

Wednesday, May 29th, 2019

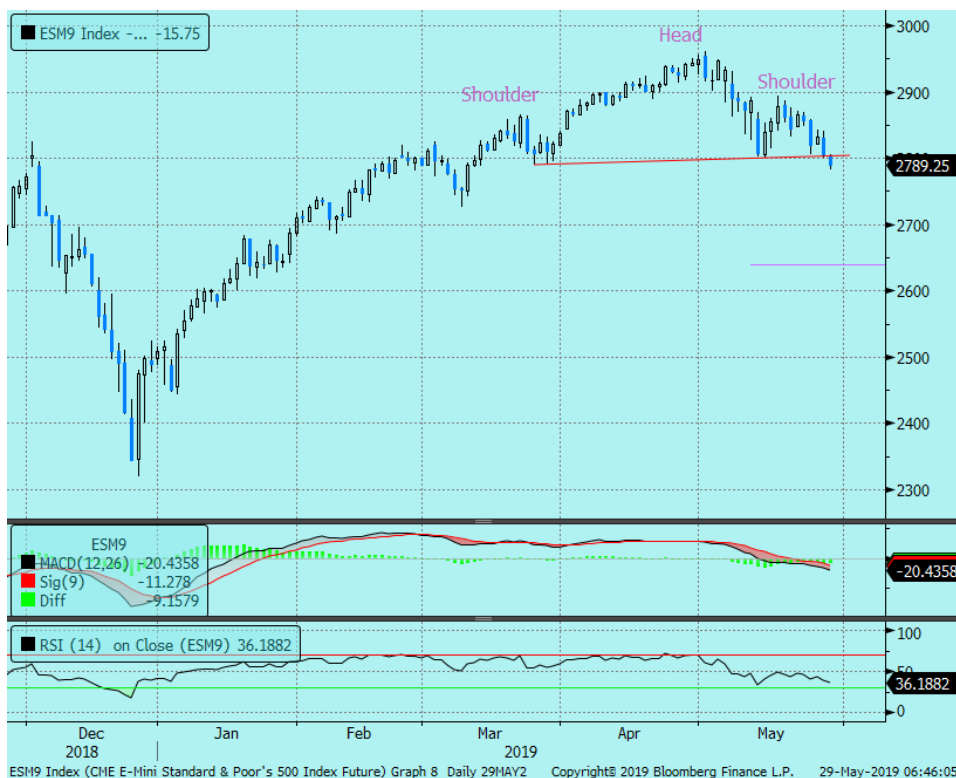
- ***A troubling technical picture developing across equity indices and risk proxies***
- ***Dollar/Yen a new way to play lower rates + risk off***
- ***WTI oil remains a major issue for the US economy, inflation and time spreads just went negative – new bearish development***
- ***Richmond Fed (yes the Richmond Fed) takes on significance today***

I think we have spoken enough about the deteriorating, end of cycle fundamental narrative enough as the fixed income rally begins to finally price in the Fed cut cycle that had been underpriced. It is now getting fairer so let's talk about other asset classes this morning.

One of the many conundrums the past couple months is how can there be Fed cuts getting priced when equities have been signaling the "all clear." The equity rally had made sense in the face of: 1) the dovish Fed pivot, 2) the China stimulus pivot, 3) US data, while weakening, holding up better compared to the rest of the world, and most importantly, 4) buybacks.

