

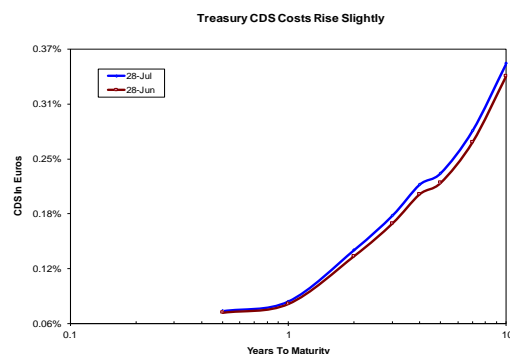
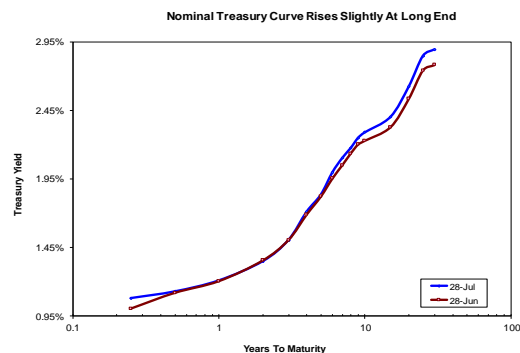
The problem with promises of central bank transparency is they are difficult to reconcile with central bank signals to raise interest rates and shrink the balance sheet for no reasons other than such policies failed. As the prospects for fiscal stimulus have receded as well, the course of growth will have to be driven by intrinsic factors. Oddly, a resilient energy sector and a declining USD may be the key drivers of industrial activity. This all seemed quite unlikely at the start of the year. The causal chain remains:

1. The market is pricing out expectations for another short-term rate hike in the U.S. in 2017;
2. Inflationary expectations have stopped declining;
3. The secular flattening trend in the U.S. is encountering resistance as expectations for higher short-term rates fade;
4. Short-term borrowers are close to terming out short-term debt into the bond market;
5. Swap spreads are rising; and
6. CDS costs remain consistent with a bull market in risky assets.

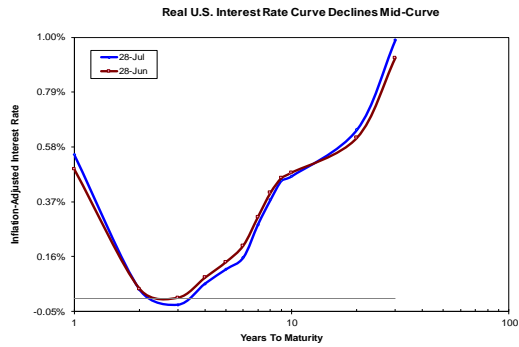
### Key Market Indications

You might think a week with a FOMC meeting signaling balance sheet reduction, a spectacular political failure and a sharp decline in the USD would have created a little volatility at the long end of the yield. You would have been right: We had very little volatility. Bonds held by insurers, pensions, endowments and central banks are in strong hands and are likely to remain there for the foreseeable future.

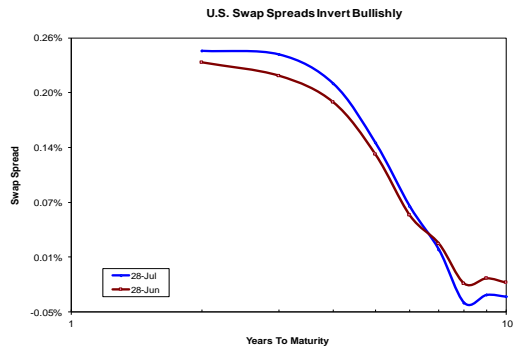
CDS costs on UST increased slightly over the past month. This market remains unconcerned about the U.S. debt ceiling.



