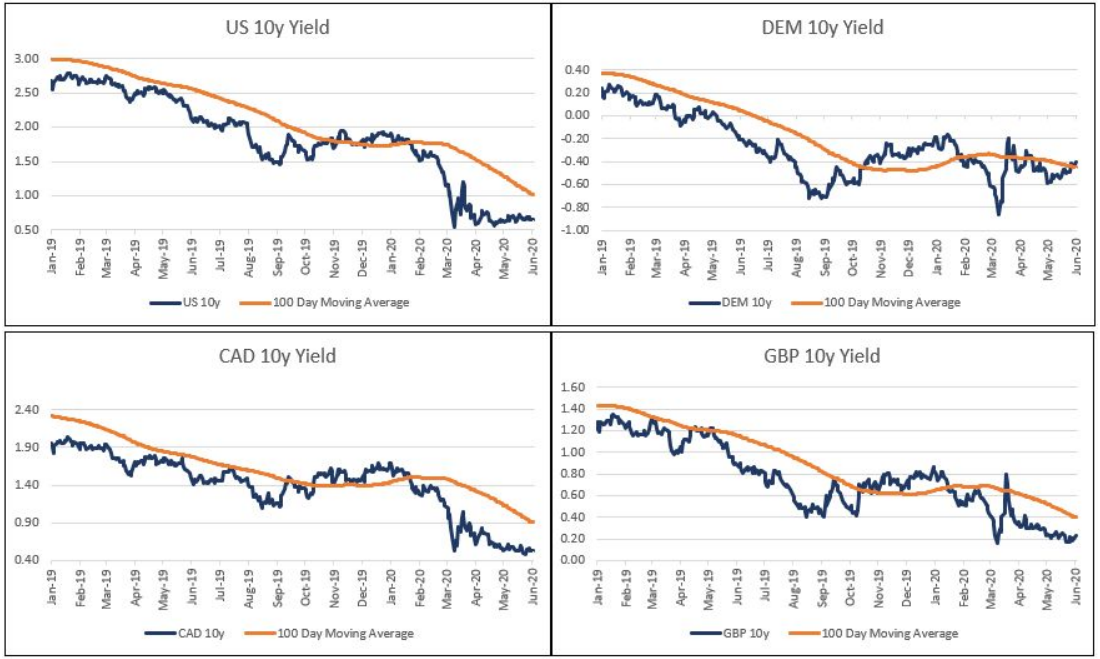
- Volatility readings have "normalized" for the most part across assets...
- But, despite the significant decline in volatility, you can see that markets are still at levels that previously would have been considered ***extreme*** for Oil, VIX, USDCAD, and EUR...
- Take oil for example: The current 64% annualized volatility level in oil markets is the lowest since the crisis started - but that is still nearly ***double*** the levels experienced during 2019's US assassination of Iranian General Soleimani: These are unprecedented times by any measure and wild swings in price are still to be expected,,,



Source: Bloomberg, ATB Financial Markets

Developed Market 10 Year Yields

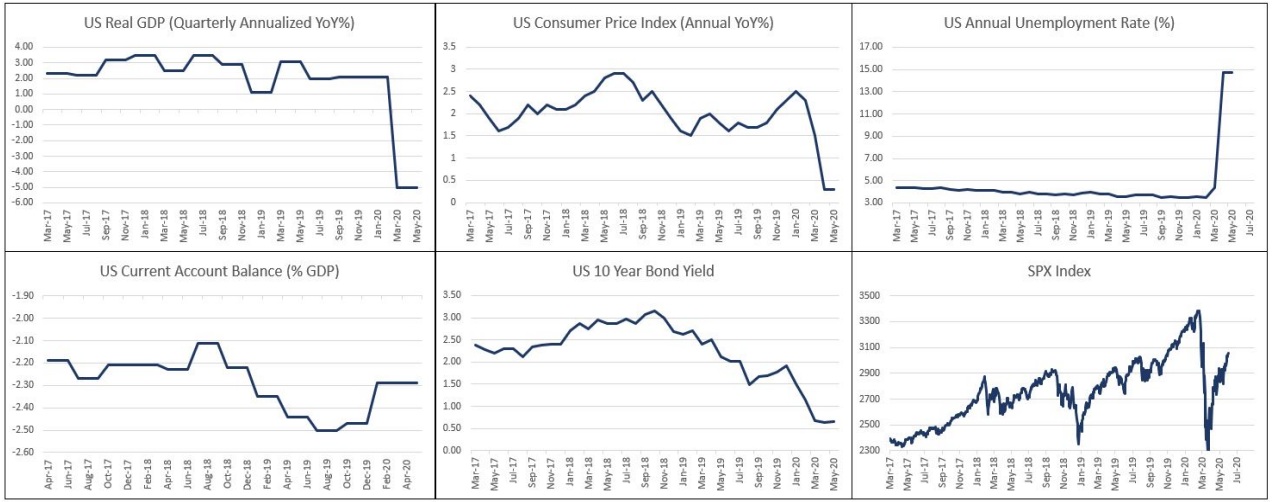
- Developed market 10 year bond yields are now all effectively at the zero-lower-bound
- Central Banks, most notably the Fed, have already committed to keeping rates lower for longer - this type of forward guidance was key to the Fed's role in helping the economy recover from the Global Financial Crisis (GFC)
- Asset purchases were the other main driver of monetary policy during the GFC
- Most of the asset purchases to date during the Covid-crisis were to ensure proper market function in the face of liquidity risks: risks were so high that investors wanted cash above all else, which pushed yields higher…if we see this again on a spike in infection rates expect the Fed to start increasing their monthly purchases from their current c. US$10B daily level…



