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## The Macro Environment For Financial Markets

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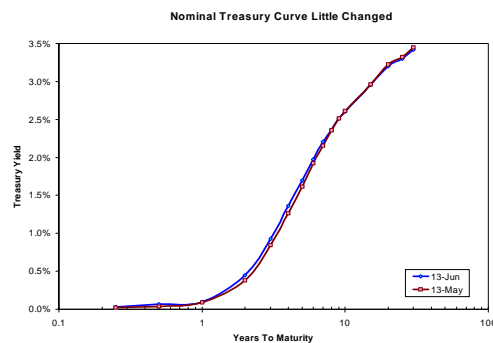
The Bank of England is creating an interesting laboratory by breaking with the other major central banks. If Carney's motivation is to arrest financial speculation, he will fail spectacularly as higher British interest rates and a stronger GBP will serve to attract flight capital into the U.K. This was the Chinese experience. Higher crude oil prices will not prove a negative for financial markets yet, but the pace of geopolitical turmoil is increasing and will lead to increased levels of risk aversion.

The causal chain is now:

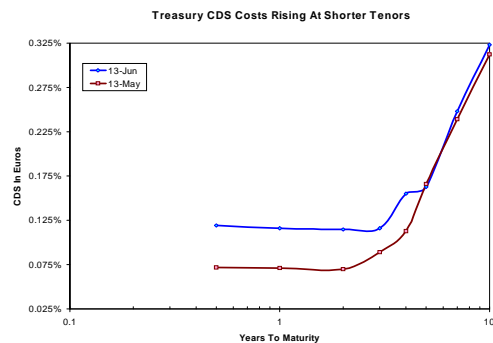
1. Short-term interest rates will remain artificially low and will keep real rates negative below the middle range of the yield curve. Rising levels of risk-aversion will push real long-term rates lower;
2. The longer-term uptrend in senior sovereign debt remains intact;
3. Inflation expectations as measured by the TIPS market will remain confined in the year-long range;
4. Short-term borrowers will continue to accept rollover risk and keep their effective maturities as short as possible;
5. Swap spreads will remain low at longer tenors but will be biased toward rising at shorter tenors as there is little room for these rates to decline; and
6. Credit spreads will consolidate their recent compression and will stall the flow into equities.

### Key Market Indications

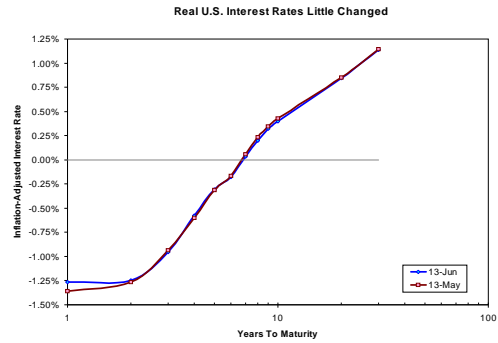
The Treasury yield curve remains stalled, but as the ten-year met its first test of support successfully, the longer-term bias toward a bullish flattening remains intact.



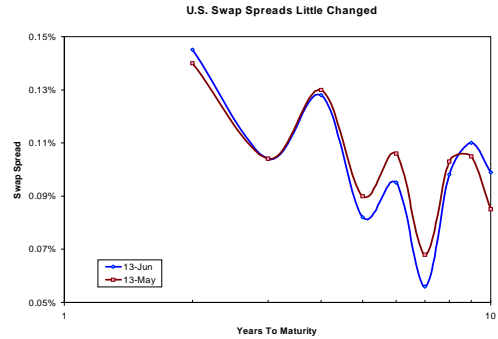
Euro-denominated CDS costs on U.S. Treasuries increased slightly at short-dated tenors over month-ago levels, but the changes are minor.



