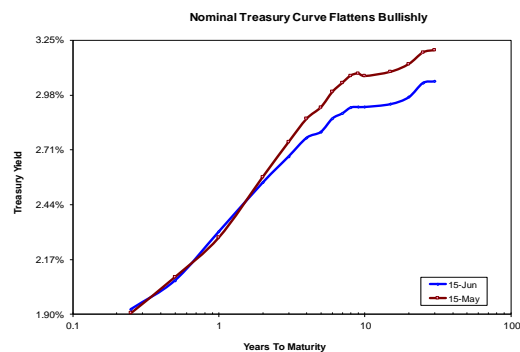


A cynic would argue the Federal Reserve is going to tighten until something breaks; this will allow them to ride to the rescue. As the European Central Bank is moving very slowly to end its QE and the Bank of Japan persists in doing what has yet to work, the real miracle is the USD has not spiraled higher. If and when it does, situations such as Argentina's will multiply. Mexico may be the next one to fall once AMLO is elected. The causal chain remains:

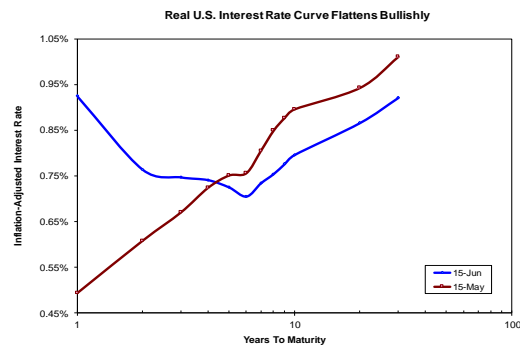
1. The market is pricing in September and December 2018 rate hikes;
2. Inflationary expectations have stopped rising;
3. The yield curve remains in its flattening trend;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads continue to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

Key Market Indications

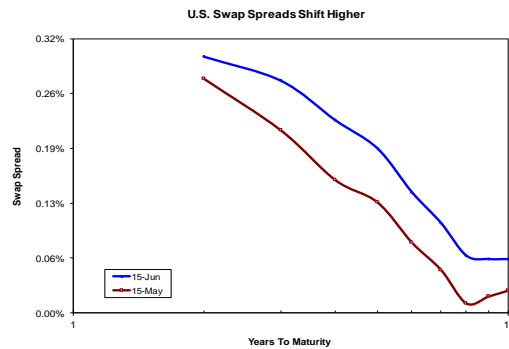
The market is acting as if the stronger USD and flatter yield curve are going to draw funds into the long end of the yield curve. This should not be considered an advance warning of a recession. We need to remember the largest holders of long-term UST are either central banks or pensions, life insurers and others who must hold high-quality long-term assets.



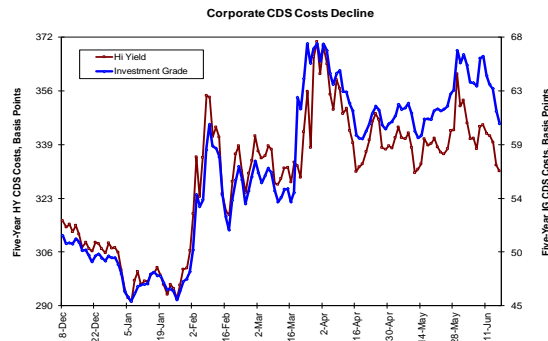
The pseudo-real yield curve continued to shift higher at the short end of the yield curve. This is a major negative fundamental for gold. The move lower at the long end of the curve is supportive for risky financial assets.



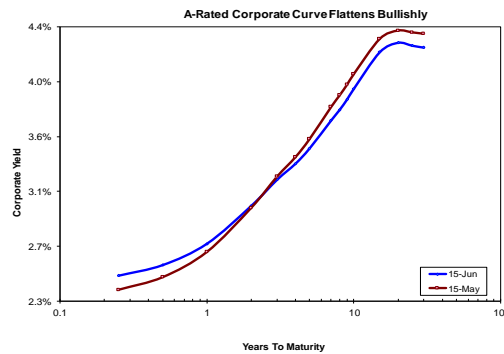
Swap spreads, which rise when floating-rate borrowers want to fix their payments, rose across all tenors following the rise in short-term interest rates. The gains are not significant enough to affect the corporate bond market yet.



CDS costs declined significantly even though the U.S. equity market barely rallied. This is a testament to the combination of liquid corporate balance sheets and a strong domestic economy.



The A-rated corporate yield curve mirrored the small bullish flattening seen in the UST market, but there is almost no capacity for a significant rally with credit spreads already compressed.