Source: Bloomberg, ATB Financial Markets

US Country Snapshot

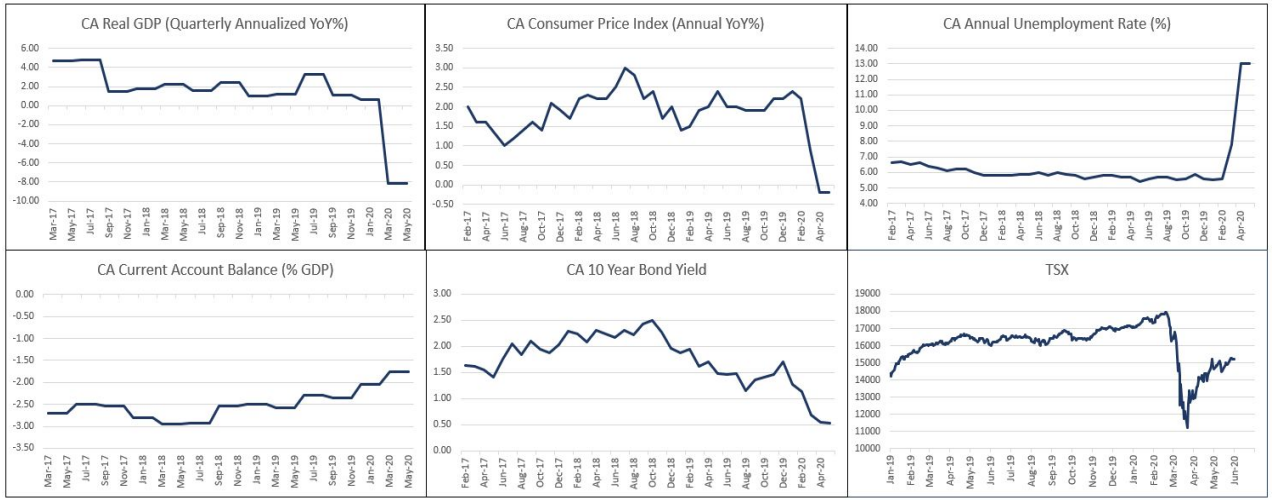
Indicator	Last
Real GDP (Annual YoY%)	-5.00
Consumer Price Index (Annual YoY%)	0.30
Annual Unemployment Rate (%)	14.70
Current Account Balance (% GDP)	-2.29
10 Year Bond Yield %	0.66



Source: Bloomberg, ATB Financial Markets

Canada Country Snapshot

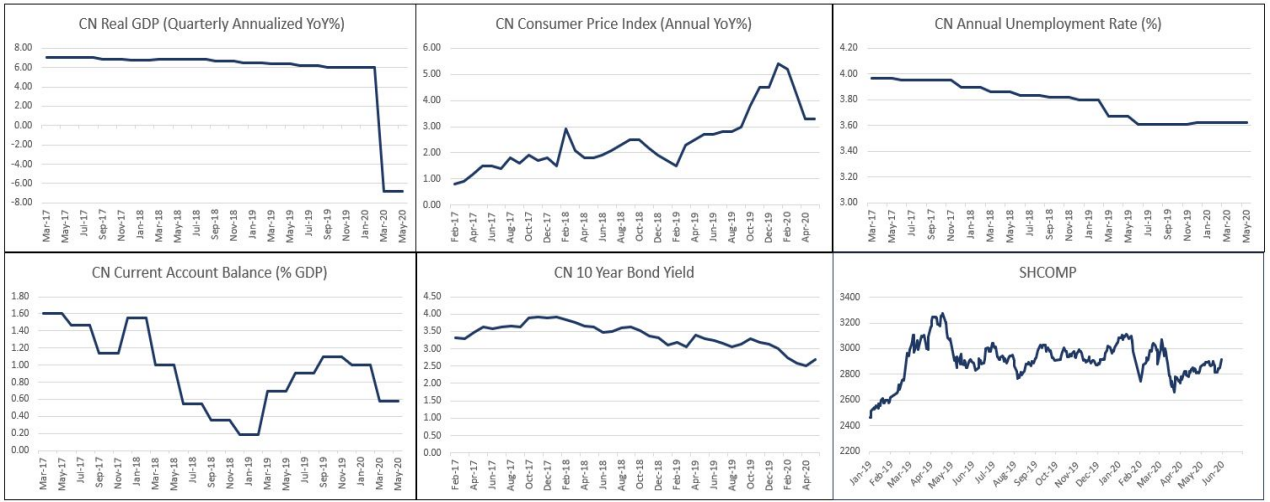
Indicator	Last
Real GDP (Annual YoY%)	-8.18
Consumer Price Index (Annual YoY%)	-0.20
Annual Unemployment Rate (%)	13.00
Current Account Balance (% GDP)	-1.76
10 Year Bond Yield %	0.54



