FEDS ONE AND DONE AGAIN

This week saw the first rate hike in a year, but everyone was expecting it. The only other notable item was the fact the FED sees 3 rate hikes instead of 2 according to their dot plots for next year. We tend to believe that the FEDs hands are somewhat tied as we all know the disparity levels are quite extreme and raising rates isn't going to help that problem, if anything it's going to exacerbate it. Why? Because the creditors hold all the cards and only the very few benefit from ultra low rates.

We know the legs of the economy aren't very stable and that the financialization of every aspect of our economy is predicated on low interest rate, short term funding. Perhaps the FED and all their 700 pay rolled PHD economists haven't figured out that the combination of bailouts and QE did nothing for the average worker and as we have said many times before, the wealthy don't need lower interest rates to increase their wealth, steady growth is all that is needed, to simply maintain. Sure low rates and credit spreads help but they also turn everything into a carry trade.

With debt levels growing out of proportion, we all understand it's just a game of kick the can and dish it off to the next generation. This scheme can last for quite some time, so we won't knock it, but we certainly don't believe in it either. We would rather just enjoy the ride while it lasts and party cuz the music is still playing and ready ourselves for what's to come. If everyone could merely borrow short for low rates and lend long for higher rates, well nothing is more simple than that, yet we all know eventually the debt becomes so encumbering that **deflation becomes a black hole**. Are we there yet, nobody knows, but nobody cares as long as we get a double digit equity return!

Ok anyway some of the FED statement highlights are as follows:

-Fed says labor markets continued to strengthen, growth moderate
-Fed says job gains have been solid in recent months
-Fed says spending rising moderately, investment stayed soft
-Fed says inflation has increased since earlier this year
-Fed lifts rate paid on excess reserves to 0.75% vs 0.5%
($16.5 Billion subsidy to the banks)
-Fed raises discount rate to 1.25% from 1.0%
-Fed median est. for longer-run funds rate 3% vs 2.9% in Sept.
-Fed raises RRP rate to 0.5% vs 0.25%

The FED has now opened the door for further strengthening of the US Dollar which will continue to wreak havoc on foreign currencies, most notably the Euro and the YEN, where both have seen considerable selling since the election. We view the path of least resistance continues to be a stronger dollar and it certainly makes sense with both the ECB and BOJ continuing monthly QE of around $160 billion in total, all the while the FED is expected to raise rates. We can't imagine this thesis changing any time soon and its no wonder the **bond market is seeing relentless selling**, especially out of China. China needs to dump treasuries in order to support its currency and manage it appropriately, but will see how long they put up with this. We have talked at length of a short dollars world and the FED is certainly helping to exacerbate this issue! In all honesty how far can they go? The longer end of the yield curves have flattened quite a bit, but in the front end, 2s30s has steepened but has begun to stall somewhat and yields are approaching some key levels, especially the 3.25% level in the 30yr.

We did read a few pieces this week, one in particular from RBC's Charlie McElligott talking about an eventual mean reversion trade (buying bonds selling equities). We view such suggestions with much less fan fare as we all know the FED and the Central Banks are firmly entrenched with their **"All in"** equities based strategy. This doesn't mean however that their thesis isn't without merit. Hell we would be the first to admit this sort of mean reversion reaction is long overdue here, but we also know markets tend to be most unforgiving when it comes to prognosticating tops and bottoms. We would rather just go with the flow as we see it and if it starts to turn, well, we will try to make an educated, well formulated plan at such a time.

For now, Bonds are being sold, Equities are being bought and the Dollar is King. Those three things represent the large macro picture trends and we are not abandoning them, not yet anyway.