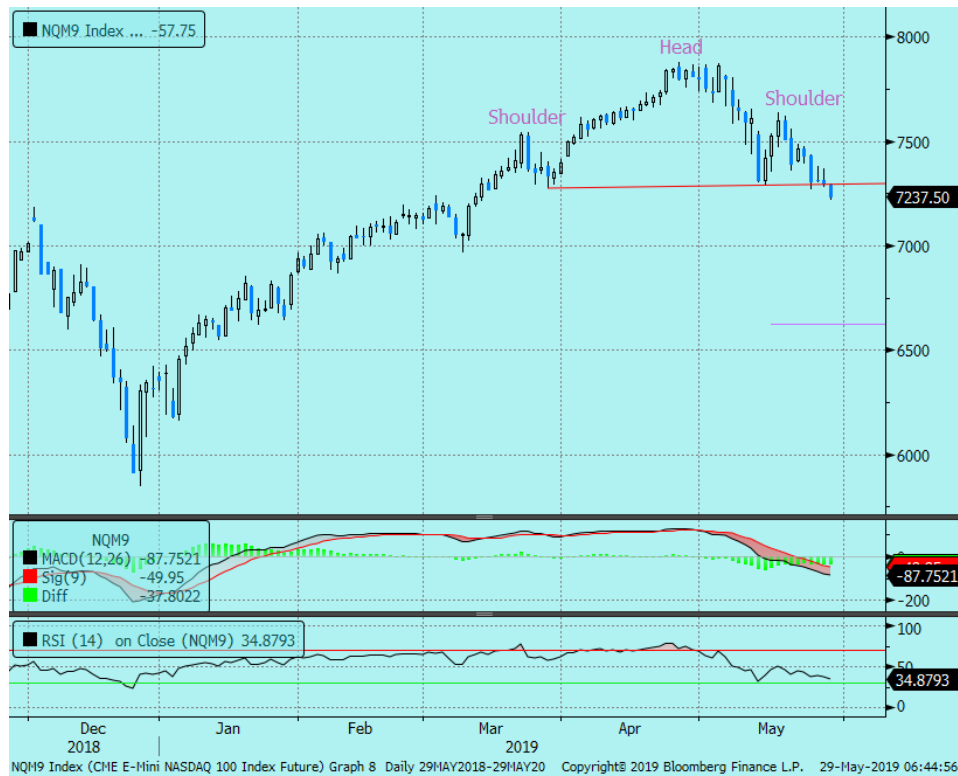
However, there is a potential reconciliation afoot and I will leave it to the charts rather than my words. After all, a picture is worth a thousand words....

S&P 500: the much watched 2800 level is at risk of getting taken out to the downside today. More importantly is the bearish "head and shoulder" formation which that 2800 level is the neckline. A close below there opens up a move down to 2640 (~5% lower)...

