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## The Macro Environment For Financial Markets

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Cynicism often is a way of getting to the correct answer faster. If the greatest danger to the global economy and to financial markets is China's slowdown and China is afraid of a capital outflow from a declining CNY and is willing to spend down UST reserves to support it, then the Federal Reserve could accomplish three goals simultaneously by holding off on a rate hike. First, it could lower the USD and the value of the quasi-pegged CNY. Second, it could remove selling pressure from the Treasury market by holding on to its portfolio. Third and finally, it could provide some measure of relief to U.S. corporations hurt by a stronger USD. Will this change by the December 2015 FOMC meeting? No; for the foreseeable future the battle cry is, "Don't fire even if you see the whites of their eyes."

The causal chain now is:

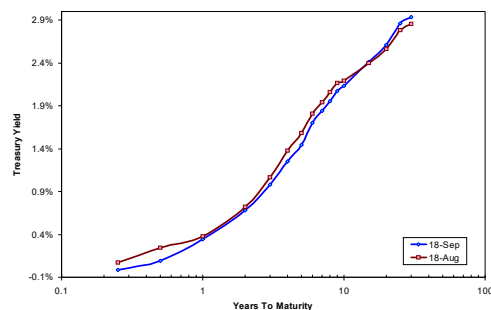
1. Short-term interest rates will remain artificially low globally;
2. Disinflationary pressures are dominating inflationary pressures;
3. Inflation expectations as measured by the TIPS market will remain low;
4. The U.S. yield curve retains its long-term trend toward a bullish flattening even after the large decline in short-term rates;
5. Short-term borrowers will continue to accept rollover risk;
6. Swap spreads will remain tame; and
7. Credit spreads are biased toward increasing even after the threat of higher short-term rates has been removed.

### Key Market Indications

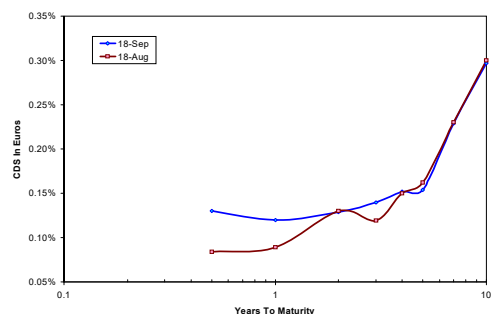
Anyone who had been short the one- and two-year UST going into this week must have felt good about the trade. The prevailing bullish flattening via higher short-term rates ended unceremoniously following the FOMC decision, but this should be a short-term diversion with a longer-term trend.

H.L. Mencken noted famously, "Nobody ever went broke underestimating the taste of the American public." Buyers of CDS on U.S. debt can note similarly no one has to wait long for Congress to threaten to do something insane, like shut down the government. This is an asymmetric risk: You never will be surprised by how clever the U.S. government is.

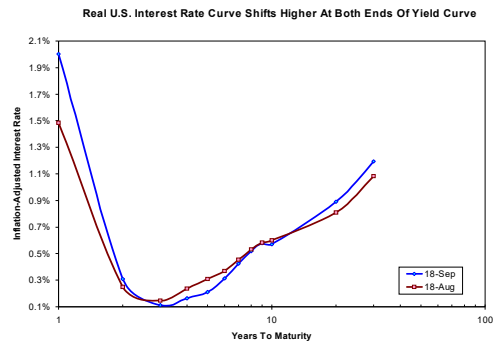
Nominal Treasuries Rally At Short End Of Yield Curve



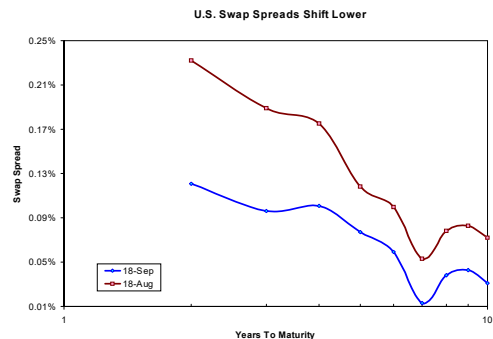
Treasury CDS Costs Rise At Short End Of Yield Curve



