May 2020 Financial Markets Update

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

ATB listens

Table of Contents

Highlights

- *Mark Johnson reviews credit dynamics as we enter a nascent recovery*
- *Chris Fricke and Mark Engelking take us through the FX markets amid heightened volatility*
- *JP Dore asks whether we have seen the last of negative oil prices?*
- *In the chart pack we review Global PMI's, TSA Travel Data, as well as Volatility, Equities, Rates, and Oil Storage*

Central Bank Overview

Mark Johnson, Director Interest Rate Sales

April 2020 has been a month of transition. At the start of the month we were just beginning to see the green shoots of market normalization and some de-stressing in the financial system. As we close it out, a sort of "new and functional normal" is upon us and the green shoots that we are seeing are for the end of the shutdown. When we look back, March will be the month where both the problem and the solutions revealed themselves and (hopefully) May will be the month when life went back to how it used to be (in some form.) April will be the pathway from one to the other.

So, what has the journey along that pathway looked like? Perhaps the Monthly Summary is the perfect platform for a big picture look at what we have seen in the interest rate market over these extraordinary last 6-8 weeks. At least, I hope it is the perfect platform - because I am gonna do it regardless.

So what on earth happened in interest rate markets and why?

Well, clearly, when such a black swan event as the shutting of all non-essential businesses and the effective isolation of 95% of the population happens, there will be reactions in money markets, and they will be both unprecedented in nature and large in magnitude. But, despite the breadth and depth of the impact in the various rates markets, all the developments can be drilled down to one underlying basic concept: Credit.

With cash flows from business operations drying up for an indefinite period of time, the solvency and creditworthiness of individuals, businesses and even whole industries and sectors of the economy must be questioned. What should the price of money be in such a situation and how readily available is it and to whom?

First of all, some props to the business community. If ATB clients are anything to go by (and the officially reported figures by the Bank of Canada suggest that -unsurprisingly- they are), then we have some very smart C-Suiters out there. Businesses drew down on every and all available facilities that they had in place with their financial institution. There was liquidity to be had - and they grabbed it. Smart play.

So what did they do with it? Well, clearly for some it was needed almost immediately against all manner of payables. But for many it represented liquidity - a pool of working capital that could be used as the shutdown evolved and matured. So, they drew it down and they parked it. In as short and as liquid part of the yield curve as they could. It was mainly left on deposit overnight, and some was put to work to earn more interest for a week or so. But that's it - nothing fancy. The BoC changed its target for "settlement balances in the system" (how much is sitting with them on deposit as a whole) from zero to $200 billion daily.

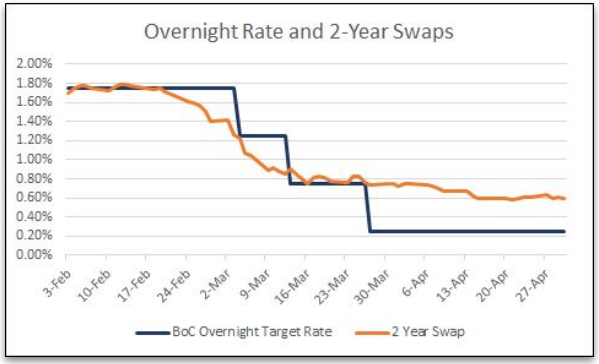
Central Bank Overview

Mark Johnson, Director Interest Rate Sales

From the banking industry's perspective there is an issue created by this. You see, financial institutions work with the interaction of "uses and sources" of funds. The term and the cost of the funds available to the FI, versus the term and the returns of the funds extended to clients. Clients still want term funds whenever possible. Guaranteed cash flow over a longer period is always a good thing. But at the start of the crisis, the money on hand at the lending FIs was not guaranteed to them for longer than a few days. Regardless of actual regulations that limits the extent that one can extend short term liabilities for long term assets at an FI, as the mismatch in term increases between those two sides of the balance sheet (borrowing increasingly short and lending long), then the cost of that extension must increase. Credit must get more expensive and push up the cost of money. Short term cash flow is liquidity. Long term needs are funding.

There is a difference between the two - and the cost of the difference can vary. In times of stress we see dislocation. And dislocation generally increases cost. All of this was happening against the backdrop of official rates (the target overnight rate set by the Bank of Canada) falling. That rate started March at 1.75%, but started April at a mere 0.25% - as there were cuts of 50bps on the 3rd, 13th and 27th of March. Look at the chart below:

CDOR Hasn't Declined With The Overnight Rate



Source: Bloomberg, ATB Financial Markets

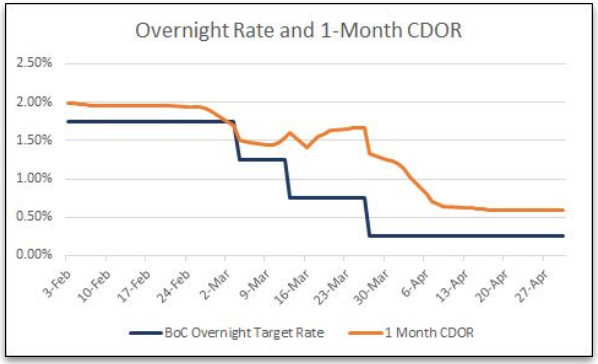
It shows a 2 year Interest Rate Swap yield compared to that target rate of the BoC. You can see that - as the economy was slowing naturally through February, the 2 year swap fell below the overnight rate. The market smelled a rate cut coming in 2020. As the possible impact of COVID-19 on the global and Canadian economy filtered into the market consciousness, those rates fell in conjunction with the target rate. But then, as we entered the latter part of March, something happened. We realised the enormity of the measures needed to flatten the curve. The shutdown- and what that would do to cash flows and solvency. The final cut to the overnight rate did not get passed on in the swap market (here I show a relatively short term swap - 2 years - the phenomena was even greater and started earlier in the 5 years and beyond.). Those rates did not fall further. Why? Credit concerns.

Central Bank Overview

Mark Johnson, Director Interest Rate Sales

I used a swap rate and not a bond rate to highlight the issue because, as most of you know, a swap rate for a term like 2 years is made up of lots of projected shorter term rates within that period. The rate you see in the chart was projecting the combined yield created by 24 individual one month rate settings - CDOR or BAs. And what were they doing? What was the cost of borrowing for one month through all of this? See below:

Overnight Rate and 1 Month CDOR



Source: Bloomberg, ATB Financial Markets

Hardly a surprise - knowing what you now know - right? Up until March the relationship between the overnight target rate and one month CDOR was relatively normal (CDOR about 20 bps higher). But then, as the target rate started to fall, the CDOR rate struggled to keep up. By the time we got to mid March - and the panic on solvency and cash flows on Main Street was at its peak - CDOR was actually going higher. Why? Lack of that available funding and concerns on credit.

In fact, as you can see, further cuts by the Bank of Canada on the 13th and 23rd did very little to lower CDOR. It was something else that they announced that got to the heart of the problem and did that. On March 17th, the BoC announced a new Open Market Operation, or OMO (a fancy name for all facilities and actions that they put in place to smooth the functioning of the financial markets in times of stress.) !

The Bankers Acceptance Purchase Program (BAPF.) In short, the BoC made cash available at auction, every Monday, to FIs that wanted to sell them the BAs that they had on their books. This would give the FIs cash flow for one to three months. Funding!!

The first of the auctions was fully subscribed -highlighting the extent of the issue- but gradually the take up has slowed as the need for such cash has diminished. Look at that chart again. The BoC announced the BAPF on March 17th. The first auction was on the 23rd. The money flowed into bank accounts on the 25th. Within 72 hours, CDOR started falling - and it did not stop until it had halved.

The target rate that the BoC sets is meant as an anchor for the curve. It is largely symbolic. If it does anything, it is really only to encourage desired activity. Lower it, and you encourage lending, borrowing and spending over saving.

Central Bank Overview

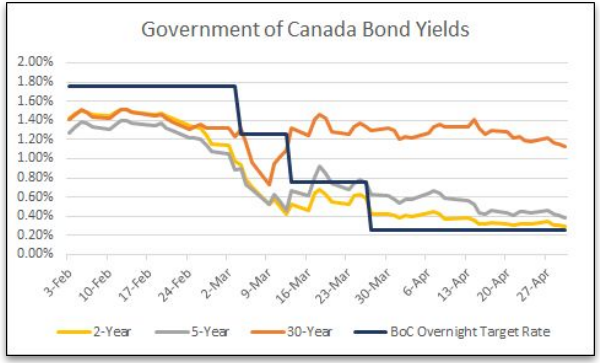
Mark Johnson, Director Interest Rate Sales

But what money may cost for a longer term does not have to be determined by the target rate. That is a function of available funding and credit. The BoC saw that and acted. The BAPF offered guaranteed funds from the best creditor (the central bank) for a guaranteed period of time. That "solved" the issue. And rates fell.

The other programs (OMOs) that the BoC has put into place are of a similar nature. They merely buy different types of securities, issued by different types of issuers, for different periods of time, from different sellers. Corporate bonds for 5 years, mortgage bonds for 10, commercial paper for 90 days, Government of Canada bonds to 30 years - we got you covered. Assets held at the BoC have increased over $200 billion this year - and that cash is being put to work in the financial system.

This has enabled the market to function more smoothly under stress, added demand for securities and reduced the credit risk in the system. See chart below:

Overnight Rate and GoC Yields



Source: Bloomberg, ATB Financial Markets

It is pretty clear that through the observation period we have seen rates fall. Especially in the 2 and 5 year (blue and yellow) part of the curve. But what this chart also shows you is that no two rates are created equally. The term, or tenor, of the security will determine its yield. They are only connected in as much as the shorter tenors have underlying assumptions making them up that form a part of the longer ones. Beyond that, the longer ones are subject to further assumptions and all securities are bought and sold in their own market and are subject to their own levers of demand and supply. So, here we see that the 30 year rate (red) has fallen slightly, but has struggled to maintain the reductions. The differential between the 2 and/or 5 year rate and the 30 year rate has widened. The yield curve has "steepened." The OMOs and the low target rate are weighing in the shorter terms in the bond market as they are a major lever here. But the longer end (30 year) is made of different stuff. It is impacted by the supply of bonds as provinces, corporates and the federal government issue debt out that far, plus it builds in inflation expectations for the economy in a more considerable way.

Central Bank Overview

Mark Johnson, Director Interest Rate Sales

So, here we sit after a month of consolidation. Rates are lower across the curve; the extent to which they have fallen diminishes the further out one goes; and measures of credit and stress in the system are generally lower. This distinction on term differences leads us nicely into the big question. What next? Well, more of the same.

More low rates, but more 'steepening'.

Why? A few reasons.

