

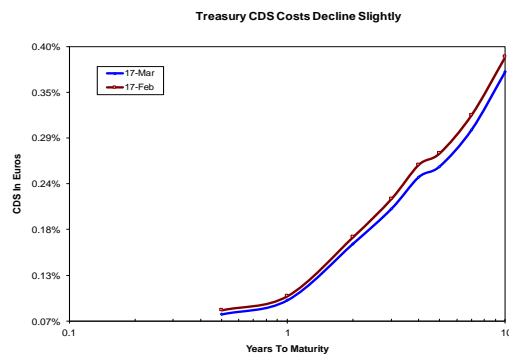
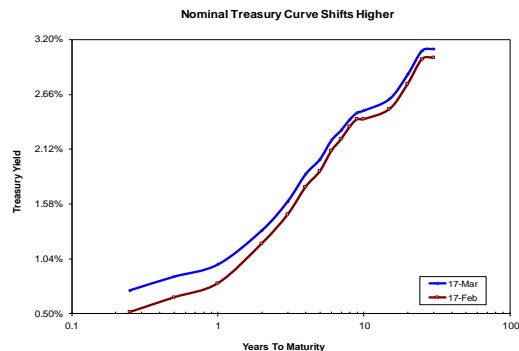
The most interesting development this week to these eyes was not the bullish reaction to an insufficiently hawkish FOMC but rather the quiet trade in U.S. equities on an expiration day. This is what happens when floors disappear, market-makers consolidate and commercial banks labor under the Volcker Rule. One day this lack of liquidity will have vicious consequences. Not now, though. The causal chain now is:

1. The market is pricing in higher short-term rates in 2017;
2. Inflationary expectations have stopped rising;
3. The U.S. yield curve continues in its secular flattening trend;
4. Short-term borrowers have stopped terming out short-term debt into the bond market;
5. Swap spreads are lowering their expectation of higher future short-term rates; and
6. CDS costs remain consistent with a bull market in risky assets.

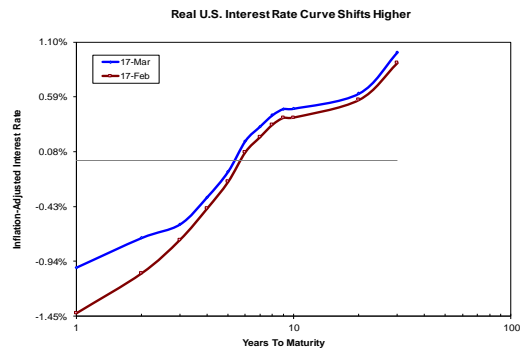
### Key Market Indications

The flattening of the yield curve via relatively higher short-term rates continues. The threat of a UST selloff in the face of excessive fiscal stimulus will prevent the federal government from going overboard on that stimulus. Uncle Sam cannot service the current debt level without a massive inflow of foreign capital at this juncture. Foreign creditors are this generation's bond market vigilantes.

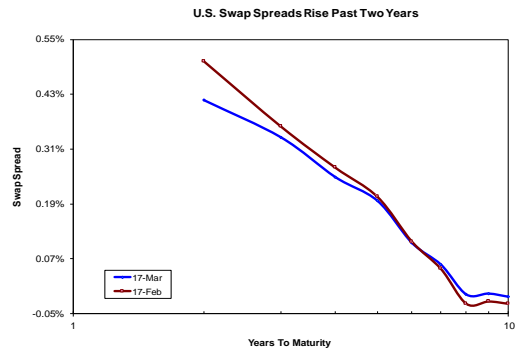
CDS costs on UST have decreased very slightly over the past month. This market is going to remain very quiet until and unless the Republican Congress decides to engage in a civil war.