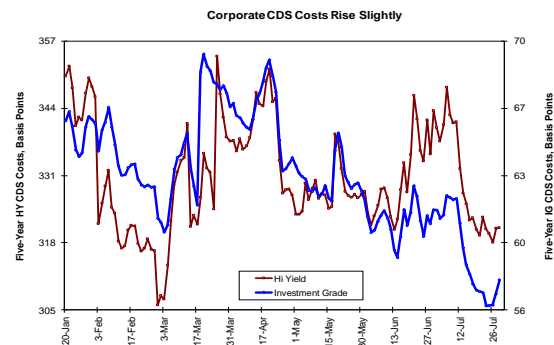
The pseudo-real yield curve shifted higher at both the long and short ends of the yield curve, but this did not push precious metals lower as the USD declined. The small rise at the long end of the yield curve was insufficient to pressure risky financial assets. The implied real rate returned to a negative level for the three-year.



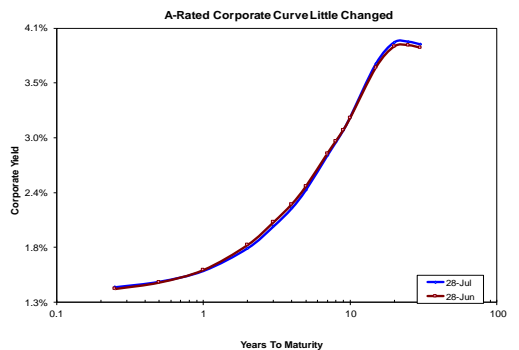
Swap spreads, which rise when floating-rate borrowers want to fix their payments, declined at the long end of the yield curve while rising at the short end. Regardless of monetary policy changes, the central bank owners of long-term UST are too strong to see those yields rise significantly.



CDS costs moved slightly higher for both the investment-grade and high-yield indices. As very little changed on either the growth or monetary policy outlooks, it is likely the upturns reflect correlation trades against equities.



The A-rated corporate yield curve has remained little changed over the past month. This remains a bull market with limited upside potential.



## Market Structure

Natural Gas and Livestock are in structural downtrends, but all other physical markets are in structural uptrends. Ten-year UST and the dollar index are in structural downtrends, while both the EAFE and EM indices exited structural uptrends.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate July 31 - Aug. 4
BBERG	29	Trending	0.298	9.9%	0.07%
BBERG Grain	29	Trending	0.027	21.0%	0.10%
BBERG Ind. Metl	29	Trending	0.324	12.5%	0.39%
BBERG Pre. Metl	29	Trending	0.148	13.2%	0.20%
BBERG Softs	21	Trending	0.179	19.0%	0.26%
BBERG Nat. Gas	24	Trending	-0.085	20.1%	-0.21%
BBERG Petroleum	22	Trending	0.247	24.3%	0.37%
BBERG Livestock	29	Trending	-0.135	15.1%	-0.56%
Dollar Index	29	Trending	-0.403	6.3%	-0.09%
S&P 500 Index	28	Trending	0.147	6.8%	0.07%
EAFE Index	5	Sideways	0.015	10.4%	
EM Index	4	Sideways	-0.012	8.0%	
Ten-year UST (price)	27	Trending	-0.045	4.8%	-0.38%

