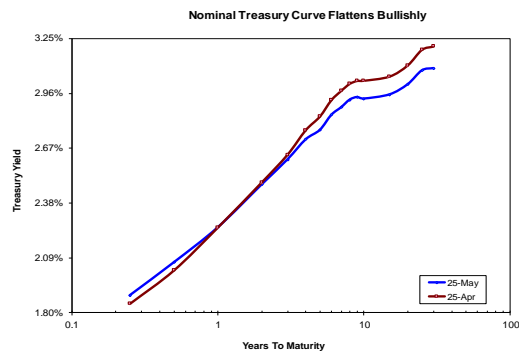


The markets remain confused about trade policy and North Korea but should have greater confidence the Federal Reserve is not going to be too hawkish, that OPEC is going to increase supplies and that growth in the Eurozone is softening. The causal chain remains:

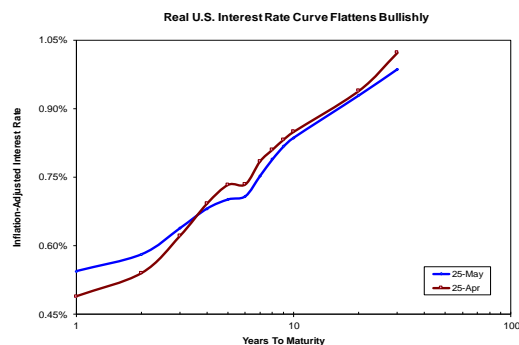
1. The market is pricing in June, September and increasingly December 2018 rate hikes;
2. Inflationary expectations have stopped rising;
3. The yield curve has paused in its flattening trend;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads continue to invert bullishly; and
6. CDS costs continue to reflect equity market fluctuations more than credit market conditions.

### Key Market Indications

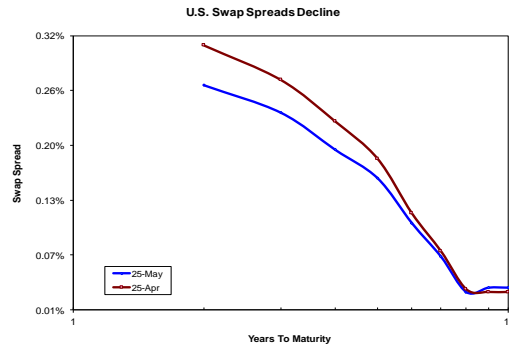
The ten-year UST had no follow-through after last week's break of support and moved right back into its trading range as the outlook for higher short-term rates softened. We still need to remember the major holders of long-term debt are either central banks or institutional investors with very long horizons.



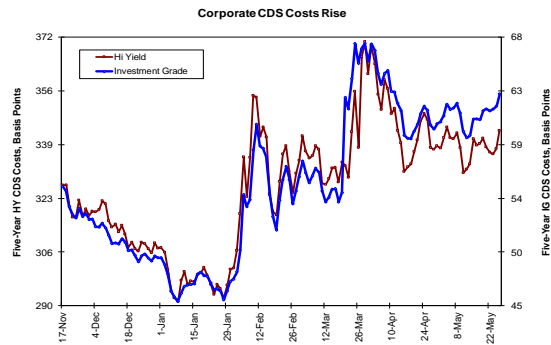
The pseudo-real yield curve continued to shift higher at the short end of the yield curve. This is a major negative fundamental for gold. However, the long end stopped rising, which is a positive for risky financial assets.



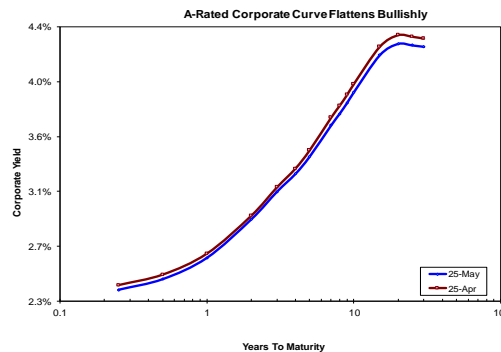
Swap spreads, which rise when floating-rate borrowers want to fix their payments, shifted lower across all tenors, but especially at the short end of the yield curve. This is consistent with rate hikes ending in 2018.



CDS costs rose, which is interesting considering how the yield curve steepened slightly and equities moved higher. If anyone is trading CDS off of geopolitical news, they will regret it.



The A-rated corporate yield curve followed the UST curve in a small bullish flattening. This market has done poorly year-to-date, and with the UST market rangebound is likely to continue to struggle.



### Market Structure

Softs, Natural Gas and the main Bloomberg index are in structural uptrends within the financials while Precious Metals and Livestock are in downtrends. The EM index moved into a structural downtrend in the financials while the S&P 500 remains in an uptrend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate May 29 - June 1
BBERG	24	Trending	0.156	7.0%	0.12%
BBERG Grain	16	Transitional	0.210	13.3%	
BBERG Ind. Metl	25	Trending	0.012	18.7%	
BBERG Pre. Metl	29	Trending	-0.074	8.8%	-0.43%
BBERG Softs	22	Trending	0.302	13.2%	0.31%
BBERG Nat. Gas	29	Trending	0.272	16.5%	0.11%
BBERG Petroleum	24	Trending	-0.008	18.5%	
BBERG Livestock	29	Trending	-0.102	12.3%	-0.18%
Dollar Index	11	Transitional	0.142	5.9%	
S&P 500 Index	29	Trending	0.102	11.1%	0.10%
EAFE Index	18	Transitional	-0.171	7.5%	
EM Index	21	Trending	-0.101	9.4%	-0.09%
Ten-year UST (price)	16	Transitional	0.153	4.0%	

