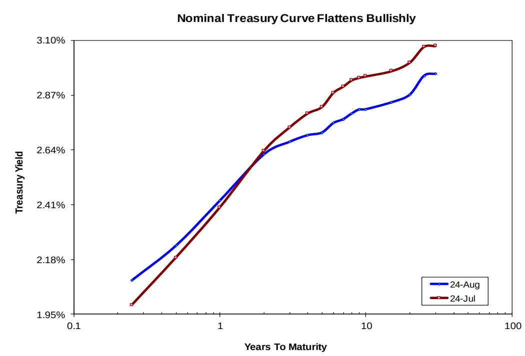
The Macro Environment For Financial Markets

While this will not be a reprise of the September 1985 Plaza Accord, it does seem the Jackson Hole gathering will result in a coordinated effort to arrest the USD's rise. It was bullish for global risk assets then and will be again today. This is one reason why financial markets have ignored the increasing legal problems facing President Trump. In fact, even his exit from office could be spun bullishly if it meant an end to the unnecessary trade wars. Just saying. The causal chain remains:

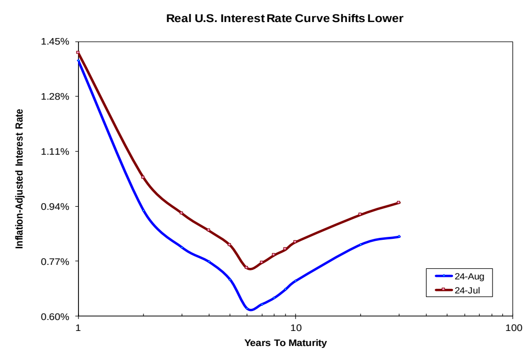
1. The market is pricing in September and December 2018 rate hikes;
2. Inflationary expectations are declining very slowly;
3. The yield curve remains in its flattening trend;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads continue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

Key Market Indications

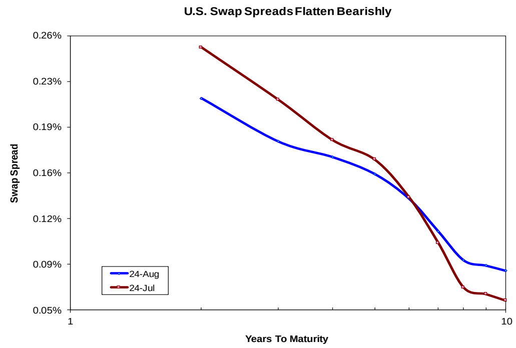
Treasuries are a haven market, and the continued unrest in emerging markets, trade tensions and rising political uncertainty in the U.S. are putting downward pressure on the long end. The yield curve continues to flatten even as the Federal Reserve has signaled its desire for the yield curve not to invert. All of this indicates the upward pressure on short-term rates will end soon.



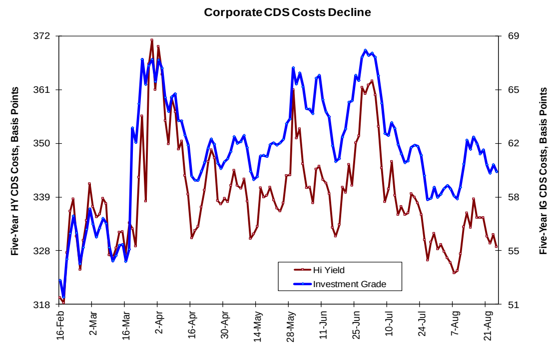
The pseudo-real yield curve declined bullishly. This will be positive for risky financial assets and will start to take some of the selling pressure off of precious metals.



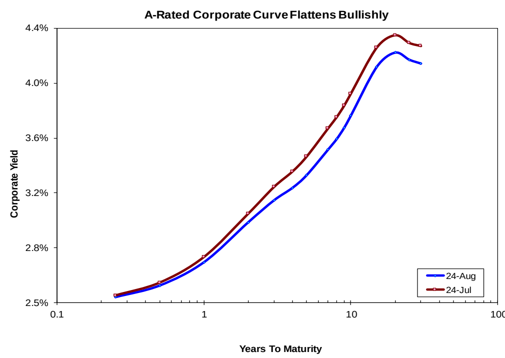
To repeat verbatim from last week, swap spreads, which rise when floating-rate borrowers want to fix their payments, declined at the short end of the yield curve as the prospects for aggressive short-term interest rate hikes fade but moved higher at the long end of the yield curve. This reflects a strong split in borrowers' risk preferences.



The narrow range in CDS costs reflects the stall in equities more than anything specific to credit. A prospective end to rising short-term rates will reduce refinancing risks for floating-rate borrowers.



The A-rated corporate yield curve flattened bullishly. However, this market remains as confined as credit spreads are not declining and the declines in Treasury rates are minor.



Market Structure

While the Petroleum and Livestock subindices moved into structural uptrends, Grains and Precious Metals remain in downtrends. The dollar index exited its uptrend.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate August 27 - 31
BBerg	23	Trending	-0.053	8.8%	-0.13%
BBerg Grain	29	Trending	-0.169	17.4%	-0.22%
BBerg Ind. Metl	21	Trending	0.003	18.3%	
BBerg Pre. Metl	23	Trending	-0.042	9.8%	-0.14%
BBerg Softs	4	Sideways	0.037	16.9%	
BBerg Nat. Gas	6	Sideways	-0.072	11.3%	
BBerg Petroleum	21	Trending	0.155	18.1%	0.07%
BBerg Livestock	29	Trending	0.119	14.0%	0.12%
Dollar Index	29	Trending	-0.029	5.6%	
S&P 500 Index	11	Transitional	0.126	7.6%	
EAFE Index	29	Trending	-0.080	8.6%	-0.13%
EM Index	29	Trending	-0.123	10.5%	-0.15%
Ten-year UST (price)	29	Trending	0.220	3.4%	0.05%

Performance Measures

An 11.6% decline in Hogs? Tariffs and retaliation have consequences. The same applies to Grains, although that is more attributable to the prospect for large harvests. The Industrial Metals managed to rebound on some vague progress in trade talks with China; we shall see. The Precious Metals subindex gained on prospects for lower implied short-term real rates.

