

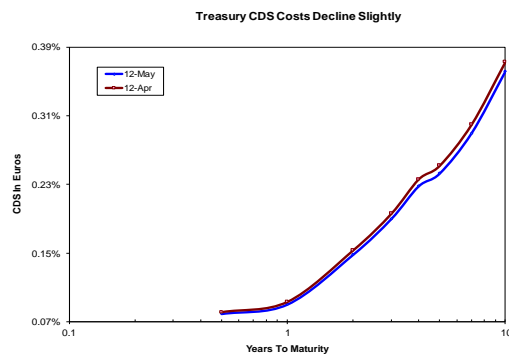
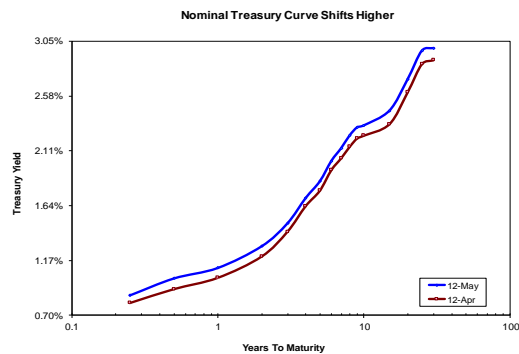
Both Watergate and the Clinton impeachment produced anxiety in financial markets. The latest Washington irruption is being ignored, and if investors are more sanguine than talking heads, so be it. The likelihood of significant policy actions diminishes daily, and that means we will see fewer mistakes. That is bullish. The causal chain is:

1. The market still is pricing in higher short-term rates in 2017, but the conviction level is declining;
2. Inflationary expectations remain under pressure;
3. The U.S. yield curve continues in its secular flattening trend;
4. Short-term borrowers are close to terming out short-term debt into the bond market;
5. Swap spreads are declining; and
6. CDS costs remain consistent with a bull market in risky assets.

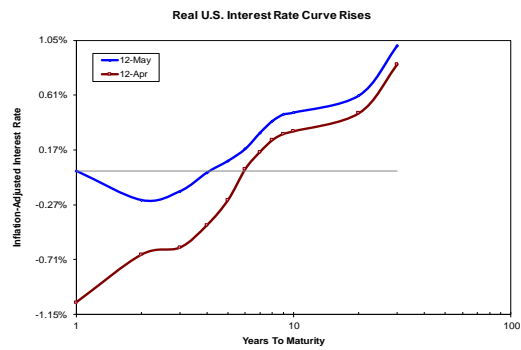
Key Market Indications

The UST market moved slightly higher, but these moves are very grudging. The market remains skeptical of any and all bearish news; this is quite something for someone who remembers when Treasuries defined skittishness. The reality is central banks are not going to liquidate and bankrupt themselves, and they are the buyers at the margin. QED.

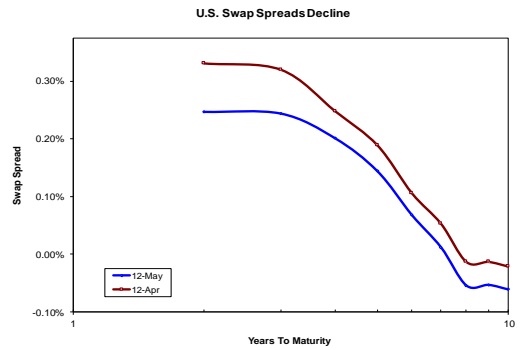
CDS costs on UST declined as Congress decided to keep the government operating for the time being. This market does not scare much anymore.