Source: Bloomberg, ATB Financial Markets

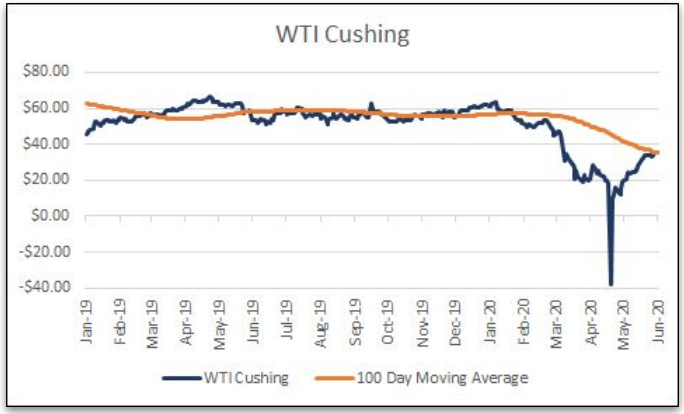
China Country Snapshot

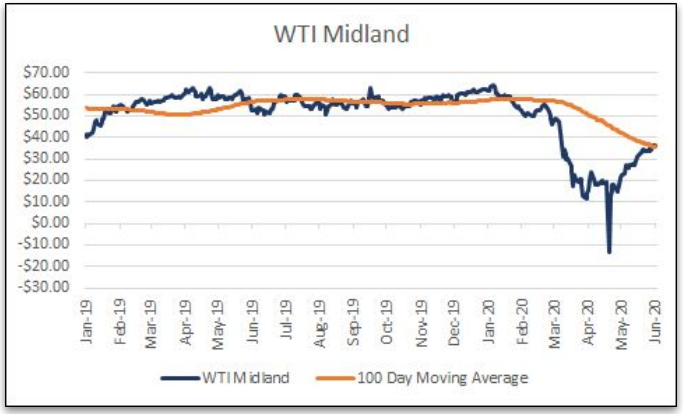
Indicator	Last
Real GDP (Annual YoY%)	-6.80
Consumer Price Index (Annual YoY%)	3.30
Annual Unemployment Rate (%)	3.62
Current Account Balance (% GDP)	0.58
10 Year Bond Yield %	2.77

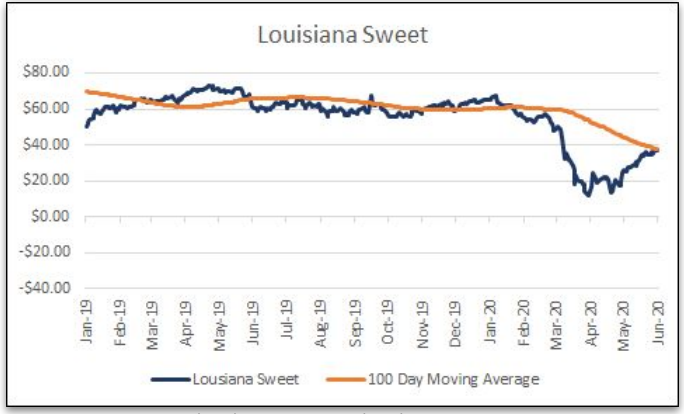


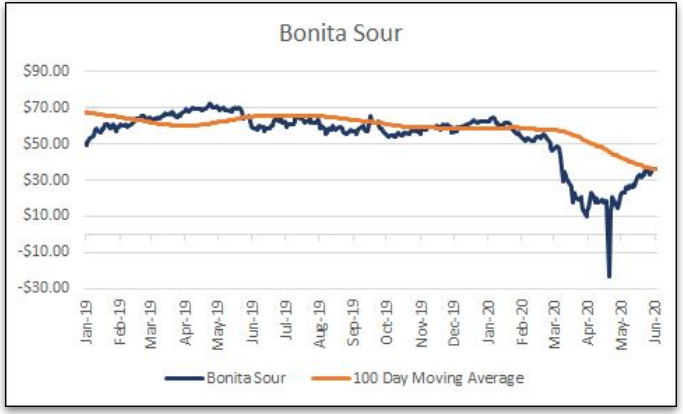
Source: Bloomberg, ATB Financial Markets

US Crude Prices ($/bbl)