The target rate and short term rates will stay low. They are there to anchor the curve and set the tone. Even a pick up in activity will not change that for some time. This will weigh on yields out to 5 years as the "carry" (cost to finance a purchase of such bonds in the short run) will stay low and also because the risk premium charged for the time differential between overnight and 5 years will only go so high while the BoC is actively purchasing securities in the market. But a low target rate impacts the longer end much less.

Certainly, one of the reasons that measures of credit have fallen is all the monetary policy measures and OMOs. But a large part of the reason is also the myriad fiscal measures we have seen implemented. This also keeps the curve steep. BSAP, CECRA, CERB or CEWS. You name it, we got an acronym for it and money behind it. These programs put cash in pockets and thus reduce the credit and economic risks. However, they have to be paid for somehow. And that is usually by issuing bonds in the marketplace. Unsurprisingly, those issuing tend to want to get their funding for as long as economically as possible. Clearly, with rates this low, borrowing 10 years and beyond makes most sense. This is what has been happening thus far - and it is keeping those longer rates up as the shorter ones fall.

The Bank of Canada has an OMO for that, of course. They are buying GOCs, Corporate bonds and especially provincial bonds (the provinces have been incredibly active in issuing bonds to raise funds for their social programs to mitigate the shutdown impact.) This is helping keep the yields from rising aggressively as supply hits the street. In the shorter end it is even reducing yield. But there is only so much that they can do in the longer end, so we would expect the steepening to continue over time.

Right now the BoC claims that their sole purpose in buying bonds is to keep markets functioning in these times (keeping demand for those issues and avoiding yields skyrocketing.) That is why it is not - technically - Quantitative Easing. They are not seeking to manipulate rates to a certain level or at a certain point in the curve. That is called Yield Curve Control (YYC) - and they do expect to have to conduct that at some point - but likely in the 5 year part of the curve where they can impact yields and keep them low. As such, this too will not prevent steepening.

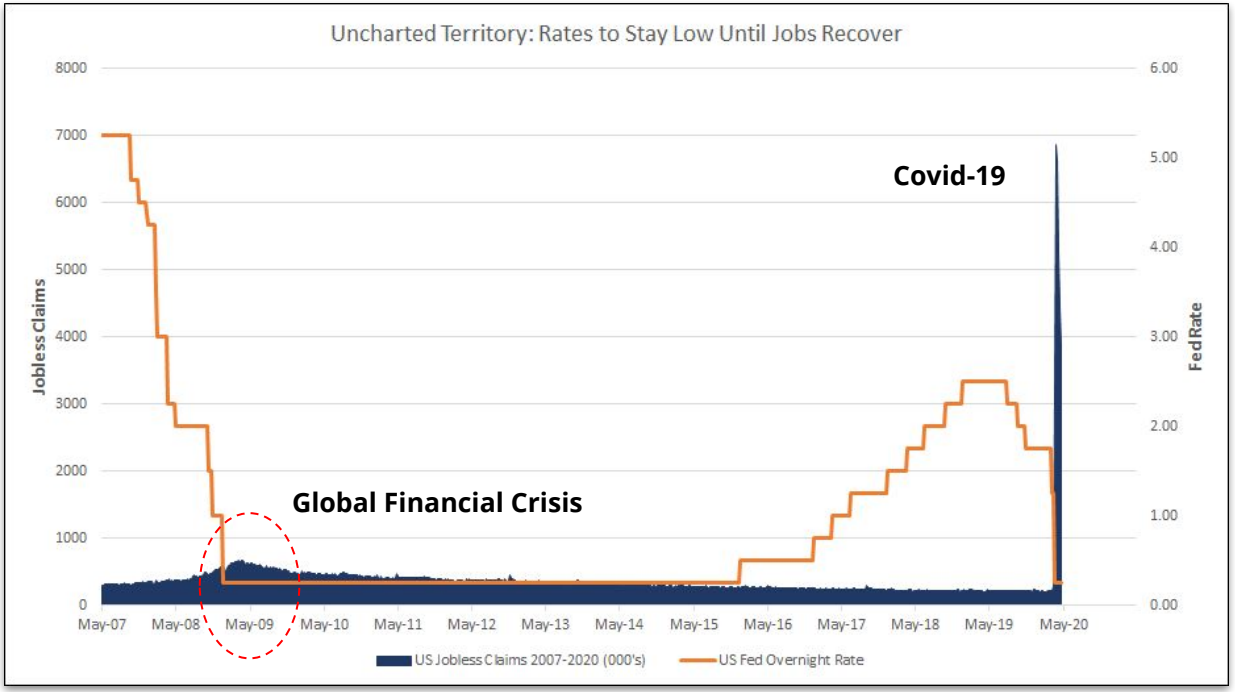
Central Bank Overview

Mark Johnson, Director Interest Rate Sales

And finally, what if all these measures are successful? What if we recover, the economy grows and jobs lost find a way to come back? Well, then we will look a little like we did pre-COVID-19, just with a much larger hole of debt. How can we pay for it? Well, raising taxes and austerity is a bad approach (as Europe found out post-financial crisis). Which leaves us with the textbook solution. We grow and inflate the economy out of the debt hole. Keep the overnight target rate low, generate strong growth and inflation. That is generally simultaneously good for keeping short bond yields low and pushing longer bond yields higher.

Success or failure. Recovery or drift. The curve steepens. That is the future.

No Ordinary Crisis: US Weekly Jobless Claims Eclipse Those Seen During the Global Financial Crisis



Source: Bloomberg, ATB Financial Markets

Canadian Dollar

Chris Fricke MBA, Director FX Sales

"And the CAD came back the very next day, the CAD came back, they thought it was gonner, but the CAD came back, it just couldn't stay away....".

In this case by "day" we mean month. In fact the month of April could be called the "commodity" month, as it proved to be a bullish period for most commodity-centric currencies (AUD, NZD, CAD, NOK), despite record lows in WTI in mid-April, and still heavy trading by month-end.

So why did the CAD perform so well? Well let's start by addressing what is no longer driving the CAD, and that's WTI. We shouldn't be surprised as historically the correlations between WTI and the CAD fall-off dramatically when the former is either sub $30 or north of $80, ie. at its extremes. Furthermore, one of our favourite alternative indicators for the CAD, 2-year yield spreads between Canada & the U.S. is also now out of vogue. In fact, it's interesting to note that those spreads peaked near a remarkably high 30 bps in late March when USDCAD itself was trading in the mid-1.44s. That is to say, "scratch that thought".

What is and/or remains en vogue? Well first and foremost the risk-trade, as represented by the S&P 500 to start. (Which incidentally is also why traders refer to the CAD as a "high beta" currency.) Examining the S&P 500's zenith in late February to its nadir in late March, we have seen the global benchmark claw back approximately 60% of its losses. Over this same time period the CAD clawed back a near identical 55% of its losses. What drives the S&P 500? Well in normal markets it's earnings reports as well as economic indicators that influence monetary and fiscal policy. But in today's markets it's more a study of the severity of Covid-19 and possible coincident developments on vaccinations and/or treatment. Case in point, the sharp rally in the risk trade in late April on optimism over Gilead's Remdesivir coronavirus treatment drug.

The corollary to this of course is that the outlook for CAD is largely dependent on the outlook to the stock market and the coronavirus: Are you bullish/optimistic on a return to the "old normal" and therefore likely on stocks? Then expect the CAD to strengthen. Are you bearish? Well then expect the CAD to weaken. Ourselves, we are neutral at best, but leaning towards a small bearish tone in the weeks ahead. That is to say while we are certainly hoping for more good news, USDCAD is likely to gravitate in the low 1.40s in the days to weeks ahead.

Finally, a fresh development on May 1st. We have our new Bank of Canada Governor, Tiff Macklem. A seasoned official with significant experience during the Global Financial Crisis this is a positive development. (Even if his comment that "negative rates is among the tools of the BofC" saw the CAD lose ½ a cent.)

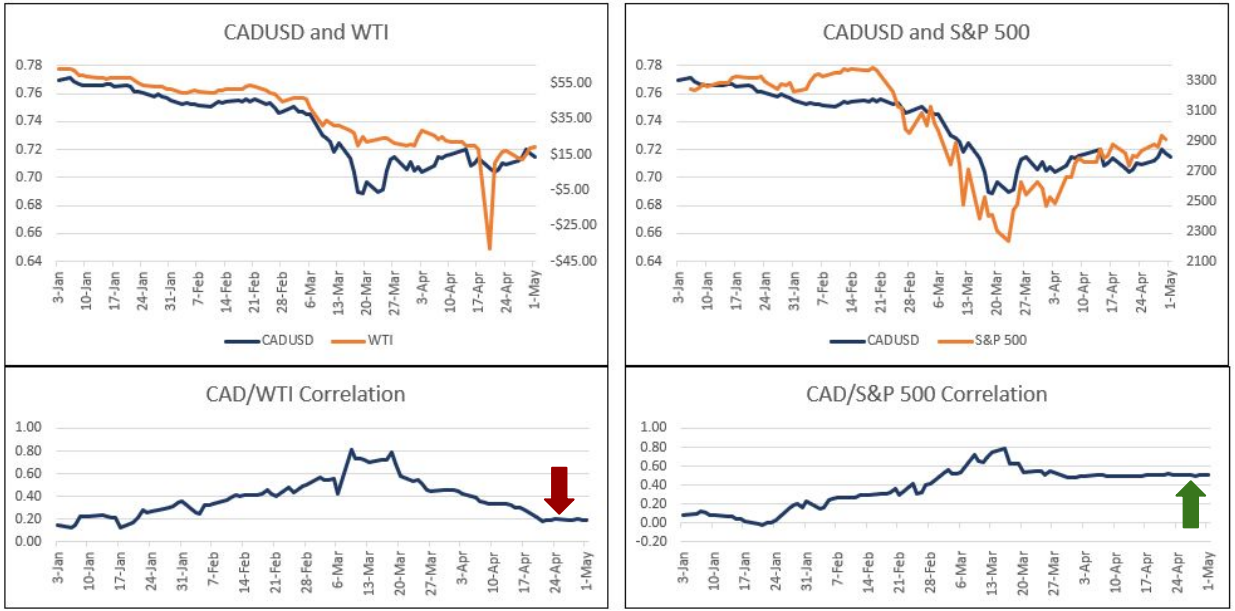
Canadian Dollar

Chris Fricke MBA, Director FX Sales

In as much as technicals still matter - and I suspect like usual they should to some degree - it's worth noting a few key levels as we enter the month of May. I see 1.4000 as our first level of support, followed by 1.3850.ly 1.3760, the 61.8% retracement level from our late February lows to mid-March highs. Resistance starts at 1.4120 followed by 1.4300/1.4320.

