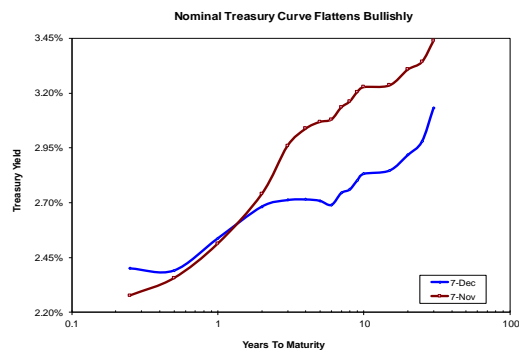


Everyone has bad ideas; the trick is keeping people with many bad ideas away from positions of power. This has not happened in the case of the U.S.-China trade dispute, and it was made worse by some jaw-droppingly ignorant statements on the nature of trade. The U.S., the U.K., Germany, France, Italy and Japan all are facing challenges to the national political systems simultaneously. Nothing is bullish about that. The causal chain now is:

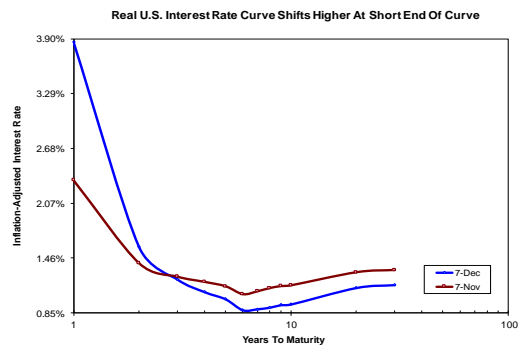
1. The market is pricing in a December rate hike, but is uncertain after that;
2. The yield curve remains in a bullish flattening;
3. Inflationary expectations continue to decline;
4. Short-term borrowers are accepting rollover risk rather than term-out borrowing in the bond market;
5. Swap spreads remain inverted; and
6. CDS costs have resumed rising.

Key Market Indications

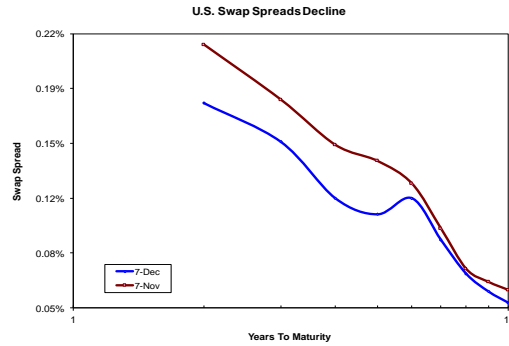
The long end of the UST continued its rally under the continued risk-off trade and under the increasing threat of serious economic damage from a trade war. The yield curve continues its bullish flattening and inflation expectations continue to decline.



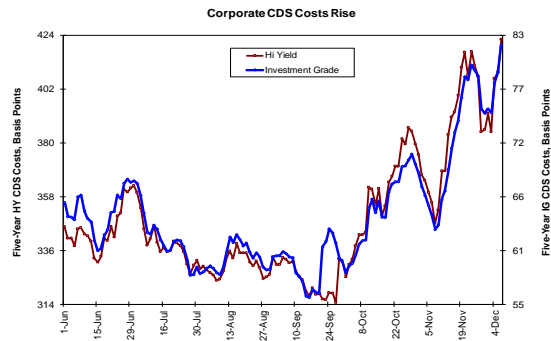
The pseudo-real yield curve continued its shift higher at the short end. They are starting to decline at the long end of the yield curve.



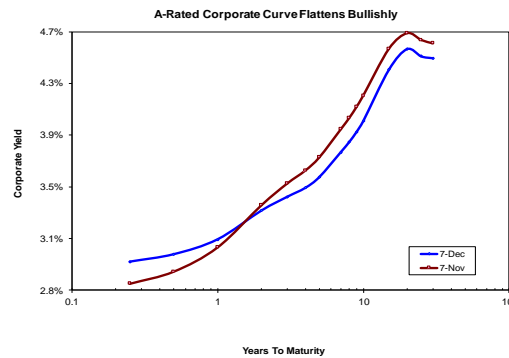
Swap spreads, which rise when floating-rate borrowers want to fix their payments, declined across the maturity spectrum as the end of rate hikes appears in sight.



CDS costs are rising as part of the general risk-off trade. As has been the case in recent weeks, the decline in crude oil prices has pushed high-yield CDS costs higher.



The A-rated corporate yield curve remains higher at the short end of the yield curve as borrowing has shifted from the bond market to bank lending. Borrowing costs are declining at the long end as the UST market rallies.



Market Structure

Grains, Precious Metals, Livestock and Natural Gas are in structural uptrends amongst the physical commodity markets. The EAFE is the only stock index in a structural downtrend. Ten-year UST are overbought.

	N-Day Speed	Market Structure	Trend Oscillator	HLC Volatility	Daily Trend Rate Dec. 10 - 14
BBERG	9	Sideways	0.095	12.4%	
BBERG Grain	29	Trending	0.191	12.2%	0.51%
BBERG Ind. Metl	17	Transitional	-0.015	14.0%	
BBERG Pre. Metl	29	Trending	0.217	8.3%	0.12%
BBERG Softs	9	Sideways	-0.036	19.6%	
BBERG Nat. Gas	29	Trending	0.274	27.0%	0.44%
BBERG Petroleum	6	Sideways	0.022	45.7%	
BBERG Livestock	29	Trending	0.146	12.2%	0.55%
Dollar Index	16	Transitional	-0.059	6.0%	
S&P 500 Index	18	Transitional	-0.154	17.6%	
EAFE Index	20	Trending	-0.165	12.7%	-0.34%
EM Index	19	Transitional	-0.027	12.3%	
Ten-year UST (price)	29	Trending	0.426	4.3%	0.08%

Performance Measures

Physical commodity returns gained for a second week, a somewhat surprising development given concerns about Chinese import demand. It remains to be seen how long the short-covering rally in Petroleum continues; history has not been kind to OPEC agreements. Precious Metals rose even as inflation expectations fell; once again, these are acting as a haven asset as investors hesitate to push bond yields lower.

