MACRO INTELLIGENCE REPORT

January 4, 2017

Market Overview: Vicious Or Benign?

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We need to talk about currencies. The different types of currencies and the various roles they play in the global financial system.

Because this topic is complex and I don't want to get lost in the weeds, I'll be making broad sweeping generalizations while focusing on the key points that matter. My plan is to do this while trying not to bore you to death (and if you're already familiar with this stuff, as I know some of you are, bear with me for a bit).

Hopefully I'll be able to tie all this together and show you why understanding these things will have a significant impact on your P&L in the year to come.

Here we go…

Money (cash + credit) is the foundation of the global financial system. It's the oil that flows through the economic machine, greasing the gears of commerce and allowing markets to turn.

Money serves three primary functions: a store of value, a medium of exchange, and a unit of account.

All currencies are now fiat. Meaning, they have no intrinsic value. They are not backed by anything tangible.

Money is a system based on trust. This trust is complex and I'm not sure many people consciously think about it.

It's predicated not only on our opinions and expectations surrounding the currency issuers stewardship of its value, but others opinions and expectations as well.

A fiat currency is ultimately worthless if it's not fungible and others won't accept it as: a unit of account, store of value, or medium of exchange.

Since all currencies are fiat and not pegged to something fixed (there are pegged currencies but those are pegged to other floating currencies), their values, referred to as exchange rates, fluctuate relative to one another over time.

Like all market prices, exchange rates are driven by supply and demand. Currency supply and demand can be separated into two broad categories: fundamental and speculative.

Fundamentals are things like the trade and balance sheet of the currency issuer and its fiscal and monetary policies, such as its budget deficits and its control of the money supply.

Speculative demand is centered around expectations of the relative and future value of the currency. Think exchange rate trends, interest rate differentials, and relative market opportunities.

To simplify even further. Currency supply and demand is comprised of three things:

1. Trade
2. Non-speculative capital transactions
3. Speculative capital flows

Trade affects exchange rates through the balance of trade. Countries sell goods in their home currency. For other countries to buy those goods, they have to exchange their currency for the seller's (exporter's) currency. And vice-versa for when the country wants to import goods. This differential is referred to as the balance of trade. A trade surplus is an appreciating force on a currency and a deficit is a depreciating one.

Speculative capital flows are the buying and selling of currencies with no attached underlying asset.

Speculative capital moves in search of the highest total return. Total return is made up of: exchange rate differentials, interest rate differentials, and the local currency capital appreciation.

Of the three, exchange rates are the most important because they tend to fluctuate more than interest rates or market returns. It does not take much of an exchange rate decline/increase to completely overshadow the return on interest rates or capital appreciation.

Non-speculative capital transactions refer to all other cross border capital transactions.

In the short-term (months to a few years) exchange rates are driven by speculative flows. In the long-term, economic fundamentals (trade + non-speculative capital transactions) dominate exchange rate movements. It's the dynamic tension between these two that comprise the trends and fluctuations of currency markets.

Here's one of the key points of the bigger picture I'm getting at, via George Soros' Alchemy of Finance:

> *Expectations about exchange rates play the same role in currency markets as expectations about stock prices do in the stock market: they constitute the paramount consideration for those who are motivated by the total rate of return.*

And

> *To the extent that exchange rates are dominated by speculative capital transfers, they are purely reflexive: expectations relate to expectations and the prevailing bias can validate itself almost indefinitely… Reflexive processes tend to follow a certain pattern. In the early stages, the trend has to be self-reinforcing, otherwise the process aborts. As the trend extends, it becomes increasingly vulnerable because the fundamentals such as trade and interest payments move against the trend, in accordance with the precepts of classical analysis, and the trend becomes increasingly dependent on the prevailing bias. Eventually a turning point is reached and, in a full-fledged sequence, a self-reinforcing process starts operating in the opposite direction.*

The point is that currencies are inherently reflexive.

Their tendency for large fluctuations make exchange rates the most important input in the total return equation. This means that as an exchange rate moves, it brings in speculators betting that it'll continue to move. And the longer the trend endures, the more reinforced this behavior becomes. Until of course, the exchange rate diverges too far from fundamentals and the trend following bias weakens. Then the process aborts and works in reverse.

This is why some of the best trends (opportunities for profit) happen in the currency markets. It has a strong reflexive nature.

And this brings us to my second point. The dollar.

The US dollar is at 14-year highs after recently breaking out of its nearly 2-year consolidation. For the last three months it has gone vertical without taking much of a breather.

This trend is the most important trend to global markets right now. Its effects will be wide-ranging. Those of you who've been with us for a while know we often refer to the US dollar as the lynchpin of global markets. It's the main grease lubricating the global economic machine.

This is true when the dollar is in equilibrium. It's doubly true when it's trending.

And this is because in macro there's something called the core-periphery paradigm.

In this paradigm, global currencies can be divided into three subsets:

1. The reserve currency which is currently the US dollar.
2. Hard currencies, that come from countries that can lend to themselves at competitive rates. These tend to be net-importers of commodities. Hard currencies generally act as safe-havens during periods of risk-off.
3. And soft currencies. Soft currencies tend to be commodity producers. They are countries that have to borrow in other currencies at higher rates. These currencies depreciate during periods of risk aversion.

Since the dollar is the reserve currency it's the preferred medium of exchange for global trade. It's also why commodities are priced in dollars.

Global capital sloshes around the world in search of the highest total return. So when the dollar appreciates due to the sum of exchange rate differentials, interest rate differentials, and local currency capital appreciation, it attracts more capital (both speculative and to a lesser extent non-speculative). This creates the feedback loop.

But that money is coming from somewhere… that somewhere is the periphery.

A higher trending dollar is a depreciating force on commodities and commodity producers (soft currency countries). And a weaker dollar is an appreciating force on commodities and its producing countries.

Here's the following from Javier Gonzalez's book How to Make Money with Global Macro, "Commodities rise for two reasons: investor flight to avoid a depreciating reserve currency and producers increasing their price to compensate for the depreciating unit of account."

By that same logic, commodities fall due to capital flight back into the reserve currency (USD). And also from producers decreasing their prices to compensate for the depreciating unit of account. They then increase production as well to make up for the now lower income due to unfavorable exchange rate differentials.

There's also other reasons — such as emerging market debt becoming more expensive when the dollar rises and the Fed's interest rate policy affecting rates around the world in addition to the amount of liquidity sloshing around.

Simply put, much of the world lives at the mercy of the dollar and the Fed.

Due to this core-periphery dynamic, Gonzalez points out:

1. *On average, the cycles are longer at the core than at the periphery.*
2. *Cycles are longer at the core when the reserve currency is appreciating than when it is depreciating.*

This is perfectly logical. A depreciating dollar equates to higher commodity prices. Higher commodity prices feed into greater inflationary pressures. And higher inflation results in the Fed raising rates; increasing the total return profile of US markets and holding US dollars.

So a stronger dollar not only attracts speculative capital flows but it also subdues inflation, which keeps real rates high and stays the Fed from tightening too much. Hence why core cycles are longer when the dollar is going up.

Hopefully you've stayed with me and haven't jumped to twitter out of boredom because now I'm going to tell you why this is important.

Theme: Benign or Vicious Circle

The last few weeks I have been banging my head against the wall trying to understand the dollar dynamic at work. I think if I can understand this then I'll be able to make a lot of money in the coming year.

Here's why it has been hard. The recent rally in the dollar is confounding a lot of currency models. These models say that at the current interest and exchange rate differentials, the dollar should not be moving higher against many of the major pairs.

A number of currency analysts that I have a lot of respect for have been saying that the recent move just "doesn't make sense".

When I first heard that my ears perked up. I've found in markets that when you hear people saying a move doesn't make sense, it generally means that the move is going to keep going. Like Bruce Kovner would say, "I like to know that there are a lot of people who are going to be

wrong." The "doesn't make sense" usually equates to "a lot of people who are going to be wrong".

On a short-term technical basis the dollar is overextended and I've been expecting a pullback. I think we'll see one in the next few weeks. But my conviction on the longer-term dollar bullish thesis is growing. Though with the many unknowns surrounding the new incoming administration, there are a number of things that could flip my viewpoint.

We are approaching a giant macro crossroads and the Administration's and Fed's response over the next few months will determine where we head and whether the core (US) benefits or the periphery (EM) prospers. Or as Soros would put it (and I paraphrase), "it will decide whether we have a vicious circle or a benign one".

A benign circle for the United States is when the dollar appreciates and the bull market at the core (US) is extended. A benign circle for the US is a vicious one for emerging markets and vice-versa.

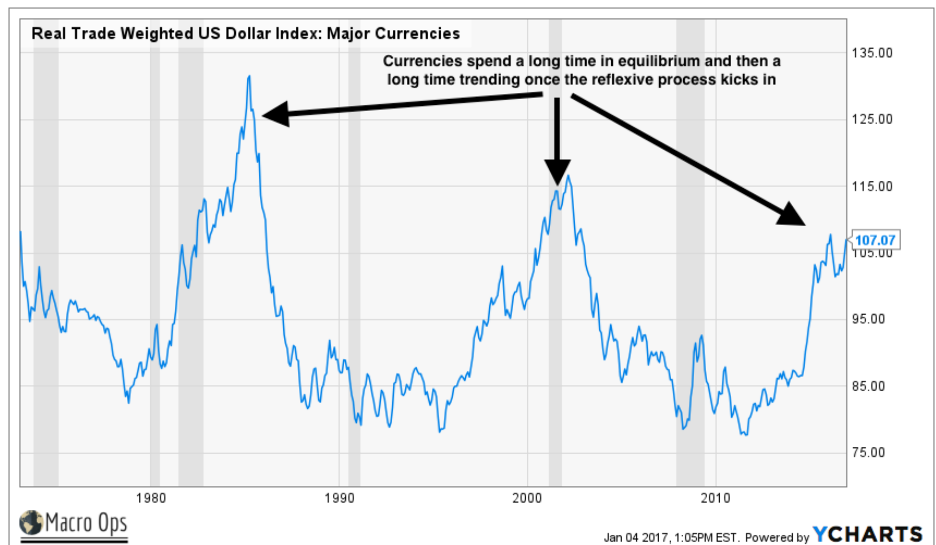
Vicious or benign, if we're able to get our dope right, we should be able to capitalize on a lot of opportunity.

Let's run through each scenario so we'll know what to look for as things unfold.

Benign Circle: Stronger dollar/Core benefits

Let's go back to our total return equation of: exchange rate differentials, interest rate differentials, and local currency capital market appreciation to see how the dollar stacks up.

