

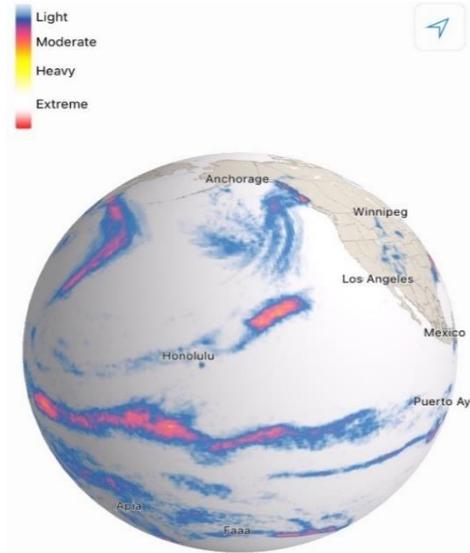


MARKET ALERT

Will There Be Another March Miracle? How will this affect the Index Futures?

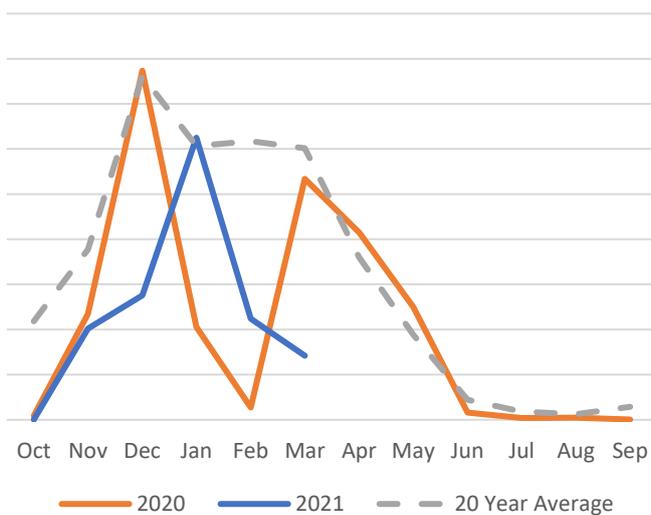
The Good News

As can be seen from the satellite imagery 3 different types of large weather fronts are heading towards the coast of California. A recent high-pressure cell that was causing offshore airflow, and thereby preventing weather fronts coming into California, has now dissipated. March has seen small bouts of precipitation in the region and with more precipitation forecast at the end of the week onwards. Moving into April we may see precipitation levels move up towards to the 20 year average. Our model shows the recent weather that hit Honolulu may arrive just before the front coming down from Alaska, with a larger front following about 4-5 days thereafter.



Ref. Dark Sky

CENTRAL VALLEY PRECIPITATION 1 YEAR COMPARISON



Central Valley average is calculated using data from 19 weather stations in the Central Valley, California

The Bad News

A year ago, February 2020 was one of the driest, if not the driest February recorded in Californian history. Then came March and some much-needed precipitation. This last-minute relief brought 2020 in California closer to the 20-year average. Fast forward one year, February 2021 sits at 64% below the 20-year average, so while it is not as bad as 2020 it is still an extremely poor precipitation level. As it stands March precipitation levels are sitting 76% below the 20-year average. The 3 incoming weather fronts need to be substantial to change this.

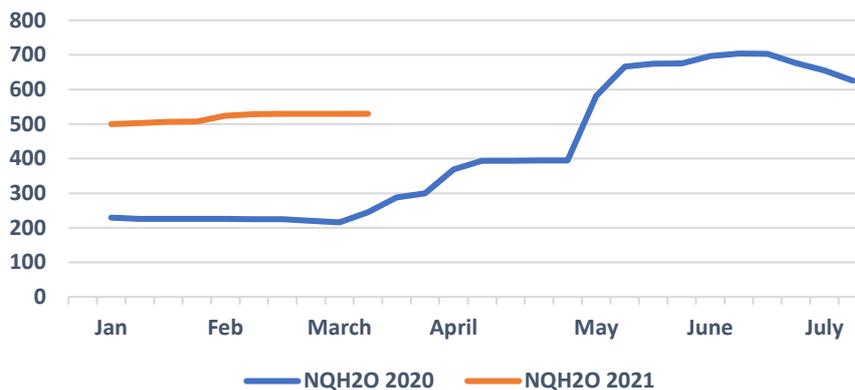
The Futures

The Table on the right-hand side shows the weekly price moves in percentage terms for NQH2O during 2020. Coming off a low of \$215 on the 4th March 2020 the index showed 2 relatively large moves upwards in March and then a 23% move up on the 1st April.

On the 5th May the index dramatically jumped 47.34% in a week taking it to \$581.63 which is just over \$50 higher than where we are now. This was followed by a further 14.6% increase the following week. It is most probably fair to say the index will climb over the next few months but perhaps not as dramatically in percentage terms as we saw last year. The index had a higher base start this year of \$499.83

Technical analysis shows that NQH2O has the potential reach last year's highs in the region of \$700 up 32% and possibly higher.

NQH2O 2020 vs 2021 Comparison



What will be important to note is that this week the March futures expire on Wednesday 17th March. The April futures expire on the 21st April giving them a 5 week trading term. It is possible that some deals that were negotiated earlier in the year will have reached conclusion, and these may be at much higher levels, which could indicate the index levels and hence the April futures may expire higher than the March futures. Judging on last years performance it is also reasonable to assume that during May and June we would expect the index to be firmer and the futures expiring at even higher prices.

But notably, if there is considerable precipitation in the short term then the later dated futures, for example the December 2021 futures, and quarterly 2022 futures may trade in backwardation to the near contracts. This would be in expectation that the index price will soften in the second half of the year, similar to 2020.

DATE	NQH2O	CHANGE (%)
01/02/2020	238.0587	
01/08/2020	229.5168	-3.59%
01/15/2020	225.5586	-1.72%
01/22/2020	225.4217	-0.06%
01/29/2020	225.2848	-0.06%
02/05/2020	225.2914	0.00%
02/12/2020	225.0778	-0.09%
02/19/2020	224.805	-0.12%
02/26/2020	220.4071	-1.96%
03/04/2020	215.6924	-2.14%
03/11/2020	244.7539	13.47%
03/18/2020	287.3255	17.39%
03/25/2020	299.4743	4.23%
04/01/2020	368.9504	23.20%
04/08/2020	393.3737	6.62%
04/15/2020	393.8373	0.12%
04/22/2020	394.3009	0.12%
04/29/2020	394.7646	0.12%
05/06/2020	581.6347	47.34%
05/13/2020	666.5299	14.60%
05/20/2020	674.1629	1.15%
05/27/2020	675.3554	0.18%
06/03/2020	697.0366	3.21%
06/10/2020	703.9926	1.00%
06/17/2020	703.48	-0.07%
06/24/2020	676.1341	-3.89%
07/01/2020	655.17	-3.10%
07/08/2020	625.4367	-4.54%

Note the attachment is not an inducement to trade and Veles Water does not give advice on investments.



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