	Commodity Total Returns			
	Five-Days	One Month	Six Months	One Year
Bloomberg Index	1.17%	0.90%	-6.21%	1.29%
Grains Sub-Index	2.46%	2.58%	-7.30%	-2.91%
Corn	2.10%	1.34%	-5.84%	-2.54%
Soybeans	2.51%	3.57%	-7.90%	-11.98%
Wheat	3.05%	4.06%	-5.51%	11.31%
Energy Sub-Index	1.19%	-1.16%	0.92%	14.69%
Petroleum Sub-Index	3.90%	-11.81%	-17.38%	-2.33%
WTI	3.35%	-12.68%	-17.04%	-2.90%
Brent	3.86%	-12.31%	-17.34%	3.72%
Ulsd	3.15%	-12.67%	-12.64%	0.31%
Gasoline	6.03%	-7.72%	-22.72%	-14.99%
Natural Gas	-2.65%	20.84%	51.59%	52.63%
Precious Metals Sub-Index	2.47%	3.30%	-6.20%	-2.14%
Gold	2.22%	3.32%	-4.14%	-0.43%
Silver	3.42%	3.23%	-12.99%	-8.04%
Industrial Metals Sub-Index	-0.71%	0.52%	-18.45%	-5.86%
Copper	-0.96%	2.35%	-17.12%	-8.55%
Aluminum	-0.56%	-0.33%	-14.41%	-0.49%
Nickel	-2.63%	-4.88%	-29.33%	-0.49%
Zinc	1.68%	3.15%	-15.53%	-11.12%
Softs Sub-Index	-0.53%	-4.85%	-8.37%	-13.47%
Coffee	-3.16%	-11.30%	-17.09%	-22.72%
Sugar	0.28%	1.28%	-2.90%	-14.74%
Cotton	1.72%	0.59%	-14.46%	9.78%
Livestock Sub-Index	0.78%	6.28%	5.73%	3.31%
Cattle	0.90%	3.36%	6.00%	3.32%
Hogs	0.53%	13.46%	6.77%	3.22%

The commodity-linked CAD and AUD declined, as did the Brexit-driven GBP. However, other majors weakened as year-end demand for USD continues to drive basis swaps wider. Overall, currencies have remained surprisingly quiet in the face of equity market volatility.

	Currency Returns			
	Five-Days	One Month	Six Months	One Year
Euro	0.55%	-0.41%	-3.57%	-3.35%
Chinese yuan	1.25%	0.66%	-7.01%	-3.71%
Japanese yen	0.78%	0.74%	-2.65%	0.36%
British pound	-0.18%	-3.05%	-5.19%	-5.55%
Swiss franc	0.59%	1.04%	-1.16%	0.24%
Canadian dollar	-0.23%	-1.58%	-2.63%	-3.51%
Australian dollar	-1.34%	-0.93%	-5.46%	-4.03%
Swedish krona	0.65%	-0.22%	-3.83%	-6.19%
Norwegian krone	1.33%	-1.81%	-5.28%	-2.22%
New Zealand dollar	-0.09%	1.15%	-2.31%	0.51%
Indian rupee	-1.73%	3.09%	-5.19%	-8.81%
Brazilian real	-1.06%	-4.35%	-0.09%	-15.72%
Mexican peso	0.53%	-1.94%	1.06%	-6.37%
Chilean peso	-0.38%	0.18%	-6.42%	-2.87%
Colombian peso	2.55%	-0.39%	-9.78%	-4.53%
Bloomberg-JP Morgan Asian dollar index (spot)	0.20%	0.11%	-4.80%	-3.49%

I commented last week the rebound in equities remains a fragile affair as, at the time of this writing, it could be undone by trade-related policy errors. This is exactly what transpired, and with ugly effect.

	Equity Total Returns			
	Five-Days	One Month	Six Months	One Year
MSCI World Free	-3.69%	-4.56%	-7.12%	-2.88%
North America	-4.43%	-6.08%	-4.60%	1.16%
Latin America	-0.31%	-4.52%	7.14%	-0.63%
Emerging Market Free	-1.33%	0.59%	-12.12%	-9.16%
EAFE	-2.25%	-3.76%	-11.08%	-8.91%
Pacific	-1.37%	-1.70%	-9.63%	-5.97%
Eurozone	-2.99%	-4.77%	-14.00%	-13.96%

CTAs gained on the week, which is somewhat surprising given the strong reversals in equities and in crude oil. Hedge funds lost money during a bearish week for equities.

	CTA/Hedge Fund Returns			
	Five-Days	One Month	Six Months	One Year
SocGen CTA	0.08%	0.76%	-3.47%	-6.59%
SocGen Trend	0.34%	0.82%	-1.97%	-5.41%
SocGen Short-Term	0.98%	0.26%	-1.05%	-0.68%
HFR Global Hedge Fund	-0.61%	-1.57%	-5.16%	-4.09%
HFR Macro/CTA	-0.13%	1.22%	-1.38%	-1.89%
HFR Macro:	-0.49%	1.19%	-2.13%	-2.87%
Systematic Diversified CTA				