Finally with regards to hedging strategies, we would encourage USDCAD sellers to look at structures that allow for partial participation for CAD weakness ahead, including structures that embed a small amount of net volatility sales. For USDCAD buyers we are more inclined to take the current 1.38/1.39 levels and pin some short-term needs. Further out, in as much as your budget levels allow for some upside pain, we favour vanilla option structures that allow for partial participation for CAD strength, "just in case" there is an unforeseen positive development on Covid-19.

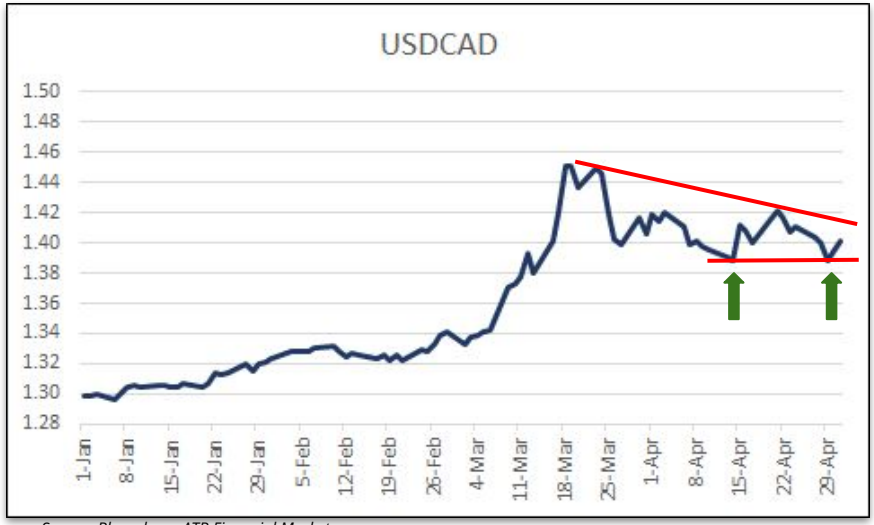
Canadian Dollar Correlations: CAD Has Tracked Equity Markets More Closely Than Oil Markets

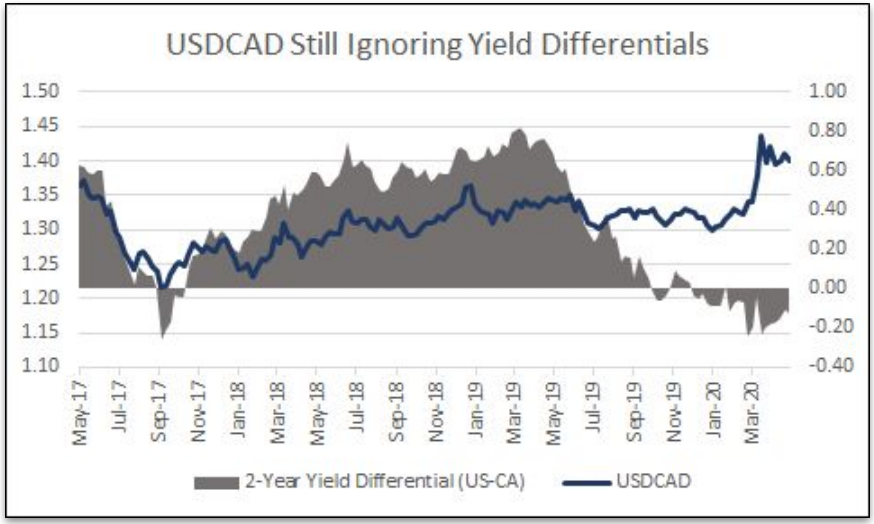


Source: Bloomberg, ATB Financial Markets

Canadian Dollar

Chris Fricke MBA, Director FX Sales





Source: Bloomberg, ATB Financial Markets

- USDCAD eased off it's March highs and now sees good support near 1.3800 with resistance circa 1.4200 in the near term
- Continuing its recent trend, USDCAD is completely ignoring the yield advantage that CAD holds over the USD - the last time yield differentials were at these levels in 2017 USDCAD was trading near 1.2000…
- …But given these extraordinary times, massive Canadian Federal deficits, low oil prices, and muted global growth it is difficult to see a path towards significant CAD strength over the coming months

USD Index and G10 FX

Mark Engelking CFA, Director FX Trading

With that another month is in the books. One thing this mini-lockdown has done is obscure my sense of time and it feels like the days last forever and the months fly by. If March was the DXY's yin, April was certainly the yang as we saw a strong reversal in most of the G10 currencies against the greenback.

What were the reasons? Well, there are a couple. First of all, Central Banks and Finance Ministries around the globe have stepped up big, helping to grease the wheels of financial markets in order to make sure capital is flowing as smoothly as possible given the situation. Record stimulus on both the monetary side and the fiscal side have helped reduce the feeling for the need of a safe asset, relaxing USD buying. We have also seen positive progress in many countries with the fight against Covid19 with many set to begin opening back up slowly.

Currently on the charts the DXY is flirting with the key 50% retracement level from March highs at 98.82. Support from the 100-day and 200-day moving averages also sit just below in the mid 98s. Recapping the month of April, the Australian dollar enjoyed the best gains, over 6%, while the Kiwi was next. The limited new cases in China certainly contributed to this as both countries rely heavily on Chinese trade.

FX Markets Saw Broad Based USD Weakness

April FX Returns % Against USD	
Australian Dollar	7.26%
New Zealand Dollar	3.64%
Swedish Krona	2.60%
Norwegian Krone	2.08%
British Pound	1.80%
Canadian Dollar	1.76%
Swiss Franc	0.07%
Japanese Yen	-0.01%
Danish Krone	-0.05%
Euro	-0.08%

Source: Bloomberg, ATB Financial Markets

So will May really bring the bloom of risk again? I actually think the conditions are ripe for a return to risk-off and USD strength. From a technical perspective, DXY RSIs have flipped and are now drifting towards the oversold level. The realities of the economic data have sunk in, and now I worry that we will see further outbreaks in a rush to open the economy to return back to full capacity as quickly as possible in certain countries like the US. There are typically three waves in a pandemic, and a second wave could spark a return to risk off in May. Typically May also marks a down time for equity markets, although admittedly nothing is typical about this year. Going forward into the new month I like the Euro lower against the greenback and will be watching the 200-day moving average at 1.1036 and the 50% retracement level of the move in March at 1.1065 as key resistance points.

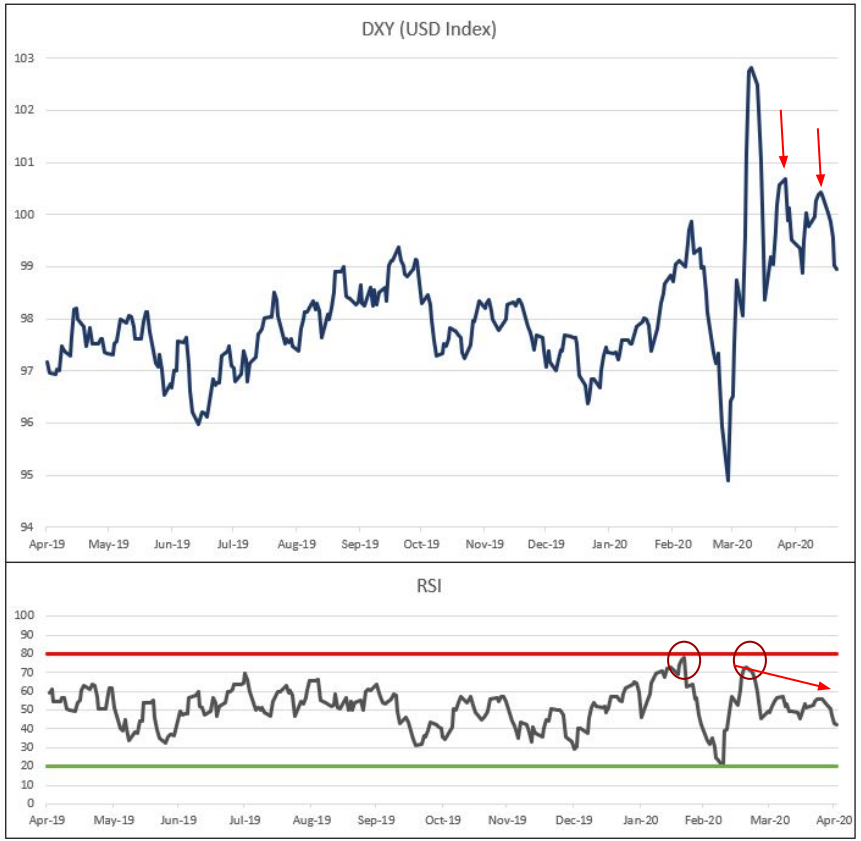
USD Index and G10 FX

Mark Engelking CFA, Director FX Trading

- Las Month we wrote "...RSI couldn't make a new high on the move higher (circles) and now sits at 51 heading into Q2...This is a potentially bearish technical development that could foretell of *broad* USD weakness to come given the amount of QE in the system from the Fed..."

- Well, we didn't quite get a dramatic drop in the USD...but we once again saw the market fail to make a new high both on the index and on RSI (sub-chart) with the indicator now firmly below 50

- This continues to setup with a bearish skew for the USD - let's see if we get more follow through this month



Source: Bloomberg, ATB Financial Markets

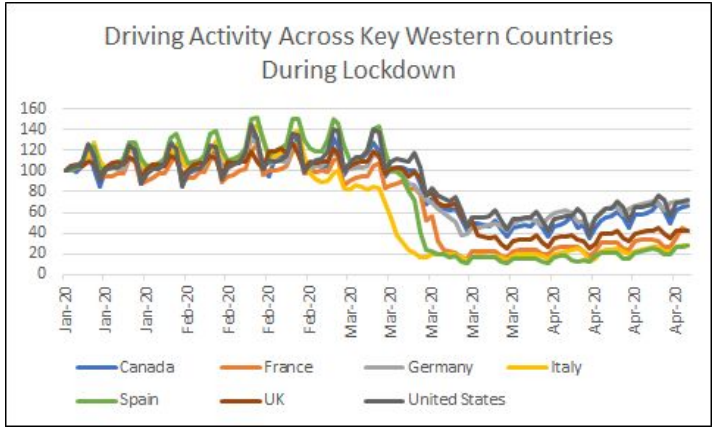
WTI Crude Oil

JP Dore, Markets Analyst

Oil prices have rebounded from their recent dip into negative territory based on early signs that demand is recovering. In last month's note (here) we laid out the thesis that lower oil prices were needed in order to drive the shut-ins required to re-balance the physical system: Oil and energy are largely spot commodities and must be consumed, stored within available infrastructure, or left in the ground. Given this week's 80% rally in WTI, does that thesis still apply? Or is demand set to make a comeback, alleviate storage concerns, and push prices higher still?

