



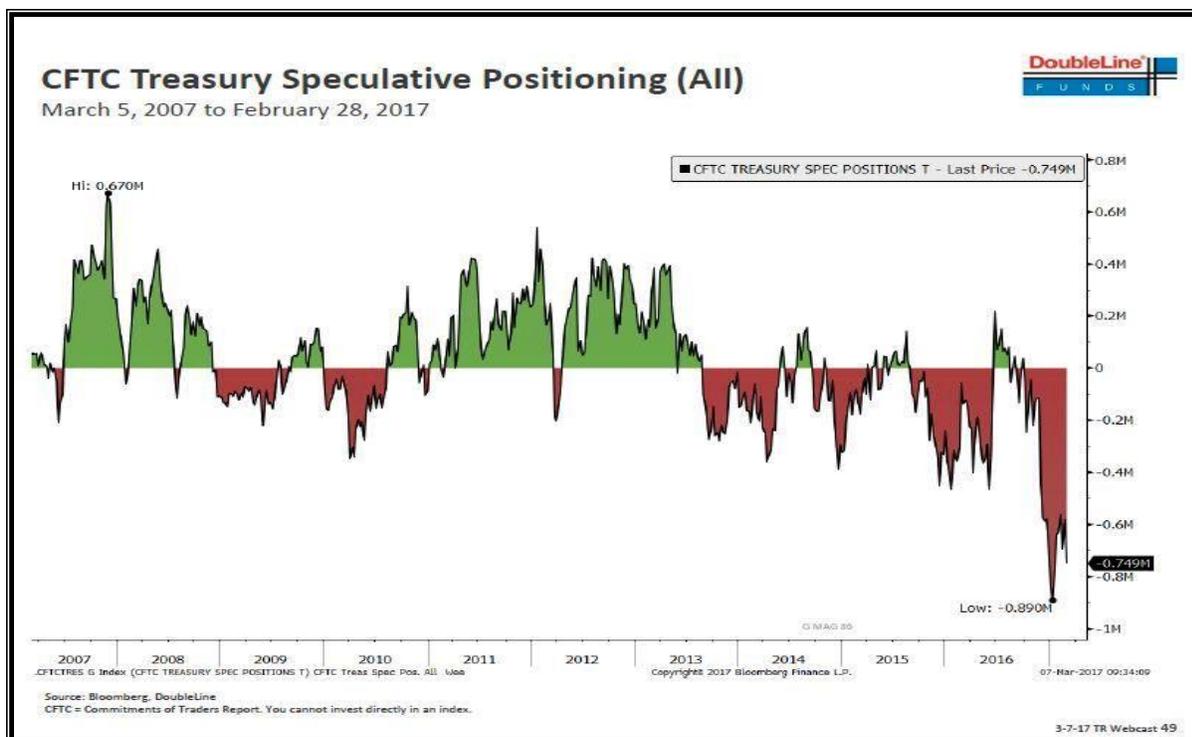
## Are The Markets Ready For FED Liftoff?

A few days from the now the FED will most likely raise the Fed Funds rate to 1%. The entire market has placed a nearly 100% odds upon that occurrence. The only data hurdle left this week was the Non-Farm Payroll report, which did nothing in terms of dissuading the Fed as jobs rose in February 235k beating expectations of 200k. The day prior saw the ECB keep rates on hold at 0% but released details of a curtailed APP (Asset Purchase Program) lowering their monthly purchases to €60 Bln from €80 Bln per month starting next month. This is the thing about the FEDs ability to actually raise rates, how high can they go with the ECB, BOJ and the BOE still printing around \$200 Bln per month?

We can only imagine the dislocations in the currency markets this will cause. As always we are on guard not to over speculate about potentialities, only to suggest volatility should rise as interest rates rise. Interest rates albeit in such small moves like 25bp, can have major repercussions considering the size of the debt markets as they exist today. The interconnectedness of all these central banks around the globe somehow seems like risk is even more concentrated than ever before. Who really owns the actual rights to the end user claim to any one given asset, should become more of a focus as rates rise and bond, equity and currency volatility increase as well.