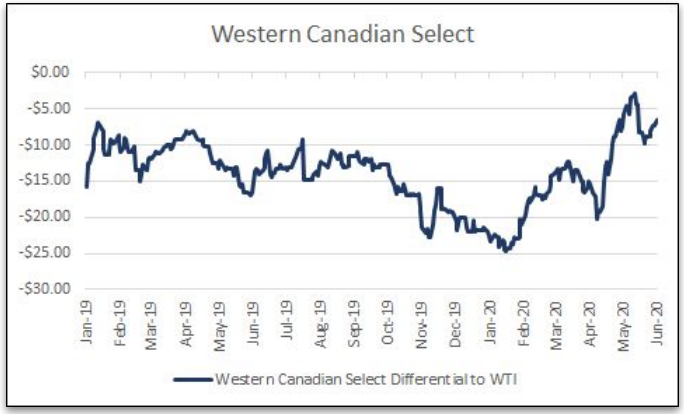


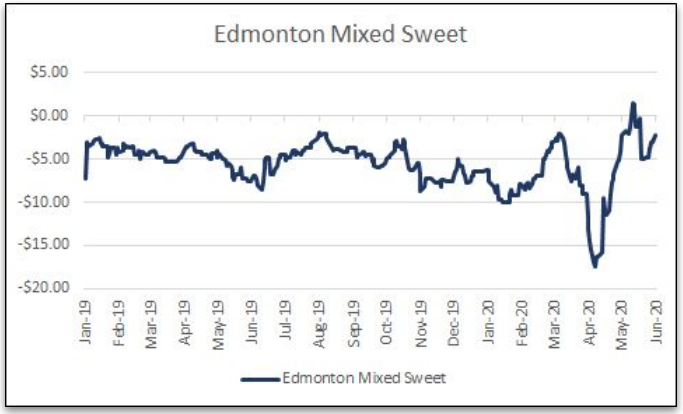


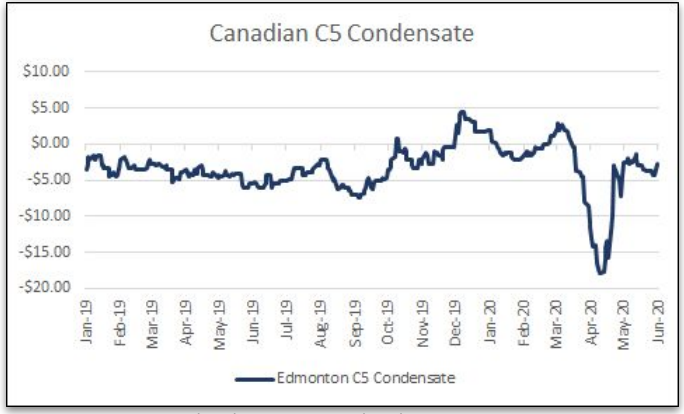


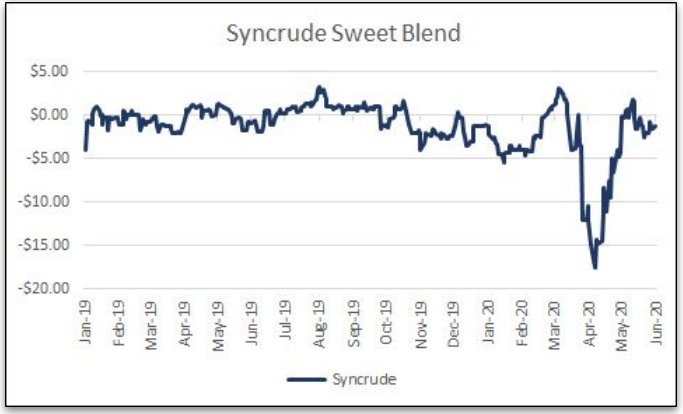
Source: Bloomberg, ATB Financial Markets

Canadian Crude Differentials ($/bbl)



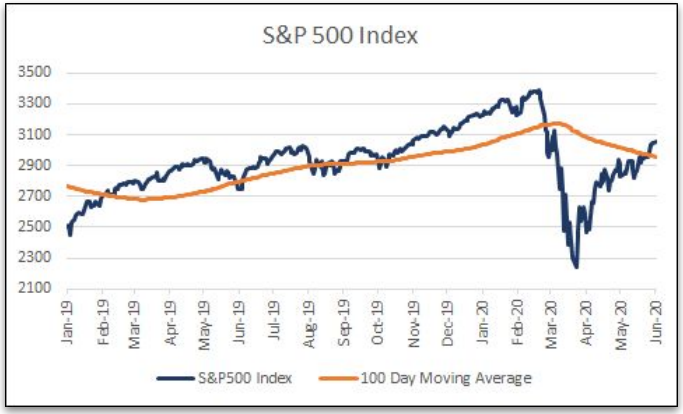


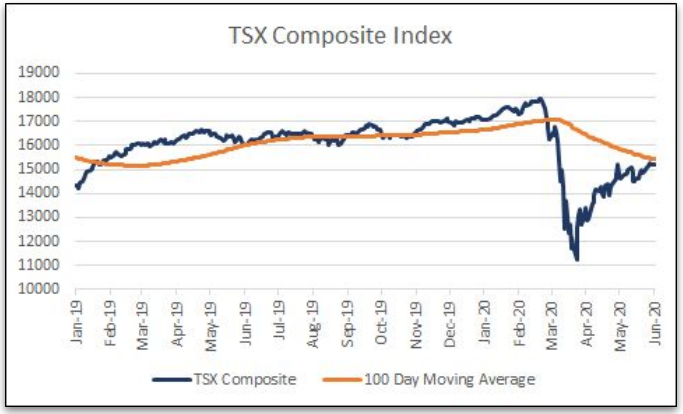


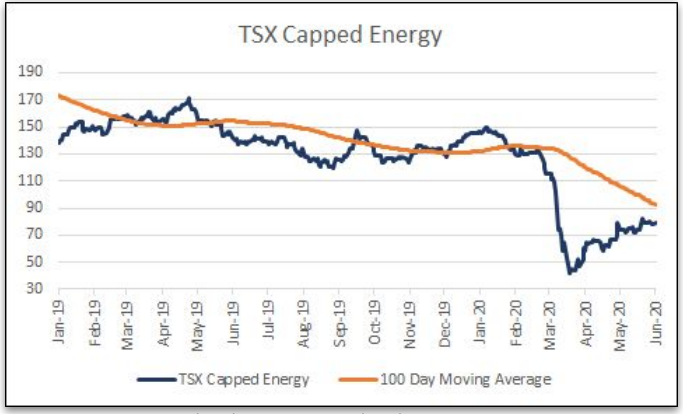


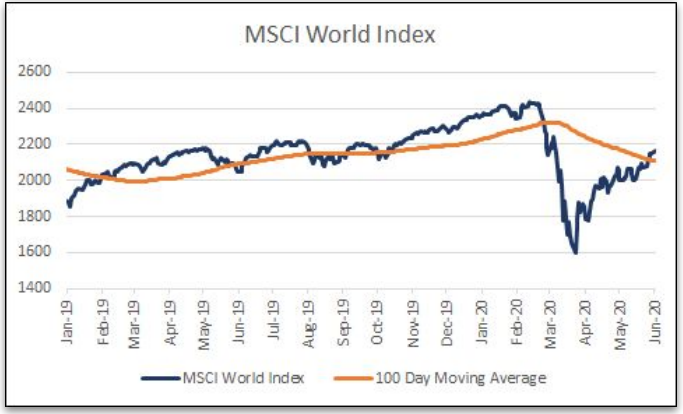
Source: Bloomberg, ATB Financial Markets