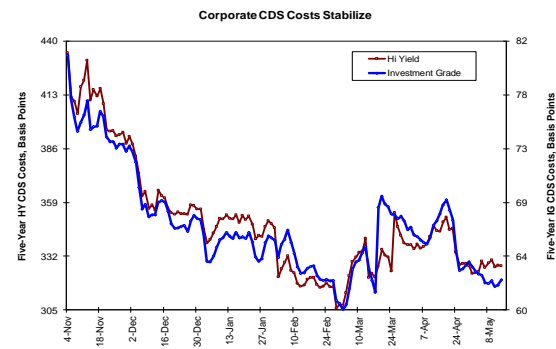
The pseudo-real yield curve shifted higher at the short end of the yield curve. This will keep downward pressure on precious metals. Small increases at the long end of the yield curve did not affect capital markets.



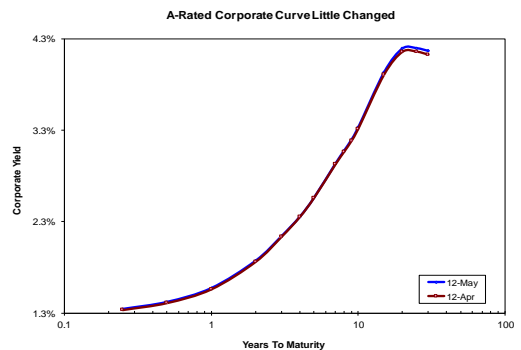
Swap spreads, which rise when floating-rate borrowers want to fix their payments, shifted lower across tenors. This is one more piece of evidence of how the reflation trade has disappeared.



CDS costs continue to stabilize as corporate bond markets continue to price out credit risk. This will end someday, but until it does, this remains a bull market.



The A-rated corporate yield curve changed little. This remains a bull market with limited upside potential.



Market Structure

Natural Gas moved into a structural uptrend amongst the physical commodities, but this remains the exception. The EAFE moved into a bullish consolidation amongst the financials.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate May 15 - 19
BBERG	29	Trending	-0.161	8.5%	-0.24%
BBERG Grain	19	Transitional	0.009	14.3%	
BBERG Ind. Metl	29	Trending	-0.144	14.7%	-0.31%
BBERG Pre. Metl	29	Trending	-0.377	9.3%	-0.38%
BBERG Softs	11	Transitional	-0.037	14.6%	
BBERG Nat. Gas	20	Trending	0.187	21.9%	0.14%
BBERG Petroleum	29	Trending	-0.181	22.7%	-0.08%
BBERG Livestock	6	Sideways	0.029	17.3%	
Dollar Index	27	Trending	-0.078	5.8%	-0.04%
S&P 500 Index	29	Trending	0.127	6.5%	0.12%
EAFE Index	4	Sideways	0.051	5.7%	
EM Index	29	Trending	0.434	6.6%	0.08%
Ten-year UST (price)	18	Transitional	-0.017	4.2%	

Performance Measures

Just when the energy markets looked like they were going to collapse, out pops a supportive inventory number. Excuse me, but prices and forward curves determine inventories, not vice-versa. But there's no percentage being right when the market is wrong. Grains pulled back from their first Northern Hemisphere silly rally of the season and Industrial Metals continue to remain under pressure.