Market Structure

Grains and the main Bloomberg index moved into structural downtrends; none of the physical commodities are in uptrends. The EAFE and the EM indices remain in structural downtrends while the S&P 500 remains in an uptrend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate June 18 - 22
BBERG	29	Trending	-0.374	7.4%	-0.13%
BBERG Grain	29	Trending	-0.396	16.3%	-0.42%
BBERG Ind. Metl	29	Trending	-0.036	13.8%	
BBERG Pre. Metl	19	Transitional	-0.178	8.7%	
BBERG Softs	9	Sideways	-0.087	13.9%	
BBERG Nat. Gas	10	Sideways	0.130	17.1%	
BBERG Petroleum	7	Sideways	-0.200	15.6%	
BBERG Livestock	17	Transitional	0.023	17.6%	
Dollar Index	12	Transitional	0.129	6.9%	
S&P 500 Index	29	Trending	0.212	7.6%	0.10%
EAFE Index	29	Trending	-0.146	8.4%	-0.28%
EM Index	26	Trending	-0.235	9.9%	-0.09%
Ten-year UST (price)	6	Sideways	0.052	4.0%	

Performance Measures

Only Lean Hogs and Natural Gas gained on the week; all other physical commodities declined sharply, led lower by Petroleum, Grains and Industrial Metals. Producers in need of USD are going to expand production of dollar-denominated commodities in order to offset the declines in their own currencies.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-2.49%	-2.85%	4.69%	9.43%
Grains Sub-Index	-4.71%	-7.68%	1.33%	-11.98%
Corn	-4.13%	-9.94%	0.84%	-16.71%
Soybeans	-6.01%	-8.66%	-7.54%	-6.94%
Wheat	-4.21%	-3.80%	12.39%	-10.59%
Energy Sub-Index	-1.24%	-4.79%	13.09%	29.69%
Petroleum Sub-Index	-3.20%	-7.94%	15.06%	49.36%
WTI	-1.45%	-9.13%	15.63%	44.62%
Brent	-4.05%	-6.35%	20.59%	60.13%
ULSD	-3.51%	-7.46%	10.92%	48.52%
Gasoline	-4.37%	-9.21%	7.82%	38.01%
Natural Gas	-4.53%	5.00%	6.90%	-15.76%
Precious Metals Sub-Index	-1.75%	-0.91%	0.82%	0.16%
Gold	-1.82%	-1.27%	0.57%	0.93%
Silver	-1.52%	0.30%	1.59%	-2.04%
Industrial Metals Sub-Index	-3.74%	0.92%	5.85%	27.15%
Copper	-4.60%	2.88%	-0.37%	20.55%
Aluminum	-4.01%	-2.64%	8.28%	18.77%
Nickel	-1.54%	2.94%	28.36%	68.76%
Zinc	-3.70%	-0.21%	-2.28%	24.89%
Softs Sub-Index	-1.86%	3.87%	-3.25%	-5.99%
Coffee	-1.56%	-2.09%	-7.75%	-14.67%
Sugar	-1.38%	3.67%	-11.61%	-13.52%
Cotton	-3.09%	6.10%	21.87%	32.49%
Livestock Sub-Index	0.00%	6.50%	-2.82%	-8.51%
Cattle	-0.91%	6.83%	-5.29%	-11.83%
Hogs	1.51%	6.01%	0.20%	-4.09%

The USD gained across the board even though the rate hike in the U.S. was already priced into markets. The downturn in crude oil prices hit commodity-linked currencies such as the CAD and AUD particularly hard.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	-1.35%	-1.93%	-1.18%	4.17%
Chinese yuan	-0.50%	-0.95%	2.65%	5.73%
Japanese yen	-1.00%	-0.28%	1.75%	0.24%
British pound	-0.95%	-1.66%	-0.32%	4.08%
Swiss franc	-1.19%	0.37%	-0.71%	-2.24%
Canadian dollar	-1.94%	-2.33%	-2.41%	0.64%
Australian dollar	-2.09%	-0.40%	-2.67%	-1.81%
Swedish krona	-0.80%	-1.14%	-3.21%	-0.42%
Norwegian krone	-1.30%	-0.29%	2.91%	4.41%
New Zealand dollar	-1.21%	1.27%	-0.63%	-3.59%
Indian rupee	-0.74%	0.13%	-5.84%	-5.12%
Brazilian real	-0.57%	-1.99%	-11.45%	-12.18%
Mexican peso	-1.63%	-4.52%	-7.32%	-12.53%
Chilean peso	-0.49%	-0.30%	0.37%	5.02%
Colombian peso	-1.25%	-0.76%	3.54%	1.94%
Bloomberg-JP Morgan	-0.88%	-0.96%	0.19%	2.52%
Asian dollar index (spot)				

The ECB's dovish stance buoyed the Eurozone market, but the EM index continues to sag under the stress from a stronger USD. The continued threats of a trade war will help no one.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	-0.12%	0.85%	2.89%	13.69%
North America	0.08%	2.68%	4.95%	16.51%
Latin America	-1.80%	-13.12%	-8.84%	-1.41%
Emerging Market Free	-1.85%	-2.86%	0.74%	13.91%
EAFE	-0.48%	-1.96%	1.81%	9.99%
Pacific	-0.92%	-1.33%	1.14%	12.62%
Eurozone	0.28%	-2.28%	-0.56%	7.74%

Both CTAs and hedge funds gained on the week, suggesting they got the currency and energy trades correct along with their assessment of central bank actions.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
Newedge CTA	1.38%	-2.89%	-3.72%	-2.07%
Newedge Trend	0.77%	-2.65%	-4.21%	-3.26%
Newedge Short-Term	0.59%	-0.52%	1.17%	-0.43%
HFR Global Hedge Fund	0.18%	0.10%	0.88%	3.19%
HFR Macro/CTA	1.34%	-1.36%	-0.04%	0.46%
HFR Macro:	1.67%	-1.87%	-1.08%	1.81%
Systematic Diversified CTA				