Equity: S&P 500, TSX, MSCI



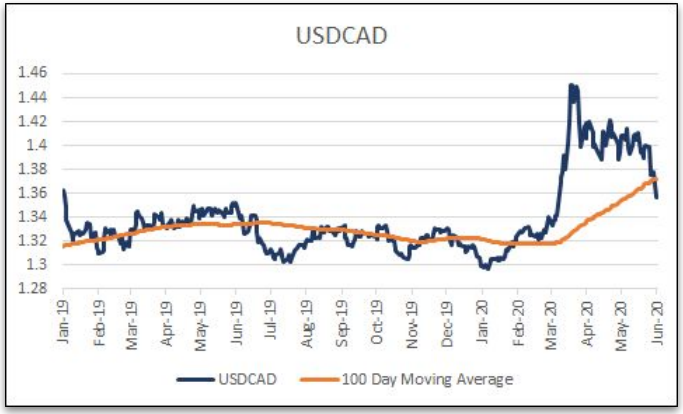


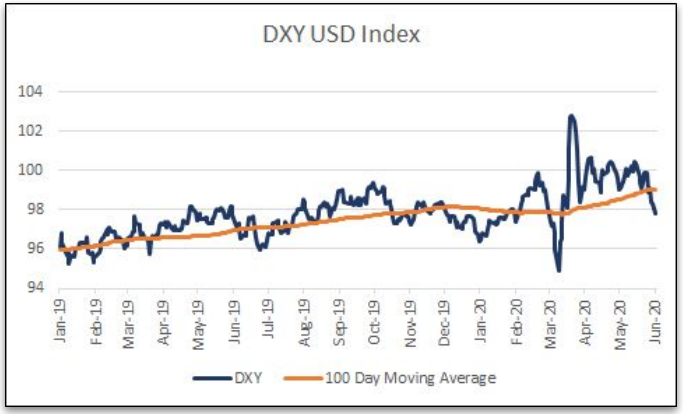


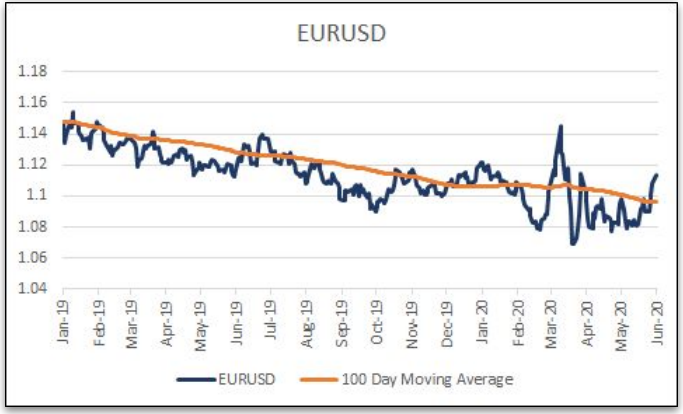


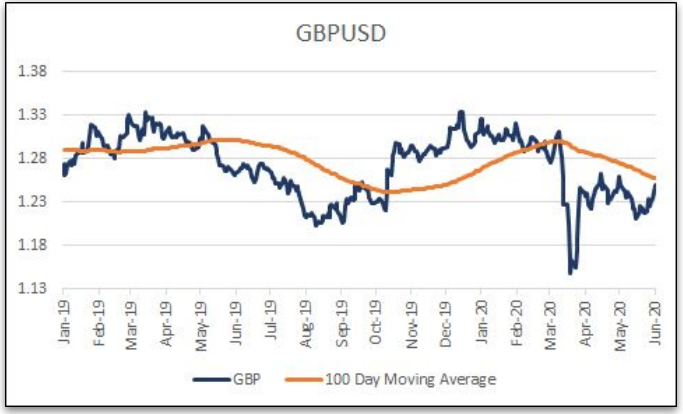
Source: Bloomberg, ATB Financial Markets

Global FX - CAD, DXY, EUR, GBP





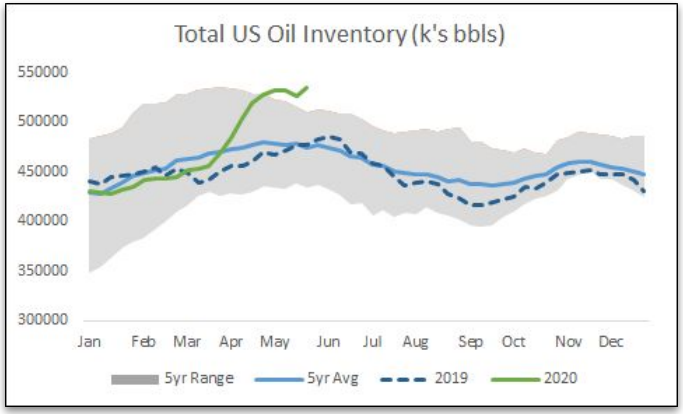




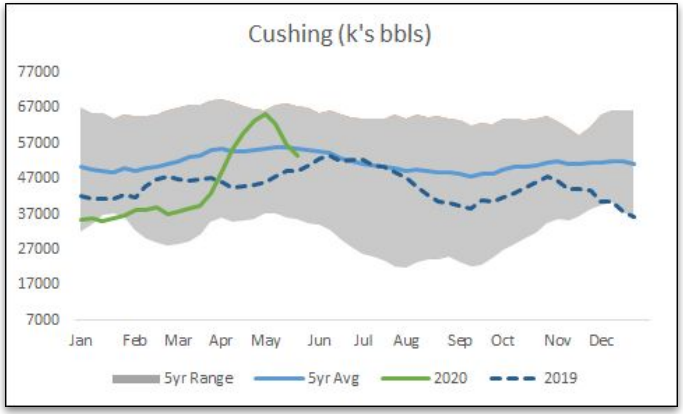
Source: Bloomberg, ATB Financial Markets