The global lock-down has dropped daily oil demand to levels not seen in over a decade; refinery utilization is at 69% of capacity; and storage tanks are filling up with potentially only days to go until tank tops at the key Cushing, OK hub. Although OPEC delivered the largest supply cut in its history alongside Russia, it wasn't enough. US production has also declined to 12.1m bpd from a peak of 13.1m in March, but the pace of production declines slowed to a mere -100k bpd last week. Will more reductions in oil supply be needed to offset what is likely to be a prolonged re-opening and resumption of normal economic activity? Or, are we at the point where a "re-stocking" of goods and services across the global economy will lead to a surge in fuel demand in Q2/Q3 to the point where the market may actually end up being short barrels? There is some risk of that, but it is early days yet as the chart below shows:

Traffic Activity Slowly Returning From Depressed Levels

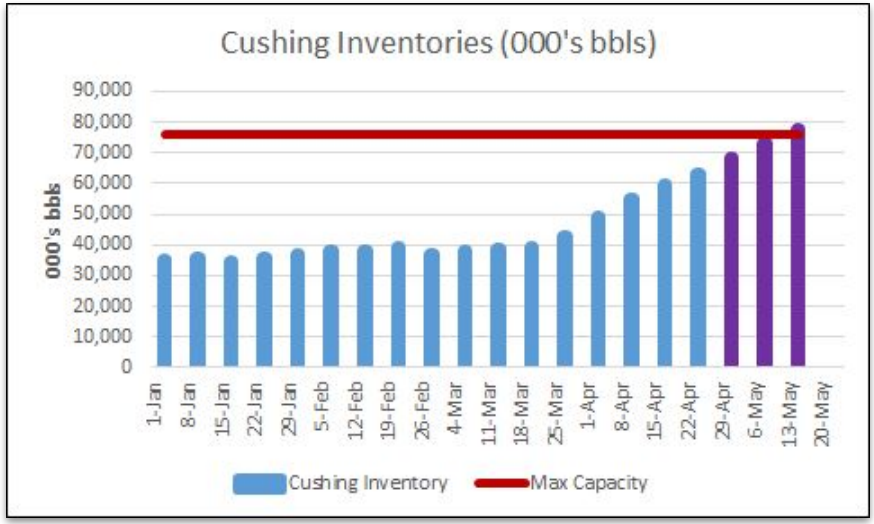


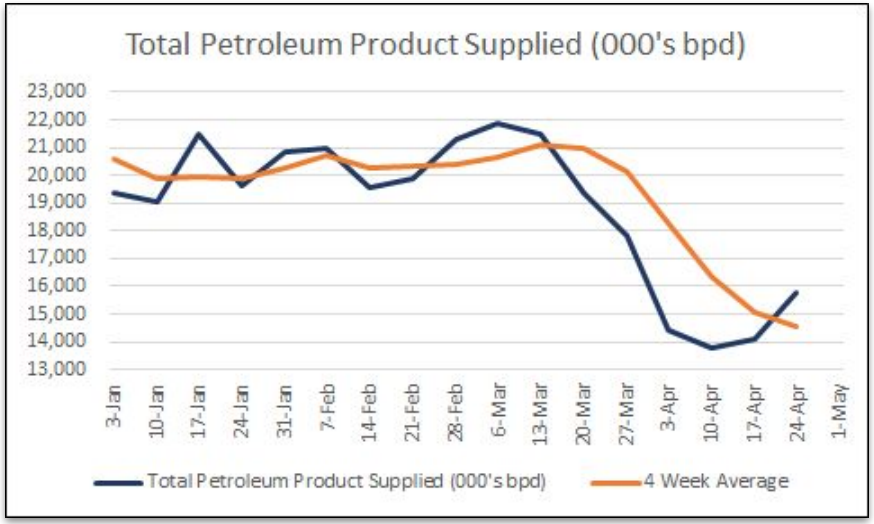
Source: Apple Mobility Tracking, ATB Financial Markets

That chart demonstrates that we are barely out of, if not still in, the inflection phase of this crisis. People and goods are still confined to draconian shelter-in place policies. Given the early stages of this recovery there remain considerable risks to oil prices. Cushing only has about 13m bbls of capacity available which at the average build of 4.8m bbls per week since lockdown only leaves about 2.5 weeks of space: That implies negative prices are still a risk, and we are seeing options markets and timespreads confirm such a possibility. The threat is real. We will need to see flows continue to be redirected to the Gulf Coast for export/refining in order to alleviate further pressure on available storage, and that is again predicated on a nascent uptick in demand. The market is fragile and the risks considerable. Oil remains a spot commodity and thus the re-balancing act cannot be achieved overnight.

WTI Crude Oil

JP Dore, Markets Analyst





Source: Bloomberg, ATB Financial Markets

- Oil markets are at the inflection point as fundamental drivers converge upon one another: Cushing is set to reach tank tops in the coming 2 weeks if the current pace of inventory builds continues…
- …However we are seeing an uptick in demand, as measured by Total Petroleum Product Supplied, which has just risen above its 4-week average for the first time since lockdown - could this be enough to avoid breaching storage capacity?
- There is no clear answer to how this may play out: Infection rates could surge again leading to a prolonged lockdown, putting oil markets once again in a very precarious situation given the lack of available storage capacity…

CHARTPACK

ATB listens

Monthly and YTD Returns

Cross Asset			
Crude	**Last**	**1MΔ**	**YTDΔ**
WTI	$19.52	-8.32%	-69.51%
Brent	$26.48	16.45%	-59.88%
WCS	$11.32	165.73%	-70.65%
MSW	$14.57	29.40%	-73.42%
Syncrude	$14.57	76.39%	-75.64%
C5	$14.32	21.77%	-77.30%
LLS	$24.34	110.01%	-62.44%
Midland	$21.34	88.18%	-65.45%
Gas	**Last**	**1MΔ**	**YTDΔ**
Henry Hub	1.93	21.68%	-11.79%
AECO C$	1.646	17.57%	-4.80%
AECO Basis	-0.38	26.21%	12.64%
AECO Cal20	2.332	33.49%	30.57%
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	$ 54.31	-19.12%	-71.90%
GC Diesel	$ 73.18	-23.19%	-62.28%
NY RBOB	$ 71.12	63.31%	-58.23%
Conway Propan	$ 0.32	30.62%	-30.63%
Mt. Bel Propane	$ 33.25	34.34%	-19.39%
Equity	**Last**	**1MΔ**	**YTDΔ**
Dow	24345.72	16.24%	-14.69%
SPX	2912.43	17.89%	-9.85%
NDX	9000.509	20.23%	3.06%
TSX	14780.74	14.79%	-13.38%
TSX Energy	77.19	31.10%	-47.12%
S&P500 Energy	544.36	36.09%	-35.70%
SHCOMP	2860.082	4.59%	-6.23%
DAX	10861.64	13.80%	-18.02%

Source: Bloomberg, ATB Financial Markets

G10 FX			
FX	**Last**	**1MΔ**	**YTDΔ**
AUD	0.6452	6.28%	-8.10%
NZD	0.6089	2.99%	-9.66%
SEK	9.7852	2.32%	-4.29%
NOK	10.282	1.68%	-14.55%
GBP	1.2553	1.47%	-5.31%
CAD	1.4017	1.24%	-7.33%
CHF	0.9634	0.27%	0.33%
JPY	106.93	0.22%	1.57%
DKK	6.8016	0.10%	-2.04%
EUR	1.0968	0.04%	-2.19%

- Crude prices, especially physical, have seen a rebound from very depressed levels - although WTI is still lower than it was a month ago despite an 80% 3-day rally to close out April
- Energy equities saw a nice rebound as well with the TSX Energy index up 30% on the month as it tries to claw back substantial underperformance
- In FX, we saw broad USD weakness during April as the risk trade came back on, but CAD was only a mid-performer once again and still down substantially YTD

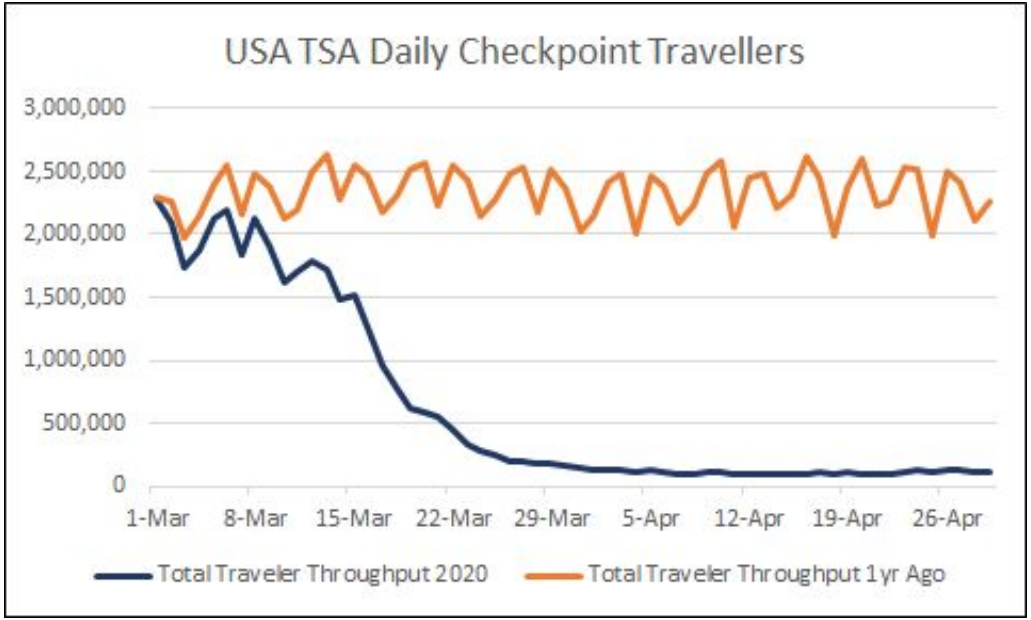
Global PMI Data

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
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
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
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	36.0

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 for April...
- April data for the US and Canada were abysmal...is this the nadir of the crisis, or will we see a prolonged slump in activity?
- The lack of follow through from China is concerning - although much of their goods comes to the US and Canada, highlighting the global nature of the impact - perhaps all boats shall rise together...?

What Kind of Recovery Will This Be?