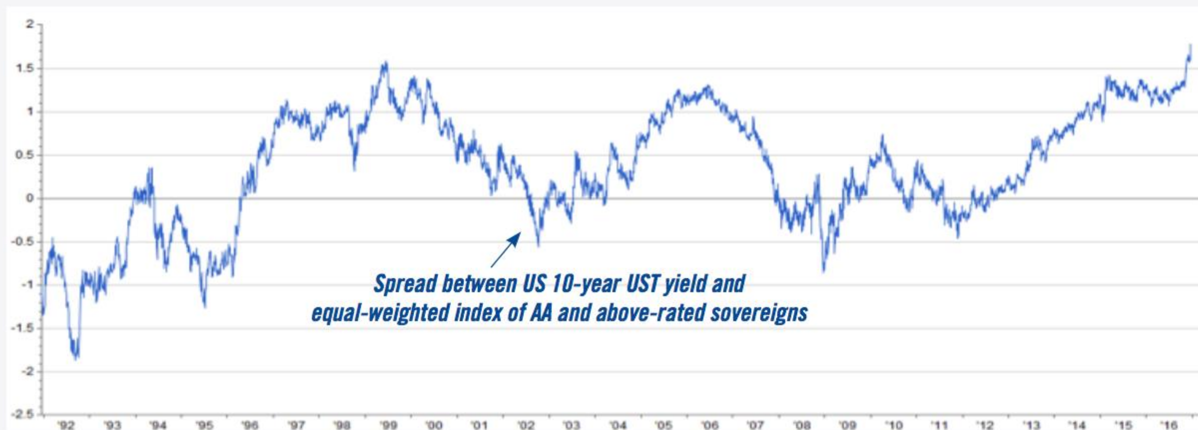
The chart to the right is of the real trade weighted US dollar. See how it tends to move from long periods of equilibrium and stasis to long periods of aggressive trends. That's due to the reflexive process kicking in.



These trends drive exchange rate expectations which drives the trend. It's a safe bet to

assume that the exchange rate differential is a strong positive in the dollar total return equation. And it's becoming stronger.

Also notice that the symmetry in time between the last two dollar bull trends. The dollar bull market in the 80's started in 78' and ended in 85' (approx. 6.5 years). In the 90's it started in 95' and ended in 02' (approx. 6.5 years). The current dollar bull market started in mid-11'. If this bull market follows a similar temporal symmetry, the dollar should continue to rise until the end of this year.



The above chart shows the interest rate differentials. The spread between US rates and its developed market peers is now at record high levels. So we can say that interest rate differentials are a strong positive for the US dollar.

Lastly, we have local currency capital appreciation. Which means we need to check how the US market is doing relative to the rest-of-the-world (ROW).

This chart shows the performance of the S&P index over the EFA which is an ETF

that tracks over 900 developed market mid-to-large cap companies excluding North America.

When the chart is trending down it means the ROW is outperforming the US and vice-versa for when it's moving up. As the chart shows, the US has been outperforming its developed market peers for over 8 years.

Local currency capital appreciation is again a strong plus in the dollar total return equation.

For those of you who've read *Alchemy of Finance*, Soros' arrowed equation would look something like this:

$$\uparrow(e+i+m) \rightarrow s\uparrow \rightarrow e\uparrow$$

Where e= exchange rate, i = interest rate differential, m = capital appreciation, s = speculative capital flows. Up arrow means increasing (for those of you with an eye for detail I flipped the arrow on s, Soros used a down arrow to signify increasing speculative inflows which I think is confusing), and the side arrow is essentially an equal sign.

All the equation is saying — in an unnecessarily nerdy way — is that the dollars current total return picture is conducive to increasing speculative inflows which will lead to further trend strengthening (ie, reflexivity).

And then here is my additional logic chain we can add to this total return picture which will drive expectations for all of the above barring no intervention by the incoming administration.

The prospect of coming fiscal stimulus + the extended length of this bull market + the long period of time the Fed has stayed low on rates + historically high valuations and increasing speculation = greater propensity for Fed to raise rates = stronger total return for investors = more speculative inflows = higher USD exchange rate and USD asset prices = greater chance Fed becomes more concerned with asset bubbles than its inflation target which will stay low from a higher dollar = reflexive loop = goldilocks economy/market for the core over the short-term = unsustainable benign circle in the long-term.

We can also apply this to the rest of the developed world.

Stronger dollar = low to lower commodity prices = lower inflation + low valuation + sluggish economic growth = lower rates for longer in ROW = widening US interest rate differential = stronger dollar = benign circle.

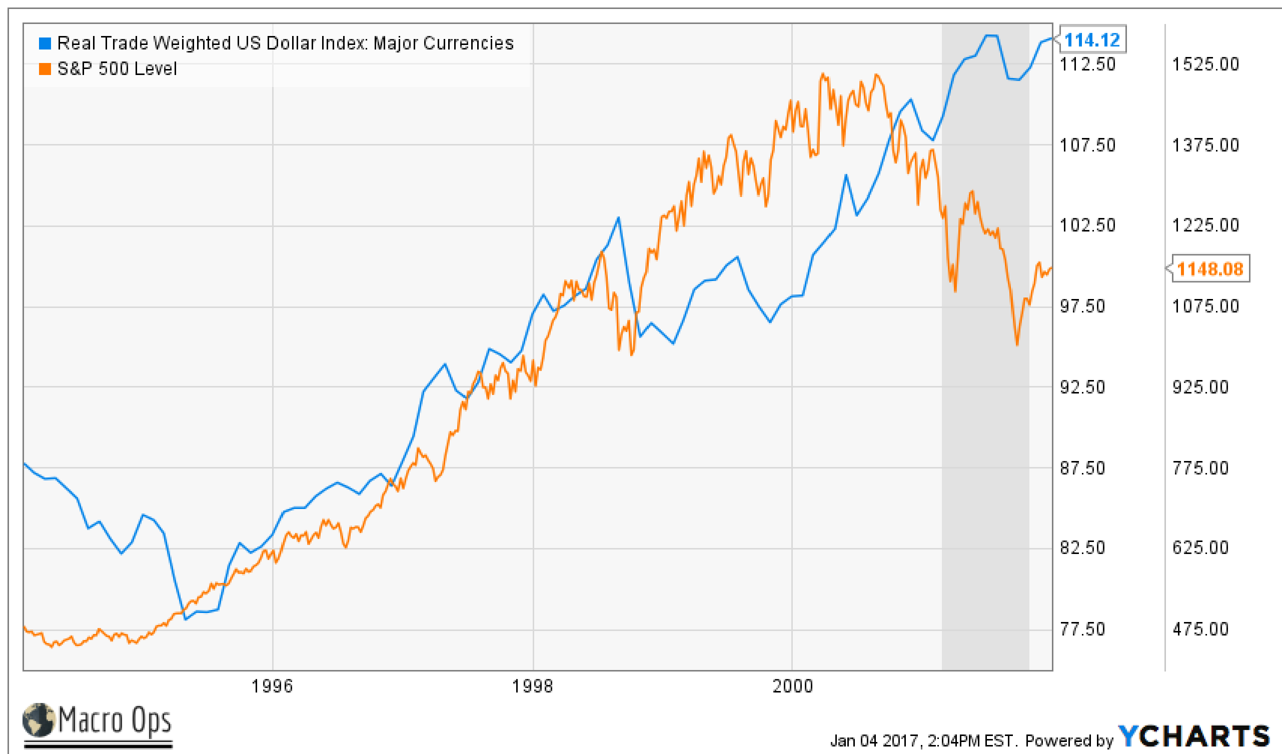
Do you follow? Are you picking up what I'm putting down?

Kudos, if so. If not, no worries just take what you get and read on. I'll sum up the important stuff at the end.

Here's Soros on the power of benign circles (emphasis mine):

The longer a benign circle lasts, the more attractive it is to hold financial assets in the appreciating currency and the more important the exchange rate becomes in calculating total return. Those who are inclined to fight the trend are progressively eliminated and in the end only trend followers survive as active participants. As speculation gains in importance, other factors lose their influence. ***There is nothing to guide speculators but the market itself, and the market is dominated by trend followers.***

The logic chain as things stand now, bring us to a stronger dollar, a core bull cycle and a benign circle. This is the 98'-99' analog that we've talked about in past reports where the US market runs higher. In combination with a stronger dollar and stagnating commodities and emerging markets. It would put us around the early 99' time frame.



Soros said this about the benign circle that occurred in the early 80's.

Reagan's benign circle was sustained by a differential in interest rates rather than inflation rates and there was an ever-growing trade deficit which was matched by an ever-growing

inflow of capital. While in the first case it was possible to claim some kind of equilibrium, in the second case the disequilibrium was palpable.

The inflow of capital depended on a strong dollar and a strong dollar depended on an ever-rising inflow of capital which carried with it ever-rising interest and repayment obligations. It was obvious that the benign circle could not be sustained indefinitely.

Like Reagan's benign circle and Clinton's that followed, this market looks like it has tripped a strong reflexive function. A classic boom/bust sequence on multiple levels. One that could be extremely profitable in the short-term but dangerous in the long-term.

If this is the path we take then we want to remain concentrated in developed markets, particularly the US. We should look for stocks that will benefit from higher rates and not necessarily higher commodity prices. We want areas that fit around the Trump reflation/stimulus narrative and that are domestic focused; not vulnerable to higher exchange rates.

And of course we want to be long the dollar.

Vicious Circle: Lower Dollar/Periphery Benefits

The new administration rode a wave of populism into the white house. Trump's platform is centered around American interest first and doing whatever it takes to bring back jobs, especially in the rust belt.

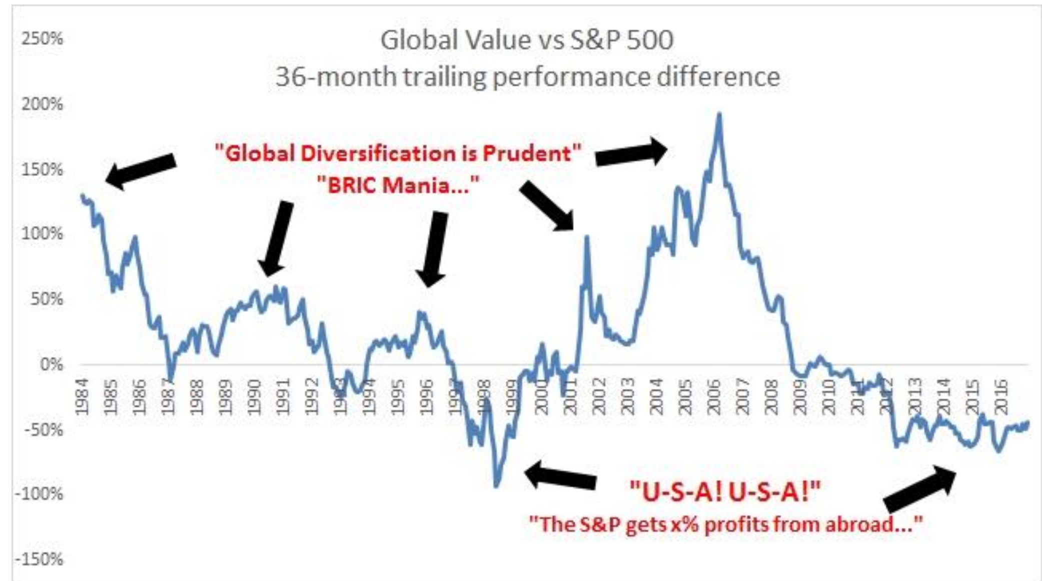
Many of those jobs are manufacturing jobs. US manufacturers don't benefit from a rising dollar. Accusing China of artificially keeping the yuan weak in order to gain export share was a constant focus of the Trump campaign.

