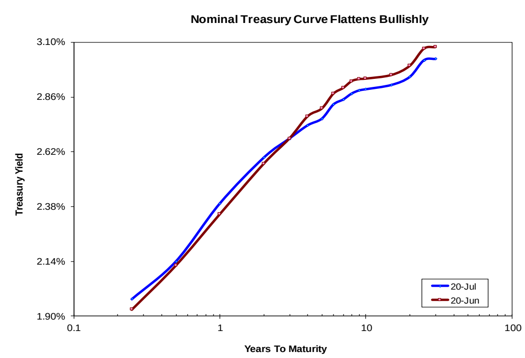
The Macro Environment For Financial Markets

The millions of dollars spent on algorithms designed to trade off of elementized news feeds was wasted; everyone is used to the idea of news today gets reversed tomorrow. The jawboning against the Federal Reserve has one important element of truth: As no one can demonstrate deterministic outcomes to monetary policy, why are we risking a yield curve inversion and a stronger dollar? It would be quite different if monetary policy had a history of producing desired results on the inflation and output fronts, the two items for which the Federal Reserve has a mandate. The causal chain remains:

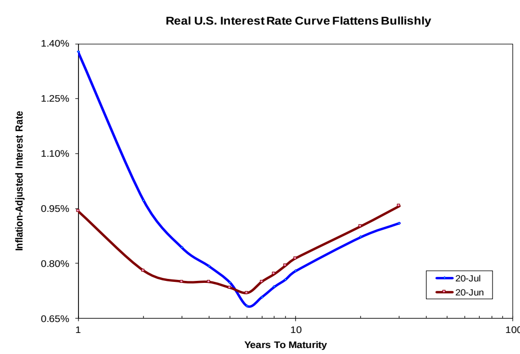
1. The market is pricing in September and, decreasingly, December 2018 rate hikes;
2. Inflationary expectations have stopped rising;
3. The yield curve remains in its flattening trend;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads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

Key Market Indications

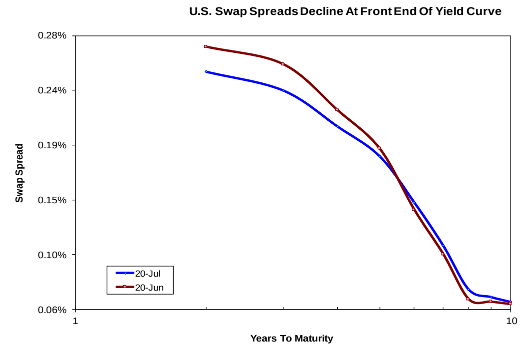
The last time the bond market focused on rising wage pressures, stocks went into a paroxysm of selling. Three months later, yields peaked, inflationary expectations declined and stocks resumed their upward march. What the jump at the long end of the yield curve on Friday emphasized is just how skittish the market is.



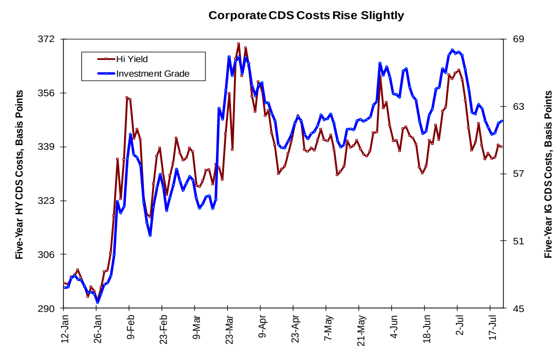
The pseudo-real yield curve continued to decline past five years' maturity even as it rose at the short end of the yield curve. This is supportive for risky financial assets and bearish for precious metals.



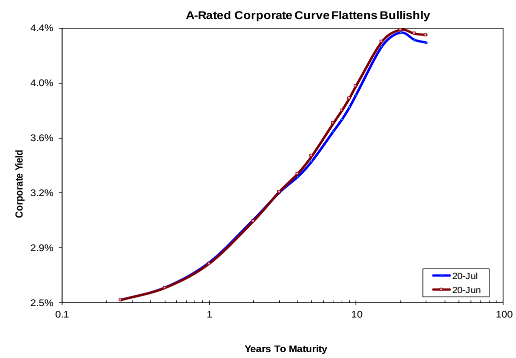
Swap spreads, which rise when floating-rate borrowers want to fix their payments, declined at the short end of the yield curve as the prospects for further short-term interest rate hikes fade.



The small rise in CDS costs reflects the stall in equities more than anything specific to credit. The continued threat to individual companies from trade disruptions has yet to affect the corporate bond market on an index level, but this threat is not going away anytime soon.



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 as credit spreads are unlikely to compress much further.



Market Structure
None of the physical markets are in structural uptrends. Within the financials, all but the S&P 500 are in consolidative structures.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate July 23 - 27
BBerg	4	Sideways	0.065	9.0%	
BBerg Grain	11	Transitional	0.103	20.2%	
BBerg Ind. Metl	4	Sideways	0.021	19.6%	
BBerg Pre. Metl	29	Trending	-0.294	9.8%	-0.20%
BBerg Softs	4	Sideways	0.039	11.7%	
BBerg Nat. Gas	29	Trending	-0.251	15.8%	-0.41%
BBerg Petroleum	29	Trending	-0.051	21.0%	-0.67%
BBerg Livestock	29	Trending	-0.178	16.7%	-0.13%
Dollar Index	21	Trending	-0.032	6.2%	
S&P 500 Index	23	Trending	0.157	9.0%	0.16%
EAFE Index	8	Sideways	0.072	9.0%	
EM Index	11	Transitional	0.006	10.4%	
Ten-year UST (price)	29	Trending	-0.034	3.5%	

Performance Measures

The strong selloff in the grain markets paused as price levels are making U.S. exports competitive. Both Industrial and Precious Metals continued their declines on trade, currencies and rising short-term implied real rates. The strongest trend of significance remains the decline in Petroleum as supplies continue to return to the market.