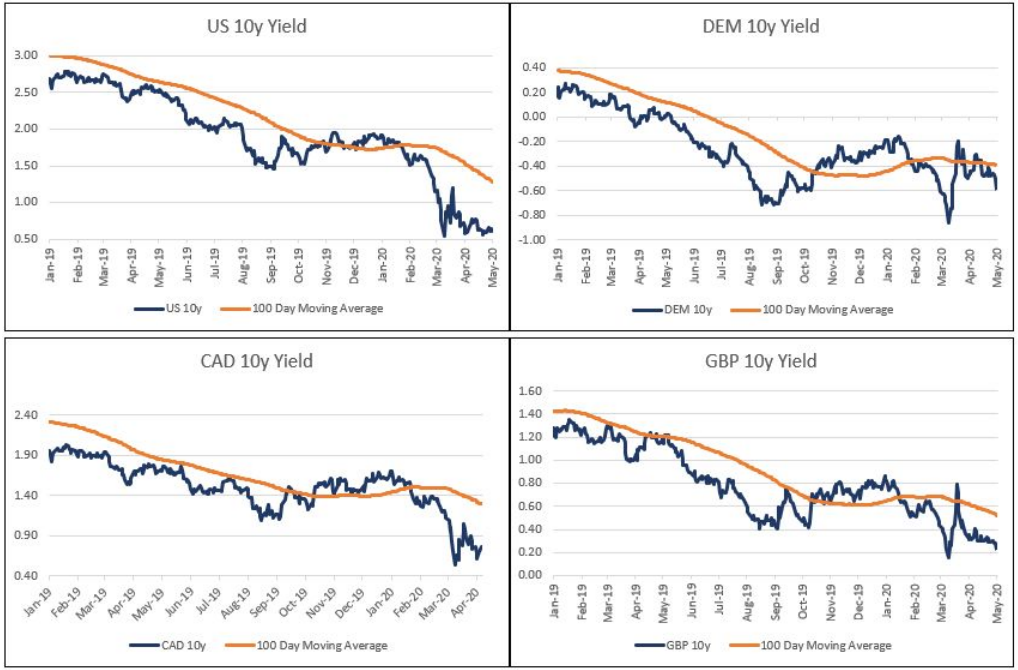
Source: US Transportation Security Administration, ATB Financial Markets

- With most of the global population still under lock-down, and conclusions regarding re-infection risks, antibodies, and vaccine timelines still unclear, it is difficult to see how we could possible expect a 'V' shaped recovery...

- ...Especially when it comes to discretionary air travel. As you can see on the chart, travellers passing through TSA checkpoints essentially ground to a halt during lock-down: ***At what point can we envision the usual 2-2.5 million people per day waltzing through crowded TSA checkpoints?*** It may take until mid-2021 (after the next "normal" flu season passes) for people to gain confidence that conditions are back to normal

Developed Market 10 Year Yields

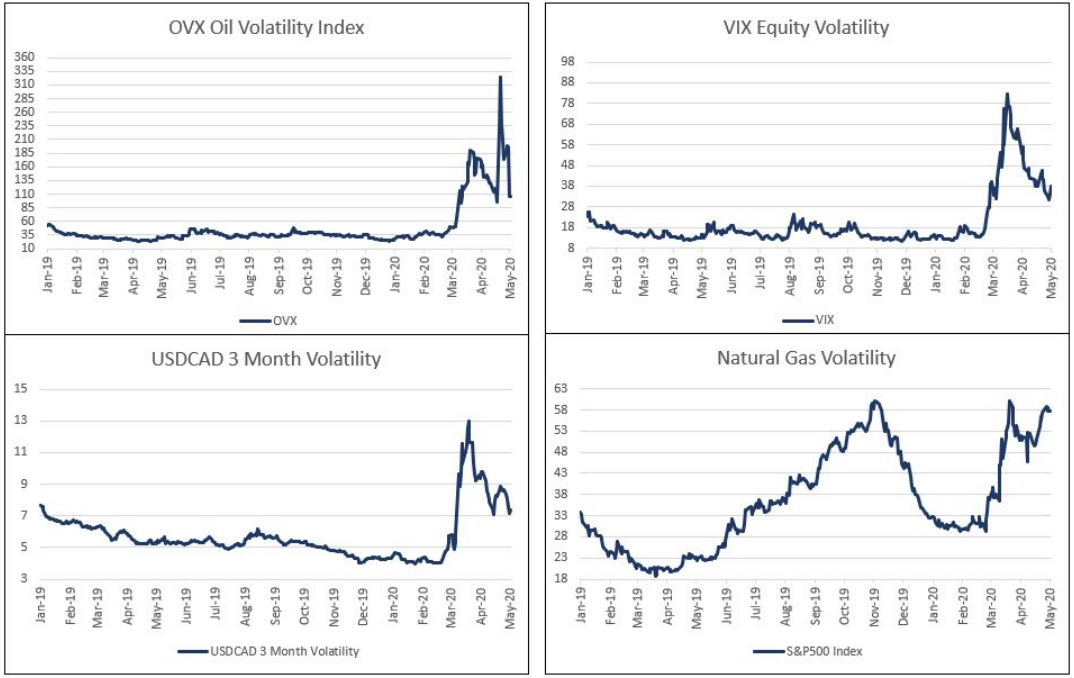
- Developed market 10 year bond yields are now all effectively at the zero-lower-bound
- Central Banks, most notably the Fed, have already committed to keeping rates lower for longer - this type of forward guidance was key to the Fed's role in helping the economy recover from the Global Financial Crisis (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

Volatility Spikes to Record Levels

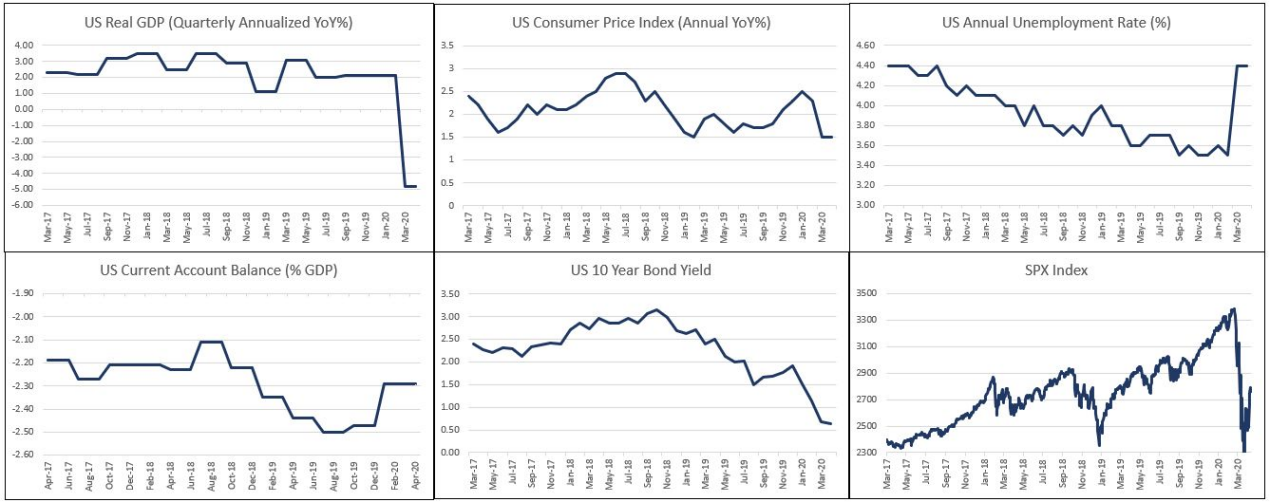
- Volatility readings remain elevated across assets
- Oil volatility surged to new records on negative prices: last month we mentioned that oil volatility could easily spike above 200% annualized as we get closer to tank tops - that occured and more - now the question is whether we have seen the peak?
- Despite the decline in headline vol, the market is still seeing wild swings with the last week of April posting three consecutive days of +30% trading ranges for WTI...
- Volatility has been more subdued in other assets, but as you can see it remains very elevated when assessed on a historical basis - uncertainty continues to dominate



Source: Bloomberg, ATB Financial Markets

US Country Snapshot

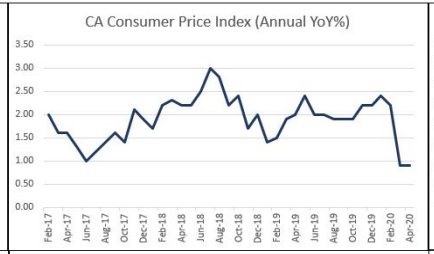
Indicator	Last
Real GDP (Annual YoY%)	-4.80
Consumer Price Index (Annual YoY%)	1.50
Annual Unemployment Rate (%)	4.40
Current Account Balance (% GDP)	-2.29
10 Year Bond Yield %	0.64

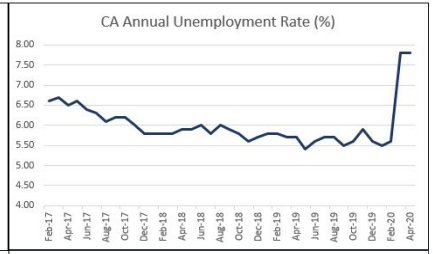


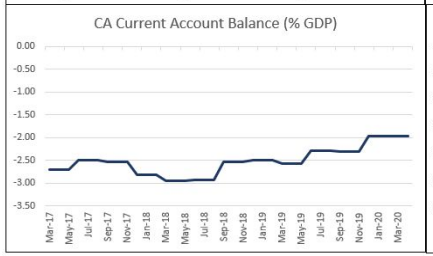
Source: Bloomberg, ATB Financial Markets

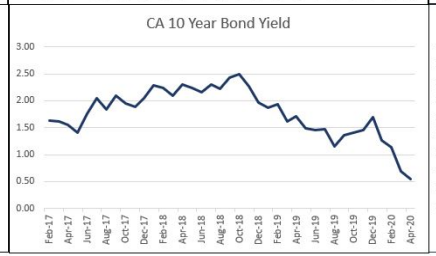
Canada Country Snapshot

Indicator	Last
Real GDP (Annual YoY%)	0.34
Consumer Price Index (Annual YoY%)	0.90
Annual Unemployment Rate (%)	7.80
Current Account Balance (% GDP)	-1.97
10 Year Bond Yield %	0.54