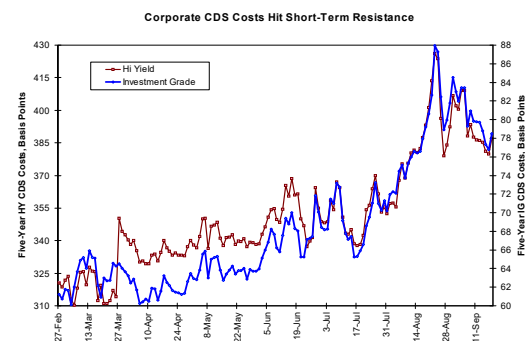
Pseudo-real rates continue to move higher at the short end of the yield curve. Unlike previous shifts, this one did not push gold prices lower thanks to a haven bid. Long-term pseudo-real rates have advanced over the past month. If this rise persists, it will constitute a headwind for risky financial assets.



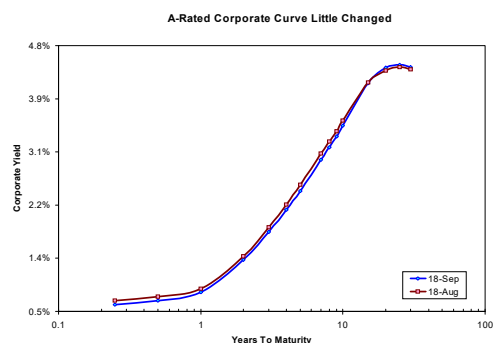
Swap spreads, which rise when floating-rate borrowers want to fix their payments, declined at both the short end of the yield curve over the past month. This was a correct stance regarding the willingness of the Federal Reserve to raise short-term rates. The decline at the long end is consistent with a strong demand for sovereign debt as equity markets continue to wobble.



CDS costs for both the investment-grade and high-yield indices stopped declining following the FOMC decision. While the threat of a global slowdown will prevent a significant decline in these costs, these markets no longer have to contend with the immediate threat of higher short-term interest rates.



The A-rated yield curve has changed very little over the past month. As investors search for yield, they will come back into investment-grade debt and push this yield curve lower.



## Market Structure

High volatility and lack of coherent signal have been sufficient to take all by Precious Metals, Grains and Livestock out of trending structures in the physical commodities and to keep all of the financial indices out of trending structures once again.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Sep. 21 - 25
BBERG	14	Transitional	-0.084	16.4%	
BBERG Grain	20	Trending	-0.009	18.9%	-0.17%
BBERG Ind. Metall	16	Transitional	-0.054	19.5%	
BBERG Pre. Metall	29	Trending	0.099	14.4%	0.09%
BBERG Softs	16	Transitional	-0.151	19.0%	
BBERG Nat. Gas	11	Transitional	-0.162	16.8%	
BBERG Petroleum	15	Transitional	-0.084	46.9%	
BBERG Livestock	26	Trending	-0.143	12.4%	-0.22%
Dollar Index	16	Transitional	-0.098	8.2%	
S&P 500 Index	11	Transitional	-0.010	15.6%	
EAFE Index	9	Sideways	0.007	14.3%	
EM Index	12	Transitional	0.186	14.6%	
Ten-year UST (price)	18	Transitional	0.066	6.2%	