So it's not difficult to imagine a scenario where the dollar rises enough to cause the Trump administration to intervene and reverse it. Similar to what Reagan's Secretary of Treasury Jim Baker did in 85', with the Plaza Accord.

As President, Trump has the power to nominate members to the Fed's Board of Governors; including the chair and vice-chair. We should see these nominees shortly after he takes office. These picks and the amount of influence he chooses to exert over the Fed could have wide-ranging impacts on the dollar and equity market outcomes.

If any significant interventionism does occur, it will start up a short and vicious circle. Money will flow from the core to the periphery. Inflation will rise and commodities will run. And there will be some great trades to be made.

The following chart (via Meb Faber) shows global value against the S&P 500 36-month trailing performance. Like the chart I showed earlier, the US has been dominating the global investment landscape.



Here's the following from Meb Faber:

> *But one regime sets the stage for the next, and now we find ourselves in an environment where US has outperformed everything since the 2009 bottom, but out performance alters values, and now the US is one of the most expensive stock markets in the world at a CAPE ratio around 27 (though nowhere near the peak valuation of 45 in 1999).*
>
> *Foreign value has lagged badly, including three consecutive years of underperformance to the S&P in 2013-2015. This has pushed the CAPE ratio of the cheapest basket to a value of around 9 or 10, less than half the valuation of US stocks. (Actually it is almost a third the value of the US!) A global value approach is having a great year in 2016, and we look for that to continue for the foreseeable future.*
>
> *So, maybe instead of chanting U-S-A, investors should be thinking C-A-P-E?*

US valuations have only been higher two other times in history; 1929 and 2000. It's safe to say the rubber band is stretched and we'll soon enough see things revert back the other way.

This also means that if the dollar were to reverse, there are some amazing value opportunities outside of the US. Look at this chart to the right showing the CRB (Reuters/Jefferies Commodities Index) over the last 40 years.

The index is hanging around its 40-year low. Remember, commodities are a dollar story. But this chart shows how much potential mean-reversion could have for commodities if the dollar were to reverse. We're talking a significant multi-year trend and a huge profit opportunity.

If the dollar turns, we'll buy up emerging markets and commodity linked assets hand over fist.

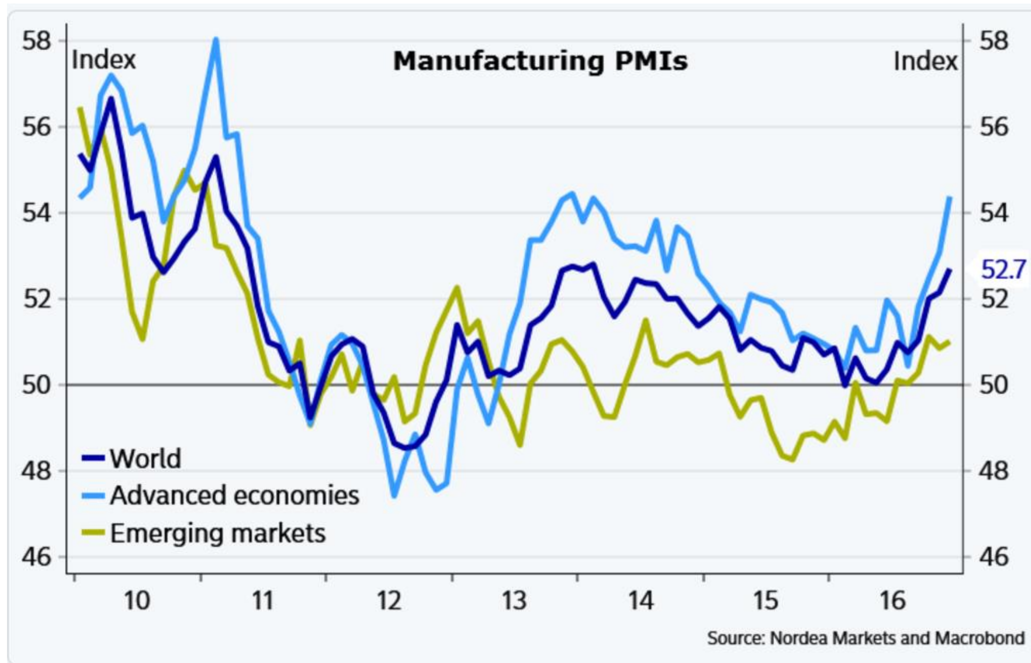
Summary:

Right now we are cruising along the benign circle road (stronger dollar) and our speed will only pick up barring any intervention. Since that's the road we're on, that's the road we need to game. The stronger the dollar becomes, the greater the likelihood we see Trump's administration try and fight the tide.

The way I see it right now (and this is liable to change) is that we'll see the benign circle play out completely and the Trump administration won't do anything until the trend has already exerted itself. This is for a few reasons.

1) The stock market is going to be moving higher. Sentiment is going to be positive. And his administration has a big To-Do list. There'll be little incentive for him to rock the boat. He may even see the stronger dollar as a global vote of confidence in his leadership.

2) We're seeing improving economic numbers from around the world. The optics on this improvement are being multiplied by the base effects we talked about in last month's report. The chart below shows manufacturing PMI numbers improving across the board.



3) If this dollar bull market follows a similar temporal symmetry to the last two, it should last roughly to the end of 2017. Trump and the Republicans will be working on tax reform, cutting regulation, and planning infrastructure spending during that time. As long as the party keeps going the dollar will be out of sight out of mind for the administration.

If I'm right, the US market will likely go on a tear higher from here (again, reflexivity). This will be accompanied by increased volatility in both directions. European and Japanese stocks should also perform well, especially exporters who benefit from a weaker euro. Many of these are trading at depressed levels and will likely do well over the coming months.

Commodities likely won't go down right away from a stronger dollar. This is because the deflationary pressures of a stronger dollar are being counteracted by improving global fundamentals (ie, the above PMI chart). They may even trade slightly higher from here but there's a ceiling on how much further they can recover as long as the dollar remains strong.

There will be a lot of opportunity in markets over the coming year regardless of which way things turn. And needless to say, we'll be keeping a close eye on the dollar.

Side note: In 2013 and 2014 I made the vast majority of my profits trading currencies. Those also happen to be my best return years. The last two years trading in currencies have been a losing proposition with no trend to play. That's how these things typically move. From stasis to trend. We've had nearly two years of consolidation in the dollar. That's a good deal of fuel for the next leg up. A move that I think we'll be able to make a killing on if we execute correctly. I expect the dollar to retrace over the next few weeks due to technical short-term overextension. Once that retrace plays out, we'll have a great opportunity to start building some positions.

Deep Dive

In this month's MIR, instead of focusing on a single sector/industry, we'll cover a number of stocks that I'm tracking closely. These all play into the macro benign circle scenario we discussed. They're all stocks that have numerous tailwinds (ie, macro, technical, sentiment, and fundamentals). And as such, offer the trader/investor a solid risk-to-reward opportunity.

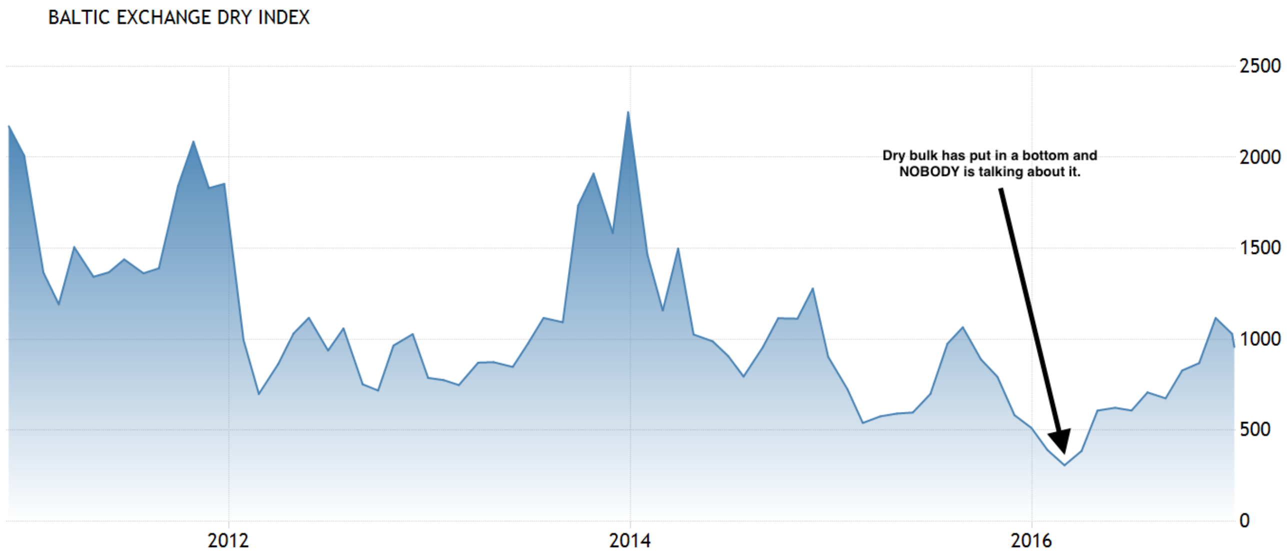
Let's jump in.

Shippers

The Guggenheim Shipping ETF (SEA) has broken out of a 12-month bottoming pattern. It's done this on a couple of months of increasing volume. Technically this is a very strong looking chart.

Members of our Hub know I've been stalking some shipper stocks for the last few months. I love buying into forgotten areas of the market like this. People have hated on shipping stocks for years now.

Look at the chart below of the Baltic Dry Index. It put in a bottom at the beginning of last year and has been steadily trending upwards, yet still nobody is talking about them. I have a feeling that's about to change.



There's a few ways to play this trade.

You can buy the ETF. It's current price point offers a nice risk-to-reward inflection point. You'd place your stop somewhere below the top trendline of the pattern.

Also, many of the individual stocks are setting up nicely. The chart below is of Dorian (LPG) which operates liquefied petroleum gas carriers. The stock trades at a TTM P/E of 8 and has been seeing a lot of healthy insider buying over the last year. It's run by one of the best in the business — CEO John Hadjipateras.

We mentioned this in last month's MIR and for those of you who bought into it, you should be up around 20% since your entry. This stock could easily rise another 30-50%.

I should mention that I do not view these as long-term investments at this point. That could change if the macro changes, but as of right now I look at these as shorter-term 1 to 6 month trades. The benign circle's depressing effect on commodities should put a ceiling on global growth and trade.

The industry is also still dealing with a long capacity glut that has been fueled by low interest rates. It's not completely done working through this yet. But in the meantime it looks like shippers have found at least a temporary bottom and make for a good trade here. Eventually they'll be a great long-term investment.

Uranium and Nuclear

Like the shippers, uranium is another sector I've been following closely that has been beaten to a pulp and long left for dead. Above is a chart of the Global X Uranium ETF (URA).

Uranium had a great run in the last bull market but since having peaked in 07', it's been a one-way street for the yellow cake.

There's growing evidence that the negative sentiment surrounding uranium and nuclear related stocks is now changing. A lot of this has to do with improving supply/demand dynamics.

