



Polar Futures Guarded Opportunity

October 2018

Monthly Performance = 14.17 %

YTD = 2.12 %

**net of fees*

At the start of the month equity markets turned lower and volatility increased across most asset classes as sentiment swung towards a “risk off” bias. The managed program had two key trades in the oil and currency markets to take advantage of the “risk off” moves to post our best monthly return ever, moving up over 14% in the month. I expect that the market sentiment will likely stay more risk adverse in the coming month and that volatility will remain high which should provide continued trading opportunities.

We still hold a small corn position that came over from last month with very little value. As corn prices continue to consolidate, no value has come back into this position. It is not worth trading out of at these levels in case prices jumped sharply on something like a trade deal with China. As the position has no value it is not a drag on the program.

We had established a long USD Index position at the end of September that we held through the month of October. We had established this position given a good technical entry point and the fundamental belief that tighter Central bank policy in the US would continue to drive interest rate differentials in the USD’s favour. It is also my belief that as the ECB tries to wind down their asset purchases the sovereign and corporate bond market have some shudders adding to issues being faced from Brexit / Italy. I continue to believe that slower growth and monetary tightening by the ECB will cause more turmoil in Europe as that plays out making the USD look like the more attractive market to place capital. These safe haven flows were also driven by equity markets rolling over, most notably the higher momentum technology stocks. I see continued equity market volatility ahead as investor psychology seems to have shifted to a continued “risk off” bias which should continue to keep a safe haven bid in the USD.



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The Canadian dollar surged to multi-month highs on the back of an agreement of the “new NAFTA” agreement now known as the USMCA. But once new multi-month highs were hit the day after the announcement, CAD was not able to maintain those gains and started trading lower. That price action gave me the confidence to stay with our short position in CAD. It was my view that CAD had stayed stronger over the past several months as hope for a NAFTA deal kept a bid in the currency, while other commodity currencies like the Australian dollar were making new 2.5 year lows. I think that

while the Bank of Canada has raised rates, they will not be able to raise rates as fast as the FED

does, which will drive interest rate differentials in favour of the USD. I also believe that the help CAD has been getting from higher oil prices would be running out as the oil market looked to have put in the highs for the near term. Also, western Canada select oil prices have started to head lower and at month end traded at over a \$30 discount to WTI. Softer oil prices and my view that USD should continue to strengthen gives me further confidence to stay with a short CAD position.

Oil surged to almost 4 year highs on the back of concerns that as US sanctions went against Iran the world would be faced with an undersupply of crude. As crude had rallied over \$10 from the August lows to the start of October I thought the fears of this oversupply of crude had gotten too extreme as different forecasters started talking about \$100 oil again. We established a short position at what we thought were very high prices thinking it offered a very good risk/reward entry position. Fortunately we were able to time the roll over in prices well and oil prices started to drop quickly. US production continued to move higher and US inventories started to have a series of very large inventory builds. Also very important was the death of Saudi journalist Khashoggi in a Saudi embassy in Turkey. It was my thought that it was most likely the US would try and work with, rather than against Saudi, to find out what happened. Given that, it would make Saudi more willing to oblige the US in pumping more oil to fill the gap that was supposed to be left from the Iranian sanctions. Toward the end of the month we saw a large down move \$66 which was near the August lows. I thought it was possible this could be a level of support and as political tensions started to heat up around the Khashoggi issue, I thought any move against MBS' leadership could cause a sharp spike higher in oil. Given that worry we used that surge lower in prices to take our position off for a very good return in less than three weeks.



I had been anticipating weakness in the stock market and an increase in overall volatility over the past several months, and as such had poor performance as it didn't come until this month. But I am pleased that I was able to take positions that were able to benefit from some of the moves that came about. I believe that the performance this month helped to prove my trading methodology that by taking small limited risk trades that maintain large upside potential we can manage downside volatility on a month to month basis while still being able to see larger upside swings. As volatility has picked up, focusing on key entry points will be critical to managing risk going forward, but I think there will be great trading opportunities as we move through a more volatile market.

Until next month,

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