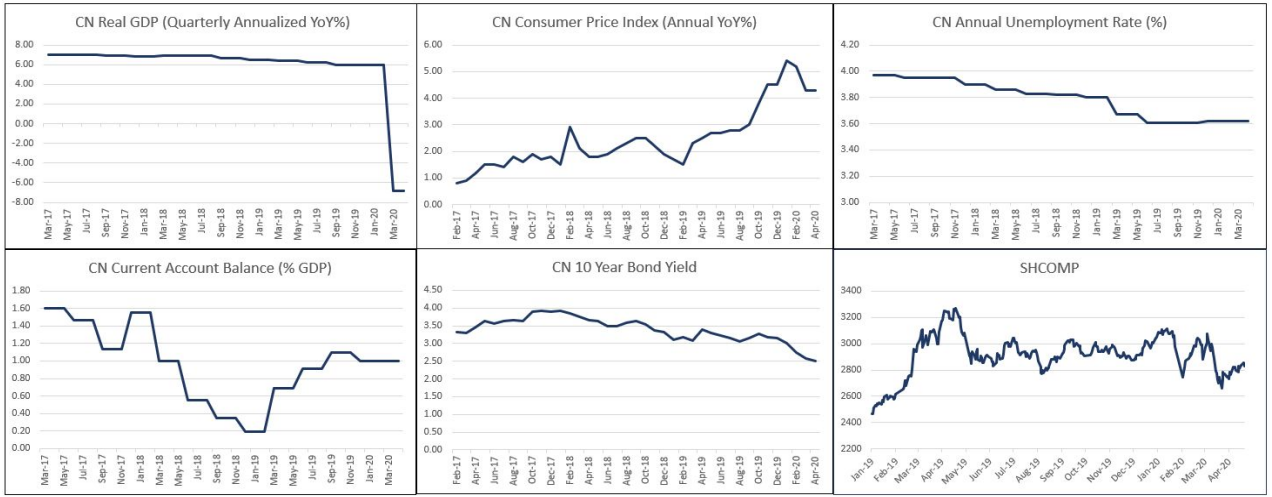




Source: Bloomberg, ATB Financial Markets

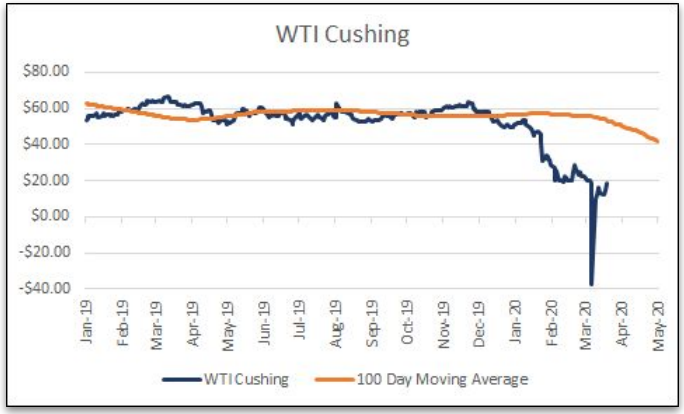
China Country Snapshot

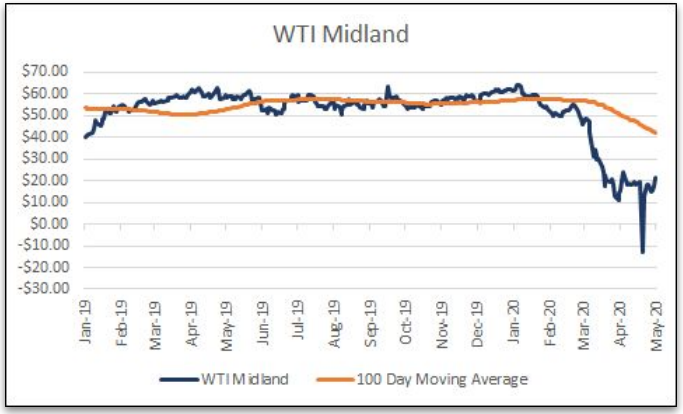
Indicator	Last
Real GDP (Annual YoY%)	-6.80
Consumer Price Index (Annual YoY%)	4.30
Annual Unemployment Rate (%)	3.62
Current Account Balance (% GDP)	1.00
10 Year Bond Yield %	2.52

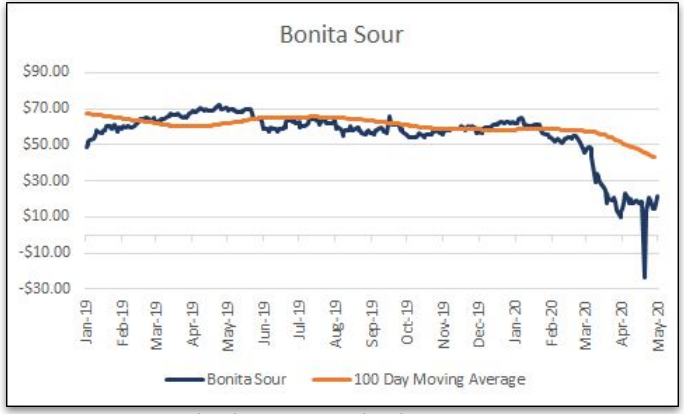


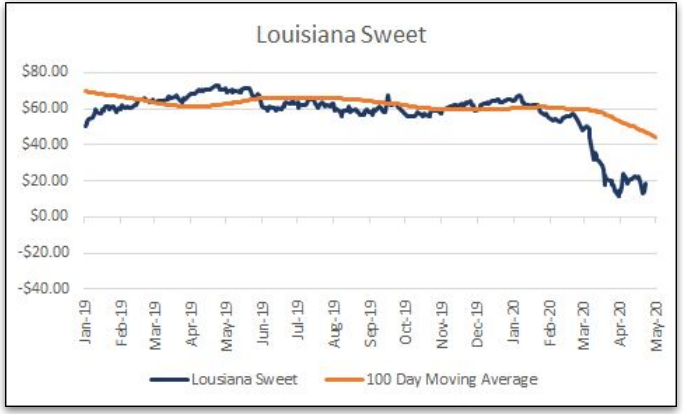
Source: Bloomberg, ATB Financial Markets

US Crude Prices ($/bbl)



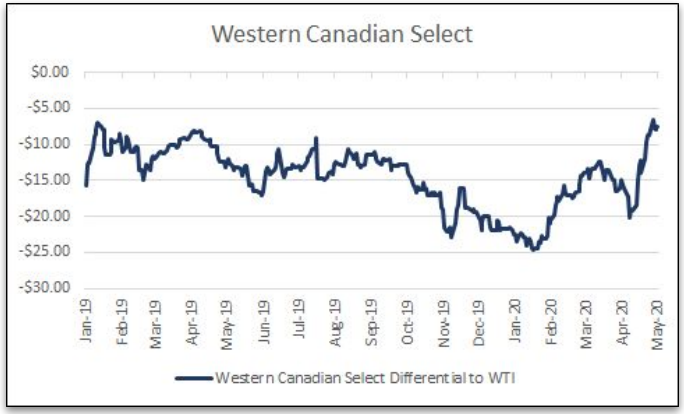


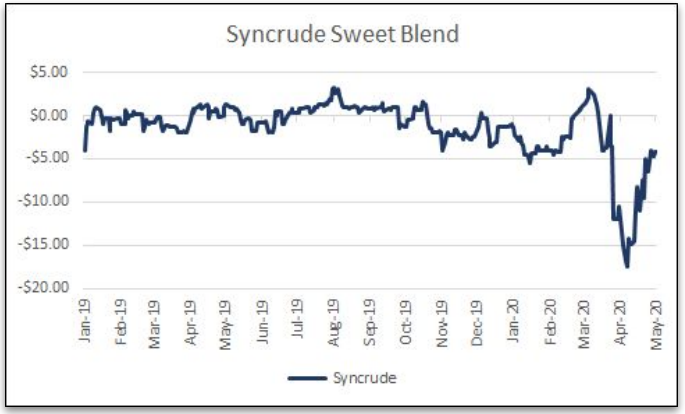


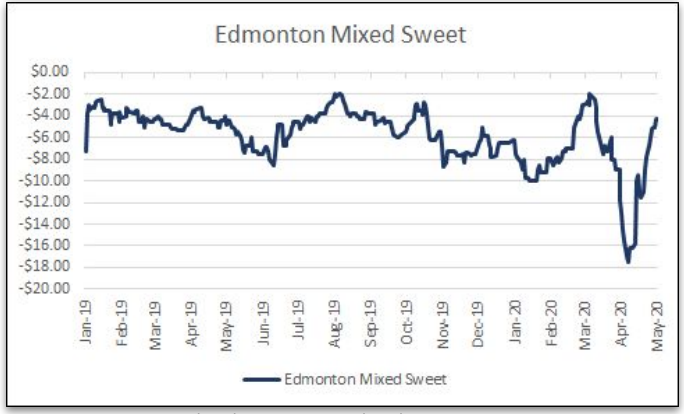


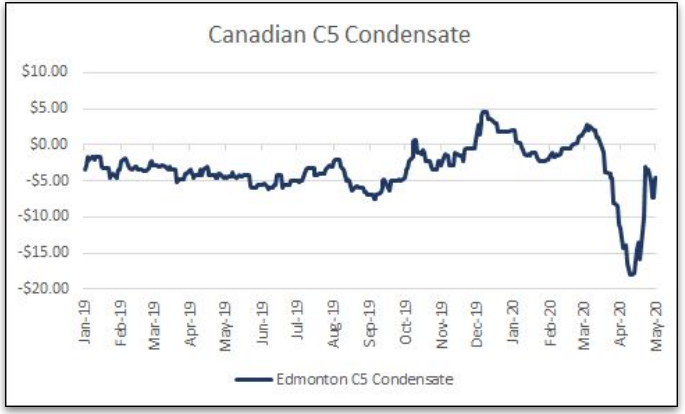
Source: Bloomberg, ATB Financial Markets

Canadian Crude Differentials ($/bbl)