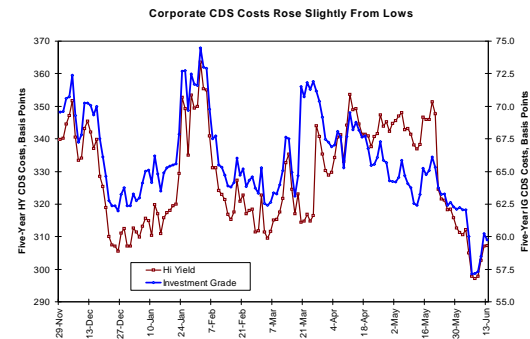
Real rates remain negative out to the six-year horizon. The inability of short-dated real rates to rise provides some measure of support for the precious metals and maintains a general positive tone for risky financial assets.



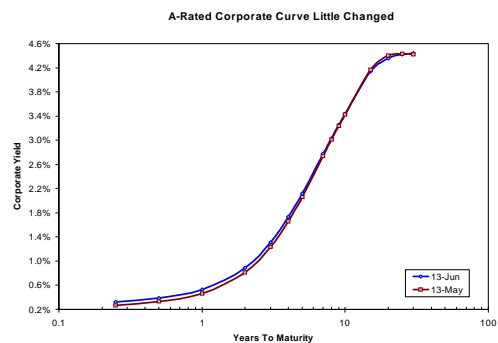
Swap spreads, which rise when floating-rate borrowers want to fix their payments, once decreased slightly at the middle of the curve, but the changes are too small to have much import.



Five-year CDS costs for both investment-grade and high-yield bonds failed to take out the previous week's lows. While the bullish trend remains intact, the stall in spread compression will be neutral for both corporate bonds and equities over the short-term.



The A-rated yield curve has moved similarly to the Treasury yield curve. Until and unless credit spreads expand, the bullish tone of this market intact until an overt policy reversal signal is given.



## Market Structure

Only Softs and Industrial Metals remain in structural downtrends. Livestock joined Petroleum and Natural Gas in an uptrend. While the equity indices remain in uptrends, Treasuries are in a sideways trend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate For June 16-20
DJ-UBS	29	Trending	0.020	5.2%	
DJ-UBS Grain	6	Sideways	-0.040	15.3%	
DJ-UBS Ind. Metl	23	Trending	-0.145	12.7%	-0.13%
DJ-UBS Prec. Metl	29	Trending	0.043	10.2%	
DJ-UBS Softs	29	Trending	-0.165	14.8%	-0.30%
DJ-UBS Nat. Gas	29	Trending	0.228	19.4%	0.30%
DJ-UBS Petroleum	29	Trending	0.409	7.9%	0.04%
DJ-UBS Livestock	29	Trending	0.494	8.2%	0.28%
Dollar Index	7	Sideways	0.003	5.0%	
S&P 500 Index	29	Trending	0.233	6.4%	0.15%
EAFE Index	28	Trending	0.197	5.2%	0.09%
EM Index	29	Trending	0.215	8.5%	0.18%
Ten-year UST (price)	29	Trending	-0.076	4.5%	

## Performance Measures

The Energy markets jumped strongly in response to the Iraq turmoil and were joined by Precious Metals. The Livestock gains are the result of a supply imbalance and are likely to persist; the opposite will hold for the Grains barring a turn for the worse in the weather.