Oil Storage and Production Charts

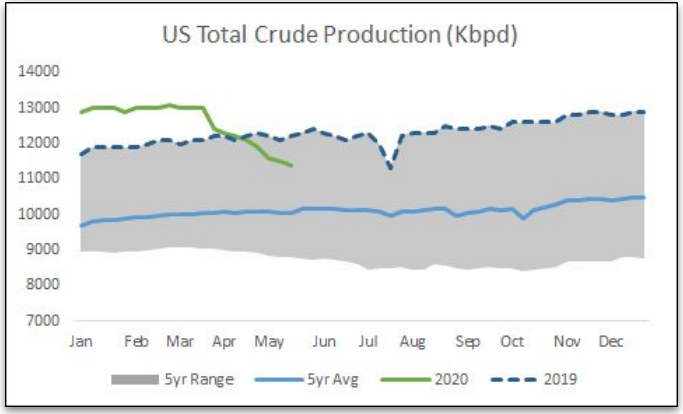
Total US inventories edged higher late May…

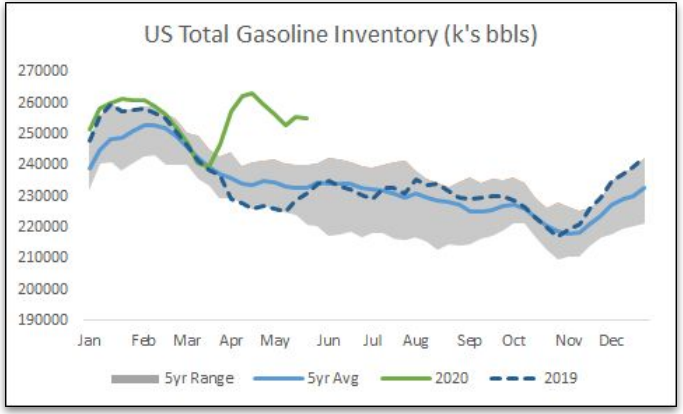


Cushing stocks have draw - but we have seen large builds downstream at Gulf Coast PADD 3



Production has fallen to help re-balance the physical market…

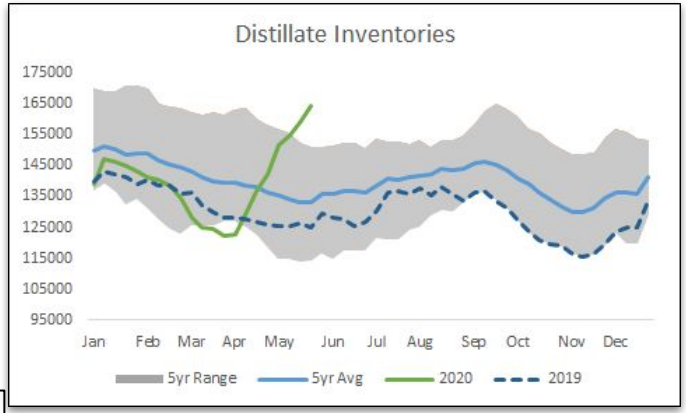


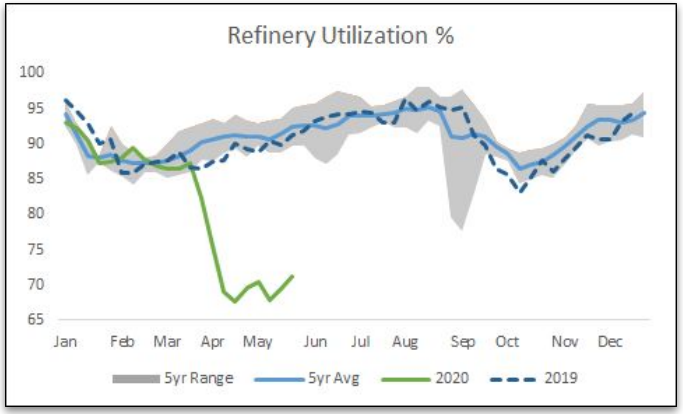


Source: DOE, ATB Financial Markets

US Oil Exports, Imports, Refining

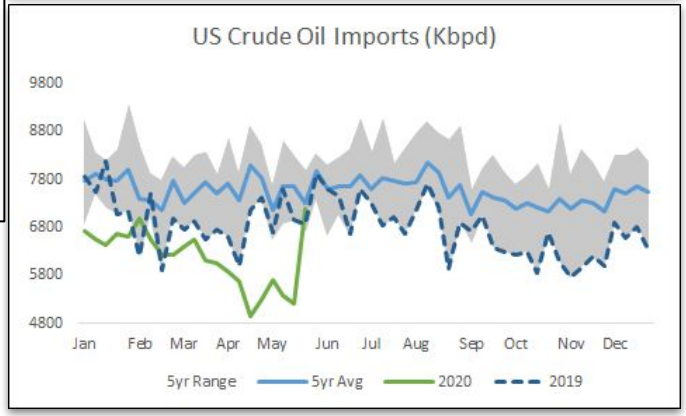
Distillate inventories continue to surge on reduced air travel

