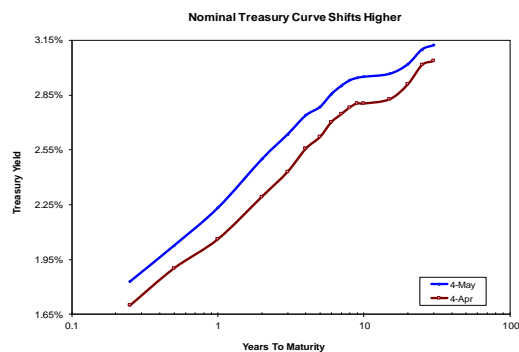


You could argue higher short-term interest rates in the U.S. are necessary to bring them back to a neutral level or you could argue any further tightening will lead to USD shortages globally and emerging stress and be right either way. Right now, the Federal Reserve seems self-obsessed with fighting an inflation it has been encouraging for years. This is why monetary policy should not be relied upon to produce long-term prosperity. The causal chain now is:

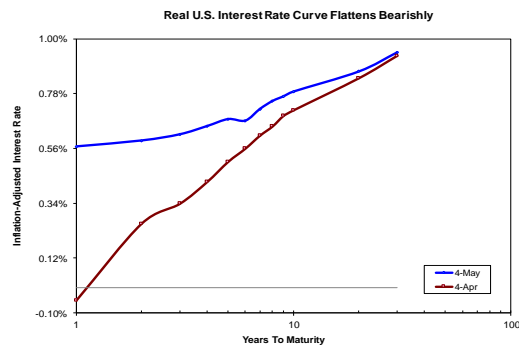
1. The market is pricing in June, September and increasingly December 2018 rate hikes;
2. Inflationary expectations have stopped rising;
3. The yield curve has resumed its flattening trend;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap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

### Key Market Indications

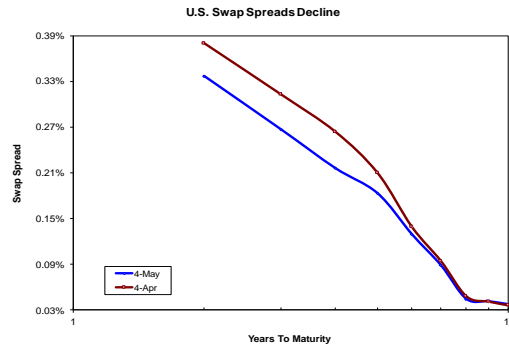
The ten-year UST continues to find strong support in front of 3.05%. Inflation expectations have stopped rising for the time being and the yield curve continues to flatten as the Federal Reserve continues to believe 25 basis points on overnight paper influences long-term economic decisions.



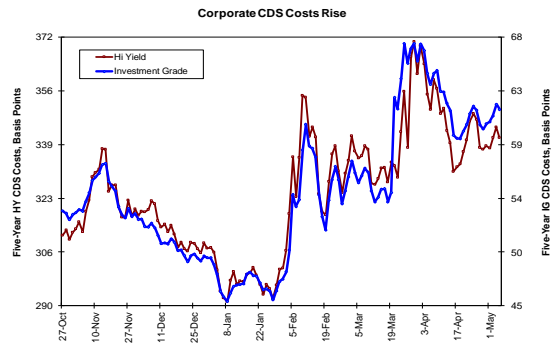
The pseudo-real yield curve continued to shift higher at the short end of the yield curve. This is a major negative fundamental for gold.



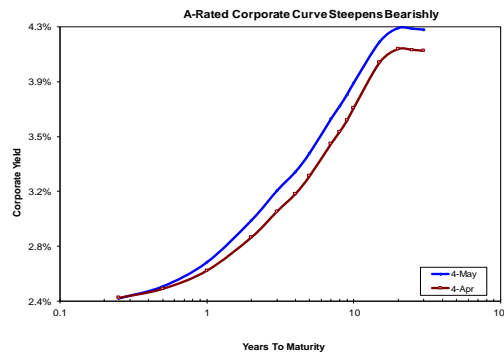
Swap spreads, which rise when floating-rate borrowers want to fix their payments, shifted lower at the short end. The market continues to resist the idea long-term interest rates can rise significantly from here.



CDS costs continue to reflect movements in equities as correlation trades between stock options and CDS dominate individual issues' credit concerns.



The A-rated corporate yield curve steepened bearishly in line with UST. Rising LIBOR has not posed a threat to this market yet but must be considered a negative given how it affects carrying costs.



## Market Structure

Industrial Metals joined Grains in an uptrend while Natural Gas joined Precious Metals and Softs in downtrends within the physical markets. Within financial markets, the dollar index turned overbought within its uptrend while both the EAFE and ten-year UST returned to neutral.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate May 7 - 11
BBERG	10	Sideways	0.064	7.8%	
BBERG Grain	29	Trending	0.195	15.3%	0.20%
BBERG Ind. Metl	25	Trending	0.012	25.6%	0.63%
BBERG Pre. Metl	29	Trending	-0.123	9.9%	-0.43%
BBERG Softs	29	Trending	-0.023	12.9%	-0.06%
BBERG Nat. Gas	28	Trending	-0.141	18.5%	-0.04%
BBERG Petroleum	5	Sideways	0.054	23.0%	
BBERG Livestock	18	Transitional	-0.121	12.1%	
Dollar Index	29	Trending	0.409	5.4%	0.03%
S&P 500 Index	19	Transitional	0.002	13.4%	
EAFE Index	26	Trending	-0.010	6.7%	
EM Index	19	Transitional	-0.238	9.2%	
Ten-year UST (price)	4	Sideways	0.014	3.9%	

## Performance Measures

Grains continue to benefit from the combination of poor Southern Hemisphere conditions combined with reduced planting intentions in the U.S. The political oscillations in aluminum pushed Industrial Metals higher and increased political tension in the Mideast did the same for the Petroleum complex. Now that various Wall Street strategists are getting bullish on “commodities” as an asset class, the run is probably over for the short term.

