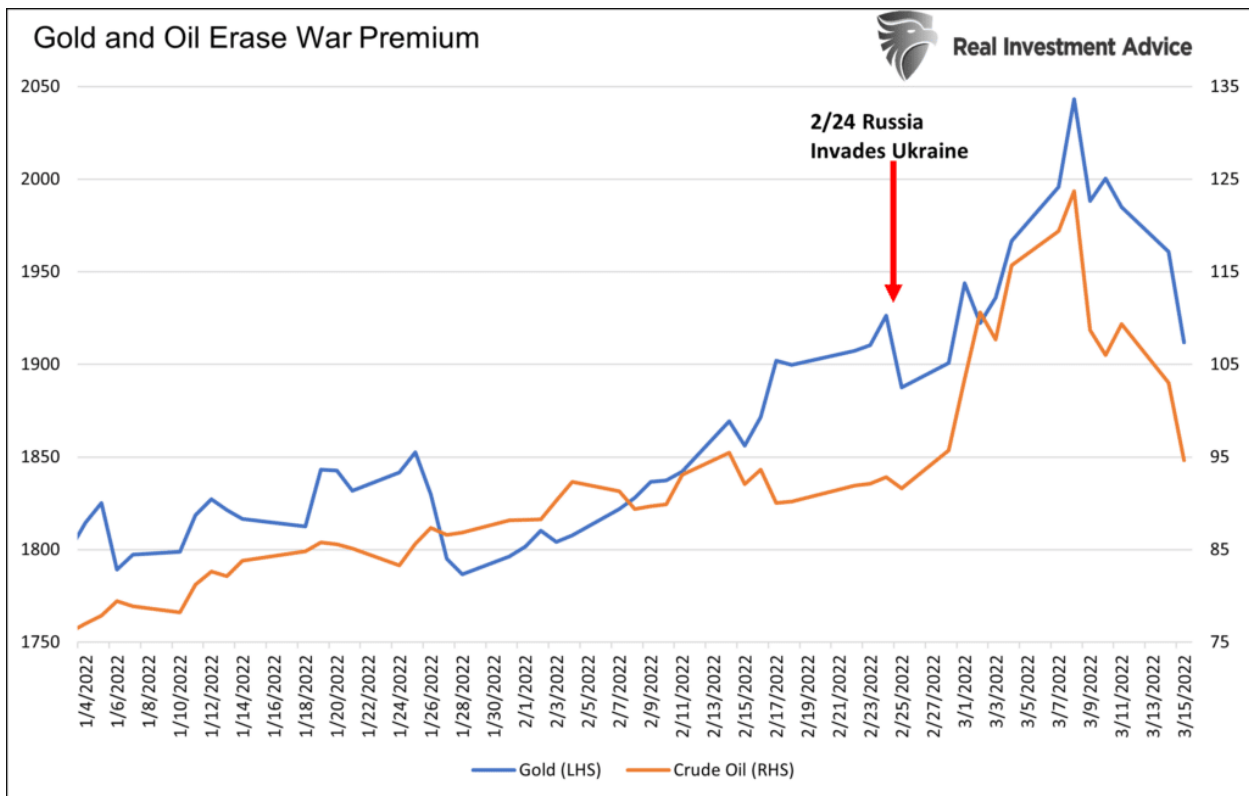


# Gold and Oil Prices Tumble As The War Premium Fades

The recent surge in gold and oil prices has been erased. While the Russian invasion rages on, it appears investors flocking to the safety of gold, oil, and a host of other commodities are more comfortable with the situation. The recent declines in key commodity prices may provide a little comfort to the Fed in that the current price increases are not lasting. Gold and oil prices, as shown below, are still up nicely for the year, but the sharp gains in late February and early March have been erased. We suspect stocks may enjoy a short-term reflexive rally once today's Fed meeting is in the rearview mirror.



[dmc]

## What To Watch Today

### Economy

- 7:00 a.m. ET: **MBA Mortgage Applications**, week ended March 11 (8.5% during prior week)
- 8:30 a.m. ET: **Retail Sales Advance**, month-over-month, February (0.4% expected, 3.8% during prior month)
- 8:30 a.m. ET: **Retail Sales excluding autos and gas**, month-over-month, February (0.4% expected, 3.8% during prior month)

- 8:30 a.m. ET: **Import Price Index**, month-over-month, February (1.6% expected, 2.0% during prior month)
- 8:30 a.m. ET: **Export Price Index**, month-over-month, February (1.4% expected, 2.9% during prior month)
- 10:00 a.m. ET: **Business Inventories**, January (1.1% expected, 2.1% prior)
- 10:00 a.m. ET: **NAHB Housing Market Index**, March (81 expected, 82 in February)
- 2:00 p.m. ET: **Federal Reserve monetary policy decision**