## Performance Measures

While Precious Metals once again acted as a haven, they have been only an occasional haven. Discuss. The remainder of the physical markets all turned lower once again. The FOMC's reminder to all and sundry the global economy is sputtering helped push the economically important Energy and Industrial Metals indices lower. These will not reach zero; unlike stocks, copper and crude oil cannot go bankrupt and competing forecasts for how low crude oil will be and for how long are a sign of a bottom in formation. Still, nothing in physical commodities is bullish right now.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
<b>Bloomberg Index</b>	-1.35%	-1.75%	-10.64%	-27.17%
<b>Grains Sub-Index</b>	-1.33%	-1.88%	-7.48%	-5.99%
Corn	-2.52%	0.01%	-6.02%	-1.37%
Soybeans	-0.80%	-4.09%	-7.93%	-10.31%
Wheat	0.36%	-2.40%	-6.45%	-3.44%
<b>Energy Sub-Index</b>	-2.39%	-3.49%	-15.87%	-49.63%
Petroleum Sub-Index	-2.04%	-2.58%	-15.31%	-53.05%
WTI	-0.31%	2.12%	-13.06%	-57.33%
Brent	-3.44%	-4.45%	-20.71%	-57.72%
ULSD	-3.56%	-4.34%	-16.60%	-44.46%
Gasoline	-1.32%	-6.18%	-8.65%	-43.82%
Natural Gas	-3.29%	-5.74%	-17.51%	-42.86%
<b>Precious Metals Sub-Index</b>	3.49%	1.97%	-1.96%	-10.71%
Gold	3.13%	1.88%	-1.49%	-7.71%
Silver	4.54%	2.22%	-3.26%	-19.27%
<b>Industrial Metals Sub-Index</b>	-3.10%	1.91%	-12.26%	-26.39%
Copper	-2.75%	4.38%	-7.66%	-23.14%
Aluminum	-0.80%	4.21%	-10.90%	-21.94%
Nickel	-6.09%	-6.71%	-28.89%	-46.83%
Zinc	-6.95%	-4.36%	-15.91%	-26.90%
<b>Softs Sub-Index</b>	-3.88%	-6.15%	-14.96%	-30.21%
Coffee	1.55%	-14.88%	-20.36%	-40.87%
Sugar	-6.17%	0.94%	-16.81%	-33.42%
Cotton	-4.09%	-9.12%	-4.35%	-6.46%
<b>Livestock Sub-Index</b>	-1.00%	-3.22%	-3.07%	-17.07%
Cattle	-2.80%	-7.34%	-9.06%	-10.19%
Hogs	2.37%	4.62%	8.96%	-28.56%

I noted last week the EM currencies' primary downtrends will remain intact barring a strong dovish signal from the FOMC. This has arrived and pulled these currencies, the BRL excepted, higher. Indeed, the entire point of the FOMC decision may have been motivated by fear of an EM collapse exclusive of the CNY still being supported by the Peoples' Bank of China. The major currencies should advance briefly against the USD until the next round of competitive devaluation begins.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	-0.35%	2.49%	3.99%	-12.57%
Chinese yuan	0.17%	0.47%	-2.12%	-3.50%
Japanese yen	0.51%	3.69%	0.11%	-9.41%
British pound	0.69%	-0.80%	3.73%	-5.25%
Swiss franc	0.02%	0.85%	0.97%	-3.63%
Canadian dollar	0.29%	-1.26%	-4.99%	-17.33%
Australian dollar	1.37%	-2.07%	-7.53%	-20.03%
Swedish krona	-0.13%	3.70%	4.01%	-14.07%
Norwegian krone	-0.13%	1.51%	0.05%	-22.53%
New Zealand dollar	1.28%	-3.06%	-14.54%	-21.51%
Indian rupee	1.32%	-0.55%	-4.54%	-7.35%
Brazilian real	-1.89%	-12.12%	-18.62%	-40.06%
Mexican peso	1.12%	-1.50%	-9.35%	-20.51%
Chilean peso	1.16%	2.00%	-5.55%	-12.21%
Colombian peso	1.96%	0.64%	-11.90%	-33.99%
Bloomberg-JP Morgan Asian dollar index (spot)	0.56%	0.18%	-3.63%	-6.87%

If the EM currencies stabilize, money will flow back into their associated equity markets and will produce a reversal in the prevailing hierarchy of returns with the EM outperforming the EAFE and the EAFE outperforming the U.S. in turn.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	0.25%	-6.34%	-5.73%	-4.14%
North America	0.06%	-6.27%	-6.01%	-2.09%
Latin America	2.54%	-6.02%	-15.60%	-39.78%
Emerging Market Free	3.46%	-1.88%	-11.51%	-19.24%
EAFE	0.55%	-6.47%	-5.29%	-7.28%
Pacific	0.63%	-7.50%	-8.62%	-4.93%
Eurozone	0.09%	-6.33%	-5.10%	-10.00%

CTAs had another negative week. The real surprise is how it was not worse given the strong reversals in many of the financial markets and in crude oil. Macro hedge funds also had a down week as both the main equity indices and UST reversed.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
Newedge CTA	-1.48%	-2.99%	-8.92%	13.99%
Newedge Trend	-0.99%	-2.48%	-7.53%	9.22%
Newedge Short-Term	-0.38%	0.24%	-8.25%	2.06%
HFR Global Hedge Fund	0.22%	-1.62%	-2.87%	-3.35%
HFR Macro/CTA	-0.43%	-2.47%	-5.75%	1.72%
HFR Macro	-0.82%	-2.45%	-6.65%	4.18%
Systematic Diversified CTA				