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	0.99%	-3.20%	0.56%	-0.70%
Grains Sub-Index	-0.85%	-1.27%	-1.42%	-14.88%
Corn	0.08%	-1.79%	2.39%	-14.15%
Soybeans	-1.01%	-0.27%	-5.52%	-11.22%
Wheat	-2.13%	-2.19%	-2.19%	-22.84%
Energy Sub-Index	3.79%	-6.45%	3.12%	-2.46%
Petroleum Sub-Index	3.53%	-10.15%	-0.55%	-8.11%
WTI	3.39%	-10.62%	-2.74%	-10.83%
Brent	3.06%	-10.19%	1.42%	-6.20%
ULSD	3.86%	-9.96%	-0.40%	-3.59%
Gasoline	4.41%	-9.41%	0.12%	-10.40%
Natural Gas	4.43%	3.68%	12.65%	16.99%
Precious Metals Sub-Index	0.26%	-6.59%	-1.42%	-4.88%
Gold	0.07%	-4.66%	-0.21%	-4.57%
Silver	0.80%	-11.69%	-4.78%	-6.01%
Industrial Metals Sub-Index	-0.19%	-2.33%	-1.13%	20.72%
Copper	-0.16%	-2.33%	-0.42%	19.50%
Aluminum	-0.65%	-1.06%	8.13%	20.97%
Nickel	1.87%	-4.55%	-18.16%	6.14%
Zinc	-1.13%	-2.72%	-2.87%	33.36%
Softs Sub-Index	1.71%	-2.59%	-17.33%	-0.73%
Coffee	-0.54%	-4.40%	-20.75%	-5.18%
Sugar	1.32%	-6.33%	-26.36%	-9.93%
Cotton	5.69%	7.44%	12.81%	29.78%
Livestock Sub-Index	-0.07%	9.38%	28.14%	3.88%
Cattle	-1.72%	9.98%	30.48%	15.27%
Hogs	2.84%	8.32%	23.87%	-11.61%

The EM currencies followed the EM equities higher, but the USD gained against the majors. The conviction level in the currency market is lower than the conviction rate amongst FX traders these days.

	Five-Days	One Month	Six Months	One Year
Euro	-0.61%	2.49%	1.81%	-3.92%
Chinese yuan	0.05%	-0.12%	-0.57%	-5.55%
Japanese yen	-0.59%	-3.84%	-4.37%	-3.85%
British pound	-0.71%	2.79%	3.20%	-10.80%
Swiss franc	-1.32%	0.19%	-0.28%	-3.04%
Canadian dollar	-0.42%	-3.33%	-1.12%	-6.30%
Australian dollar	-0.50%	-1.79%	-2.21%	0.85%
Swedish krona	-0.37%	1.67%	3.70%	-7.31%
Norwegian krone	0.38%	-0.13%	-1.00%	-5.00%
New Zealand dollar	-0.75%	-1.42%	-3.54%	0.67%
Indian rupee	0.10%	0.56%	4.57%	3.60%
Brazilian real	1.76%	0.10%	9.99%	11.55%
Mexican peso	0.89%	-1.43%	9.94%	-4.52%
Chilean peso	0.11%	-2.64%	-0.17%	2.03%
Colombian peso	1.06%	-1.59%	7.04%	0.96%
Bloomberg JP Morgan Asian dollar index (spot)	0.10%	0.08%	0.75%	-1.63%

Should the strength in the EM index be compared to what used to be called "the dogs running" domestically? Not until the world's supply of excess cash disappears.

	Five-Days	One Month	Six Months	One Year
MSCI WorldFree	-0.07%	3.03%	13.03%	17.67%
North America	-0.32%	1.77%	11.37%	17.94%
Latin America	3.82%	4.68%	25.33%	26.31%
Emerging Market Free	2.49%	4.79%	19.17%	27.65%
EAFE	0.35%	5.20%	15.90%	17.18%
Pacific	0.99%	1.60%	9.15%	16.22%
Eurozone	-0.77%	9.20%	22.87%	23.10%

The CTA win-streak ended after one week, maintaining their status as the losers in a zero-sum game. Global hedge funds stayed even, probably on the back of EM assets, but the macro-oriented funds continued to decline.

	Five-Days	One Month	Six Months	One Year
CTA/Hedge Fund Returns				
Newedge CTA	-0.75%	-0.16%	-0.16%	-7.09%
Newedge Trend	-0.61%	0.18%	0.90%	-4.60%
Newedge Short-Term	-0.58%	-0.37%	-3.48%	-10.88%
HFR Global Hedge Fund	0.01%	0.62%	3.85%	6.61%
HFR Macro/CTA	-0.08%	-0.18%	-0.37%	-3.90%
HFR Macro: Systematic Diversified CTA	-0.85%	-1.35%	-1.72%	-5.87%