Commodity Total Returns

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	-0.14%	-4.02%	-5.31%	2.35%
Grains Sub-Index	3.87%	-2.24%	-3.87%	-16.98%
Corn	4.14%	-2.92%	-4.50%	-17.55%
Soybeans	3.70%	-5.48%	-15.23%	-19.55%
Wheat	3.86%	2.49%	12.72%	-13.27%
Energy Sub-Index	-1.66%	-2.10%	0.84%	27.75%
Petroleum Sub-Index	-2.24%	-0.60%	6.04%	49.33%
WTI	-2.38%	1.08%	8.85%	51.51%
Brent	-2.63%	-2.38%	8.88%	59.74%
ULSD	-1.36%	-1.00%	2.94%	42.17%
Gasoline	-1.98%	0.13%	-1.44%	32.56%
Natural Gas	0.19%	-6.43%	-12.66%	-20.84%
Precious Metals Sub-Index	-1.06%	-3.74%	-8.44%	-3.57%
Gold	-0.88%	-3.10%	-8.41%	-2.64%
Silver	-1.64%	-5.84%	-8.54%	-6.45%
Industrial Metals Sub-Index	-0.79%	-9.41%	-10.06%	6.65%
Copper	-0.66%	-9.47%	-12.26%	-0.50%
Aluminum	0.26%	-6.63%	-7.08%	7.01%
Nickel	-3.19%	-11.44%	5.22%	41.26%
Zinc	0.17%	-11.34%	-23.28%	-3.70%
Softs Sub-Index	0.64%	-4.54%	-10.49%	-15.72%
Coffee	0.72%	-5.24%	-12.44%	-25.85%
Sugar	1.50%	-10.26%	-16.94%	-26.23%
Cotton	-0.83%	2.24%	8.02%	30.28%
Livestock Sub-Index	-0.20%	-2.49%	-9.12%	-11.41%
Cattle	2.72%	1.81%	-4.38%	-8.56%
Hogs	-7.24%	-11.35%	-19.35%	-18.85%

The blanket USD rally stalled, especially against the majors save for the GBP. The strong decline in the CNY is linked, obviously, to both trade-related issues and to China's ongoing need to loosen domestic credit conditions. The BRL was a major exception amongst the EM currencies in rallying strongly after months of decline.

Currency Returns

	Five-Days	One Month	Six Months	One Year
Euro	0.33%	1.31%	-4.39%	0.80%
Chinese yuan	-1.15%	-4.37%	-5.39%	-0.15%
Japanese yen	0.87%	-0.94%	-0.44%	0.45%
British pound	-0.65%	-0.27%	-6.08%	1.26%
Swiss franc	0.95%	0.39%	-3.07%	-4.13%
Canadian dollar	0.11%	1.26%	-5.33%	-4.23%
Australian dollar	-0.12%	0.64%	-7.51%	-6.82%
Swedish krona	0.31%	0.36%	-9.41%	-7.10%
Norwegian krone	-0.77%	0.02%	-3.98%	-1.63%
New Zealand dollar	0.83%	-1.00%	-7.08%	-7.96%
Indian rupee	-0.47%	-1.13%	-7.24%	-6.43%
Brazilian real	2.14%	0.07%	-15.01%	-17.20%
Mexican peso	-0.69%	7.02%	-1.79%	-8.08%
Chilean peso	-1.38%	-3.18%	-8.15%	-1.23%
Colombian peso	-0.67%	1.65%	-0.94%	4.22%
Bloomberg-JP Morgan Asian dollar index (spot)	-0.56%	-2.43%	-4.69%	-0.91%

A stall in the USD rally and decreasing uncertainty over the course of U.S. short-term interest rates helped both the EAFE and EM markets in general and the Latin American subindex in particular.

Equity Total Returns

	Five-Days	One Month	Six Months	One Year
MSCI World Free	0.23%	1.26%	-2.69%	11.89%
North America	0.00%	1.32%	0.68%	15.14%
Latin America	2.79%	7.62%	-12.34%	-0.37%
Emerging Market Free	-0.44%	-1.32%	-11.66%	3.70%
EAFE	0.64%	0.81%	-5.72%	5.75%
Pacific	0.95%	-0.65%	-7.28%	8.20%
Eurozone	0.46%	1.11%	-7.40%	5.32%

Once again, CTAs and macro/CTA hedged funds gained during a week when the physical commodities were in downtrends. As none of the financial markets were in strong trends, this suggests good selective exposure to the currency markets and to the U.S. yield curve trade.

CTA/Hedge Fund Returns

	Five-Days	One Month	Six Months	One Year
SocGen CTA	0.72%	2.91%	-8.62%	4.41%
SocGen Trend	0.58%	2.00%	-7.49%	2.00%
SocGen Short-Term	0.09%	0.69%	-3.22%	1.13%
HFR Global Hedge Fund	-0.22%	0.46%	-2.24%	2.36%
HFR Macro/CTA	0.42%	1.95%	-3.37%	2.76%
HFR Macro: Sytematic Diversified CTA	0.18%	2.16%	-6.11%	5.56%