

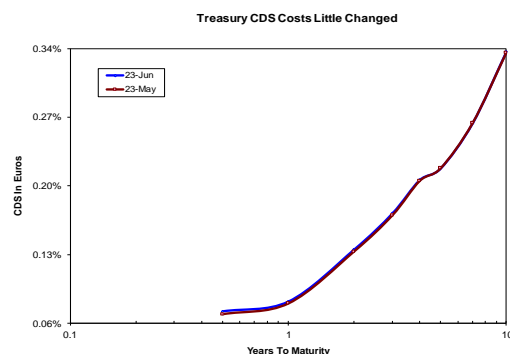
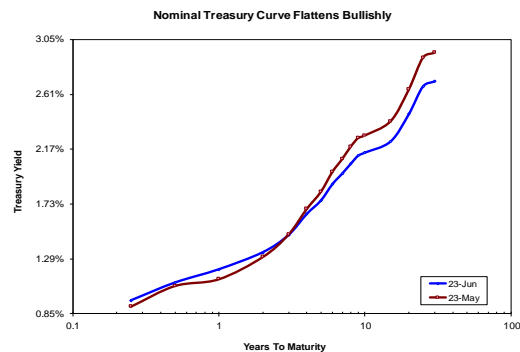
Crude oil has gone from dominating inflation expectations, high-yield returns, emerging market currencies and equities in general to simply dominating energy-related equities and commodity indices. This is as it should be, at long last. The big event will be whether the Senate version of the AHCA will pass next week; if not, Washington will move into an early 2018 campaign wherein both major parties will prove their lack of coherence. The causal chain remains:

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.

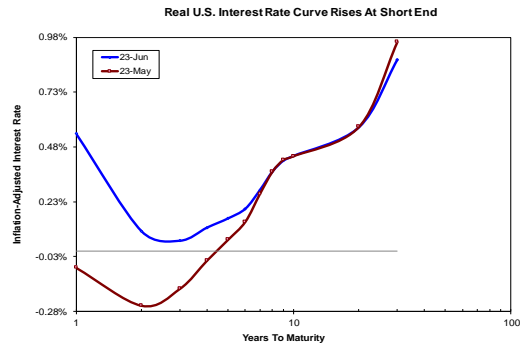
Key Market Indications

We can repeat verbatim from last week: *The UST market continues to flatten bullishly, a condition exacerbated by the Federal Reserve's more modestly aggressive stance. If the balance sheet shrinks, credit expansion in the commercial banking system slows and places downward pressure on inflation. More critically, regulatory constraints are keeping demand high for long-term sovereign debt at a time when central banks are the primary holders and are unwilling to sell. Things are simple when you let them be, so let's let them be.*

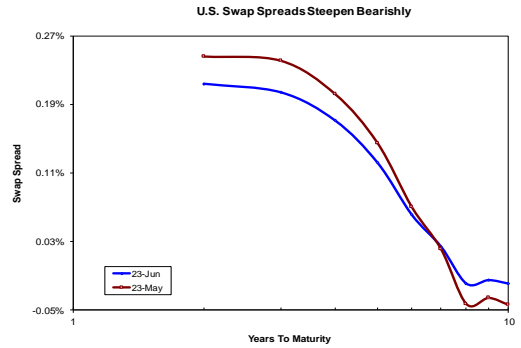
CDS costs on UST have changed little over the past month. This market remains unconcerned about the U.S. debt ceiling.



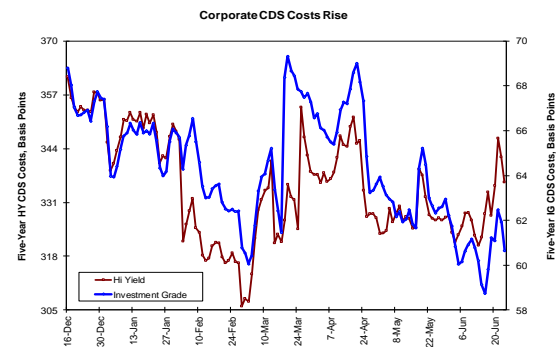
The pseudo-real yield curve shifted higher at the short end of the yield curve. The rise at the short end of the yield curve was not bearish for precious metals as stress in the energy sector is leading to speculation central bank tightening might come to a premature end.



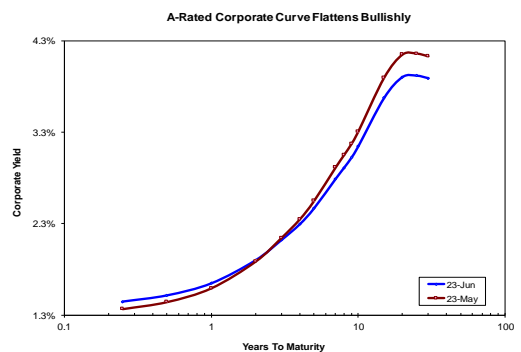
Swap spreads, which rise when floating-rate borrowers want to fix their payments, shifted lower at tenors shorter than eight years. The market clearly is backing away from a belief in rate hikes later this year.



CDS costs rose from recent lows, but these were minor moves within the context of a secular bull market. We would need evidence of much higher short-term rates and of rising recessionary pressures to reverse these trends.