	Five-Days	One Month	Six Months	One Year
<b>Dow Jones-UBS</b>	0.79%	-0.34%	6.70%	3.42%
<b>Grains Sub-Index</b>	-2.59%	-6.61%	3.68%	-8.97%
Corn	-2.70%	-7.63%	2.94%	-24.05%
Soybeans	-0.72%	-1.26%	11.62%	15.41%
Wheat	-5.41%	-13.26%	-6.97%	-19.06%
<b>Energy Sub-Index</b>	3.18%	4.91%	11.30%	14.28%
Petroleum Sub-Index	4.13%	3.77%	8.13%	10.63%
WTI	4.08%	5.19%	12.75%	14.56%
ULSD	4.08%	1.35%	2.04%	2.63%
Gasoline	4.11%	3.53%	10.14%	8.40%
Natural Gas	1.04%	7.65%	18.60%	21.10%
<b>Precious Metals Sub-Index</b>	2.18%	-0.70%	1.03%	-9.26%
Gold	1.73%	-1.51%	2.32%	-8.46%
Silver	3.51%	1.70%	-2.54%	-11.40%
<b>Industrial Metals Sub-Index</b>	-1.86%	-1.19%	0.11%	-0.78%
Copper	-0.66%	-3.69%	-8.52%	-5.71%
Aluminum	-2.44%	4.11%	-0.93%	-8.82%
Nickel	-4.34%	-5.19%	27.97%	24.04%
Zinc	-1.06%	0.70%	3.64%	7.47%
<b>Softs Sub-Index</b>	0.87%	-5.58%	13.59%	5.00%
Coffee	0.95%	-6.11%	46.67%	29.99%
Sugar	0.74%	-4.83%	-0.77%	-8.23%
Cotton	1.01%	-4.66%	0.96%	-7.31%
<b>Livestock Sub-Index</b>	2.67%	3.76%	18.40%	21.92%
Cattle	3.77%	5.96%	15.09%	20.47%
Hogs	1.35%	1.13%	24.43%	25.04%

The comments by BOE Governor Carney came on top of the ECB's more dovish stance and led to a substantial gain for the GBP against the EUR and CHF. The USD tended to weaken against the other majors and to gain against most emerging market currencies.

	Five-Days	One Month	Six Months	One Year
<b>Currency Returns</b>				
Euro	-0.76%	-1.20%	-1.47%	1.23%
Japanese yen	0.43%	0.22%	1.15%	-6.54%
British pound	0.99%	0.84%	4.10%	7.94%
Swiss franc	-0.72%	-1.10%	-1.18%	2.42%
Canadian dollar	0.70%	0.45%	-2.49%	-6.41%
Australian dollar	0.74%	0.45%	4.89%	-2.46%
Swedish krona	-0.23%	-1.43%	-1.04%	-2.54%
Norwegian krone	-0.81%	-1.19%	3.09%	-4.22%
New Zealand dollar	1.92%	0.42%	4.85%	6.99%
Indian rupee	-0.99%	-0.17%	3.94%	-2.98%
Brazilian real	1.03%	-0.42%	4.76%	-4.64%
Mexican peso	-0.66%	-0.84%	-1.02%	-2.98%
Chilean peso	-1.26%	-1.44%	-4.81%	-11.06%
Colombian peso	0.07%	2.24%	2.67%	0.54%
Bloomberg-JP Morgan	0.11%	0.24%	-0.04%	-0.53%
Asian dollar index (spot)				

On one level the retreat in equity markets was minor in the face of increased uncertainty, but as it came at a time when a consolidation was needed badly, it probably heralds the start of several weeks of sideways action or worse.

	Five-Days	One Month	Six Months	One Year
<b>Equity Total Returns</b>				
MSCI World Free	-0.37%	2.04%	10.40%	20.97%
North America	-0.45%	2.33%	10.36%	20.94%
Latin America	1.48%	0.20%	9.67%	6.12%
Emerging Market Free	0.52%	2.99%	7.25%	14.08%
EAFE	-0.25%	1.64%	10.45%	21.00%
Pacific	0.68%	3.58%	5.32%	13.37%
Eurozone	-1.11%	1.59%	13.10%	29.53%

Both CTAs and macro-oriented funds gained on the week, suggesting they retained their previous short exposure to the euro and very likely were long crude oil.

	Five-Days	One Month	Six Months	One Year
<b>CTA/Hedge Fund Returns</b>				
Newedge CTA	1.20%	3.53%	2.18%	1.03%
Newedge Trend	0.94%	2.76%	3.34%	1.63%
Newedge Short-Term	0.52%	3.20%	2.58%	1.82%
HFR Global Hedge Fund	0.14%	1.11%	2.64%	4.68%
HFR Macro/CTA	0.42%	1.59%	0.53%	-0.95%
HFR Macro:	0.45%	1.59%	-1.14%	-1.52%
Systematic Diversified CTA				