Here's a quick rundown.

More than a dozen countries get over a quarter of their energy from nuclear. There are approx. 440 nuclear reactors running around the globe. In addition, 73 more are under construction. 168 are being planned and over 300 are currently being proposed.

China and India are the biggest drivers of the renewed push into nuclear.

China currently has 20 reactors under construction and over a 115 planned. India has pledged to increase its nuclear capacity by 10x over the next 12-years.

The US is also set to make a renewed commitment to its nuclear industry. The incoming administration spoke in favor of increasing the US's reliance on nuclear.

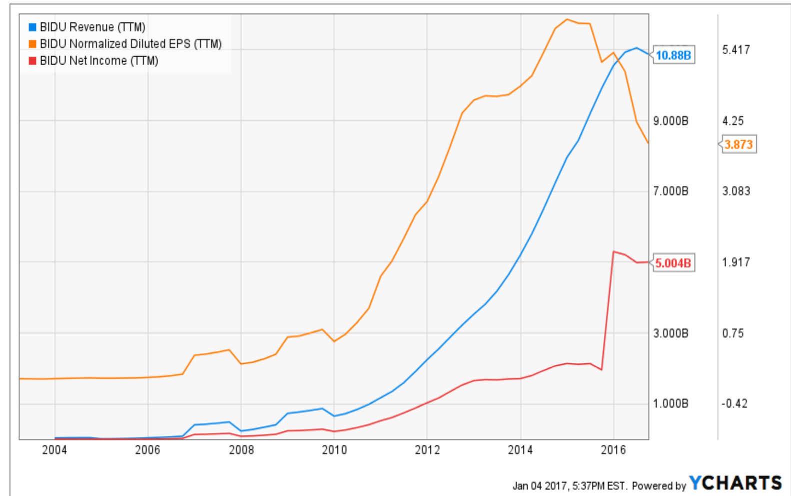
It appears the fears and negative sentiment surrounding nuclear since the Fukushima disaster are lifting. And the best time to get into these stocks are at these inflection points where the technicals, fundamentals and sentiment all line up.

If you don't want to play the ETF then buying Cameco Corp (CCJ) on a breakout of its current consolidation is another option.

CCJ is the world's largest uranium producer. The company explores, mines, mills, buys and sells uranium concentrate. It also operates four nuclear reactors. The company is headquartered in Canada and would also benefit from a stronger dollar.

BIDU

Baidu (BIDU) is China's Google. It's an internet search behemoth that like Google, operates in dozens of other tech segments.



Technically speaking the chart is setting up nicely in a 16-month coiling wedge pattern. The big question is which way it breaks out.

China is a mess. We've long written about how eventually the debt binge roosters will come home to roost in the form of a twin banking and currency crisis.

And looking at the chart to the right which shows TTM revenue, EPS, and net income over the last ten years, it looks like things have slowed down this past year for BIDU. This no doubt has to do with China's broader slow down over the past year. And that is also why I think BIDU could do well in 17'.

China has the all-important Chinese Communist Party Congress this coming November. President Xi will likely pull all the levers at his disposal in order to keep the peace and quiet. That means even great credit injections over the next six months.

BIDU which trades at a TTM P/E of 13 is a good value and likely has a long and bright future ahead of it. A close above its 200-week moving average offers a good buying point for a trade.

Falling Yen

If we are in fact in a benign circle and the dollar is set to continue its rally for another year. Then there is no other currency I'd rather be short than the yen (USDJPY is long dollar against the yen, it goes up as the dollar appreciates against yen). The ETF equivalent for this trade is YCS.

If there is no intervention to stop the dollar, then shorting the yen is a no brainer. Prime Minister Abe wants, no, actually *needs* a lower yen. That's because Japan is sitting under a mountain of crippling debt (over 500% total) and has horrendous demographics which are only set to get worse.

The country has experienced sluggish growth ever since their long-term debt cycle peaked in 89'. Stoking inflation is a prime directive of the government and its central bank. For a hard currency that suffers from historically being a safe haven, this has proven harder than expected.

As a result, Japan has been the leader in the grand central bank monetary experiment. On top of their nuclear quantitative easing program the central bank has set the nominal interest rate for

the 10-year at 0. We've written about this a bunch in the past so I won't go into much detail here but that is huge. That means the BOJ will expand its balance sheet by any amount necessary in order to keep the market rate at 0.

Not only does the USDJPY trade benefit from this mad monetary experimentation going on but the fact that USDJPY tends to go up in a risk-on environment adds a conciliatory driver to the trade. A benign circle should drive the dollar higher while fueling risk-appetites. The long UDSJPY trade will benefit from both.

It's overbought in the short-term and we should see a retrace soon. But I'll view a pullback as a buying opportunity.

Around The World

Eurozone: Fair-weather Friends

In the best of times, Eurozone members *tolerate* each other. In the worst of times, they aren't so nice…

We've frequently explained the problems with the Frankenstein-esque construction of the Eurozone. The goal of maintaining a single monetary policy for multiple, diverse sovereigns was doomed from the start.

It doesn't make sense tying a strong German economy to a mess like Italy. One will always be a drag on the other. Forcing a single currency and subsequent joint monetary policy on both only leads to mutually destructive outcomes. The right policy for Italy's economy is wrong for Germany's. Any agreement between the two sovereigns in this environment becomes highly unlikely.

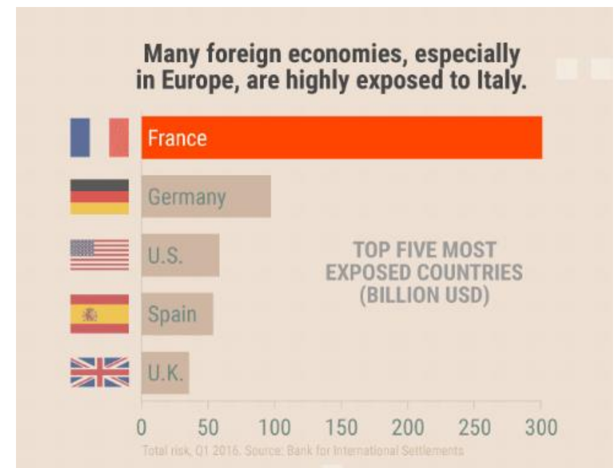
This is a problem because agreement is needed in the case of a disaster like the Italian banking crisis.

Italian banks are struggling with their rotten balance sheets and are now looking for a bailout. Banca Monte dei Paschi (MPS), for example, has nearly €28 billion in non-performing loans (NPLs), making up 36% of its loan portfolio. This is a serious issue that Italy's government can't handle due to limited resources. So far they've raised €20 billion in a bailout fund for the entire banking sector, but there are doubts that amount can effectively paper over the problem. Goldman Sachs estimates that MPS' recapitalization would cost €38 billion, while London Capital Group thinks the number might be closer to €52 billion. Either way, the numbers don't add up.

The Italian government is looking to the ECB to help with hundreds of billions of euros they'll eventually need to save not only MPS, but the entire banking sector.

And whose approval is required for this type of bailout?

Yup. Germany's.



Now as we said before, when times are good, the Germans are willing to help, somewhat anyway. It's well known that a collapse in Italian banks would not be contained to just Italy. There's massive contagion risk to the entire Eurozone. Countries like Germany and France have high exposure to Italy's banks and any crisis will directly affect them. It's usually in their best interest to support Italy.

But times aren't good for Germany. As the third largest exporter in the world, 47% of its GDP comes straight from this activity. The economy is highly dependent on the stability of its export revenue, yet the latest data from October shows exports falling 4.1% from a year earlier.

The reality of the situation is causing Germany to push back against any requests from member states asking for German taxpayers to help support them. Germans only want to look out for

Germans and that's it. They much rather force austerity measures on other countries in an effort to make them deal with their own problems.

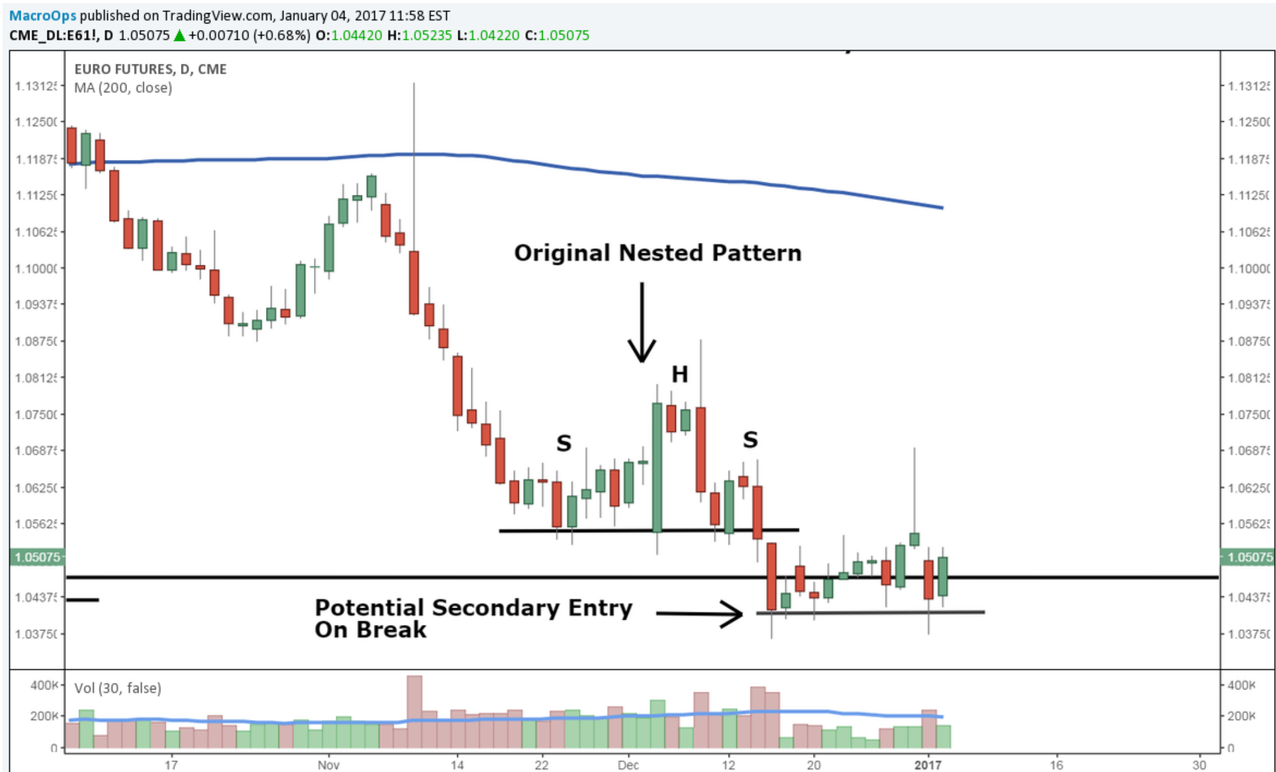
Italy is not a fan of austerity. Their recent vote to throw out Prime Minister Matteo Renzi was a message that they weren't going to sit back and accept the EU and Germany's rules, especially those insisting a mandatory bail-in for the banking sector by the Italian populace. Italian households hold $200 billion worth of banking debt and would see their life savings take a huge hit if this rule was abided by.