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



Market Structure

Only Industrial Metals are not in a structural downtrend amongst the physical commodities. All of the financials have shifted out of trending structures.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate June 26 - 30
BBERG	29	Trending	-0.383	8.4%	-0.10%
BBERG Grain	28	Trending	-0.114	14.4%	-0.07%
BBERG Ind. Metl	22	Trending	0.086	12.5%	
BBERG Pre. Metl	29	Trending	-0.092	10.1%	-0.28%
BBERG Softs	29	Trending	-0.513	15.5%	-0.63%
BBERG Nat. Gas	29	Trending	-0.225	23.0%	-0.47%
BBERG Petroleum	29	Trending	-0.360	24.3%	-0.83%
BBERG Livestock	22	Trending	-0.211	13.6%	-0.77%
Dollar Index	13	Transitional	0.002	5.3%	
S&P 500 Index	8	Sideways	0.004	5.6%	
EAFE Index	12	Transitional	-0.012	8.0%	
EM Index	16	Transitional	-0.002	6.9%	
Ten-year UST (price)	12	Transitional	0.060	3.8%	

Performance Measures

The most bizarre news story on the screen this week stated cocoa went down on lower crude oil prices. Let's say, kindly, the fundamental relationship is absent. Grains, Energy, Softs and Livestock all retreated hard, but the economically sensitive Industrial Metals gained, led by a head-scratching 7.24% gain for zinc. Galvanize your trading.

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-1.99%	-5.13%	-7.37%	-7.91%
Grains Sub-Index	-4.58%	-1.15%	-1.39%	-15.84%
Corn	-6.74%	-4.19%	-0.05%	-15.86%
Soybeans	-4.09%	-2.25%	-10.93%	-18.97%
Wheat	-1.64%	4.75%	10.39%	-14.57%
Energy Sub-Index	-3.58%	-12.65%	-23.05%	-17.22%
Petroleum Sub-Index	-3.74%	-13.15%	-22.09%	-17.91%
WTI	-4.25%	-13.94%	-22.79%	-21.25%
Brent	-3.93%	-13.20%	-20.99%	-17.08%
ULSD	-3.87%	-12.58%	-20.48%	-15.34%
Gasoline	-2.29%	-12.15%	-24.77%	-14.88%
Natural Gas	-3.20%	-11.34%	-25.81%	-14.96%
Precious Metals Sub-Index	-0.01%	-1.84%	8.96%	-6.51%
Gold	0.01%	-1.10%	10.33%	-6.03%
Silver	-0.06%	-3.90%	5.11%	-8.11%
Industrial Metals Sub-Index	2.21%	0.02%	2.93%	18.25%
Copper	2.17%	2.31%	5.04%	22.10%
Aluminum	-0.09%	-4.53%	7.36%	13.08%
Nickel	1.58%	-0.12%	-13.47%	-0.89%
Zinc	7.24%	2.40%	4.39%	32.18%
Softs Sub-Index	-2.97%	-12.24%	-17.62%	-22.52%
Coffee	-2.32%	-7.83%	-13.80%	-18.25%
Sugar	-3.36%	-13.65%	-28.11%	-33.81%
Cotton	-3.35%	-9.38%	-3.28%	4.17%
Livestock Sub-Index	-1.72%	-2.97%	9.97%	3.48%
Cattle	-2.43%	-3.02%	13.20%	16.93%
Hogs	-0.58%	-2.87%	4.91%	-12.44%

The USD gained against most majors save the CHF, once again a haven within Europe. This is running contrary to the signals seen elsewhere of a slower path of U.S. interest rate increases and evidence the U.S. will not be engaging in fiscal stimulus.

	Five-Days	One Month	Six Months	One Year
Euro	-0.04%	0.10%	7.06%	-1.68%
Chinese yuan	-0.38%	0.71%	1.60%	-3.74%
Japanese yen	-0.36%	0.45%	5.44%	-4.60%
British pound	-0.51%	-1.87%	3.55%	-14.51%
Swiss franc	0.41%	0.69%	5.90%	-1.17%
Canadian dollar	-0.41%	1.86%	2.01%	-3.87%
Australian dollar	-0.70%	1.20%	5.46%	-0.59%
Swedish krona	-0.13%	-0.17%	5.54%	-6.41%
Norwegian krone	0.06%	-0.90%	2.96%	-3.60%
New Zealand dollar	0.43%	3.89%	5.98%	0.48%
Indian rupee	-0.14%	0.58%	5.12%	4.24%
Brazilian real	-1.52%	-2.17%	-2.17%	-0.15%
Mexican peso	-0.52%	3.48%	14.45%	1.22%
Chilean peso	0.44%	1.93%	1.91%	1.13%
Colombian peso	-1.61%	-3.80%	-0.76%	-4.17%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.23%	0.30%	3.05%	-1.53%

The old adage that it takes buying to support a market, and that it will sink otherwise is being upended. The path of least resistance for global equities remains higher in the absence of recessionary pressures.

	Five-Days	One Month	Six Months	One Year
MSCI World Free	0.11%	0.84%	11.00%	22.69%
North America	0.28%	1.82%	8.63%	17.32%
Latin America	-1.61%	-1.65%	11.61%	15.59%
Emerging Market Free	0.99%	1.07%	21.67%	24.24%
EAFE	-0.17%	0.07%	15.23%	15.58%
Pacific	-0.07%	1.93%	11.00%	23.21%
Eurozone	-0.16%	-0.21%	19.58%	33.19%

Both CTAs and hedge funds managed gains, suggesting CTAs finally managed to get net short in the physical commodities while hedge funds are riding the bull market in fixed-income.

	Five-Days	One Month	Six Months	One Year
CTA/Hedge Fund Returns				
Newedge CTA	2.16%	4.16%	-1.73%	-3.65%
Newedge Trend	1.40%	2.50%	0.01%	-2.34%
Newedge Short-Term	0.38%	0.69%	-6.57%	-9.95%
HFR Global Hedge Fund	0.14%	0.43%	2.58%	6.28%
HFR Macro/CTA	0.69%	2.05%	0.53%	-0.47%
HFR Macro:	1.15%	3.10%	-0.72%	-1.11%
Systematic Diversified CTA				