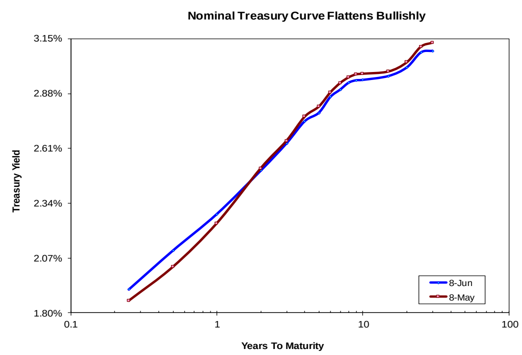
The Macro Environment For Financial Markets

The signal from the European Central Bank it is ready to exit the QE business should have been a significant development across all financial markets but was absorbed extremely well. Either the news was priced in more than realized or the market has not reexamined just how hard financial assets have rallied since the ECB started buying corporate bonds in March 2016. The causal chain remains:

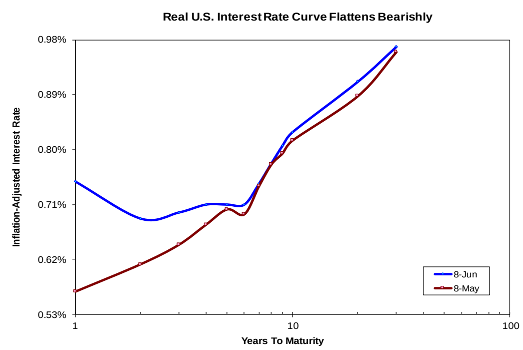
1. The market is pricing in June, September and decreasingly December 2018 rate hikes;
2. Inflationary expectations have stopped rising;
3. The yield curve has resumed in its flattening trend;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap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

Key Market Indications

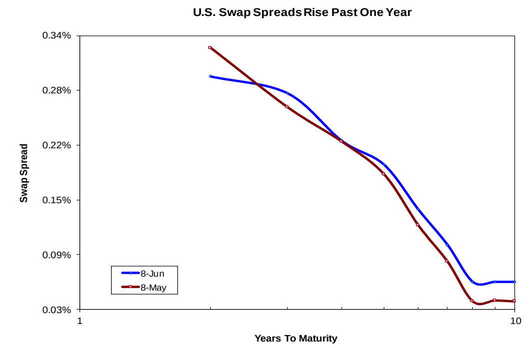
The more the Eurozone situation remains unsettled, the greater the attractiveness of the U.S. in spite of the prospect of greater debt issuance down the road to finance entitlement spending. The yield curve continues to flatten as the Federal Reserve persists in claiming its rate-hike plans remain intact.



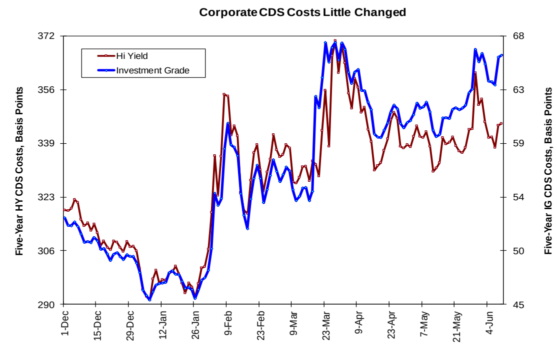
The pseudo-real yield curve continued to shift higher at the short end of the yield curve. This is a major negative fundamental for gold. The small move higher at the long end of the curve is not yet a negative for risky financial assets.



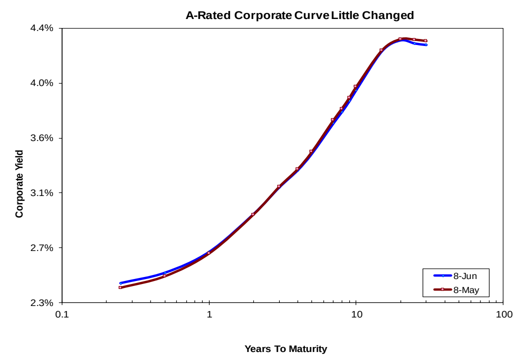
Swap spreads, which rise when floating-rate borrowers want to fix their payments, rose slightly past one year. While the move was minor, it signals a belief rates are unlikely to decline significantly from these levels.



CDS costs changed little. There is little reason for them to rise given the liquidity of the corporate sector, stable growth and no prospect of short-term rates rising too swiftly.



The A-rated corporate yield curve has changed little over the past month and is unlikely to resume last year's rally in the face of a trading range in UST and already-compressed credit spreads.



Market Structure

Industrial Metals, Softs, Natural Gas remain in structural uptrends within the physical markets; nothing is in a downtrend. The EAFE and the EM indices remain in structural downtrends while both the S&P 500 and the ten-year UST remain in uptrends.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate June 11 - 15
BBerg	24	Trending	-0.029	7.3%	
BBerg Grain	16	Transitional	-0.154	16.8%	
BBerg Ind. Metl	29	Trending	0.281	14.2%	0.14%
BBerg Pre. Metl	9	Sideways	0.036	7.8%	
BBerg Softs	29	Trending	0.169	14.2%	0.31%
BBerg Nat. Gas	29	Trending	0.064	17.9%	0.11%
BBerg Petroleum	29	Trending	-0.079	19.1%	
BBerg Livestock	29	Trending	0.133	14.5%	
Dollar Index	8	Sideways	-0.053	6.1%	
S&P 500 Index	29	Trending	0.253	9.6%	0.10%
EAFE Index	29	Trending	-0.102	8.3%	-0.28%
EM Index	24	Trending	-0.058	9.8%	-0.09%
Ten-year UST (price)	29	Trending	0.037	4.9%	0.09%

Performance Measures

The Petroleum continue lower as OPEC is going to try to defend its market share. Copper moved strongly higher on its usual pattern of event risk, and Grains moved lower as trade uncertainties weigh on U.S. agricultural exports.