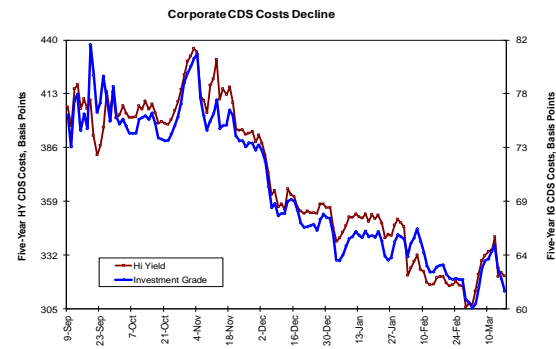
The pseudo-real yield curve rose across the maturity spectrum. Unlike previous increases at the short end of the yield curve, this did not push precious metals lower this week. Just wait. The small increase at the long end of the yield curve did not affect risky assets.



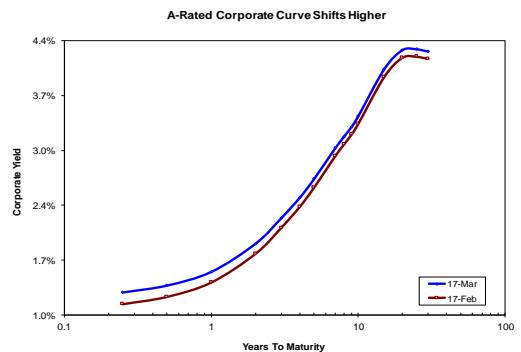
Swap spreads, which rise when floating-rate borrowers want to fix their payments, finally shifted lower inside of six years. Yields will be rising, but that rate of increase will be controlled.



CDS costs retreated once again but did not break their earlier lows. We should expect these indices to remain at or near current levels through mid-year.



The A-rated corporate yield curve sold off across the maturity spectrum in response to higher UST yields. This is a pause in a bull market, for now, but the risk/reward simply does not favor strong gains while the yield curve is flattening bearishly.



## Market Structure

Industrial Metals exited their downtrend and Livestock entered an uptrend, but the physical markets remain under pressure. The dollar index exited its uptrend and the EAFE entered a strong uptrend within the financials.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Mar. 20 - 24
B Berg	29	Trending	-0.269	7.8%	-0.27%
B Berg Grain	29	Trending	-0.167	13.7%	-0.44%
B Berg Ind. Metl	22	Trending	0.030	14.9%	
B Berg Pre. Metl	26	Trending	-0.043	10.3%	-0.78%
B Berg Softs	4	Sideways	0.013	13.0%	
B Berg Nat. Gas	14	Transitional	0.017	25.0%	
B Berg Petroleum	29	Trending	-0.337	18.7%	-0.10%
B Berg Livestock	26	Trending	0.171	9.1%	0.22%
Dollar Index	28	Trending	-0.141	6.0%	
S&P 500 Index	10	Sideways	0.040	5.7%	
EAFE Index	29	Trending	0.304	8.0%	0.07%
EM Index	16	Transitional	0.287	9.4%	
Ten-year UST (price)	29	Trending	-0.069	4.5%	-0.13%

## Performance Measures

The number of “expectational reversals” this week was quite large and included a signal from the Saudis they might not be all that interested in starting a price war, a weaker USD and another bearish flattening of the U.S. yield curve accompanied by another rally in global equity markets. This triggered short-covering in the Petroleum, and both Precious and Industrial Metals markets.

