



Polar Futures Guarded Opportunity

March 2018

Monthly Performance = -1.13%

YTD = 4.46%

*net of fees

The volatility that hit markets in February stayed with us through the month March. While many markets had modest moves on a month by month basis, the chop on a daily or weekly basis continued. The market is getting swung violently by ever changing drivers (think daily headlines) making clear trading setups harder to find and even harder to try and stay with. However we still look for these extreme moves to cause mispricings that offer up great opportunities. We had a modest pullback of 1.13% through the month due mostly to our position in crude oil.

We started the month with a short oil position that we extended the timeframe of in February. Oil had ended February on a soft note and we were looking for that to continue through March. The thesis was that continued growth in US production would overpower demand and add to US stockpiles. At the same time the record size speculative long position would look to start taking some profits creating a wave of selling as prices started moving lower. However a surprise oil inventory draw, some reintroduction geopolitical problems in the Middle East and a softer USD towards the end



of the month saw crude prices jump back to their recent highs. However oil has turned lower after touching those highs and looks to be slumping off into the end of the month. While a longer shot, our small position still has a fighting chance to bring back some value.

We also maintained a short CAD position that was established at the end of January. Through the first half of the month we saw CAD trade down to new 8 month lows. We continue to look for CAD to work back to the low 70's as the "laundry list" of issues facing Canada persists. The rally through the middle of the month was largely based on headlines that NAFTA negotiations were improving and of the tougher topics were seeing some concessions. That rally seems to be running out steam at the 78 cent level, I think it would be hard to price in much more on these hopeful headlines. I also believe that if the USD strength we saw at the end of the month were to persist, the pressure on CAD to move lower would likely come back as well. The other key driver I have been watching is the 2yr interest rate differential with the US. This is shown in the Bloomberg chart below of CAD price with the interest rate differential (orange line). In the circled red area we see that spread is moving back toward the recent low and given my view that the Bank of Canada is much more likely to keep rates on hold longer than the Fed, I look for that spread to continue moving lower.



In the latter half of March we established a short position on the EUR. The EUR has been rallying broadly since the beginning of 2017 as the USD has gone the other way. The recent stall in the EUR at roughly 1.25 seems to be significant resistance. Interest rate differentials continue to move in favour of the USD, however they have not mattered as of late as other factors have taken over in importance. I believe the interest rate spreads can only be ignored for so long and if we get weaker price action, they will come back into the conversation. One of the other key factors is that speculators have built and hold a record long position in EUR, which may get squeezed if we see a move lower. The economic outperformance in Europe of late has also slowed with PMI's rolling over from the start of the year. The Citi economic surprise index for Europe (*the index is gauge of beating or missing economic expectations*) has also rolled over from a 58 reading at the end of January to -56 at the end of March. This loss of economic momentum is likely to slow ECB policy action, which I already view as being priced to hawkishly. I am also aware that should we see any large equity market sell off we would likely see the USD outperform.



Until next month,

Drew Zimmerman

DZIMMERMAN@PIFINANCIAL.COM

604-664-2842

POLARFUTURESGROUP.COM

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