Commodity Total Returns

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-0.49%	0.60%	7.99%	11.01%
Grains Sub-Index	-3.14%	-3.67%	4.73%	-6.63%
Corn	-3.49%	-6.18%	3.50%	-13.45%
Soybeans	-5.05%	-4.84%	-4.43%	-0.37%
Wheat	-0.60%	1.21%	17.79%	-3.03%
Energy Sub-Index	-0.98%	0.92%	13.65%	30.04%
Petroleum Sub-Index	-0.47%	-0.34%	18.22%	52.17%
WTI	-0.08%	-4.53%	17.05%	43.88%
Brent	-0.38%	2.93%	25.48%	64.74%
ULSD	-0.52%	0.81%	14.83%	54.21%
Gasoline	-1.29%	0.23%	10.00%	41.42%
Natural Gas	-2.45%	4.83%	0.68%	-19.35%
Precious Metals Sub-Index	0.66%	-0.48%	4.33%	-0.56%
Gold	0.30%	-1.15%	3.87%	0.98%
Silver	1.86%	1.80%	5.69%	-4.88%
Industrial Metals Sub-Index	2.95%	5.06%	15.44%	31.13%
Copper	6.54%	8.06%	10.35%	24.41%
Aluminum	-0.44%	-2.90%	16.26%	21.34%
Nickel	-0.16%	11.07%	40.80%	73.75%
Zinc	3.65%	5.17%	5.22%	32.87%
Softs Sub-Index	-2.07%	4.41%	-2.27%	-7.86%
Coffee	-4.46%	-1.82%	-6.79%	-15.10%
Sugar	-2.17%	6.08%	-12.19%	-17.79%
Cotton	1.50%	11.05%	28.33%	29.16%
Livestock Sub-Index	2.19%	2.78%	-2.29%	-12.08%
Cattle	2.11%	2.04%	-2.53%	-15.20%
Hogs	2.31%	4.02%	-3.33%	-8.03%

The prospective end of Eurozone QE helped push the USD lower against all currencies save the JPY, INR and MXN; the likelihood of Mexico moving to the left politically is going to make this a long-running story. The simple fact of the matter is the Federal Reserve is going to have signal dovishness to keep EM currencies from collapsing.

Currency Returns

	Five-Days	One Month	Six Months	One Year
Euro	0.94%	-0.80%	-0.03%	4.95%
Chinese yuan	0.21%	-0.56%	3.34%	6.14%
Japanese yen	-0.01%	-0.38%	3.59%	0.43%
British pound	0.44%	-1.05%	0.11%	3.47%
Swiss franc	0.25%	1.62%	0.71%	-1.88%
Canadian dollar	0.18%	0.17%	-0.62%	4.47%
Australian dollar	0.42%	1.96%	1.23%	0.72%
Swedish krona	1.22%	1.18%	-3.10%	-0.06%
Norwegian krone	1.88%	1.25%	3.15%	5.64%
New Zealand dollar	0.74%	0.90%	2.73%	-2.51%
Indian rupee	-0.67%	-0.64%	-4.53%	-4.89%
Brazilian real	1.54%	-3.91%	-11.19%	-12.05%
Mexican peso	-1.73%	-3.53%	-6.71%	-10.31%
Chilean peso	0.06%	0.65%	3.93%	5.59%
Colombian peso	0.25%	0.49%	5.30%	2.09%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.04%	-0.16%	1.26%	3.17%

The Latin markets continue to decline as the region remains under severe political mismanagement. However, equity markets absorbed U.S. trade saber-rattling and the impending end of Eurozone QE quite well.

Equity Total Returns

	Five-Days	One Month	Six Months	One Year
MSCI World Free	1.39%	2.42%	4.56%	13.83%
North America	1.64%	4.18%	5.79%	16.39%
Latin America	-3.66%	-11.39%	-6.69%	0.08%
Emerging Market Free	0.54%	-0.36%	3.36%	14.37%
EAFE	0.96%	-0.56%	2.44%	9.54%
Pacific	1.82%	0.53%	4.05%	13.97%
Eurozone	0.80%	-2.35%	0.06%	7.00%

CTAs and macro-oriented hedge funds lost money again. The depopulation of the CTA sector has reached the point where *The Wall Street Journal* felt it necessary to point out the closure of energy-oriented CTAs.

CTA/Hedge Fund Returns

	Five-Days	One Month	Six Months	One Year
Newedge CTA	-0.03%	-3.31%	-4.78%	-3.16%
Newedge Trend	-0.12%	-3.20%	-4.53%	-3.94%
Newedge Short-Term	-0.58%	-0.58%	-0.01%	-0.70%
HFR Global Hedge Fund	0.39%	0.42%	0.89%	3.08%
HFR Macro/CTA	-0.18%	-1.58%	-1.01%	-0.55%
HFR Macro: Sytematic Diversified CTA	-0.20%	-2.27%	-1.91%	0.75%