	Five-Days	One Month	Six Months	One Year
<b>Bloomberg Index</b>	1.06%	-3.32%	1.26%	5.84%
<b>Grains Sub-Index</b>	-0.04%	-3.22%	1.03%	-5.21%
Corn	0.91%	-2.08%	3.41%	-8.46%
Soybeans	-0.63%	-4.10%	-1.59%	9.59%
Wheat	-0.95%	-4.18%	0.35%	-19.06%
<b>Energy Sub-Index</b>	-0.31%	-6.41%	-1.72%	4.83%
Petroleum Sub-Index	0.40%	-8.34%	3.59%	4.10%
WTI	0.59%	-8.84%	4.08%	0.01%
Brent	0.64%	-7.79%	4.15%	8.62%
ULSD	0.23%	-8.45%	2.16%	8.68%
Gasoline	-0.21%	-8.42%	3.48%	-0.56%
Natural Gas	-2.26%	-0.48%	-14.60%	8.49%
<b>Precious Metals Sub-Index</b>	2.52%	-1.55%	-8.00%	0.05%
Gold	2.38%	-0.71%	-6.98%	-2.92%
Silver	2.91%	-3.77%	-10.37%	8.21%
<b>Industrial Metals Sub-Index</b>	3.63%	-0.65%	19.21%	24.03%
Copper	3.73%	-1.00%	23.44%	15.92%
Aluminum	1.83%	1.70%	20.67%	23.40%
Nickel	3.65%	-7.29%	-1.26%	16.60%
Zinc	6.57%	2.54%	24.54%	54.22%
<b>Softs Sub-Index</b>	0.37%	-5.60%	-9.87%	9.97%
Coffee	0.51%	-4.97%	-12.61%	-3.35%
Sugar	-0.26%	-10.27%	-19.67%	8.76%
Cotton	1.40%	3.81%	8.21%	34.83%
<b>Livestock Sub-Index</b>	1.42%	1.35%	12.67%	-9.11%
Cattle	1.94%	4.23%	11.68%	-5.19%
Hogs	0.68%	-3.24%	13.87%	-15.13%

The USD weakened against all currencies in this table; the FOMC’s tightening was not tight enough. This is most likely a retreat in a secular USD bull market even though the Federal Reserve is going to be quite cautious in raising rates so much that the USD rises rapidly. This will be quite a stunt if they can execute it.

	Five-Days	One Month	Six Months	One Year
Euro	0.61%	1.15%	-3.91%	-5.12%
Chinese yuan	0.09%	-0.53%	-3.40%	-6.17%
Japanese yen	1.85%	0.12%	-9.56%	-1.16%
British pound	1.88%	-0.13%	-4.87%	-14.40%
Swiss franc	1.27%	0.44%	-1.80%	-3.07%
Canadian dollar	0.91%	-1.90%	-1.10%	-2.80%
Australian dollar	2.15%	0.52%	2.26%	0.72%
Swedish krona	1.96%	0.87%	-3.06%	-7.42%
Norwegian krone	1.42%	-1.59%	-2.23%	-1.84%
New Zealand dollar	1.36%	-2.30%	-3.78%	2.41%
Indian rupee	1.73%	2.36%	2.28%	1.94%
Brazilian real	1.63%	0.20%	5.87%	17.35%
Mexican peso	2.79%	7.09%	3.21%	-9.22%
Chilean peso	0.26%	-2.64%	1.99%	1.12%
Colombian peso	2.40%	-0.76%	0.22%	5.49%
Bloomberg-JP Morgan Asian dollar index (spot)	0.58%	0.41%	-1.58%	-2.98%

I commented last week the rise in corporate bond rates would put the U.S. rally on hold. This happened; all of the global indices outperformed the U.S. this past week even though the USD weakened.

	Five-Days	One Month	Six Months	One Year
<b>MSCI WorldFree</b>	1.00%	1.67%	10.58%	16.18%
North America	0.38%	1.02%	12.05%	19.14%
Latin America	2.63%	-0.40%	14.97%	25.15%
Emerging Market Free	4.29%	2.96%	9.87%	21.41%
EAFE	2.09%	2.87%	9.29%	11.81%
Pacific	1.68%	1.65%	8.57%	16.95%
Eurozone	1.87%	5.07%	11.56%	11.82%

Both CTAs and hedge funds managed gains across the board, confirming last week’s comment they were leaning long equities. The ability of CTAs to gain with a large number of reversals in physical markets suggests the action has shifted strongly into the financials.

	Five-Days	One Month	Six Months	One Year
<b>CTA/Hedge Fund Returns</b>				
Newedge CTA	0.33%	-1.62%	-2.58%	-7.06%
Newedge Trend	0.28%	-0.69%	-2.42%	-4.97%
Newedge Short-Term	0.47%	-0.36%	-7.39%	-9.43%
HFR Global Hedge Fund	0.25%	0.06%	3.53%	6.90%
HFR Macro/CTA	0.31%	-0.32%	-1.19%	-2.94%
HFR Macro:	0.24%	-0.80%	-2.61%	-3.52%
Systematic Diversified CTA				