The USD had a clean sweep to the upside for a second week as the expected pace of relatively higher USD rates overwhelmed the negative effects of expected increases in the U.S. current account deficit. The stress on emerging market currencies is noticeable, and this has put a damper on higher USD short-term rates in the past.

The stronger USD affected Latin American markets badly. This was offset in the U.S. by a growing sense the Federal Reserve would have to start paying attention to the global consequences of its policies.

Both CTAs and hedge funds fell again this week as equities turned choppy and the USD rally stalled at week’s end. If they were sitting on a short bond trade, they are sitting still.

### Commodity Total Returns

	Five-Days	One Month	Six Months	One Year
<b>Bloomberg Index</b>	0.71%	3.65%	3.58%	10.25%
<b>Grains Sub-Index</b>	1.64%	2.79%	7.59%	-0.56%
Corn	1.98%	2.47%	8.71%	-3.22%
Soybeans	-1.81%	-0.59%	1.49%	2.65%
Wheat	-5.60%	7.93%	12.28%	-0.42%
<b>Energy Sub-Index</b>	0.45%	8.11%	7.97%	23.47%
Petroleum Sub-Index	1.41%	11.57%	18.02%	50.06%
WTI	2.39%	12.78%	23.67%	49.00%
Brent	1.50%	12.44%	21.49%	55.59%
ULSD	1.04%	10.60%	13.97%	50.62%
Gasoline	-0.22%	8.61%	5.24%	39.79%
Natural Gas	-2.46%	-1.60%	-18.61%	-30.90%
<b>Precious Metals Sub-Index</b>	-0.44%	-0.99%	1.19%	4.87%
Gold	-0.62%	-1.47%	2.65%	6.38%
Silver	0.17%	0.67%	-3.20%	0.34%
<b>Industrial Metals Sub-Index</b>	1.84%	4.55%	3.89%	25.42%
Copper	0.56%	0.41%	-1.24%	19.91%
Aluminum	6.86%	17.65%	12.12%	24.10%
Nickel	1.01%	5.72%	10.65%	52.11%
Zinc	-2.18%	-5.46%	-2.86%	20.14%
<b>Softs Sub-Index</b>	0.72%	0.53%	-5.84%	-15.77%
Coffee	0.20%	2.79%	-6.73%	-17.41%
Sugar	-0.05%	-7.05%	-21.27%	-27.68%
Cotton	2.86%	5.93%	27.12%	16.50%
<b>Livestock Sub-Index</b>	-0.10%	2.58%	-13.05%	-13.23%
Cattle	-0.85%	3.78%	-13.50%	-16.86%
Hogs	1.27%	0.48%	-13.22%	-8.27%

### Currency Returns

	Five-Days	One Month	Six Months	One Year
Euro	-1.40%	-2.59%	3.01%	8.88%
Chinese yuan	-0.48%	-0.93%	4.26%	8.38%
Japanese yen	-0.06%	-2.14%	4.21%	3.06%
British pound	-1.81%	-3.89%	2.73%	4.70%
Swiss franc	-1.23%	-3.92%	-0.26%	-1.36%
Canadian dollar	-0.14%	-0.59%	-1.11%	7.03%
Australian dollar	-0.55%	-2.29%	-1.98%	1.75%
Swedish krona	-1.68%	-4.59%	-4.64%	0.28%
Norwegian krone	-1.24%	-2.95%	0.90%	7.62%
New Zealand dollar	-0.92%	-3.90%	1.08%	2.20%
Indian rupee	-0.31%	-2.58%	-3.28%	-4.03%
Brazilian real	-2.00%	-5.62%	-7.84%	-9.63%
Mexican peso	-3.42%	-6.08%	-1.31%	-1.15%
Chilean peso	-2.21%	-2.92%	1.87%	8.73%
Colombian peso	-0.59%	-1.04%	7.71%	5.55%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.54%	-1.26%	2.55%	4.76%

### Equity Total Returns

	Five-Days	One Month	Six Months	One Year
<b>MSCI World Free</b>	-0.24%	2.04%	3.35%	12.88%
North America	-0.13%	1.05%	3.78%	13.71%
Latin America	-5.12%	-5.39%	4.85%	13.20%
Emerging Market Free	-1.69%	-1.55%	1.77%	18.91%
EAFE	-0.42%	2.74%	2.84%	13.15%
Pacific	-0.08%	1.66%	2.79%	17.02%
Eurozone	-0.28%	1.71%	3.09%	11.05%

### CTA/Hedge Fund Returns

	Five-Days	One Month	Six Months	One Year
Newedge CTA	-0.76%	0.20%	-3.16%	-0.20%
Newedge Trend	-0.43%	0.12%	-2.92%	-0.65%
Newedge Short-Term	-0.25%	0.53%	-1.61%	0.26%
HFR Global Hedge Fund	-0.20%	-0.02%	-0.25%	2.78%
HFR Macro/CTA	-0.04%	0.55%	-1.35%	1.91%
HFR Macro:	-0.64%	0.23%	-1.16%	3.63%
Systematic Diversified CTA				