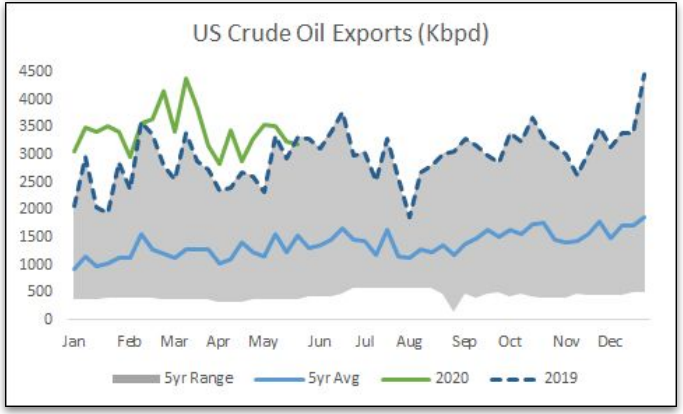




Still Looking for a return of refinery demand…

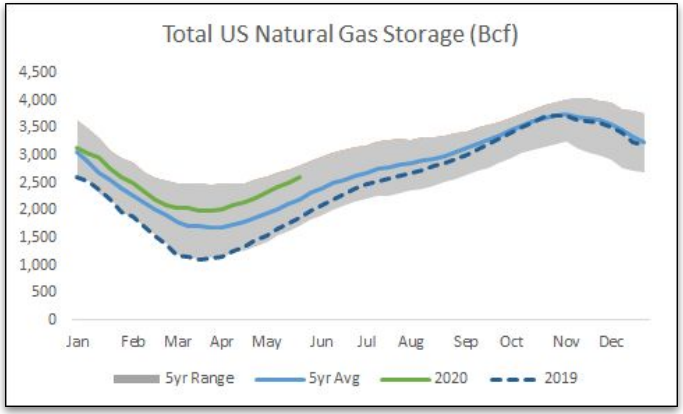
US Imports surged this month led by Saudi, while Imports from Canada Declined