We believe many an asset manager have been lulled to sleep by this endless linear equity climb. We believe the algo's that exist today have been built by inexperienced non-financial scientific programmers that understand little of chaos market theory and care only about clean meta data and if-then-go-to string sets. Nevertheless, the markets are running smack face into a Federal Reserve that has been cornered and whom seem hell bent on or as Jeff Gundlach said this week in his monthly session "going to raise till something breaks."

One thing we have been noticing and many outlets have been on to this lately too is the record CFTC treasury speculative positions, which sit at record shorts. We can only imagine the pain it will cause if rates flip and start to move lower. Complacency comes to mind and we are too cognizant of the reality that so obstructs the Federal Reserve that if they fail to raise, or if the market even begins to sniff they are not going to be able to raise as planned, this short base will force rates to new lows as they all begin to toss in the towel one by one. Here is the chart as Doubleline had in their monthly webcast:



Something else we read this week out of the OECD which warned that "the global economy may not be strong enough to withstand risks from increased trade barriers, overblown stock markets or potential currency volatility, and adds that the disconnect between financial markets and fundamentals, potential market volatility, financial vulnerabilities and policy uncertainties could derail the modest recovery." We agree with all of their sentiments and chief economist Catherine Mann when on to say, "We still have this slow, sluggish productivity growth and persistent inequality. Put those together and it's hard to see the robust consumption and investment profile you need to really get things going."

This lends further credence to our statements that the FED is indeed in a very rough spot having to raise rates at a time where they know, the foundations of this recovery are not very solid. We did enjoy reading from them that they too feel that there seems to be an **"over reliance" upon monetary policy** which has led to exceptionally low rates, rising debt levels and elevated asset prices. But hey we know when we got into this business that one golden rule, **IT TAKES MONEY TO MAKE MONEY, PERIOD!** So holding true to that mantra it's no wonder the central banks need to keep printing, how else can one explain the nominal level of asset price rises? Once you realize that debt and money are the same, you will realize the central banks will stop at nothing to keep asset bubbles in place. Even if that means inflicting havoc upon fundamentals and value for seemingly endless amounts of time and debt levels to epic proportions. So that leaves us to the ultimate question, when does it all end?

The question is not in of itself solved with one simple answer rather it takes a multitude of events to change mentalities, which in turn change investing decisions and ultimately move markets to toward their paths of resistance. One thing is certain, the major change happening now is that the FED is forced to raise rates which hasn't been the

case for quite some time, nearly a decade. We are not counting the one off yearly rate increase of 25bp the last two years by the way. Rather we are admitting that the change is being forced from the markets unto the FED whether they like it or not and that's what is different now. This means risk should re-price, long term assumptions of growth and sustainability will also have to come into question as all this debt continues to pile up and will have to be refinanced at higher rates. These higher rates will be a drag on future growth as it will inherently raise the costs of this debt burden to all of these governments who cannot possibly continue to pinch the commoner any further.

**So ultimately the question then becomes, who will be left holding the bag?**

Well we know the equity CEOs aren't the ones, they dumped nearly \$7.8 bln worth of their stocks in February, the most in over 6 years, perhaps that should give you a bit of insight, no? We hope that you continue to read our analysis and opinions and that you implement our thought process into your own investing psyche, for ultimately we feel it is our job to keep you relevant, but it is your job to take the right steps.

Moving along, we believe that the Oil market has turned and it has lambasted the large speculative long base this week as it lost nearly 9%. Inventories continue to build in the complex with Goldman and Scotia out this week with bearish inputs. We don't want to beat the drum too early, but we know how leveraged this sector is and we can't imagine the credit calls that will be upcoming if oil does turn south for an extended period. We will post some crude charts later.