The increasingly self-centered actions of these countries in their negotiations around the banking crisis have revealed strong trends towards populism and nationalism. In Italy the path is clear for populist parties like the Five Star Movement and Northern League to begin taking over. And in 2017, both Germany and France will have elections. In Germany Angela Merkel will need to cater to the people's nationalist sentiments to retain her position. This means taking a hard stance against the Italians as they push for additional support.

2017 will be an interesting year as these opposing forces clash over Italian banks. The uncertainty surrounding the situation is part of the reason we've seen the Euro drop in value.

The Euro is now at the edge of breaking a multi-year rectangular consolidation. If it moves through this level, we expect it to travel below par against the dollar.

We've already entered a position on the mini head and shoulders pattern that completed itself in mid-December. This small H&S formation is what we call a "nested pattern". A nested pattern is a smaller pattern that forms on the border of a larger one. In this case the H&S is forming within the multi-year rectangle. The benefit here comes from the smaller pattern completing into the larger one. Entering the smaller setup gives you a tighter risk point to play the bigger pattern's move, greatly improving your risk-to-reward.



The mini-H&S breakout we entered quickly stalled at the larger support line of the rectangle. Price is now forming another small consolidation at that line which is providing a secondary entry opportunity. We're waiting for a close below the 1.0412 level before adding to our position.

Apart from the weaker Euro, we're still seeing the sentiment rally in European equities that we discussed in [last month's MIR](). Investors have become a too bearish over the short-term even when considering all the problems the Euro bloc is currently facing. We expect the rally to continue into the first half of 2017, but for the Italian banking crisis to return to the forefront of investors' minds soon after. Bullish equity momentum will stall out at that point.

In the meantime we still like a number of long opportunities we mentioned last month.

Deutsche Bank (DB) is close to breaking the $19.30 level, creating a good entry point as price runs up to the larger resistance. Once that resistance is overcome, we expect price to head to $26.18 for a gain of 36% from current levels.

After a small retrace, Credit Suisse (CS) is once again close to breaking the $15.85 level. A retrace is a good sign before a breakout. It gives the trend time to consolidate before its run which helps ensure it's not exhausted and prone to failure. We expect prices to move to the $20.96 level, 32% higher from current levels.

EUFN, the European Financial Sector ETF, completed a quick retrace to its breakout line and is now on its way higher once again. A retrace entry is possible here. Price will likely move towards $22, which is close to the 200 week moving average, for a gain 16%.

Our Eurostoxx 50 index (FX) play has worked out spectacularly so far. We entered on a break of the 3107 level and are currently holding for the trend. Our target is 3500.

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China: Solidifying Power

Xi Jinping doesn't *just* want to be China's president… he wants to be its permanent emperor.

China's 19th Party Congress is set to take place in late 2017, where the ruling Communist Party will select the country's next president. Xi has been busy consolidating his power in preparation. He's already eliminated most of his opponents and will continue to run his anti-corruption campaigns and propaganda missions to solidify his position even further.

Even though it's widely expected that Xi will secure a second term, his selection still hinges on his ability to control China's deteriorating socio-economic environment. The country has been going through a difficult transition from an export driven economy to one led by domestic demand. Growth has slowed and has caused the population to become restless.

The government's solution has been to pile on the debt. The resulting increase in liquidity coupled with capital controls has pushed domestic cash into bubble after bubble: from commodities, to housing, to the stock market, and back again.

Trump and his anti-China rhetoric will make the current situation even more difficult for the Chinese. He's already planning to label China as a currency manipulator and recently appointed Robert Lighthizer, a staunch China critic, as the US' chief trade negotiator. Lighthizer originally served under Reagan and helped stem the inflow of Japanese steel and vehicle imports in the 80's through threats of tariffs and quotas. He then moved on to become a lawyer for the next 30 years, fighting for US steelmakers against foreign dumping and subsidies. Lighthizer is clearly not a fan of China. In a 2010 congressional testimony he explained:

"Years of passivity and drift among U.S. policymakers have allowed the U.S.-China trade deficit to grow to the point where it is widely recognized as a major threat to our economy. Going forward, U.S. policymakers should take these problems more seriously, and should take a much more aggressive approach in dealing with China."

China is already suffering from the global slowdown negatively impacting their export volumes. Trade restrictions from the US will make it even worse. To keep the populace happy, along with the regional governments, Xi will have to resort to even more credit and state-led

investment, regardless of its reduced effectiveness and the China's already dangerously high debt level. Preventing civil unrest is the number one goal to secure his office.

In 2017 we'll be looking to take advantage of the rolling ball of money fueled by this increased debt binge. The China large cap ETF (FXI) is forming a long-term head and shoulders pattern. A completion could send prices back to highs at $52.70.

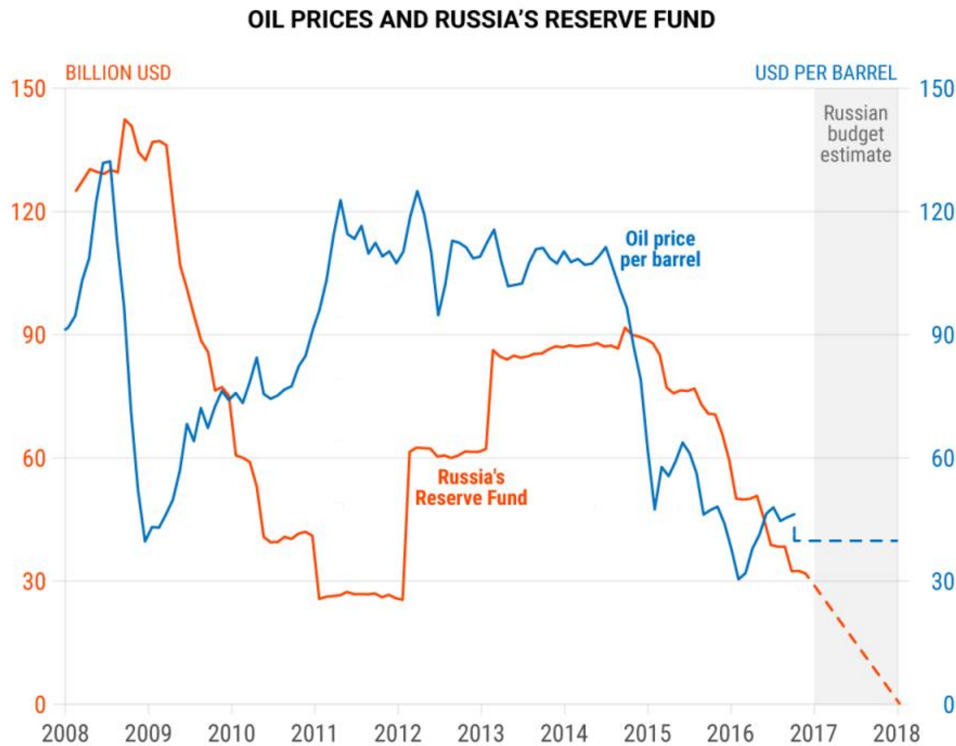
Russia: Oil Problems

The number one goal of any authoritarian leader is to stay in power. And the best way to ensure this is by keeping the populace happy.

In Russia this involves paying off oligarchs to maintain the country's security forces while also transferring wealth to the poorer peripheral regions. Both these actions used to be possible because of Russia's oil revenues. But the current rout in oil prices has made this delicate balance difficult to maintain.

According to Russia's Federal Customs Service, oil accounts for 26% of the country's total export revenue. And exports make up almost 30% of Russia's GDP, meaning that any decline in that oil revenue significantly affects the country's finances.

In 2016 oil averaged $43 a barrel, half of what it averaged the year before. Lower prices have forced Russia to run a budget deficit while drawing down its reserve fund. In 2015 the budget deficit was $25 billion, or 2.6% of total GDP. Latest estimates show that number has now risen to 3.7%.



The lack of funds has driven Russia to make cuts to its social services to the determinant of the country's rural peripheral regions. There have already been protests flaring up around these smaller towns in response.

The unrest will only grow as oil prices continue to stay low. Because of the stronger dollar, there is a low probability of oil prices rising significantly in 2017. The oil paradigm has shifted, but Russia has not.

Last January, Russia's finance minister claimed the country could balance its budget if oil reached $82 a barrel. Other estimates say it's possible to achieve at $68 a barrel. Either way, the chances of oil returning to those levels and sustaining themselves is very low. And even if they did stay steady at those levels, it would only be enough for the government to breakeven on a budget that already includes various cuts to social services. Russia would still be in dire straights.

As always, when a country is suffering internally, they point their angst outwards. It's a way to breed nationalism and unity when faced with civil unrest. In 2017 we can expect more Ukraine-style aggression out of Putin as he tries to convince the populace that Russia is indeed strong, an increasingly difficult task as revenues decline.

Long-term, Russia is a bad play. But going into the first half of 2017 we expect continued equity strength. Obama's latest sanctions against Russia for election interference will likely be lifted by Trump once he comes into office, along with the other sanctions currently in place. EU sanctions will probably be lifted as well. As we explained in October's MIR, Russia is one of the EU's largest trading partners. Fewer sanctions is better for both groups as they struggle through the global slowdown.

The Russian equity ETF (RSX) made a quick retrace to its breakout line before heading higher again. It has also cleared the 200 day moving average, creating a good entry point. Our target is the 27 level.

After more than doubling since we first covered it, Russian miner (MTL) is now consolidating before it makes another move higher. Volume has been decreasing during this time, a positive sign of strong hands that aren't selling. A break of the 6.14 level would make an attractive entry.

Quant

Forest Fires

With Trump at the helm it's logical to expect rising volatility in financial markets. He's been a wild card since day 1 and even as president-elect we're still getting nightly craziness from his twitter stream.

At any time Trump is liable to flip the cards, change teams, or reverse his convictions. These are interesting political tactics perhaps, but they'll only cause market whiplash for investors trying to position around his policies. His term will come with many surprises that'll result in elevated volatility for the markets.

But we can't put *all* the blame on The Donald for increased volatility. The seeds were sown long before orange became the new black.

Volatility in the market behaves a lot like forest fires.

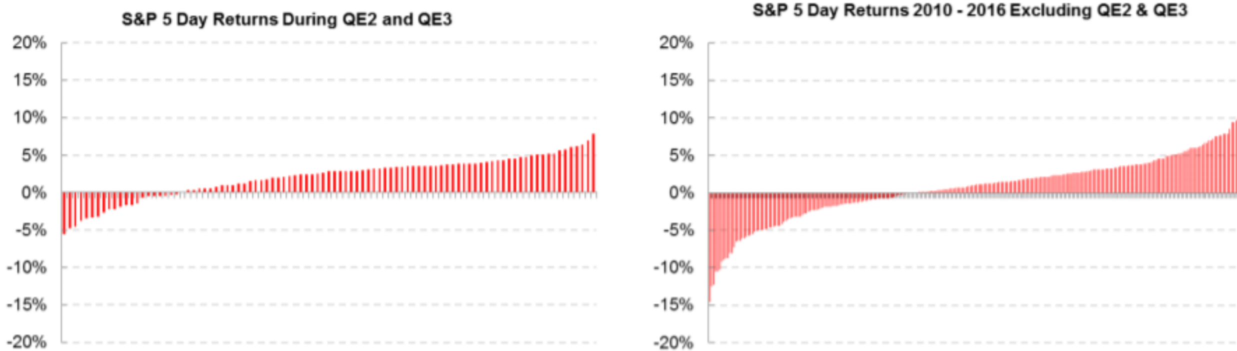
Forest fires are impossible to completely eradicate. But park rangers can choose how they play out. The fire can consist of a series of "controlled burns" over time… or there can be long periods of nothing, followed by a super fire that permanently cripples the ecosystem.