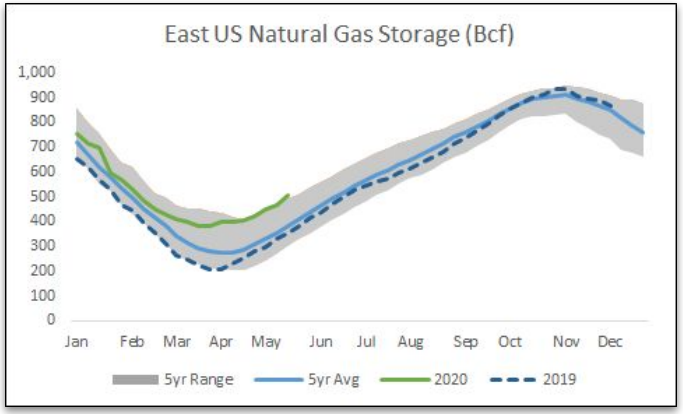


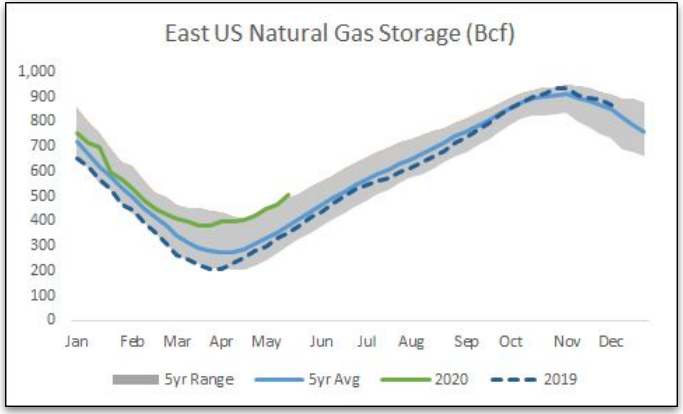


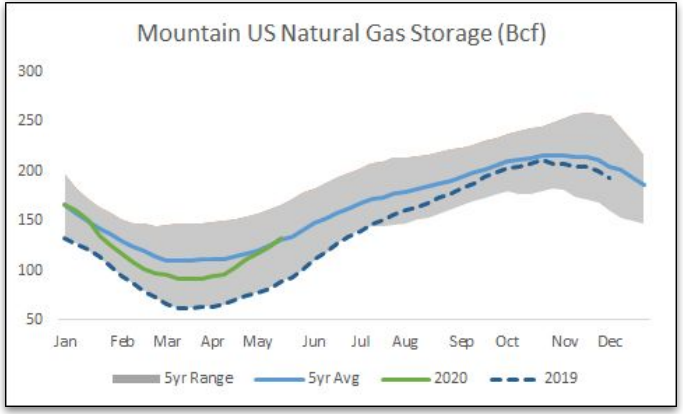
Source: DOE, ATB Financial Markets

Natural Gas Storage Charts



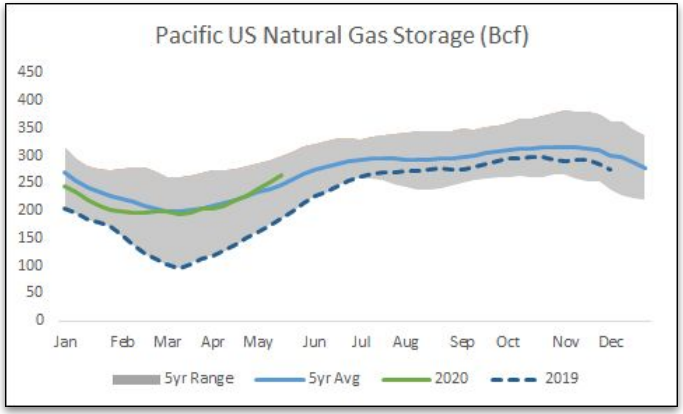


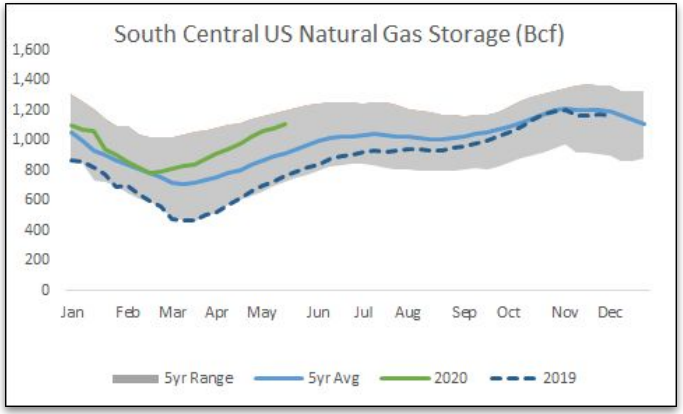


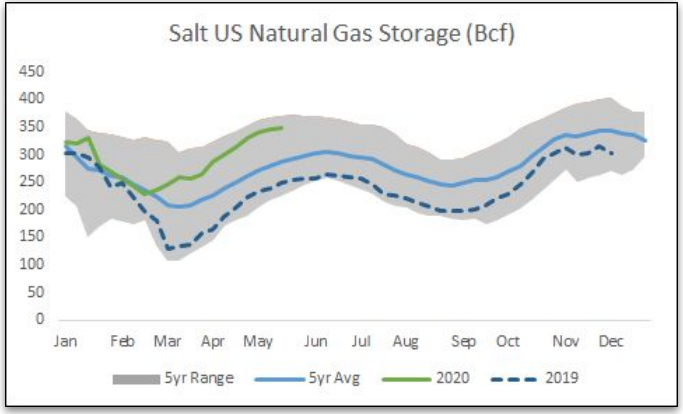


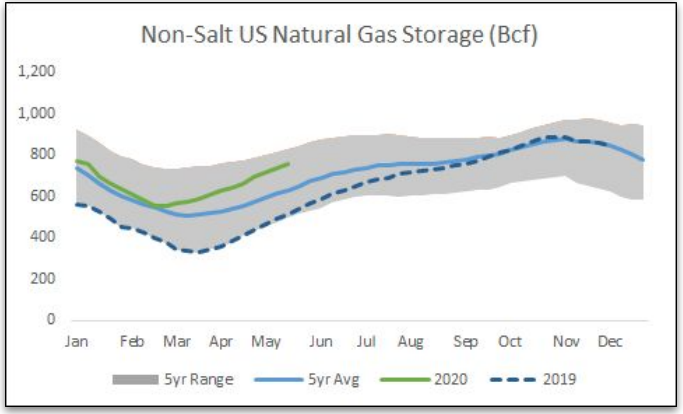
Source: DOE, ATB Financial Markets

Natural Gas Storage Charts









Source: DOE, ATB Financial Markets

Looking to hedge your risk?

Talk to us…we're here to listen.

Financial Markets Contacts

Rob Laird
Managing Director
(403) 974-3582
rlaird@atb.com

CALGARY
Suite 600, 585 – 8th Avenue SW
Calgary, Alberta, T2P 1G1

Janek Guminski, CFA
Sr. Director, FX
(403) 974-3580
jguminski@atb.com

Chris Fricke, MBA
Director, FX
(403) 974-3580
cfricke@atb.com

Cynthia Chan
Associate Director, FX
(780) 392-7070
cchan@atb.com

Shane Hawryluk
Global Head, Commodities
(403) 974-3582
shawryluk@atb.com

CJ HIlling, MBA
Associate Director, FX & Commodities
(403) 974-3582
chilling@atb.com

JP Dore
Analyst, Financial Markets Group
(403) 974-3582
jdore@atb.com

Mark Johnson, MBA
Director, Interest Rates
(403) 974-3582
mjohnson@atb.com

Mike Gee, MBA
Associate Director, ATB FX
(403) 974-3580
mgee2@atb.com

Mark Engelking, CFA
Director, FX Trading
(403) 974-3583
mengelking@atb.com

Bennet Cheung, CFA
Director, FX Trading
(403) 974-3583
bcheung@atb.com

ATB listens

We can *transform banking*
Reimagine it MAKE BANKING
WORK FOR PEOPLE
Because we carry the *outrageous*
belief that banking can change
PEOPLE'S LIVES FOR THE BETTER
Make their time richer
their aspirations closer
THEIR HAPPINESS DEEPER
HOW WILL WE DO THIS? By doing things other banks wouldn't do
By being ever loyal *relentlessly*
to our customers *inventive*
and steadfastly genuine in our pursuit
of Albertans' greater good
BY USING BANKING TO CREATE HAPPINESS
WHY HAPPINESS?
Because good things happen when happiness becomes your purpose
that's why ATB
will always
BE MORE
than a bank