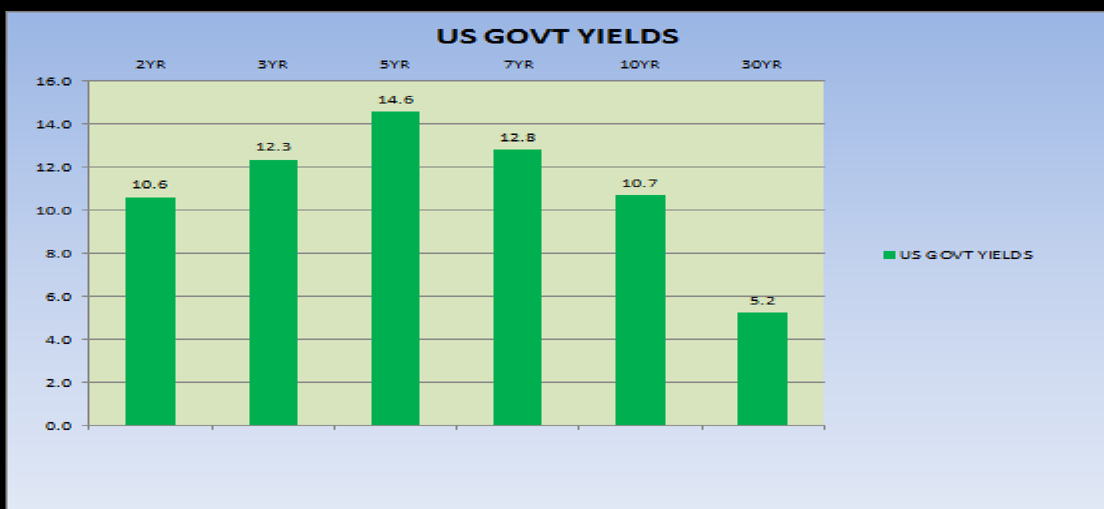
What catalyst might take place for us to sound the change alarm? Well, for one, we would like to see how the year end flows go. We tend to think this equity rally is in general a pro growth fiscal rally, but perhaps it's more of a late to the game hedge fund panic as yearend approaches to buy anything and everything because of their clear underperformance. Merely dumping all the underperformers and buying all that we missed kind of thing. Which would lead us to believe and which has certainly been the theme the last few years, that bonds have tended to bottom, (rates top out) at the end of the year, to only see them go gang busters (price rally) and fall (yields) for the first half of the following year. This cyclical occurrence would lead us to be a bit more bullish on bonds and bearish equities come the beginning of January 2017.

We have seen this game one too many times to think that it can't possibly happen again, that would be crazy. No we have already figured what crazy is, crazy is thinking the FED doesn't have the markets back, that it will merely raise rates to their magical nominal rate, whatever the hell that may be. Crazy is thinking that things have to be different this time. It's confusing we know, but what we really mean is that **nobody really knows what tomorrow brings**, we can only make a risk adjusted educated guess and then and only then can we expect to profit or lose. That's the thing, like any good gambler knows**, "You**

have to risk your chips in order to win the game, or else you would simply get blinded to death." There is no holy grail, we hate to break to all those PHD programmers that think their black box model wields some Rumpelstiltskin like powers, it doesn't! Eventually the patterns all become recognizable and once they are, the randomness changes them once again and the process of uncovering and price discovery occurs all over again, and again and again. That's why we love markets, investing and trading right?

Ok so let's just see how the charts faired this week. First up let's look at the close of the US Treasuries Yield levels after Wednesday's FOMC decision:

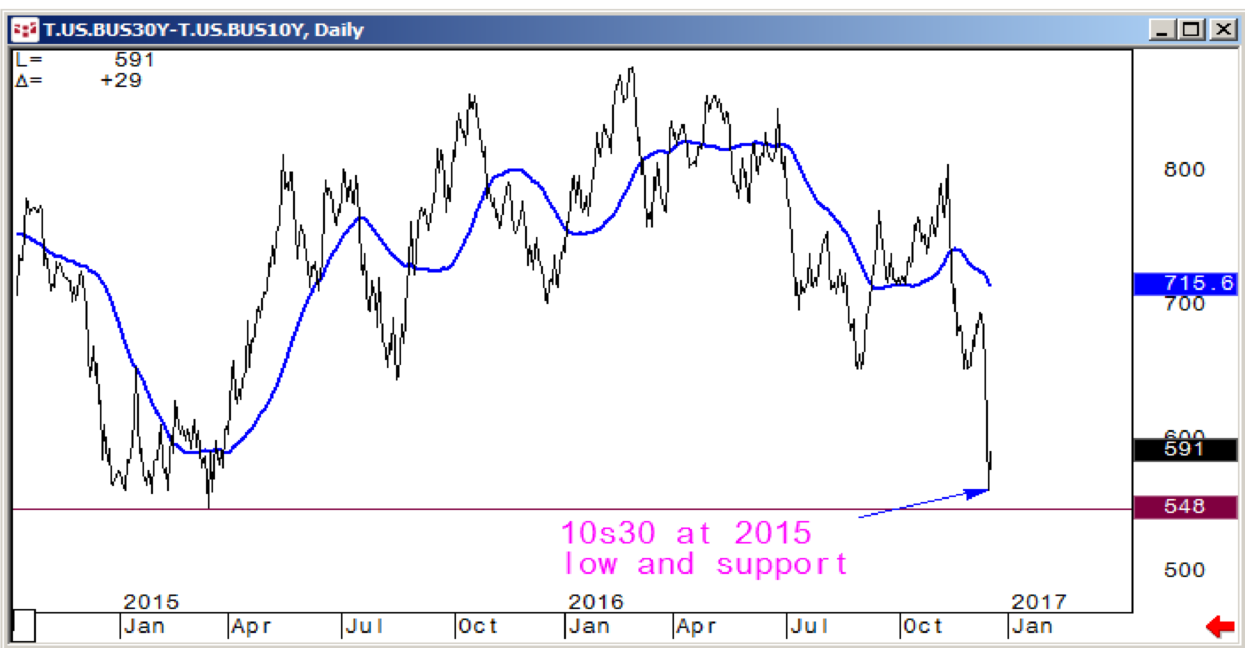
	2YR	3YR	5YR	7YR	10YR	30YR
Price	99.15	99.12	98.18	98.12	94.31	94.02
YLD	1.27	1.59	2.05	2.38	2.58	3.18
NC	10.6	12.3	14.6	12.8	10.7	5.2



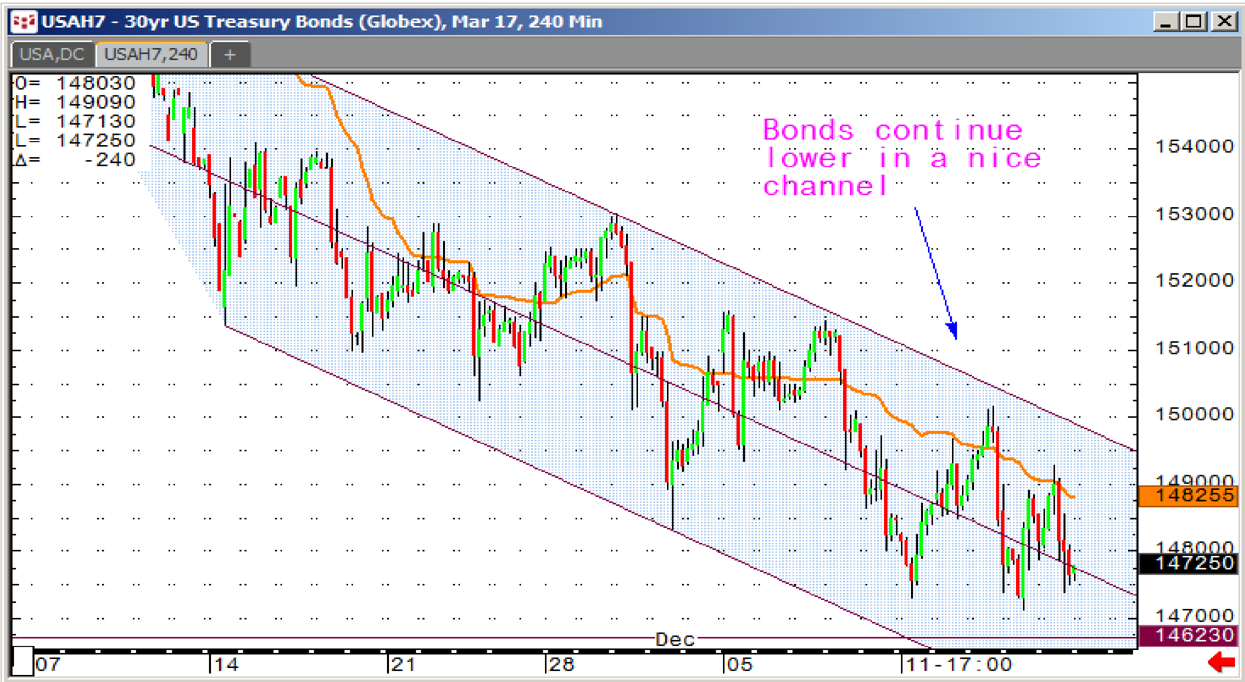
As you can see the 5yr sector was the hardest hit gaining some 14.6 basis points.