Commodity Total Returns

	Five-Days	One Month	Six Months	One Year
Bloomberg Index	0.45%	-1.20%	-4.65%	2.07%
Grains Sub-Index	-5.29%	-2.96%	-10.87%	-6.62%
Corn	-4.19%	-3.29%	-11.12%	-9.42%
Soybeans	-4.16%	-3.24%	-20.32%	-13.81%
Wheat	-7.42%	-2.49%	2.47%	5.74%
Energy Sub-Index	3.56%	2.05%	11.46%	28.25%
Petroleum Sub-Index	5.36%	1.23%	13.50%	45.63%
WTI	5.31%	1.29%	12.58%	47.75%
Brent	5.67%	1.69%	17.74%	55.43%
ULSD	5.02%	2.23%	13.43%	39.40%
Gasoline	5.11%	-0.70%	7.50%	29.36%
Natural Gas	-1.30%	4.68%	5.77%	-13.49%
Precious Metals Sub-Index	2.21%	-2.08%	-9.04%	-8.98%
Gold	2.50%	-1.42%	-8.80%	-7.39%
Silver	1.24%	-4.28%	-9.88%	-13.91%
Industrial Metals Sub-Index	2.85%	-1.83%	-11.46%	-4.58%
Copper	2.89%	-3.40%	-15.43%	-12.39%
Aluminum	3.34%	1.41%	-0.19%	2.49%
Nickel	-0.47%	-3.23%	-3.19%	16.16%
Zinc	6.28%	-1.69%	-25.84%	-14.20%
Softs Sub-Index	0.31%	-7.64%	-16.73%	-19.02%
Coffee	0.04%	-7.72%	-18.15%	-27.29%
Sugar	0.53%	-5.83%	-21.98%	-30.28%
Cotton	0.33%	-7.45%	2.72%	22.73%
Livestock Sub-Index	-6.08%	-1.86%	-8.83%	-5.66%
Cattle	-3.73%	-3.27%	-7.00%	-2.74%
Hogs	-11.61%	1.93%	-13.05%	-12.59%

The decline in the JPY can be explained by unwinding of haven trades. The BRL's strong downturn is yet another round of Brazil's political turmoil, and the MXN's small decline is best read as book-squaring as trade negotiations proceed. Outside of that, the USD declined as the Federal Reserve seems to be taking its strength into account

Currency Returns

	Five-Days	One Month	Six Months	One Year
Euro	1.61%	-0.56%	-5.64%	-1.50%
Chinese yuan	0.98%	-0.26%	-7.26%	-2.18%
Japanese yen	-0.67%	-0.04%	-3.87%	-1.51%
British pound	0.76%	-2.27%	-8.03%	0.35%
Swiss franc	1.25%	1.03%	-4.63%	-1.83%
Canadian dollar	0.27%	0.99%	-2.65%	-3.88%
Australian dollar	0.22%	-1.27%	-6.70%	-7.29%
Swedish krona	0.27%	-3.43%	-10.71%	-11.63%
Norwegian krone	1.51%	-1.80%	-6.06%	-5.82%
New Zealand dollar	0.50%	-1.94%	-8.67%	-7.54%
Indian rupee	0.35%	-1.38%	-7.32%	-8.41%
Brazilian real	-4.74%	-8.66%	-21.43%	-23.30%
Mexican peso	-0.11%	-0.15%	-1.23%	-6.27%
Chilean peso	1.45%	-0.94%	-11.13%	-3.38%
Colombian peso	2.45%	-2.09%	-4.03%	0.10%
Bloomberg-JP Morgan Asian dollar index (spot)	0.46%	0.02%	-5.15%	-1.70%

The realization global central bankers are going to arrest the USD's rise propelled non-U.S. equities higher. As these markets have underperformed the U.S. strongly, the potential for a rally into year's end is strong.

Equity Total Returns

	Five-Days	One Month	Six Months	One Year
MSCI World Free	1.13%	0.47%	2.45%	13.87%
North America	0.90%	2.06%	5.63%	19.53%
Latin America	-0.16%	-7.06%	-19.86%	-11.01%
Emerging Market Free	2.71%	-2.56%	-12.04%	-0.34%
EAFE	1.56%	-1.73%	-3.05%	5.25%
Pacific	-0.19%	-3.09%	-5.41%	6.56%
Eurozone	3.37%	-2.79%	-3.66%	1.95%

Both hedge funds and CTAs turned in mixed performances during a week when equities gained. This suggests poor positioning in both currencies and in physical commodities.

CTA/Hedge Fund Returns

	Five-Days	One Month	Six Months	One Year
SocGen CTA	0.11%	2.06%	-0.65%	3.77%
SocGen Trend	0.24%	1.54%	-1.49%	1.40%
SocGen Short-Term	-0.52%	0.08%	-0.89%	0.93%
HFR Global Hedge Fund	0.22%	-0.46%	-2.00%	1.70%
HFR Macro/CTA	-0.53%	0.44%	-0.51%	1.38%
HFR Macro: Sytematic Diversified CTA	-0.45%	1.20%	-0.33%	4.26%