Small controlled fires are clearly the better option. They clear the weak plants and trees while keeping the underbrush in check. Without these fires, the kindling on the forest floor gets out of control. And the resultant fire if this underbrush is ignited is strong enough to put the whole damn forest up in smoke.

It's the same thing in financial markets. You can't ever get rid of volatility. All you can do is choose whether you want the pain delivered in natural bite size pieces over time, or get it all at once in a super spike through manipulation.

The monetary authorities of today have chosen the super spike option. The stimulative effect of an extended low rate environment, plus QE, plus consistent aggressive responses to market sell-offs, is akin to throwing a fire blanket on the VIX before it has a chance to burn the rot out the system.

This isn't armchair speculation either. If you look at the graphs below you can see S&P 5-day returns during the QE2 and QE3 programs versus returns without QE. When you remove the fire blanket the market has many more extreme moves both up and down. But with the fire blanket on, investors didn't have to endure more than a scant 5% drawdown in the market.



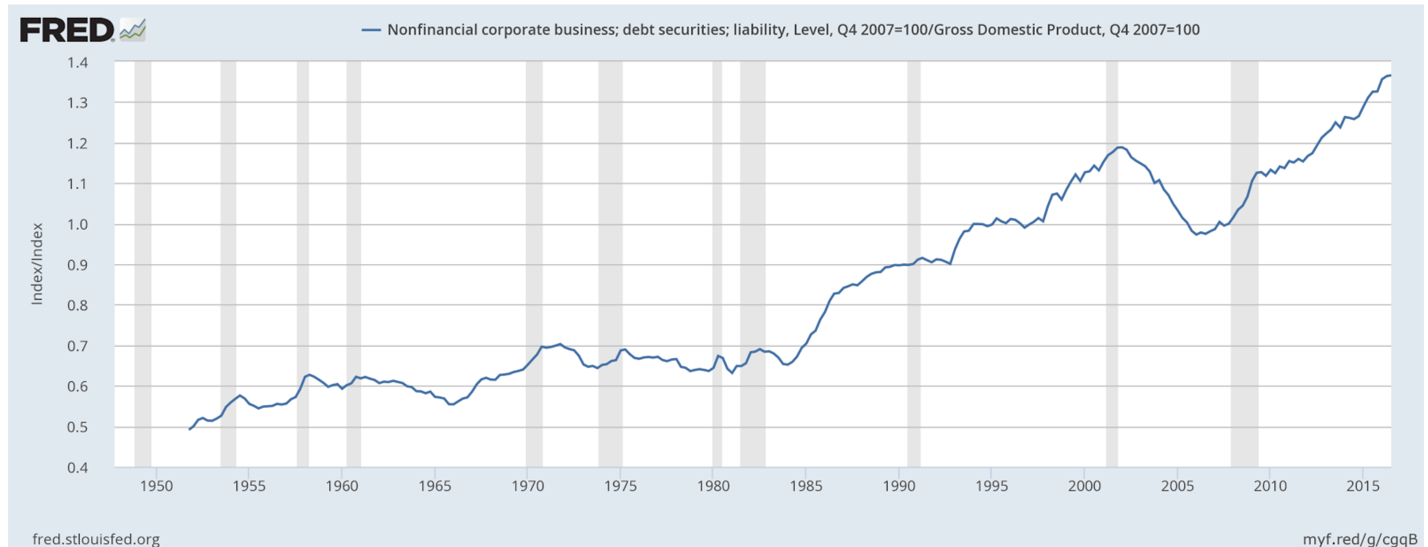
Source: Bloomberg and Variant Perception

Forests with dense underbrush and ample dead wood create the fuel for massive fires. In markets, "dense underbrush" takes the form of corporate leverage and "dead wood" are companies who consistently lose money but stay afloat due to creditor and investor greater fool theory.

The easy money environment created by central banks has helped corporate debt climb to ridiculous levels. The trend started during Wall Street's "go-go" years at the beginning of the

1980s. And while financiers and bankers may have kicked their coke habits since then, they've continued to double down on their leverage addiction.

The graph below plots nonfinancial corporate business debt against GDP. Corporates are now using 1.35 units of debt to produce just 1 unit of income. Compare this to 1980 when they used about .65 units of debt to produce 1 unit of income.



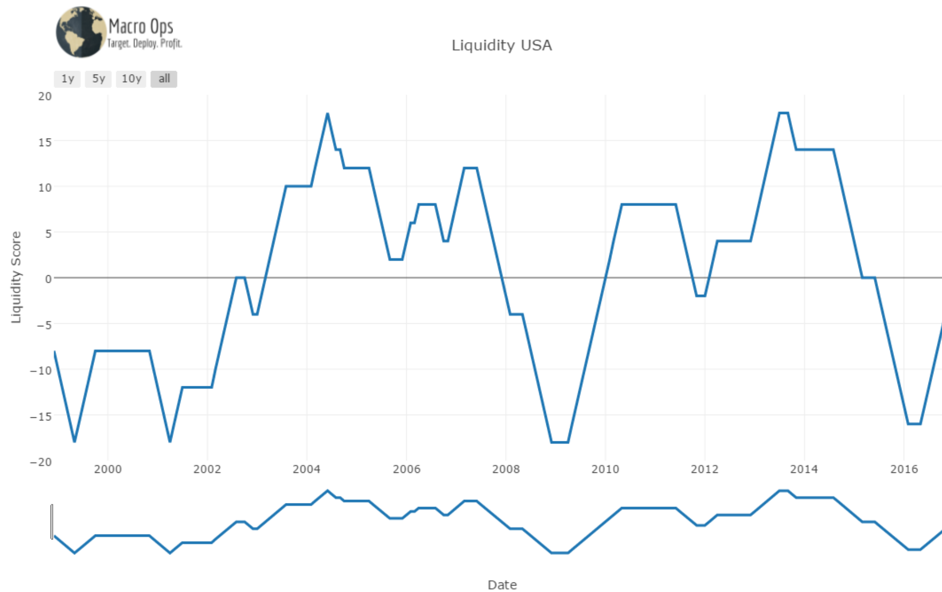
There's no doubt that an excessive amount of flammable leverage has built up in the system. But it takes both fuel *and* a spark to start a fire. The "spark" in financial markets takes the form of credit spreads. When credit spreads widen it becomes far more expensive to service debt payments. Companies are eventually forced to default, sending shockwaves through the system as it delevers. This causes the equity market to rapidly drop and we get a large spike in the VIX — a volatility fire.

Since 2009, central banks have normally been quick to smother any spark they see in the financial system. They've kept rates low and have been willing to support debt markets to avoid large sell offs. Though finally, over the last year, we've started to see the Fed retire their automatic fire blanket. But even so, it's still hard to tell whether they're willing to let the next fire run hot. They could easily reverse course and run for the blanket as soon as the next "spark" occurs. A lot of their policy will depend on what Trump can execute fiscally.

Luckily for us, we can monitor a set of indicators that will warn of a potential volatility super fire.

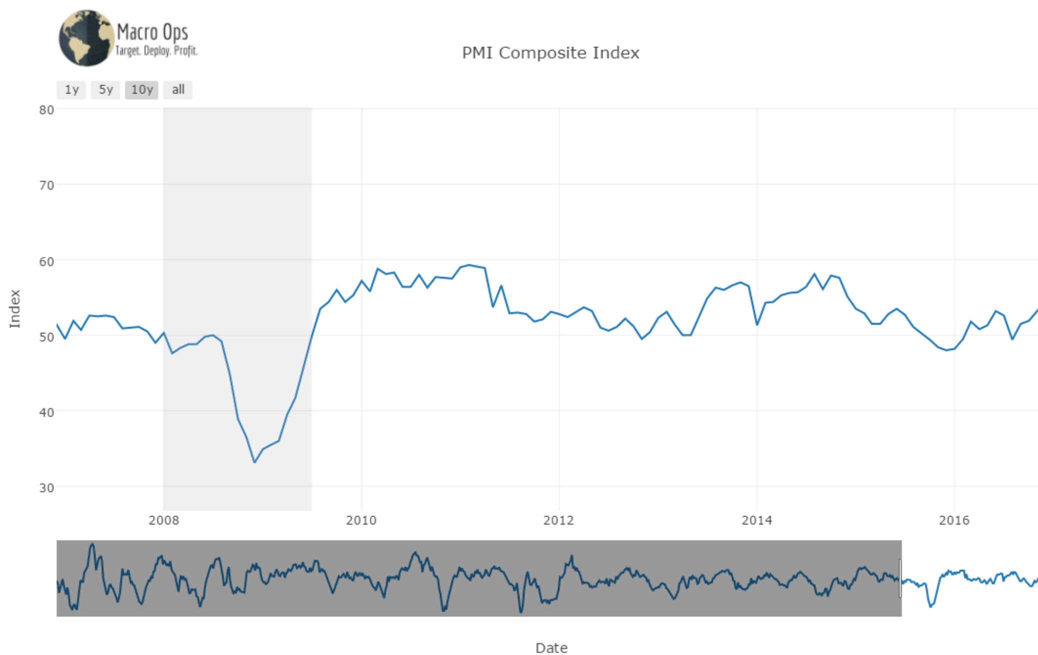
First off, we want to watch the trend in credit spreads as measured by our liquidity indicator. Widening spreads will increase the costs to service debt and will spark a fire as we discussed. When the graph below is in a downtrend, it means credit spreads are widening and we have the

potential for a large fire. If the line is uptrending, then credit spreads are tightening and it's easier to service debt.



Right now the graph is an a strong uptrend which means there's no immediate cause for concern.

On top of monitoring credit spreads it's a good idea to keep track of the PMI number. Fires occur when the PMI is in a downtrend. You can see the PMI index downtrend into 2008, 2011, and our latest mini-fire in August of 2015.

