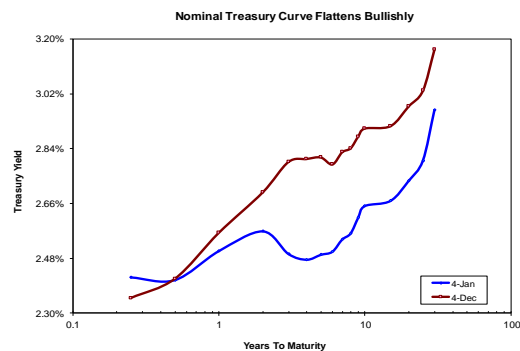


There are times when noise dominates signal to such an extent it is easy to forget what the underlying signal ever was. The Federal Reserve's belated recognition it, too, is mortal is adding to the Presidential noise on trade and a continual stream of corporate events such as Apple's earnings warning. The underlying signal remains bearish, but it takes a great deal of fortitude to remain cautious during these violent bear market rallies. Discretion shall remain the better part of valor in the first quarter. The causal chain now is:

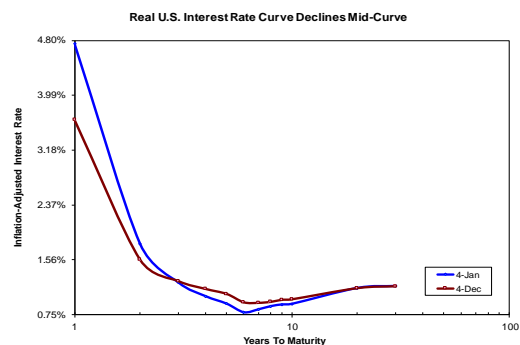
1. The market has priced out a 2019 rate hike;
2. The yield curve has paused in its short-term bullish steepening;
3. Inflationary expectations have ended their decline;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads remain inverted; and
6. CDS costs have stopped rising.

Key Market Indications

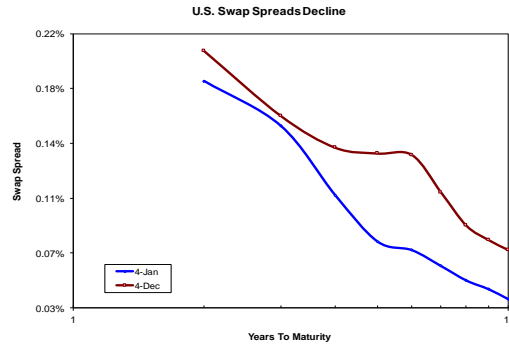
The long end of the UST yield curve's haven-bid rally ended with Powell's concession to reality, as did the decline in inflation expectations. We need to remember this has been a reactive rally, one prone to ending once economic signals become clearer. Demand for sovereign debt will evaporate along with the Federal Reserve's dovishness whenever that happens.



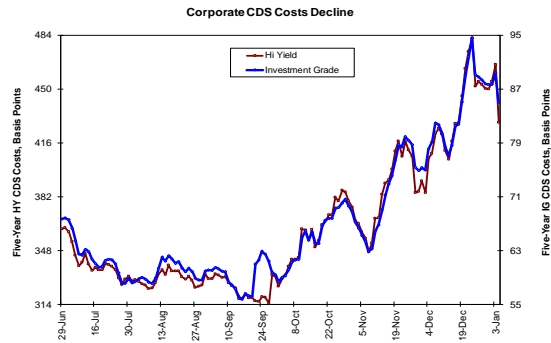
The pseudo-real yield curve continued both its shift higher at the short end and has started to shift lower mid-curve.



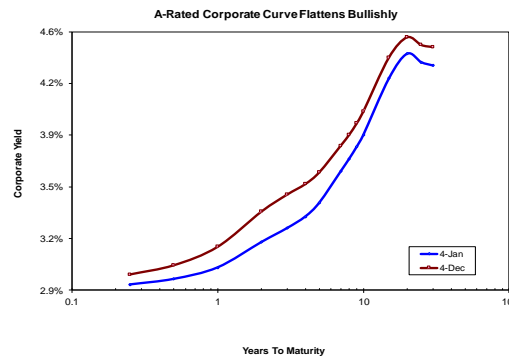
Swap spreads, which rise when floating-rate borrowers want to fix their payments, declined across the maturity spectrum as the future of rate hikes is uncertain.



CDS costs have stopped rising as short-term rate hike expectations diminish and as crude oil prices have stopped declining. We are unlikely to revisit the lows from early autumn anytime soon.



The A-rated corporate yield curve continues to flatten bullishy at UST yields are declining relative to credit spreads. This remains a derivative rally dependent on continued high levels of uncertainty.



