

Market Review

The one-month NYMEX® natural gas futures (“gas futures”) were close to unchanged and returned 0.47% during the fourth quarter ended December 31, 2020 (“Q4”).

Q4 2020 started on a good note in October 2020. This was a follow-through from Q3 2020, which also saw gains. Gas futures returned over 30% in October 2020 as investors anticipated a strong heating season ahead. The gains were short-lived, however, with gas futures giving up most of the October 2020 gains in November 2020 and December 2020.

Outlook and Positioning

Ironically, strong oil prices might have been to blame for the poor natural gas prices at the end of 2020. Crude oil prices were generally higher throughout November 2020 and December 2020 as vaccine optimism prompted traders to revise crude oil demand higher. The shut down of many Persian Basin oil wells in Q2 2020 due to low oil prices also reduced natural gas production, and has been a help for gas futures prices. However, higher oil prices could mean a return to production of these wells, and in effect increased natural gas supply. Forecasts of a warmer than expected winter also weighed on prices, especially following last winter, which was one of the warmest on record.

Outlook and Positioning

Despite the traditionally volatile winter heating season, implied volatilities in natural gas peaked at the beginning of the Q4 2020 period and trended lower throughout. Despite the lower levels, however, volatilities still remain at the higher end of the range of the past several years.

During each month, options are generally written on approximately one-third of the Natural Gas Portfolio. The premiums are received from selling call options at strike prices that are at-the-money or out-of-the-money. The ETF's monthly distributions are not fixed, but vary as the premiums generated from covered call writing are earned and passed through, and will change with changes in implied volatility and time to option expiration.

The Investment Manager, to the best of its ability, hedges the U.S. dollar exposure of the underlying assets back into Canadian dollars. The ETF's performance, during periods when the U.S. dollar appreciates, will be negatively affected compared to if the U.S. dollar exposure had been unhedged.

The Canadian dollar strengthened 4.46% versus the U.S. dollar in the quarter ended December 31, 2020.