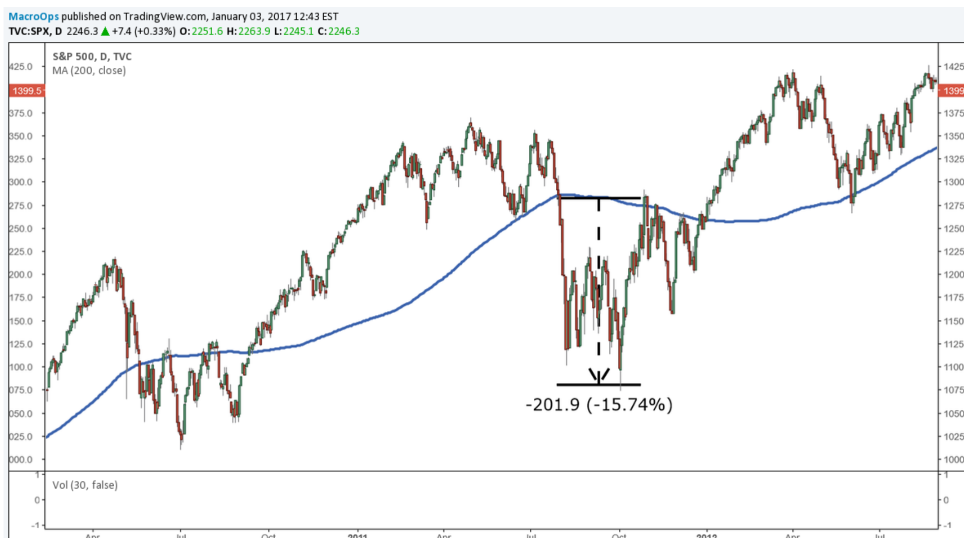


Right now the graph is ripping higher, meaning it's way too early to start loading up on out-of-the-money puts.

Another good thing to keep track of is SPX price action. Almost all volatility super spikes occur when the SPX is trading below its 200 day moving average. It's not a perfect indicator (it didn't catch the flash crash in 2010) but it alerts us to most of the important vol events — the ones where VIX spikes really hard.

The August 2015 spike in VIX and the elevated vol in the beginning of 2016 both occurred during sell offs in the SPX below its 200 day moving average.

Here's the 2011 sell off during the European debt crisis. Once again price is below the 200 day MA as VIX spiked.



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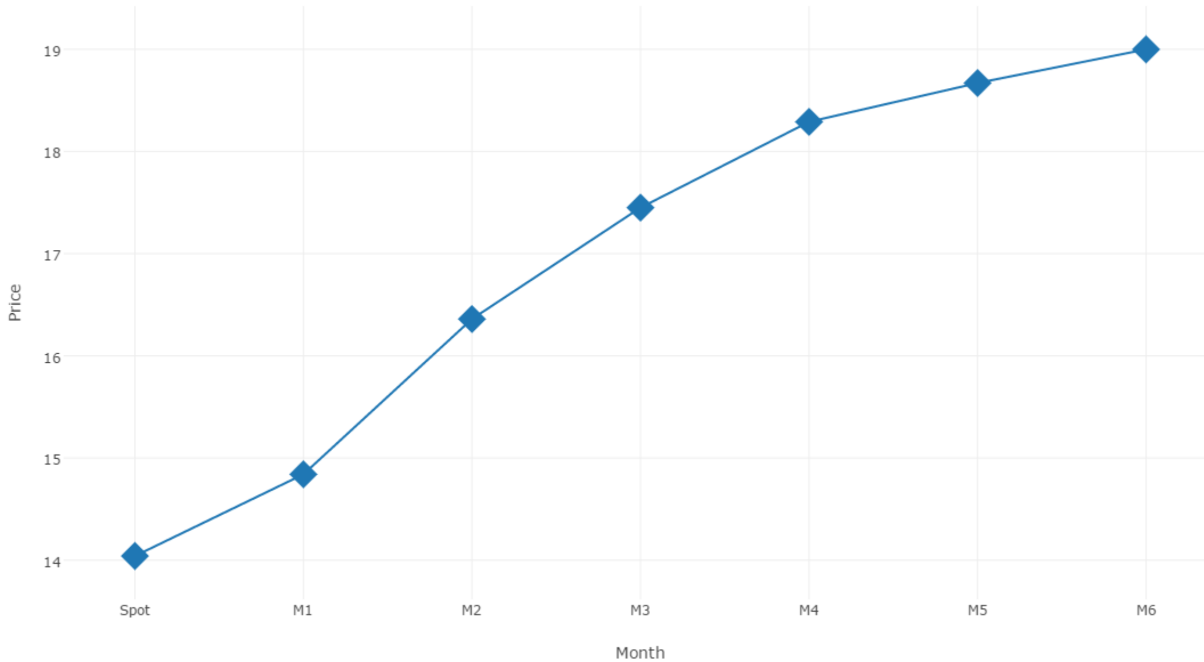
Next is the 2008 crash where we saw VIX all the way up in the 90s at one point. The whole event took place with the SPX below the 200 day.

And finally we have the famous 200 day cross that PTJ caught right before the horrific 1987 crash where the VIX (calculated differently at the time) exceeded 100.

Timing volatility also requires us to monitor the term structure of VIX futures. Raging volatility occurs when the curve is in backwardation, meaning spot VIX is at a higher price than the M1-M6 futures.

We're in a pretty steep contango right now, implying bullish conditions.



The key is to wait to see more of these tactical signals trigger before getting serious about the long side in volatility. For now the edge is still with the vol shorts and will likely stay that way for the next 3-6 months.

2017 Market Predictions vs. The VIX

It's that time of year again when all the investment bank strategists release their 2017 forecasts. It's a hilariously stupid exercise because it's always the same prediction — small upside returns. They never release a bearish forecast because that's not good for business…

Anyway, here are the predictions for this year:

From 2017 S&P 500 outlooks since Election Day.

Firm	Strategist	2017 S&P Target▼	2017 EPS Estimate	Implied P/E
Wells Fargo Investment Institute	Scott Wren	2,280*	$127	17.95
Bank of America Merrill Lynch	Savita Subramanian	2,300	$129	17.83
Credit Suisse	Andrew Garthwaite	2,300	$123.90	18.56
Goldman Sachs	David Kostin	2,300	$116	19.83
Morgan Stanley	Adam Parker	2,300	$128.70	17.87
UBS	Julian Emanuel	2,300	$126	18.25
Citigroup	Tobias Levkovich	2,325	$129	18.02
CFRA -- S&P Capital IQ/S&P Global Market Intelligence	Sam Stovall	2,335	$131.09	17.81
BMO	Brian Belski	2,350	$134	17.54
Deutsche Bank	David Bianco	2,350	$130	18.08
Barclays	Jonathan Glionna	2,400	$127	18.9
JPMorgan Chase	Dubravko Lakos-Bujas	2,400	$128	18.75
RBC	Jonathan Golub	2,500	$128	19.53

The highest estimate comes from RBC, putting the S&P at 2500 (up 11%) by the end of the year. And the lowest estimate comes out of Wells Fargo, putting the S&P at 2280 (up 1.3%). The average estimate is an increase of 4% this year.

Rather than using these analyst predictions filled with all sorts of conflicts of interest, we've found it useful to map out the year using the VIX. The VIX tells us what the option market is pricing in. It's a prediction with actual money on the line, since it's created from the actual buying and selling in the market.

Let's quickly recap what the VIX represents. The VIX measures the "expected move" for the year as an annualized percentage based on SPX option premiums.

A reading of 15% means the option market is forecasting that the SPX will end the year somewhere between up 15% and down 15%.

Now how accurate is the VIX? Check out the table to the right:

Year	VIX	SPX Return	Correct?
2007	12.20%	3.53%	yes
2008	22.60%	-38.50%	no
2009	39.60%	23.45%	yes
2010	21.70%	12.78%	yes
2011	17.90%	0%	yes
2012	23.00%	13.41%	yes
2013	15.20%	29.60%	no
2014	14.3 %	11.39%	yes
2015	17.80%	-0.73%	yes
2016	22.50%	9.54%	yes
2017	14.10%	???	????

Over the last 10 years VIX incorrectly predicted the magnitude of the yearly move only 2 out of 10 times — in 2008 to the downside and then in 2013 to the upside. That's decently accurate. It's safe to say that a majority of the years won't breach the upper or lower bound implied by the VIX at the start of the year.

This year the VIX opened at 14.1% with the SPX at 2251.6.

14% up would put SPX at 2566.3.

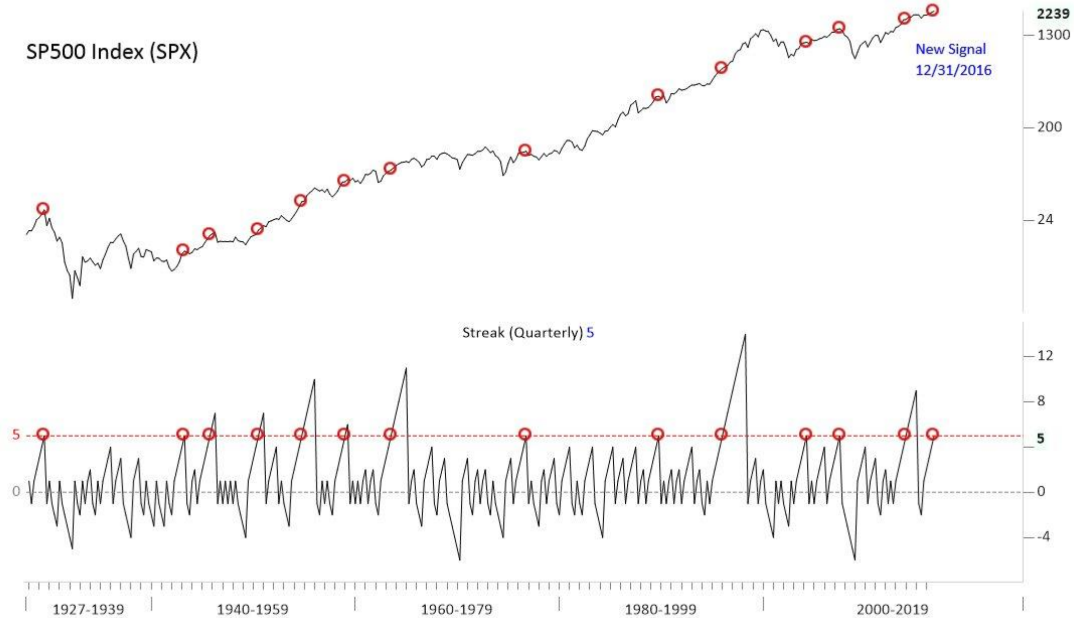
And 14% down would put SPX at 1936.38.

Forecasting a range in prices is more in tune with the probabilistic nature of how market analysis works. Don't follow the single figure banking calls, they're useless.

Dip Buying And A Bonus Stat

Lastly, for all you out there waiting to buy the market on a dip, be aware that it might not come. We just came across this interesting stat from Nautilus research a few days ago. It went back and tracked the forward performance of the SPX after it finished higher 5 quarters in a row. A lot of people think the recent rally is "overdone", but historically this type of market action only finishes lower the next quarter 50% of the time. The other half of the time it locks out those who wait and continues higher while producing even more FOMO and impulse buying. The full analysis is pictured below.