Market Structure

The main Bloomberg index and Natural Gas joined Industrial Metals and Softs in structural downtrends, while Grains and Precious Metals remain in uptrends. The S&P 500 exited its structural downtrend amongst the financials.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Jan. 7 - 11
BBERG	23	Trending	-0.053	11.1%	-0.19%
BBERG Grain	26	Trending	0.067	10.2%	0.51%
BBERG Ind. Metl	29	Trending	-0.143	12.9%	-0.29%
BBERG Pre. Metl	29	Trending	0.385	8.8%	0.12%
BBERG Softs	26	Trending	-0.213	17.8%	-0.27%
BBERG Nat. Gas	21	Trending	-0.188	23.5%	-0.17%
BBERG Petroleum	19	Transitional	0.008	42.3%	
BBERG Livestock	12	Transitional	-0.073	7.1%	
Dollar Index	25	Trending	-0.112	6.1%	-0.13%
S&P 500 Index	7	Sideways	0.057	25.9%	
EAFE Index	29	Trending	-0.077	13.3%	-0.34%
EM Index	29	Trending	-0.076	11.9%	-0.11%
Ten-year UST (price)	29	Trending	0.295	4.9%	0.13%

Performance Measures

Natural Gas continued to demonstrate extreme volatility, declining 13.3%, while the Petroleum complex once again showed a willingness to reinstate its Groundhog Day rally following Saudi promises of export cuts. Grains, especially soybeans, rose on expectations of greater exports to China if and when a trade agreement is reached.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
Bloomberg Index	0.74%	-6.00%	-8.12%	-9.11%
Grains Sub-Index	2.77%	-1.04%	-1.30%	-3.67%
Corn	2.33%	-0.46%	0.50%	-2.69%
Soybeans	4.48%	-0.71%	1.10%	-9.94%
Wheat	1.33%	-2.50%	-4.25%	5.45%
Energy Sub-Index	-0.29%	-16.23%	-17.46%	-8.46%
Petroleum Sub-Index	7.21%	-7.90%	-26.57%	-15.52%
WTI	7.59%	-8.81%	-31.00%	-17.34%
Brent	8.27%	-7.57%	-24.63%	-10.74%
ULSD	5.94%	-5.62%	-17.81%	-11.09%
Gasoline	5.48%	-9.26%	-30.08%	-25.31%
Natural Gas	-13.31%	-29.82%	7.57%	7.74%
Precious Metals Sub-Index	1.02%	3.87%	1.13%	-4.87%
Gold	0.42%	2.84%	2.11%	-3.42%
Silver	3.16%	7.62%	-2.14%	-9.50%
Industrial Metals Sub-Index	0.20%	-3.35%	-10.01%	-17.03%
Copper	-0.71%	-3.88%	-6.49%	-19.01%
Aluminum	1.20%	-4.34%	-9.54%	-13.04%
Nickel	3.22%	1.76%	-20.43%	-11.45%
Zinc	-2.21%	-5.53%	-6.84%	-23.05%
Softs Sub-Index	-1.05%	-6.36%	-8.31%	-23.57%
Coffee	-0.09%	-2.22%	-15.25%	-27.95%
Sugar	-2.56%	-7.13%	-1.99%	-26.30%
Cotton	0.69%	-9.44%	-15.04%	-6.15%
Livestock Sub-Index	-0.48%	-2.30%	3.60%	-0.99%
Cattle	-1.58%	0.52%	5.79%	2.92%
Hogs	2.33%	-8.56%	-0.32%	-9.11%

The USD declined against all but the EUR and CHF as the market is pricing out higher short-term interest rates in the U.S. in 2019. The strong rallies in the Latin American currencies are likely to fade once trading becomes more active following the holidays.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	-0.43%	0.46%	-2.25%	-5.58%
Chinese yuan	0.14%	-0.48%	-3.45%	-5.47%
Japanese yen	1.62%	3.93%	1.82%	3.91%
British pound	0.19%	0.03%	-3.83%	-6.11%
Swiss franc	-0.30%	0.99%	0.55%	-1.36%
Canadian dollar	1.97%	-0.84%	-1.73%	-6.63%
Australian dollar	0.94%	-3.07%	-3.70%	-9.55%
Swedish krona	0.31%	0.54%	-2.00%	-9.27%
Norwegian krone	1.10%	-1.25%	-5.84%	-6.34%
New Zealand dollar	0.21%	-2.86%	-0.44%	-5.90%
Indian rupee	0.31%	1.11%	-1.42%	-9.07%
Brazilian real	4.34%	3.60%	5.33%	-13.05%
Mexican peso	1.24%	5.67%	0.21%	-0.66%
Chilean peso	1.65%	-2.15%	-4.40%	-11.27%
Colombian peso	1.89%	-0.49%	-8.97%	-9.55%
Bloomberg-JP Morgan Asian dollar index (spot)	0.30%	0.29%	-1.24%	-4.30%

This week's gains represent a pricing out of Federal Reserve intransigence; their previous behavior will return once markets calm down, however. We have not seen the end of the trade story, however.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	2.29%	-2.98%	-8.98%	-9.50%
North America	2.02%	-6.00%	-6.35%	-5.87%
Latin America	6.60%	5.44%	11.94%	-4.37%
Emerging Market Free	1.34%	-1.35%	-7.71%	-17.35%
EAFE	2.93%	-1.69%	-10.89%	-14.60%
Pacific	0.67%	-3.82%	-9.28%	-14.11%
Eurozone	3.71%	-0.58%	-14.16%	-17.28%

All of the professional traders posted gains on the week, which is impressive considering the continued high levels of volatility and event risk. Too bad this follows months of absolute losses and an ongoing spate of fund closures.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
SocGen CTA	0.36%	3.91%	-1.99%	-8.04%
SocGen Trend	0.42%	3.53%	-0.32%	-5.83%
SocGen Short-Term	1.03%	3.10%	0.67%	0.91%
HFR Global Hedge Fund	0.46%	-2.04%	-6.01%	-7.23%
HFR Macro/CTA	0.66%	2.44%	-1.06%	-3.36%
HFR Macro: Systematic Diversified CTA	0.74%	3.77%	-0.70%	-4.64%