## Performance Measures

The Petroleum markets turned lower on a strong signal of higher production. This did not extend to Natural Gas, which rallied on the surprising news electricity demand rises in the summer. The Softs staged a rebound after months of going nowhere, and Precious Metals managed a small gain as the outlook for higher short-term real rates softened.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
<b>Bloomberg Index</b>	0.60%	1.87%	5.67%	9.69%
<b>Grains Sub-Index</b>	3.18%	2.69%	11.18%	1.92%
Corn	0.91%	2.03%	12.17%	-4.13%
Soybeans	4.34%	-1.25%	2.30%	8.35%
Wheat	4.81%	9.08%	20.04%	3.75%
<b>Energy Sub-Index</b>	-1.74%	3.29%	11.86%	21.27%
Petroleum Sub-Index	-3.25%	2.53%	19.09%	41.62%
WTI	-4.85%	0.00%	19.52%	36.10%
Brent	-2.54%	4.33%	25.43%	50.56%
ULSD	-2.35%	3.83%	15.50%	42.53%
Gasoline	-2.47%	2.66%	9.71%	33.30%
Natural Gas	2.95%	5.55%	-8.54%	-24.35%
<b>Precious Metals Sub-Index</b>	0.88%	-1.00%	-0.37%	0.10%
Gold	0.97%	-1.42%	0.26%	2.07%
Silver	0.59%	0.44%	-2.34%	-5.53%
<b>Industrial Metals Sub-Index</b>	-0.13%	1.60%	5.83%	23.14%
Copper	0.49%	0.41%	-1.12%	17.92%
Aluminum	-0.36%	2.46%	9.10%	16.15%
Nickel	0.22%	6.46%	30.18%	61.55%
Zinc	-1.61%	-2.13%	-2.58%	17.58%
<b>Softs Sub-Index</b>	4.28%	6.93%	-6.58%	-11.85%
Coffee	2.07%	-1.49%	-9.66%	-16.06%
Sugar	6.90%	8.32%	-16.55%	-20.32%
Cotton	3.11%	5.71%	23.54%	20.72%
<b>Livestock Sub-Index</b>	2.73%	0.43%	-10.54%	-12.87%
Cattle	4.19%	-2.11%	-11.30%	-14.52%
Hogs	0.43%	5.05%	-10.49%	-11.24%

The USD had a mixed week as traders realize the Federal Reserve cannot risk stressing either the global commercial banking system or emerging markets with continuously higher short-term rates. The Latin American currencies moved higher on this realization.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	-1.03%	-4.19%	-2.08%	3.93%
Chinese yuan	-0.18%	-1.02%	3.25%	7.46%
Japanese yen	1.25%	0.02%	1.54%	2.22%
British pound	-1.19%	-4.47%	-0.07%	2.84%
Swiss franc	0.71%	-0.78%	-0.94%	-1.85%
Canadian dollar	-0.68%	-0.99%	-1.57%	3.95%
Australian dollar	0.49%	-0.22%	-0.71%	1.26%
Swedish krona	-0.17%	-2.32%	-5.31%	-0.94%
Norwegian krone	-0.65%	-2.46%	-0.26%	2.74%
New Zealand dollar	0.14%	-2.15%	0.07%	-1.51%
Indian rupee	0.35%	-1.29%	-4.82%	-4.64%
Brazilian real	2.30%	-4.62%	-11.70%	-10.36%
Mexican peso	2.09%	-3.56%	-4.92%	-5.32%
Chilean peso	2.11%	-3.11%	2.33%	7.35%
Colombian peso	1.55%	-2.24%	4.38%	1.38%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.03%	-0.84%	0.91%	3.55%

Equities keep getting whipsawed on geopolitical news; amazingly, some people continue to pay attention to every utterance on trade policy and, worse, North Korea. The bull market remains intact.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
<b>MSCI World Free</b>	-0.42%	1.06%	3.53%	13.08%
North America	0.21%	3.31%	5.27%	14.81%
Latin America	-1.61%	-9.33%	-3.93%	7.11%
Emerging Market Free	-0.01%	-0.10%	-0.53%	15.00%
EAFE	-1.51%	-0.09%	1.60%	9.86%
Pacific	-0.92%	0.16%	2.84%	15.35%
Eurozone	-2.15%	-2.45%	0.17%	7.83%

Both CTAs and hedge funds returned to form and lost money, suggesting they stayed too long with the long crude oil, long USD and short bonds trades.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
Newedge CTA	-1.91%	0.90%	-2.55%	3.25%
Newedge Trend	-1.41%	0.41%	-2.86%	1.04%
Newedge Short-Term	-0.32%	1.04%	0.88%	1.35%
HFR Global Hedge Fund	-0.50%	0.24%	0.19%	3.06%
HFR Macro/CTA	-1.70%	1.10%	-0.88%	2.71%
HFR Macro:	-1.41%	1.71%	-0.26%	6.32%
Systematic Diversified CTA				