Also out this week was another Wikileaks dump entitled Vault 7. This info is not really new to us, we are well informed of the deep state and their data collection tactics. Bottom line is that no data is personal anymore and the collection of anything and everything, invading our personal lives is a well-known fact now. This doesn't make it right and it is certainly unconstitutional, period. This new leak just confirms what Snowden brought up with the Prism program and now we have Umbrage, which to sum, things up the government is said to be paying US tech firms to allow for a back door to infiltrate their software. Basically being able to turn a camera on, a microphone on, etc without your consent or knowledge. The problem being is if the government can hack your stuff, so could anyone else for that matter. We feel this is going to be an ongoing problem and that more instances will be brought to life, but we feel the basic commoner is becoming so conditioned to having Apple Siri, Amazon Echo or Google Home more than welcomed in their daily conversations that privacy is all but forgotten. Judicial proceedings will be at the forefront in the future we are sure and this privacy issue is not going to go away, and it shouldn't, personal property rights and individual privacy are at the foundation of our constitution and civil society for that matter. So don't let anyone convince you that this is not an important issue, it is!

Before we get to some tech charts, we can't help but display our disappointment, but certainly not surprised over the SEC decision to reject the Winklevoss application for a Bitcoin ETF. This in no way removes our fondness for the crypto currency, but rather most likely solidifies our belief that the central banks are indeed worried about it gaining wider acceptance. As we have stated before, blockchain technology is the wave of the future and nothing the central banks can do will stop it. This decision did hit BTC temporarily but it did

rebound back. In other similar news the Arizona state committee passed a bill (HB2014) to treat gold and silver as money and legal tender free from capital gains tax. What is weird is that our constitution and federal law states in Article I Section 10 that "no state shall make anything other than gold and silver coin a tender in payments of debts." Perhaps the Federal Reserve likes to forget that clause, but we definitely sense the drum beats getting louder and like Bitcoin, Gold and Silver, those relics, are about to get a little more attention.

Ok to the tech charts here we go, we begin with Crude Oil since it was a big loser on the week, not much to say other than someone wasn't wasting anytime selling it:



When we look at the 10yr US Treasury yield chart, we can't help but think this range is going to expand this week:



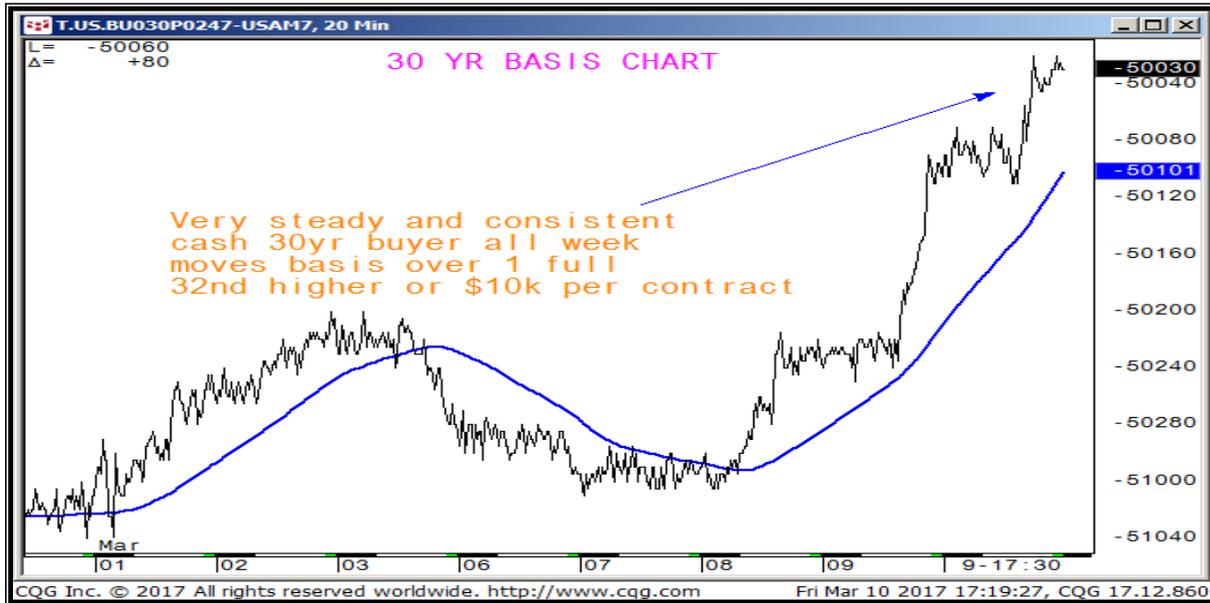
The 30yr US Treasury yield chart looks poised to test the 3.5% area:



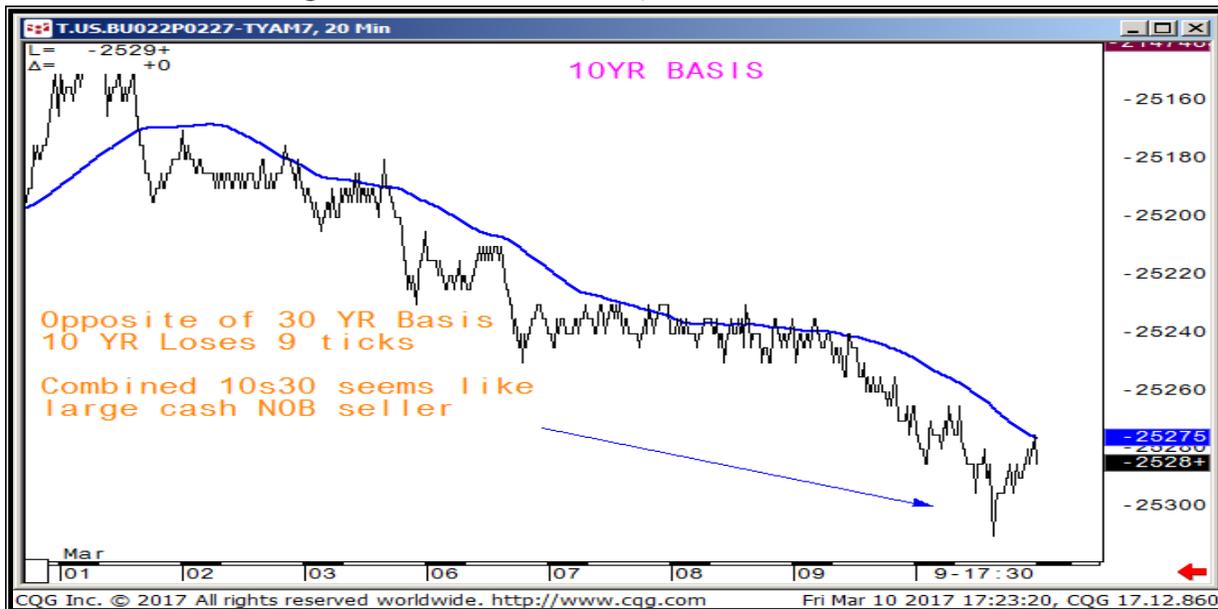
The Ten Year Future chart seems ripe for a quick flush lower to be met with some serious short covering, but will see on Wednesday shall we:



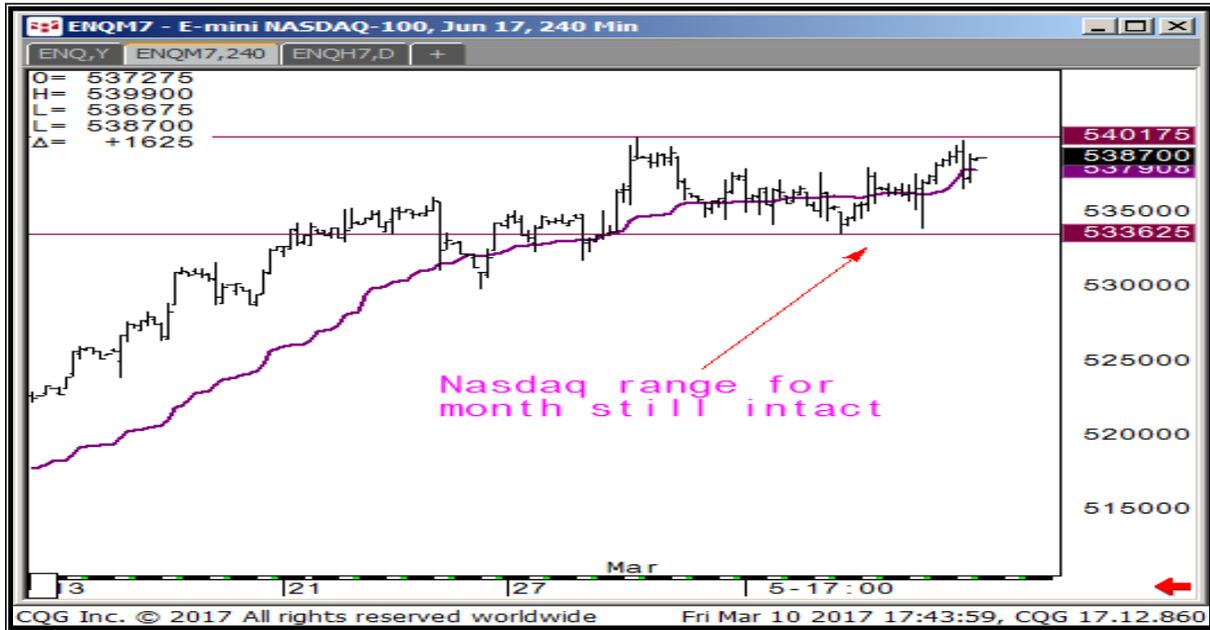
Curiously this week we saw very good demand in the 30yr US treasury security as the 30yr basis, which is the difference between the cash and the future was extremely strong:



Conversely the 10yr basis was weaker, which seems to us that accounts were getting short the US curve or looking for the 10s30 to flatten, consistent with the rate hike theme:



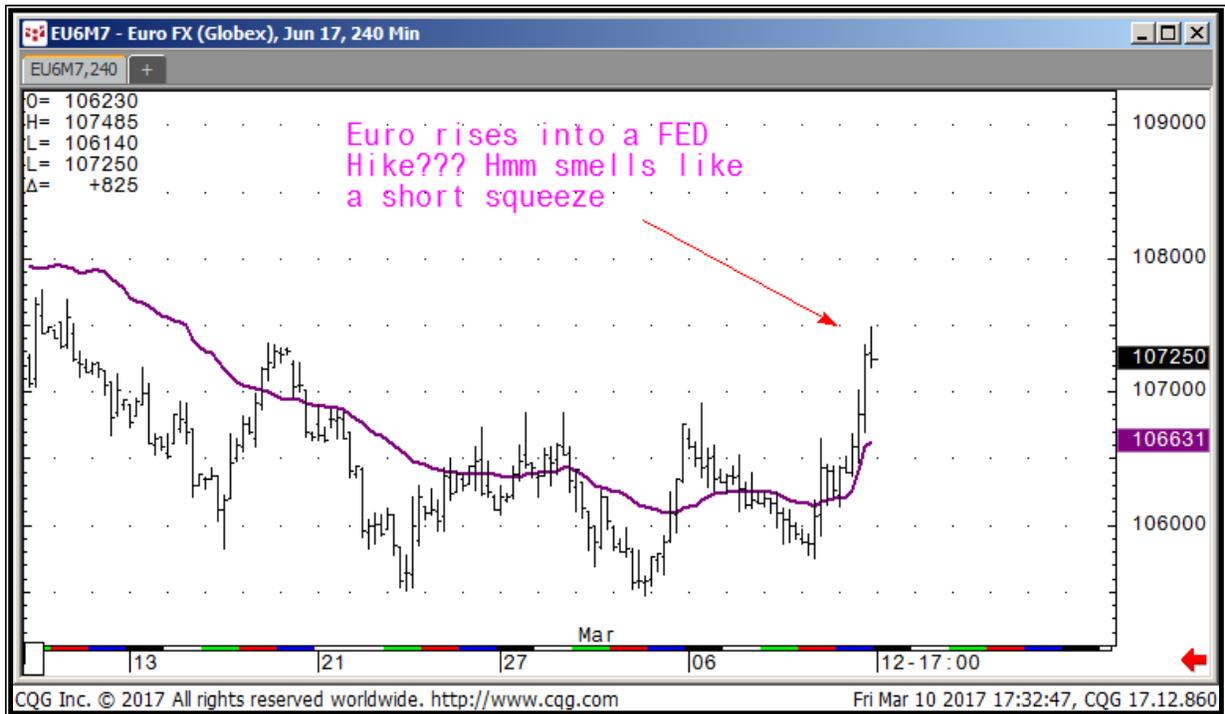
The Nasdaq is pretty well defined and a break out of this range will most likely set the future course:



The Nikkei has still yet to make a new high and perhaps its lack of initiative may be foretelling to our own equities ability to advance further, as we have been saying for quite some time, 19675 area has and continues to be formidable resistance:



The Euro currency had an interesting move this week as it perhaps used Draghi as an excuse to squeeze some weak shorts out before this week's FOMC meeting:



The final chart we are going to leave you with, once again is the US Bond Future plus the SP500 future, we can't help ourselves, we tend to talk a lot about value and what it means and this chart, somehow just seems so antithesis to that:



Ok that's it, sorry for the long rant, we felt that there was a lot to go over before this week's meeting. We hope to have a clearer picture of the Fed's future intents and whether or not they believe they can actually venture on to an actual rate hike campaign or if they will continue to use the data dependent words we have come to despise. We didn't even mention the debt ceiling did we? It's a big deal and we will be confronted with that in the coming weeks as well. Don't think debts matter? The battle is just beginning, so the answer to that question lies somewhere in the future and time will give us an answer as it always does! Anyhow we hope you have a great week and we knew all the warm weather was too good to be true, once again snow is in the forecast and as only nature can, remind us exactly how little control we truly have! Cheers

## Weekly Settlements

10-Mar		Weekly	Weekly	YTD
Instrument	Price/Yield	Net Change	% Change	% Change
US 30yr Govt	3.17%	9 bp	-2.9%	-3.7%
US 10yr Govt	2.58%	9 bp	-3.6%	-6.0%
US 5yr Govt	2.11%	9 bp	-4.5%	-9.3%
JUN Bond	146-27	-2'13	-1.6%	-1.1%
JUN Ten Yr	123-00+	-0'18	-0.5%	-0.5%
JUN Five Yr	116-22	-0'107	-0.3%	-0.5%
JUN SP500	2368.5	-9.25	-0.4%	6.1%
JUN DOW	20848	-84	-0.4%	6.0%
JUN Nasdaq	5386.25	11.75	0.2%	10.7%
JUN Nikkei	19520	100	0.5%	2.7%
JUN Dax	11996	-56.5	-0.5%	4.3%
Shanghai Comp	3212.76	-5.55	-0.2%	3.5%
MAY WTI Crude	\$48.91	-\$4.87	-9.1%	-11.1%
APR Gold	\$1,201.40	-\$25.10	-2.0%	4.0%
MAY Silver	\$16.92	-\$0.82	-4.6%	5.4%
JUN Dollar Index	\$101.11	-\$0.33	-0.3%	-1.2%
JUN EURO	107.42	1.88	1.8%	1.6%
JUN YEN	87.465	-0.08	-0.1%	1.7%
Bitcoin (BTC)	1,156.77	-137.59	-10.6%	21.3%

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