SP500 Up 5 Quarters in a Row



SPX forward returns after 14 events 12/30/1927 - 12/30/201

Event Dates	1Mo	3Mo	6Mo	1Yr
09/30/1929	-19.93%	-28.88%	-16.64%	-38.36%
06/30/1943	-4.05%	-2.19%	-5.51%	5.10%
12/31/1945	6.97%	3.92%	6.16%	-11.87%
09/29/1950	0.41%	5.04%	10.44%	19.59%
12/31/1954	1.81%	1.67%	14.04%	26.40%
03/31/1959	3.88%	5.47%	2.60%	-0.18%
09/30/1963	3.22%	4.63%	10.15%	17.41%
12/31/1976	-5.05%	-8.41%	-6.50%	-11.50%
12/29/1989	-6.88%	-3.81%	1.31%	-6.56%
03/29/1996	1.34%	3.89%	6.48%	17.29%
06/30/2004	-3.43%	-2.30%	6.23%	4.43%
09/28/2007	1.48%	-3.82%	-13.36%	-23.61%
03/31/2014	0.62%	4.69%	5.34%	10.44%
12/30/2016				
Avg after Signals	-1.51%	-1.55%	1.59%	0.66%
Average All Periods	0.60%	1.86%	3.68%	7.53%
T-Statistic	-1.12	-1.31	-0.79	-1.32
# Events Up/Down	8 / 5	7 / 6	9 / 4	7 / 6
Significance	-86%	-89%	-78%	-89%

Quarterly 12/30/1927 - 12/30/2016 Data Source: Bloomberg 1/3/2017 8:22

Systemic Risks

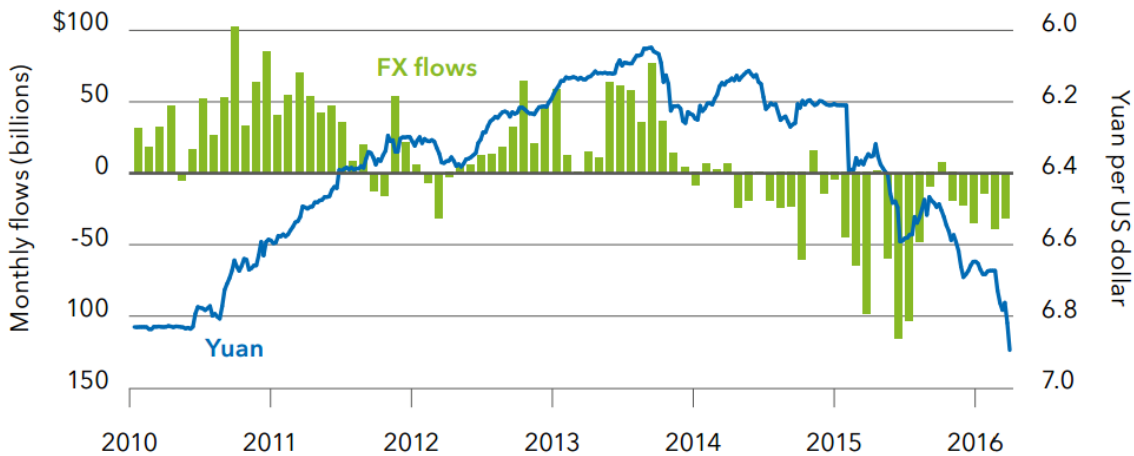
Yuan Devaluation

2016 saw the yuan decline over 7% against the dollar, its biggest annual loss since 1994. This trend will continue into 2017 as the dollar strengthens and the PBoC struggles to manage its currency's devaluation.

Devaluations are difficult because they create feedback loops. Once a currency begins to lose its value, those holding it want to dump it as fast as possible before it loses *even more* value. The flood of conversions and outflows cause further devaluation, exacerbating the initial problem, thereby creating the dreaded feedback loop. The chart below shows the foreign exchange outflows compared to the value of the yuan.

Lurking yuan risks

China onshore foreign exchange flows and yuan, 2010–2016



Sources: BlackRock Investment Institute, Thomson Reuters, State Administration of Foreign Exchange and the People's Bank of China, November 2016.
Notes: flows are a three-month moving average of three different gauges of net foreign exchange (FX) flows in mainland China: The People's Bank of China's FX on its monetary balance sheet, its foreign reserves and its measure of net FX settlements by commercial banks on the mainland. A negative number suggests net currency outflows, or buying of foreign exchange and selling of yuan.

Goldman Sachs estimates that $69.2 billion left China in November, a big increase from the steady $50 billion leaving per month since June. Once again, as more money leaves, the currency weakens, and the incentive to push further monies out is even stronger.

We see these same outflows in Chinese companies that have dollar denominated debt. Many of them make their profits in yuan and are forced to convert back into dollars before paying that debt off. The dollar debt becomes more expensive as the yuan weakens and it ends up taking

more yuan to pay off the same amount of dollars. When companies see this devaluation, they're incentivized to pay off the USD debt as soon as possible to avoid having it become more expensive. Senior advisor to the PBoC Sheng Songcheng explains:

> *"Most of China's short-term external debts are concentrated in the business sector. The one-way depreciation expectations for the yuan could lead companies to buy foreign currencies to repay those debts even before they come due, potentially adding to the depreciation expectations."*

According to economists, more than half of Chinese companies' foreign debt is in dollars. The country's three biggest airlines for example — Air China, China Eastern Airlines Corp., and China Southern Airlines Co. — all racked up billions in foreign debt while buying planes from companies like Boeing. The USD debt they hold is a large source of further devaluation.

As the PBoC struggles to manage the yuan devaluation, China's reserves continue to dwindle (they dropped to $3.052 trillion in November, the lowest level in almost six years). Many are now expecting the PBoC to execute another one-off currency devaluation. The last 2% devaluation they performed in August of 2015 jolted global markets, especially emerging market currencies that compete on the export front. But this intentional move was dubbed a failure because it didn't stop the yuan from weakening further afterwards. Another one-off devaluation in 2017 could once again strengthen the current feedback loop, sending the yuan much lower than expected and the dollar higher.

The Mosul Dam

"Mosul Dam is the most dangerous dam in the world" - U.S. Army Corps of Engineers

The Mosul Dam, located twenty-five miles north of the city of Mosul, contains 11 billion cubic meters of water and regulates its flow to millions of Iraqis living along the Tigris river. The thing is massive. And it's on the verge of collapsing.

The problem is that the dam was built in the wrong spot. It sits on a foundation of soluble rock that is constantly at risk of washing away. If the foundation did wash away, the dam would sink and break apart, creating a massive 100 foot tidal wave that would destroy Mosul, Baghdad, and all the cities in between.

Keeping the dam stabilized requires 400 workers pumping a cement mixture into the ground 24 hours a day. To call the dam high maintenance would be an understatement. And its requirements become even more difficult to fulfil when under the constant threat of ISIS.

In August 2014 ISIS attacked the dam and were able to occupy it for a few weeks until Kurdish forces finally ran them out. There were fears the ISIS fighters would try to blow it up, but even more probable was the dam collapsing due to a lack of maintenance. The 1500 Iraqis servicing the area immediately fled when the fighters invaded. Without the constant care from the maintenance crew, the dam can blow at any time.

Mosul Dam isn't currently under ISIS' control, but ISIS *is* occupying the city of Mosul and therefore poses a constant threat. A solution to prevent the dam from flooding was to build another one downstream, closer to the city. But the construction won't be possible until ISIS is cleared from that area. And unfortunately, the current Iraqi military operation to achieve that goal has been extremely difficult and slow going. ISIS ain't leaving anytime soon.

If the Mosul Dam falls, Iraq's entire economy would be destroyed within a week. Engineers are equating the event to that of a nuclear explosion. The most immediate impact would be felt in crude oil prices.

Iraq was the 4th largest oil producer in 2016 and a major supplier to Europe. The country produced 4.8 million barrels per day and was key in the recent OPEC agreement which helped raised oil prices. A flood from the Mosul Dam would wipe out a majority of Iraq's oil production and cause a large spike in prices.

A long-term disruption in oil supply could change the optics surrounding a lot of oil dependent countries like Russia and Saudi Arabia. They will likely increase production to fill the gap and will therefore benefit from the increased revenues. This will help stem their bleeding reserves and could revitalize their economies. US shale producers will also race to fill the gap and will benefit as well. In the long-term, a stronger dollar is still the key factor in lower oil prices, and it doesn't look to be reversing anytime soon.

Portfolio Snapshot

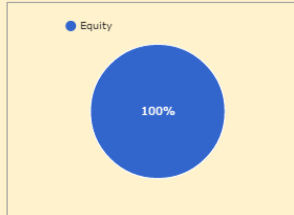
Macro Ops Strategic Portfolio

NAV $1,154,365

Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target 1	Beta (1yr)	Notional
Equity	Goldfield GV	4,000	$3.89	$2.52	$5,480.00	$4.50	1.81	$22,750
Equity	Intrepid IPI	6,000	$2.08	$1.09	$5,940.00	$3.50	-0.37	$32,700
Equity	Whiting Petroleum WLL	2,000	$10.41	$8.10	$4,620.00	$16.42	2.94	$26,300
Equity	Skyline SKY	1,000	$13.08	$12.20	$880.00	$22.00	2.63	$15,100

Metrics

Exposure Breakdown	
Equity	$16,920.00
Commodity	$0.00
Fixed Income	$0.00
Forex	



Total Open Risk	Portfolio Beta
$16,920.00	0.13
1.47%	

**Updated 1/4

Macro Ops Income Portfolio

NAV $1,149,283

Asset Class	Position	Size	Cost Basis	Max Profit

Scenario Analysis/Stress Tests

Worst Case	Worst Drawdown

**Updated on 1/4

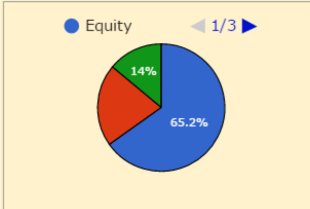
Macro Ops Tactical Portfolio

NAV $931,345.83

Asset Class	Position	Size	Cost Basis	Risk Point	Market Price	Open Risk	Target 1	Notional
Equity	Eurostoxx50 Future	11	€3,198.20	€3,073.00	€3,309.00	€25,960.00	€3,517.00	€372,462
Equity	Cliffs CLF	3,967	$9.90	$8.04	$8.80	$3,014.92	$15.84	$35,862
Commodity	Heating Oil (HOG7)	4	$1.6657	$1.6253	$1.6805	$9,273.60	$1.9759	$275,164
Forex	Euro Futures (6EH7)	-7	$1.0463	$1.0614	$1.0543	$6,212.50	$0.9436	$919,012

Metrics

Exposure Breakdown	
Equity	$28,974.92
Commodity	$9,273.60
Fixed Income	$0.00
Forex	$6,212.50



Total Open Risk
$44,461.02
4.77%

**Updated 1/4

Asset Allocation Weightings

Asset Allocation Weightings	Underweight	Neutral	Overweight
Large Cap Growth		X	
Large Cap Value			X
Small/Mid Cap			X
International Equity		X	
Emerging Market Equity		X	
Real Estate, Domestic			X
Real Estate, Global	X		
Consumer Discretionary			X
Biotech		X	
Industrials			X
Materials			X
Financials			X
Tech			X
Telecom		X	
Healthcare		X	
Consumer Staples	X		
Utilities	X		
Long Bonds	X		
Intermediate Bonds	X		
Short Bonds	X		
High Yield		X	
TIPS			X
Emerging Market Credit		X	
Gold			X

For more information about real time portfolio updates please email alex@macro-ops.com