## Earnings

### Pre-market

- **Jabil (JBL)** to report adjusted earnings of \$1.47 on revenue of \$7.43 billion

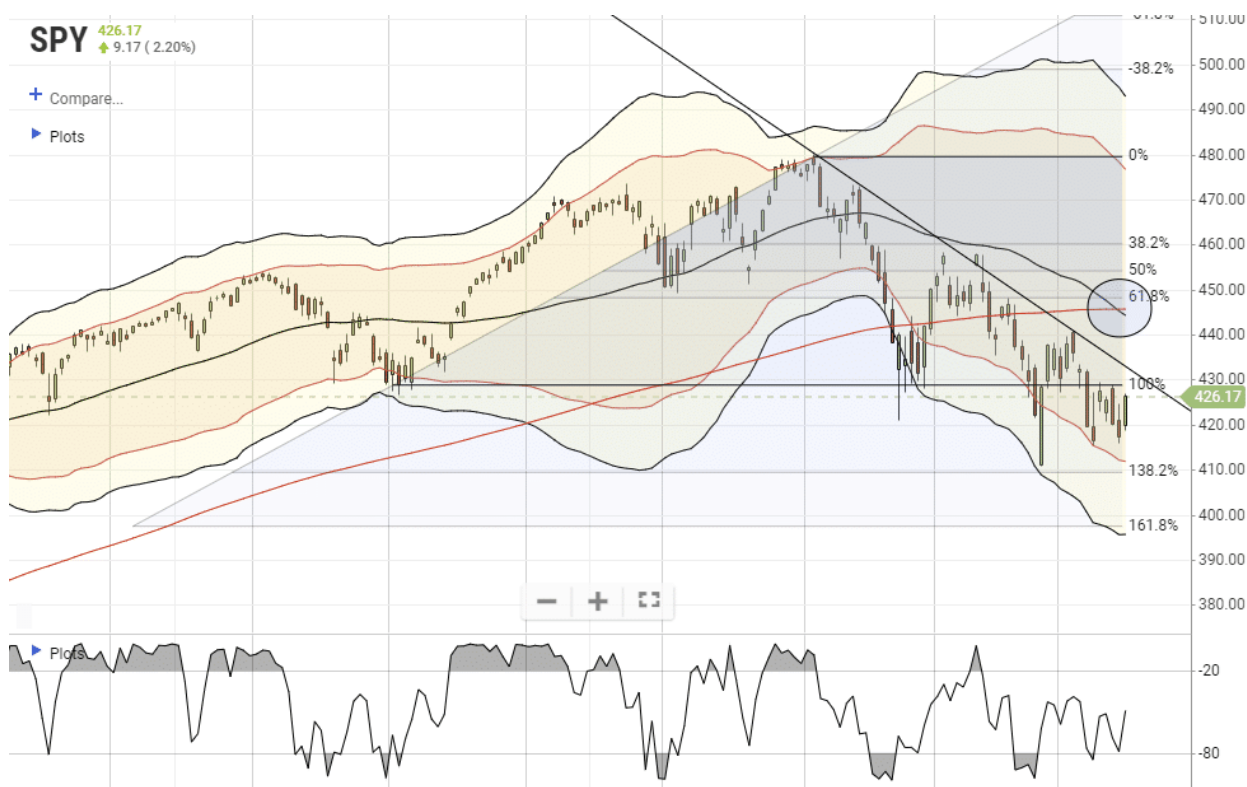
### Post-market

- **Williams-Sonoma (WSM)** to report adjusted earnings of \$4.79 on revenue of \$2.58 billion
- **Lennar (LEN)** to report adjusted earnings of \$2.60 on revenue of \$6.17 billion

## Market Trading Update - Market Rallies

As we warned last Friday in our "Weekly Market Recap," the probability of a substantial "risk-off" move in gold and oil was likely. The reasoning was that any perceived "positive news," either on the war front or with the Fed, would send money rotating out of the inflation trade and back into risk assets. Such was indeed the case yesterday but could swing back today depending on what the Fed says this afternoon.