## Performance Measures

The Petroleum subindex rebounded from its test of channel support to post its best week of the year. The economically sensitive Industrial Metals, copper and nickel especially, also had strong gains. Both Grains and Livestock turned lower, while Precious Metals remained surprisingly muted given the weakness in the USD and dwindling expectations for tighter monetary policies.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
<b>Bloomberg Index</b>	1.82%	2.36%	-3.15%	0.86%
<b>Grains Sub-Index</b>	-1.82%	-1.40%	-0.79%	-1.20%
Corn	-1.43%	-1.69%	-1.60%	0.26%
Soybeans	-0.88%	6.19%	-3.52%	-3.05%
Wheat	-3.63%	-8.48%	4.92%	-0.96%
<b>Energy Sub-Index</b>	5.65%	4.91%	-9.16%	0.13%
Petroleum Sub-Index	7.97%	7.84%	-7.52%	8.80%
WTI	8.63%	7.48%	-9.40%	5.14%
Brent	7.72%	6.10%	-9.01%	7.08%
ULSD	7.98%	10.17%	-2.32%	13.89%
Gasoline	7.30%	9.63%	-6.10%	15.41%
Natural Gas	-0.66%	-2.89%	-13.75%	-20.27%
<b>Precious Metals Sub-Index</b>	1.24%	1.71%	1.71%	-10.69%
Gold	1.16%	2.14%	4.50%	-7.04%
Silver	1.47%	0.49%	-5.60%	-19.44%
<b>Industrial Metals Sub-Index</b>	3.36%	3.57%	2.49%	17.93%
Copper	5.62%	6.14%	4.23%	27.01%
Aluminum	-0.58%	-1.05%	3.58%	13.61%
Nickel	7.18%	8.56%	1.74%	-5.49%
Zinc	0.75%	0.51%	-3.53%	21.92%
<b>Softs Sub-Index</b>	0.43%	9.40%	-19.56%	-16.39%
Coffee	0.97%	9.76%	-12.01%	-13.99%
Sugar	-0.19%	4.14%	-30.35%	-27.31%
Cotton	0.58%	0.39%	-7.38%	-6.88%
<b>Livestock Sub-Index</b>	-3.11%	-4.35%	7.93%	11.57%
Cattle	-4.22%	-3.43%	11.53%	12.71%
Hogs	-1.06%	-5.66%	2.26%	8.88%

The decline of the CHF against the USD was exceeded by its loss against the EUR. The cross-rate is back into its January 2015 breakout range. The USD continued its decline against all other majors and against the minor currencies save for the MXN and CLP.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	0.75%	3.28%	9.87%	6.08%
Chinese yuan	0.44%	0.93%	2.18%	-1.18%
Japanese yen	0.41%	1.46%	2.79%	-4.89%
British pound	1.07%	1.62%	5.21%	-0.21%
Swiss franc	-2.37%	-0.94%	2.75%	1.26%
Canadian dollar	0.85%	4.87%	5.50%	5.82%
Australian dollar	0.90%	4.54%	5.72%	6.45%
Swedish krona	1.51%	5.23%	8.78%	6.41%
Norwegian krone	1.31%	6.49%	5.09%	8.13%
New Zealand dollar	0.80%	2.86%	3.14%	6.24%
Indian rupee	0.26%	0.62%	5.91%	4.49%
Brazilian real	0.37%	4.73%	-0.16%	5.12%
Mexican peso	-0.69%	0.42%	16.92%	6.28%
Chilean peso	-0.41%	1.35%	-0.84%	1.51%
Colombian peso	0.45%	0.61%	-2.27%	3.11%
Bloomberg-JP Morgan Asian dollar index (spot)	0.13%	0.86%	3.05%	-0.12%

As noted last week, the downturn in European equity markets as a function of a stronger EUR was a temporary phenomenon. Gains in the U.S. and the Pacific were muted, but the Latin markets managed a rebound.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	0.10%	2.38%	10.96%	16.73%
North America	0.02%	1.54%	8.56%	16.24%
Latin America	0.27%	8.73%	9.40%	20.06%
Emerging Market Free	0.29%	5.62%	18.00%	24.63%
EAFE	0.23%	1.67%	13.30%	20.21%
Pacific	0.04%	2.48%	9.23%	14.91%
Eurozone	1.08%	3.76%	20.32%	26.47%

Strongly directional currency and physical commodity markets allowed CTAs to post strong gains, while hedge funds gained per usual during an equity rally.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
Newedge CTA	0.57%	-2.33%	-4.54%	-12.55%
Newedge Trend	0.21%	-2.14%	-2.44%	-9.59%
Newedge Short-Term	-0.24%	-1.22%	-4.09%	-11.85%
HFR Global Hedge Fund	0.11%	0.91%	2.45%	5.64%
HFR Macro/CTA	0.24%	-0.30%	0.00%	-2.61%
HFR Macro:	0.22%	-0.92%	-0.90%	-6.37%
Systematic Diversified CTA				