The 5s30 US Treasury curve which steepened most of the second half of this year has turned quite flatter and approaches the Jan 2015 lows:

The 10s30 US Treasury curve has flattened even more so since the election and is now right at March 2015 lows:



This next chart is the Bond Future which has been in a great descending channel for quite some time and the VWAP (currently 148-25) has been a great entry for continued sale locations:



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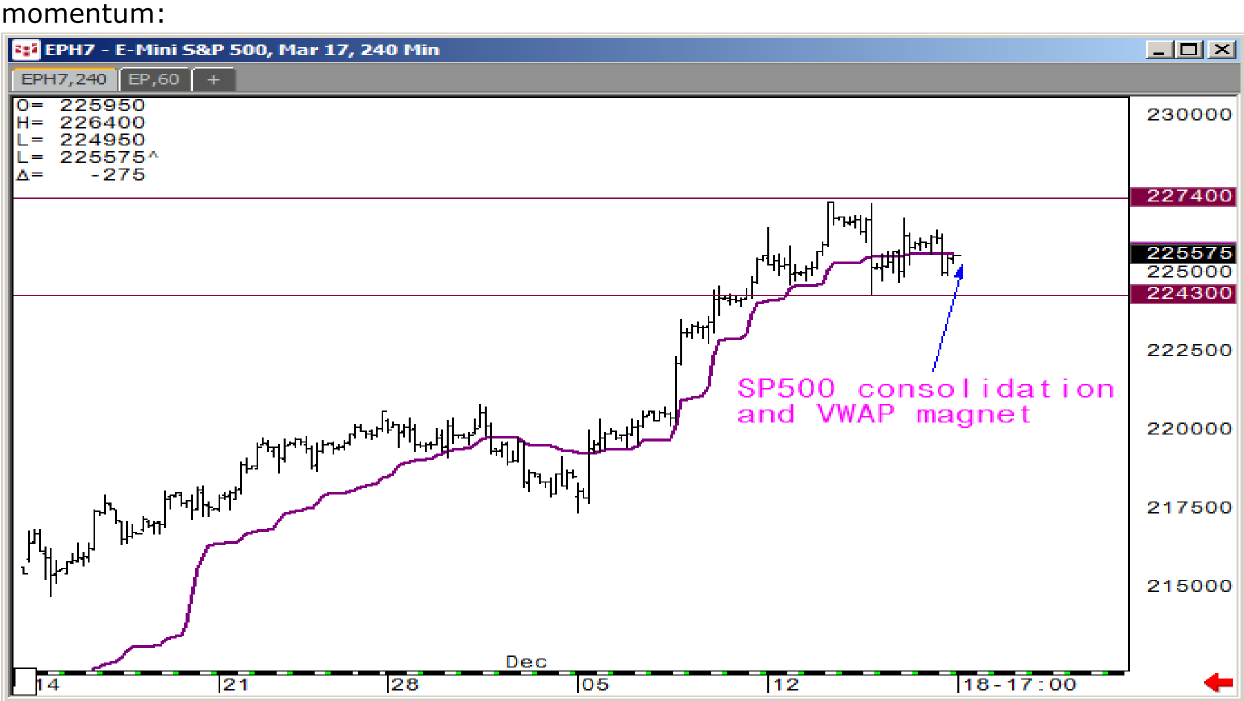
When we look at the SP500 chart 2274 continues to hold as resistance and the VWAP at 2255 continues to magnet, we would view a break of 2243 as suggestive of weakening momentum:



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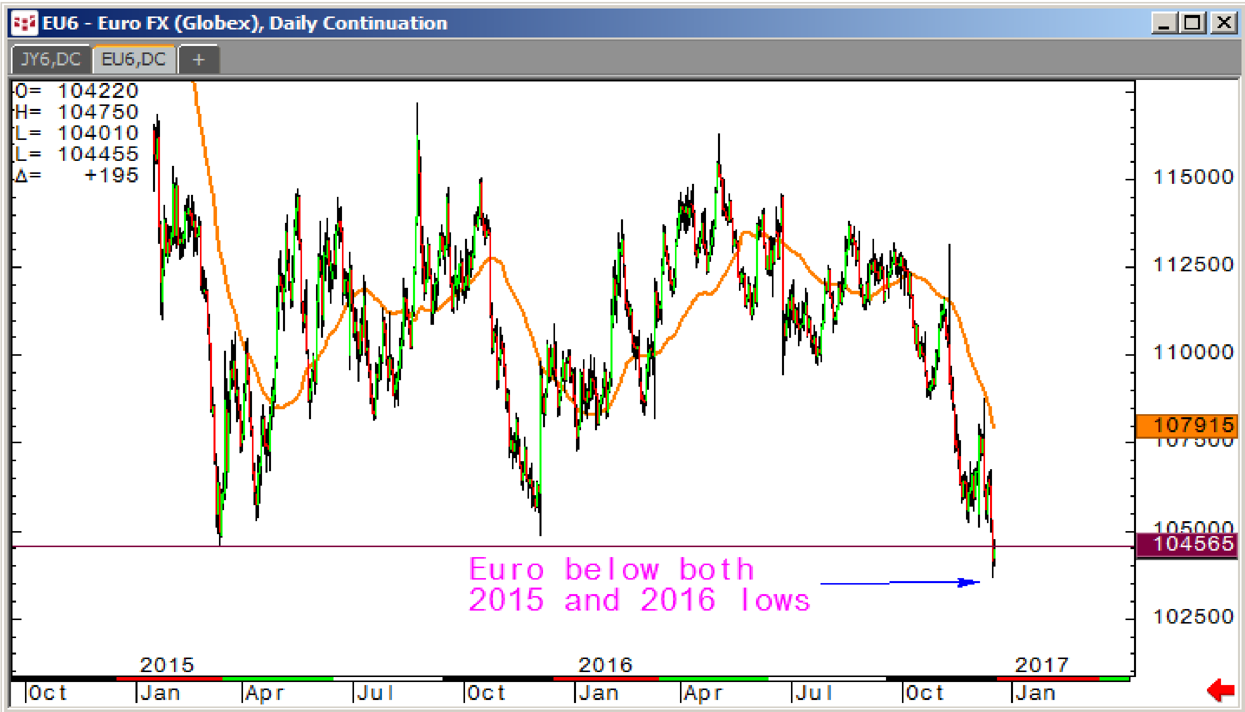
Over in currency land we can see the Euro continues to press down toward parity and considering the formidable 104-56 area has been breached, this should pave the way for further downside:



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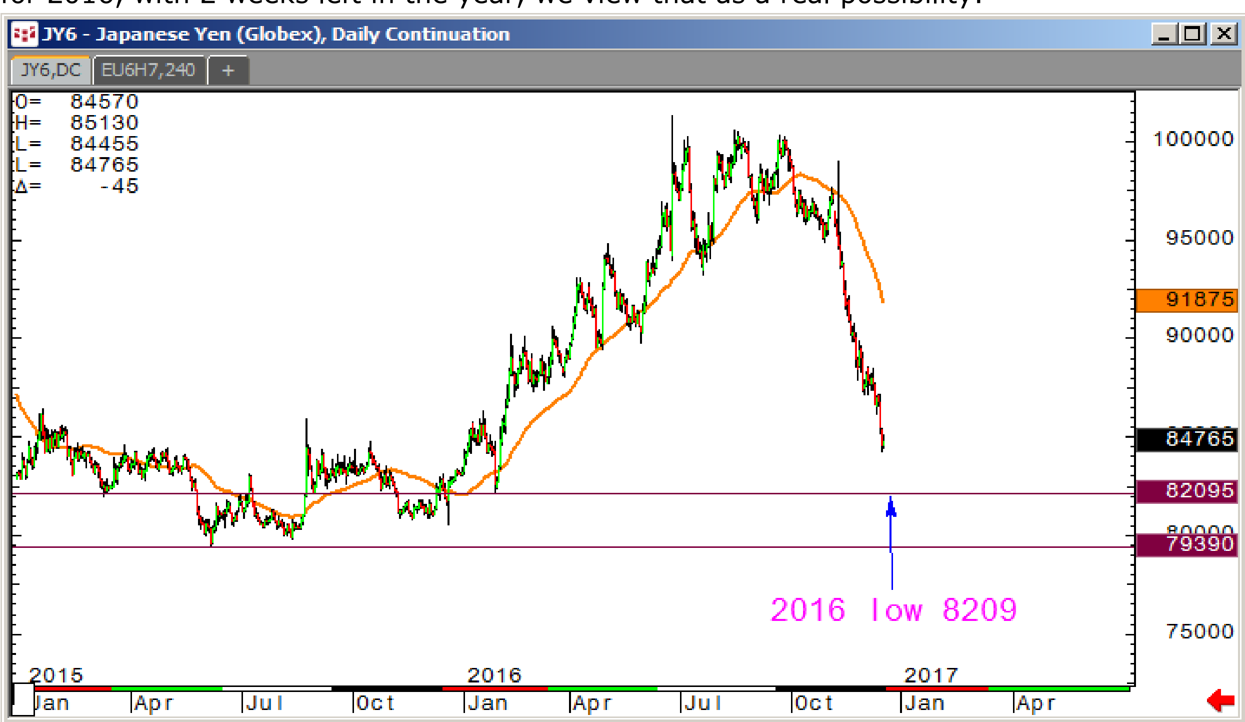
Looking at the Yen we can see that it continues to slide, but it still hasn't made a new low for 2016, with 2 weeks left in the year, we view that as a real possibility:



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Ok, that's it folks! Some of the noted weekly moves below can be found in the 5yr and 10yr sectors of the US treasury complex as they continue to see yields rise to new yearly highs. Of course what would a rate hike be without the corresponding drubbing of Gold and Silver, which both lost 2.1% and 4.4% respectively on the week. Crude continues to push higher up another 2.8% this week. China's Shanghai Comp lost 3.4% as currency and funding issues continue to plague the PBOC.

Have a good weekend, Cheers!

16-Dec			
Instrument	**Price/Yield**	**Wk Net change**	**Wk % Change**
US 30yr Govt	3.18%	9 bp	-1.0%
US 10yr Govt	2.60%	7 bp	-5.7%
US 5yr Govt	2.07%	5 bp	-9.9%
MAR Bond Future	147-21	-0'27	-0.57%
MAR Ten Yr Future	122-26+	- 1'06+	-0.98%
MAR Five Yr Future	116-252	-0'29+	-0.17%
MAR SP500	2255.25	0.5	-0.8%
MAR DOW	19794	25	0.1%
MAR Nasdaq	4915.75	22	0.4%
MAR Nikkei	19305	445	2.4%
MAR Dax	11384	180	1.6%
Shanghai Comp	3122.98	-109.9	-3.4%
FEB WTI Crude	$52.95	$1.45	2.8%
FEB Gold	$1,137.40	-$24.50	-2.1%
MAR Silver	$16.22	-$0.75	-4.4%
MAR Dollar Index	$102.92	$1.42	1.4%
MAR EURO	104.79	-1.24	-1.2%
MAR YEN	85.055	-2.13	-2.4%

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