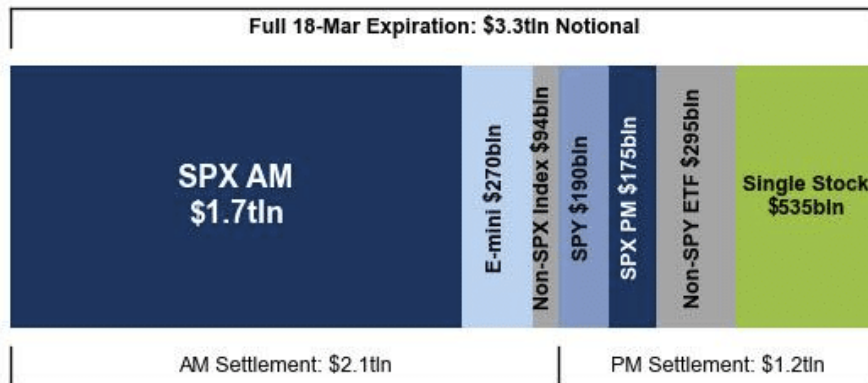
Technically, the market remains in a difficult spot. The downtrend is intact, the "death cross" is now clearly evident providing strong overhead resistance and the market remains below the break of the "neckline" at the September/January lows. While a short-term rally is likely, and we added some minor exposure yesterday, it is still a rally we will want to sell into. Caution is advised.



## The Other Big Event - Quadruple Witching

"While much digital ink will be spilled in the next 48 hours dissecting the Fed's next move which will most likely be the first 25bps hike in over two years, instead we will focus on next Friday's March options expiration, which sees a massive \$3.3tln of derivative notional expiring, not only right after the FOMC decision but also in the midst of a complex geopolitical situation." - Zerohedge

**Exhibit 1: \$3.3tln of option notional, including over \$2tln of SPX-linked options, expires on Friday 18-Mar**  
Notional open interest of US-listed options expiring on 18-Mar-2022



Source: Goldman Sachs Global Investment Research, OptionMetrics, Bloomberg

Overall, some 30% of S&P open interest expires on March 18.

## Exhibit 11: 30% of SPX open interest expires on 18-Mar

Notional open interest statistics



Source: Goldman Sachs Global Investment Research, OptionMetrics

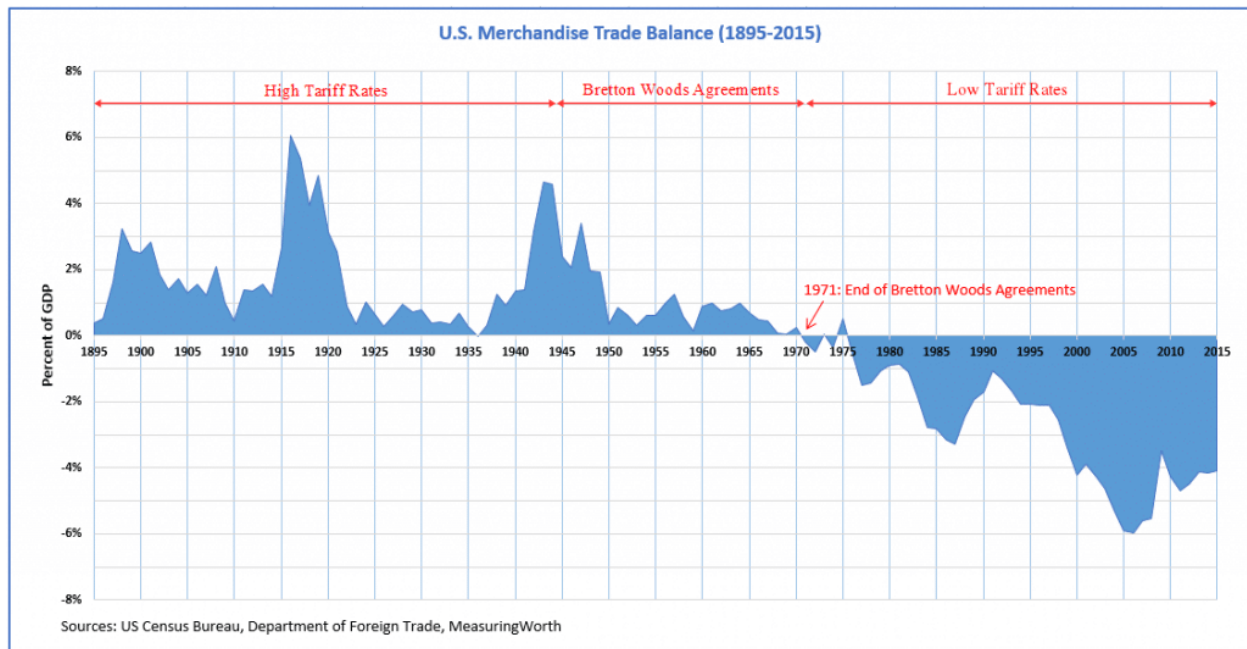
## Yuan for Saudi Oil

\*Saudi Arabia in Talks to Price Its Oil Sales to China in Yuan - WSJ

If the headline is valid, this is important news and likely underappreciated by many. The global financial system is based on the U.S. dollar as the reserve currency. Because almost every country uses U.S. dollars for trade, they must hold a reserve of dollars. Those dollars are invested in bonds and other U.S. assets, including stocks. Since WW2, the reserve currency privilege has allowed the U.S. to run massive trade deficits and fund fiscal deficits at low-interest rates. For decades, low-interest rates fueled asset speculation and let consumers and corporations have more debt than would have been possible. Simply there was more economic growth than would have otherwise been possible.