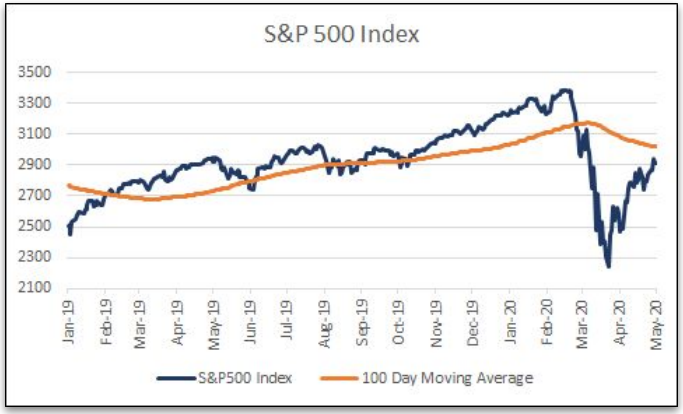


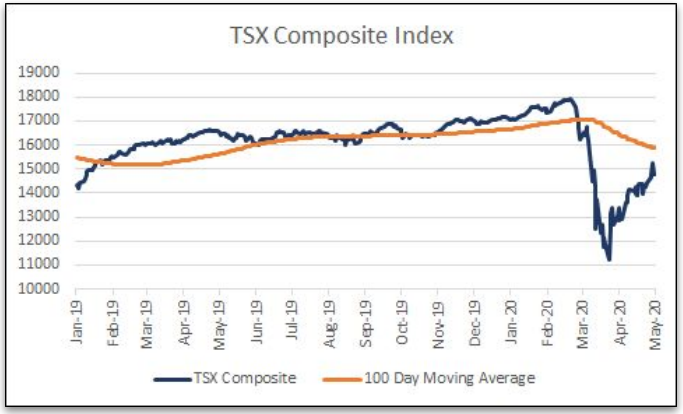


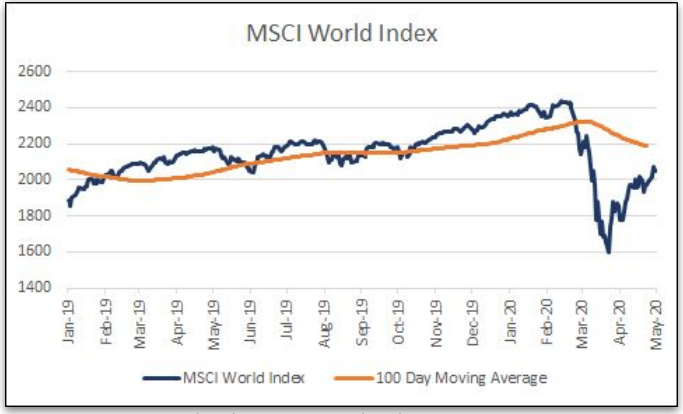


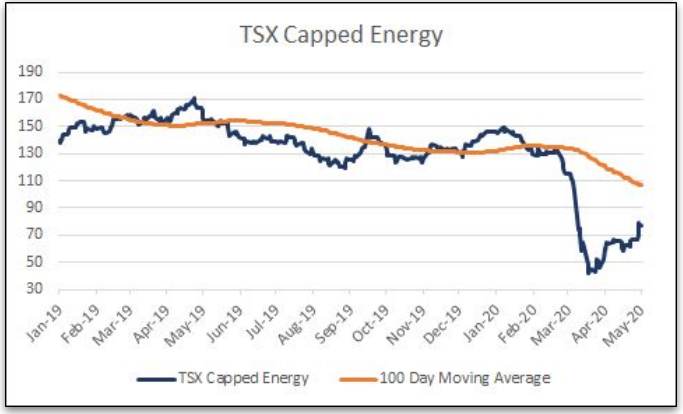
Source: Bloomberg, ATB Financial Markets

Equity: S&P 500, TSX, MSCI



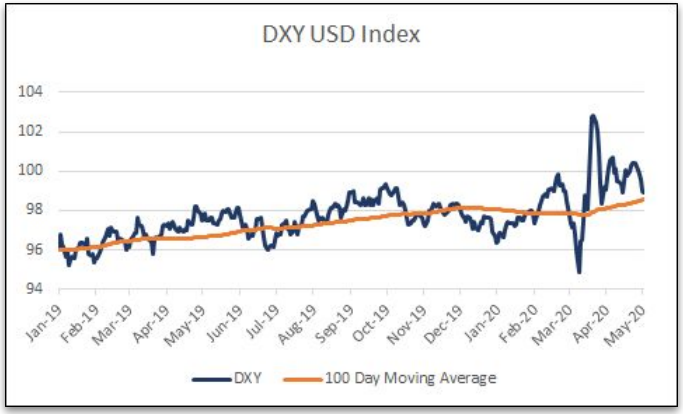


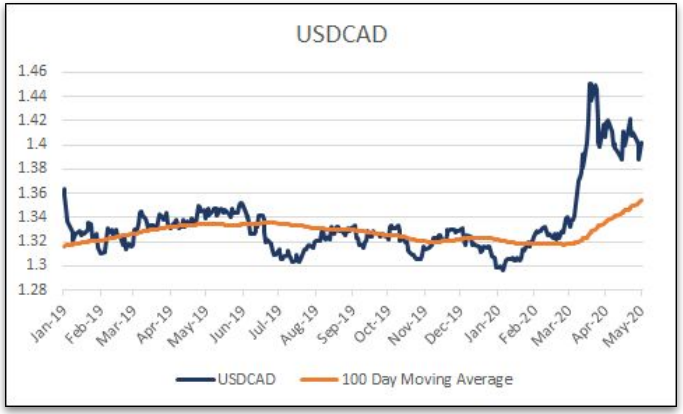


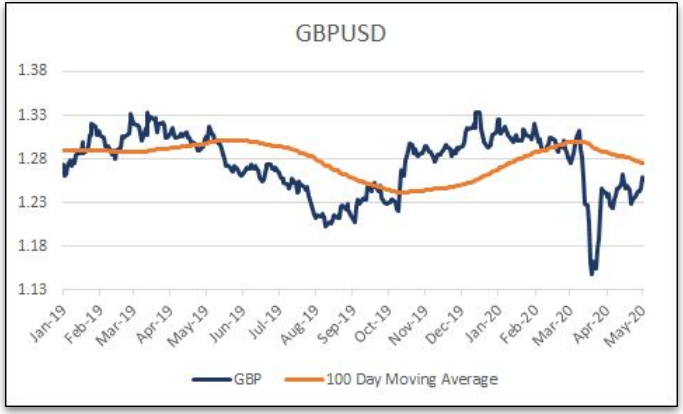


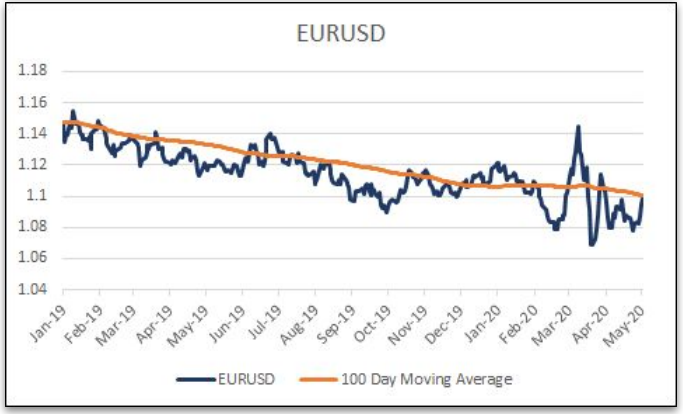
Source: Bloomberg, ATB Financial Markets

Global FX - DXY, GBP, CAD, EUR





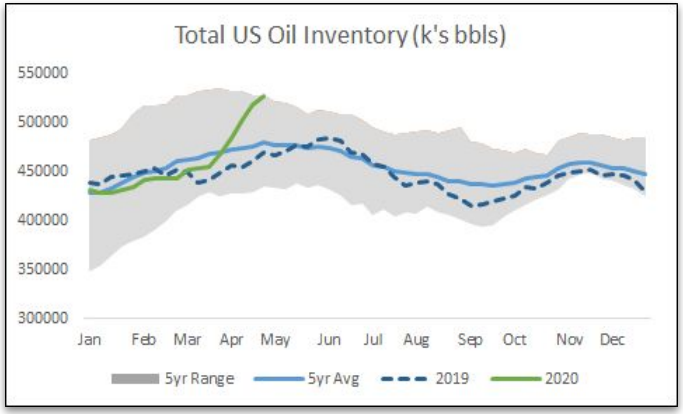


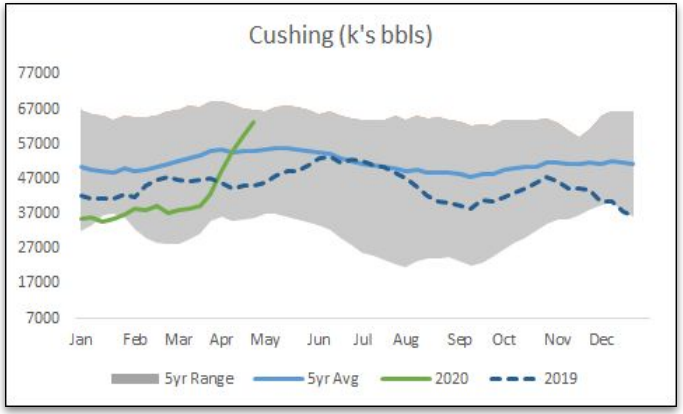


Source: Bloomberg, ATB Financial Markets

Oil Storage and Production Charts

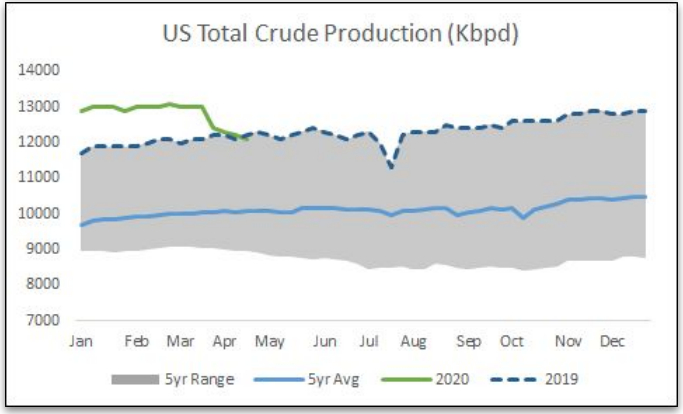
Inventories at 5yr seasonal high and climbing...

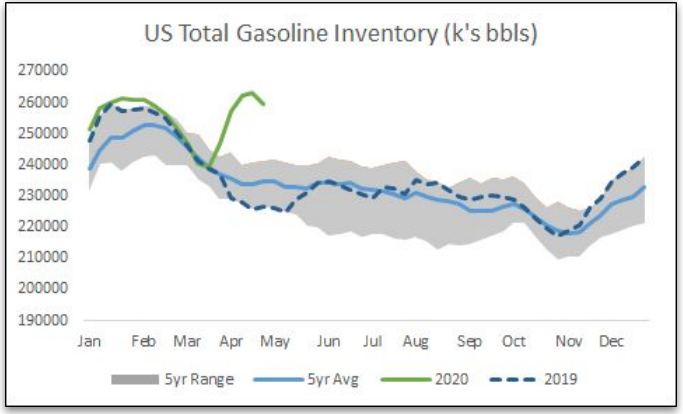




Cushing running out of space - need flows to Gulf Coast to alleviate pressure

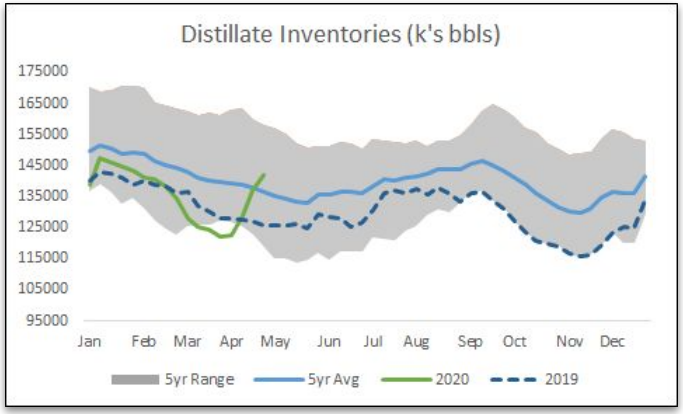
Production has fallen to help re-balance the physical market...