While a China-Saudi deal does not end the dollar's dominance in world trade, it is a big event, especially if it is the beginning of a trend. For more on the dollar's role in the global financial system, we recommend reading our article Triffin Warned Us. The graph below comes from the article.

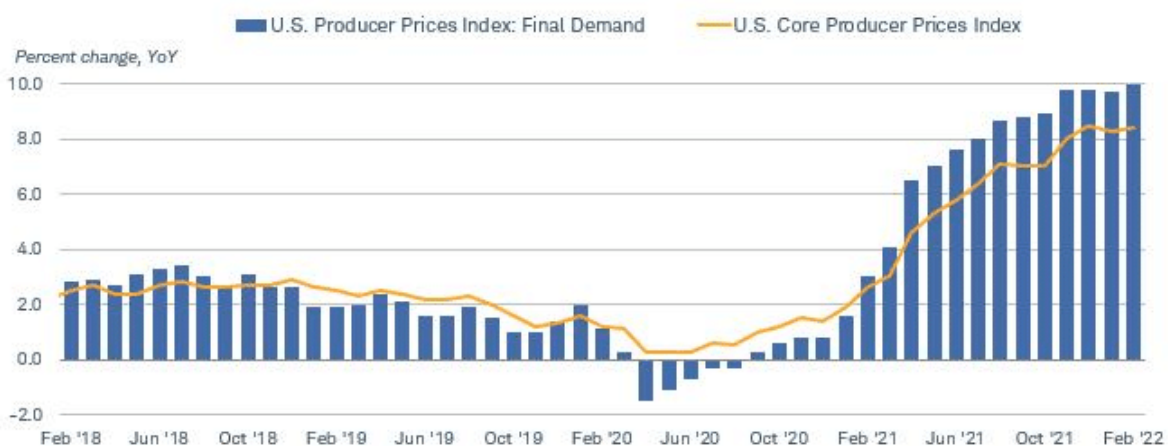




## PPI Not As Bad As Expected

PPI hit 10% as expected on a year-over-year basis. While double-digit inflation is concerning, there was a bit of good news in the report. The 0.8% increase in PPI for February was less than the 1% expectation and 1.2% from the prior month. Further core PPI (stripping out food and energy prices) is well below estimates at +0.2% versus expectations of +0.6%. It is also well off the July 2021 high of +1.0%. It's too early to call a peak in PPI as next month's PPI report could get dicey due to the Russia-induced surge in commodity prices. The graph below compares PPI and CPI. As you can see in both, the annual inflation rate is flattening. While occurring at a very high level, it does provide some hope that they will both start retreating in the coming months.

**Core Producer Prices provide a more stable measure as it excludes volatile food, energy, and trade prices**



Note: U.S. Producer Price Index is a measure of the change in the price of goods as they leave their place of production.  
 Source: Bloomberg. U.S. Producer Prices Index: Final Demand (FDIUFDYD Index), Core PPI: U.S. Producer Prices Index: Final Demand Less Foods Energy and Trade Services (FDIUSGYD Index). Monthly data as of February 2022.

## AMC: Movies and Mining

AMC, the 2021 meme stock darling, whose stock price rose from \$10 to \$70 in weeks, is entering the mining business. Since AMC's startling rise, on the back of a massive short squeeze, the shares have been steadily declining. As shown below, they are now back to levels when the squeeze first started. Yesterday we learned that AMC is buying 22% of Hycroft Mining (HYMC).

HYMC has an estimated 15 million ounces of gold deposits and 600 million ounces of silver deposits. AMC has taken advantage of the higher stock price by issuing shares. It appears they will use the money to diversify from the entertainment business into mining. This is undoubtedly one of the stranger mergers we have ever witnessed.

Per AMC's CEO Adam Aron: *"Our strategic investment being announced today is the result of our having identified a company in an unrelated industry that appears to be just like AMC of a year ago. It, too, has rock-solid assets, but for a variety of reasons, it has been facing a severe and immediate liquidity issue. Its share price is knocked low as a result. We are confident that our involvement can greatly help it to surmount its challenges ? to its benefit, and to ours.?"*



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