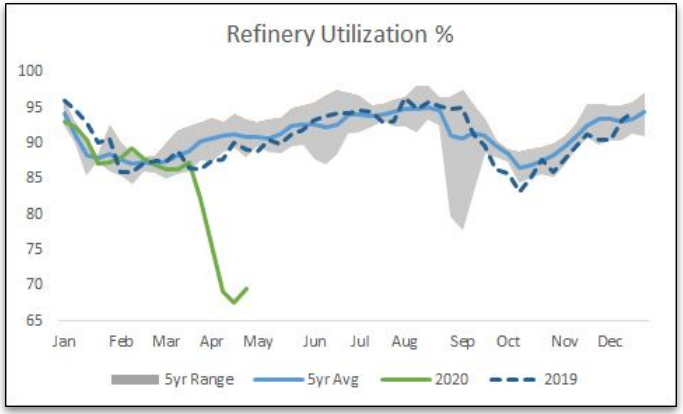




Source: DOE, ATB Financial Markets

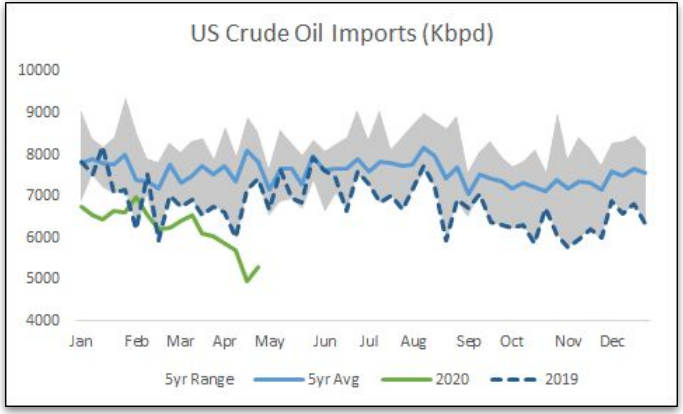
US Oil Exports, Imports, Refining

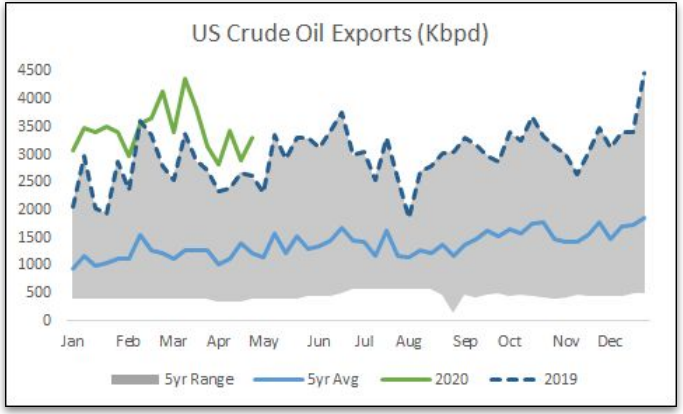




Refinery Runs cut on lower demand

Imports at multi-year lows - this affects demand for Canadian crude

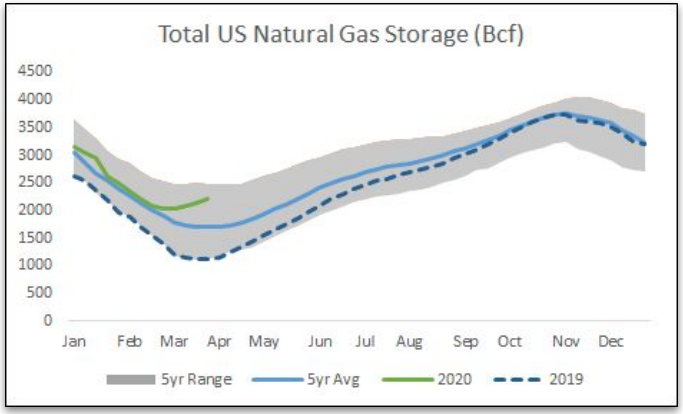


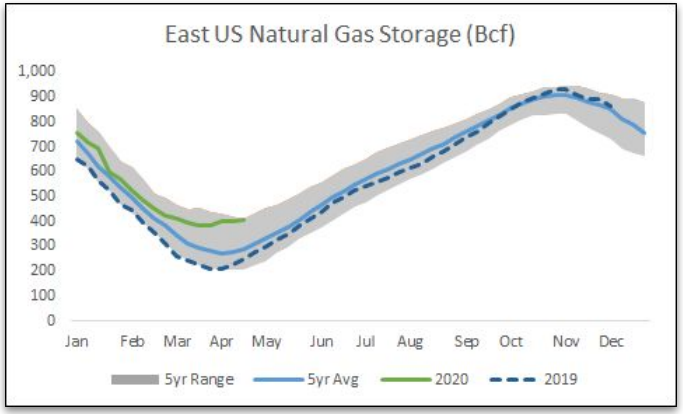


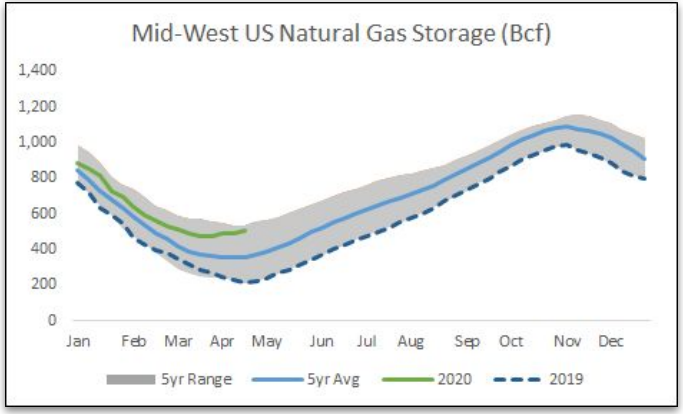
US Exports relatively stable - China buying?

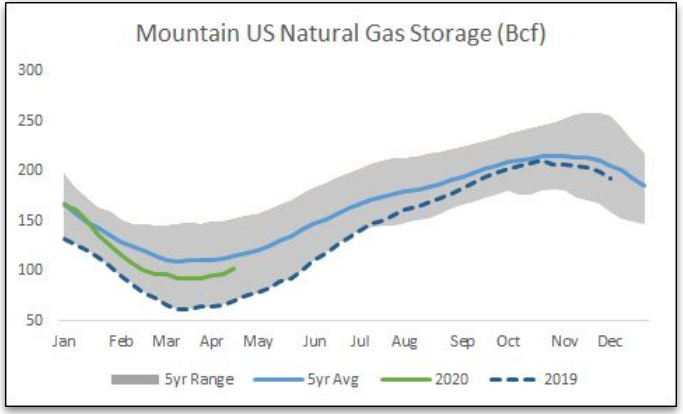
Source: DOE, ATB Financial Markets

Natural Gas Storage Charts



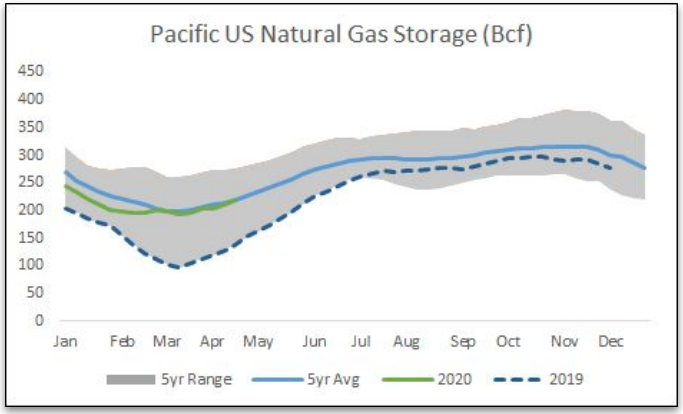


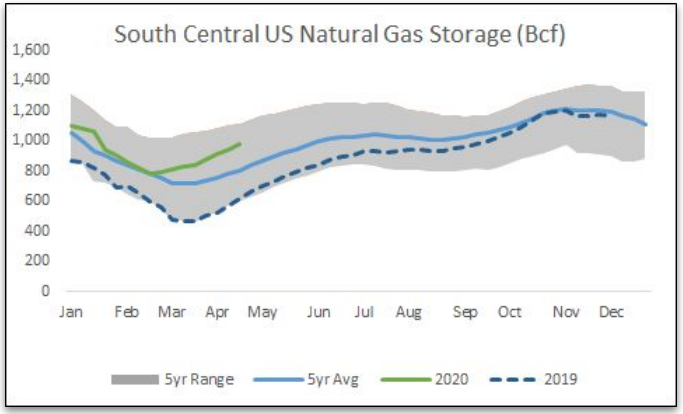


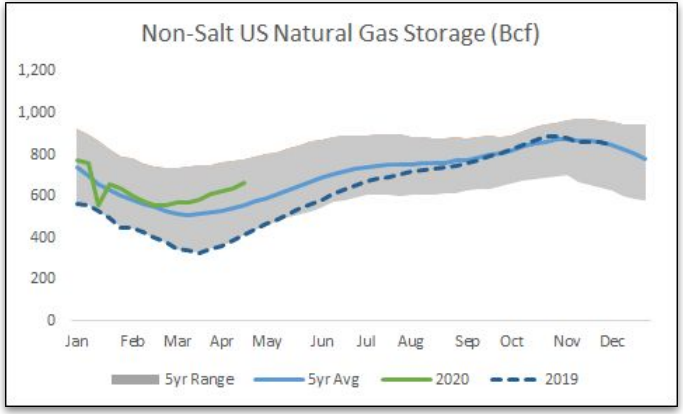


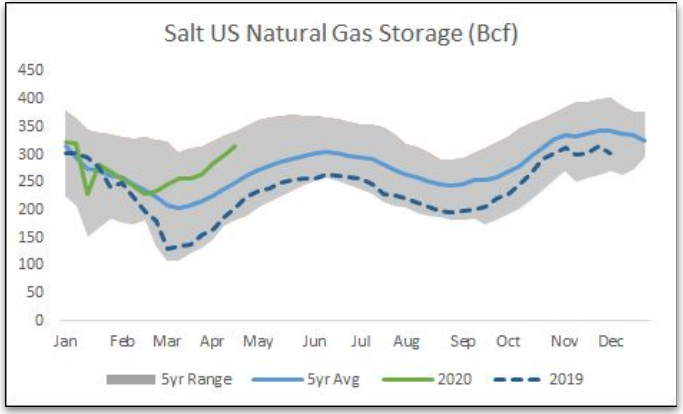
Source: DOE, ATB Financial Markets

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