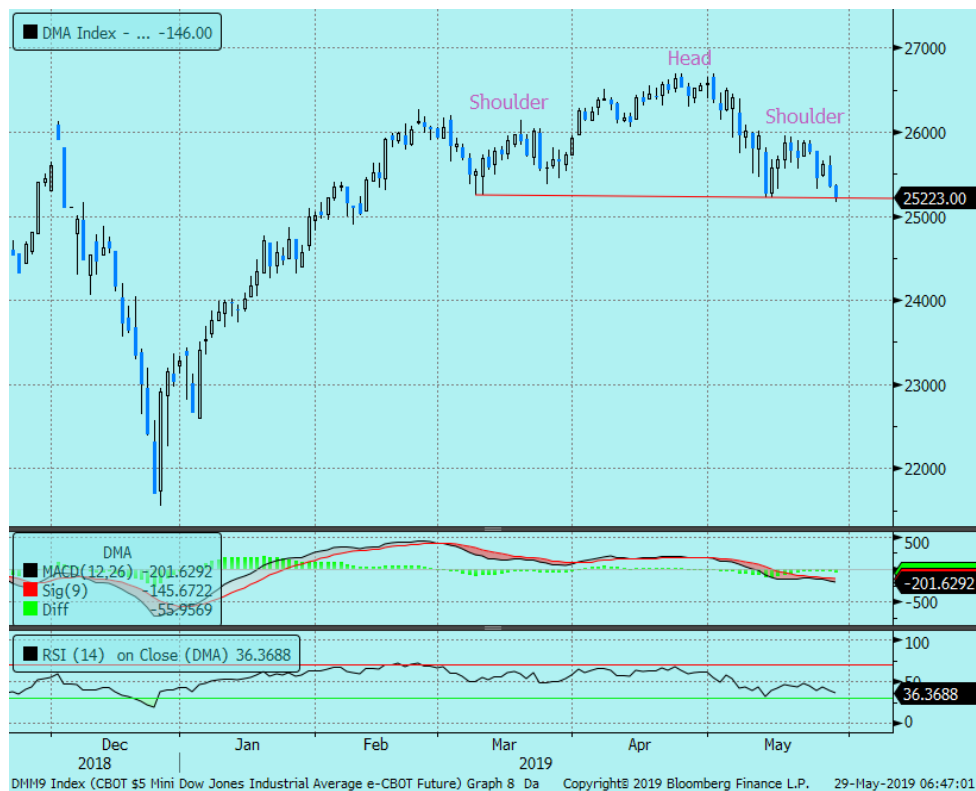


Generally you want to see confirmation across other like indices and asset classes that correlate well. Are we seeing it?

NASDAQ: same bearish head and shoulder formation with a potential neckline break developing. A close below 7300 target 6625 (~9% lower)...



Dow: how about the granny index, what is she saying? Same thing...



Transports: let's get old school, what is this Dow Theory component implying? Also a potential breakdown...



Euro Stoxx: are we seeing these bearish formations in just the US? Nope....



USD/JPY: are we seeing these same bearish formations in risk asset proxies? Yup. I would say Dollar/Yen downside is looking compelling because IF equities do confirm the breakdown, USD/JPY has a long way to go to catch up with rates which it tends to correlate highly to...



You get the idea. The technical picture developing across all indices and risk proxies is troublesome. Further, as I said in last week's piece "Houston we have a problem," the breakdown in oil could prove to be the nail in the coffin. WTI has consolidated the past few sessions but that is likely another bearish pattern.

WTI: the consolidation the past few sessions reeks of a "bear flag" pattern. If so, that would send it to the lower \$50s...



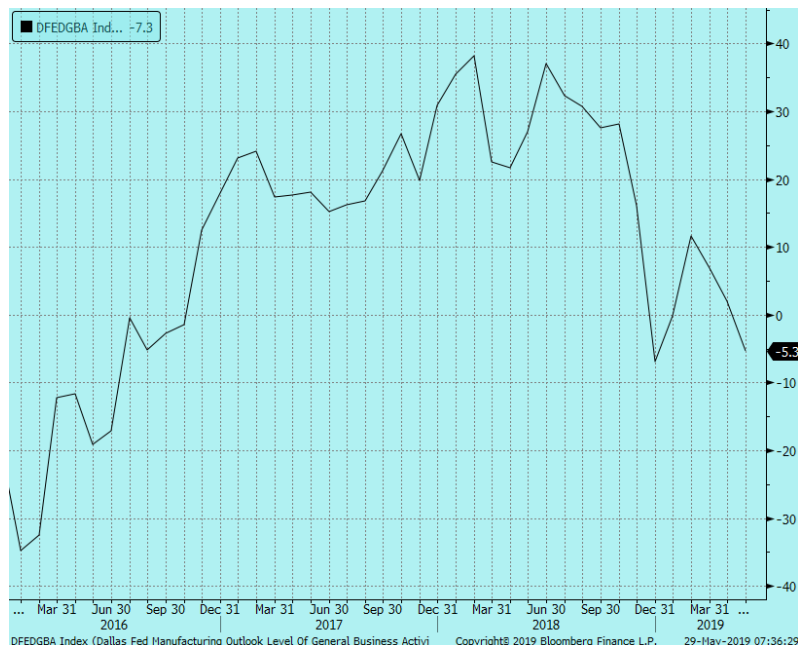
What is now troubling me about oil is that despite all the geopolitical risks, it trades terribly and there is a new headwind for oil prices. Time spreads, which is really the “carry” component of oil futures just went negative. In other words, there is negative roll down to hold deferred WTI contracts. Also known as contango.

CLN9/CLZ9 spread: just broken down into negative territory. Therefore, in a world where folks are searching for yield/carry; you no longer receive that in oil = bearish....



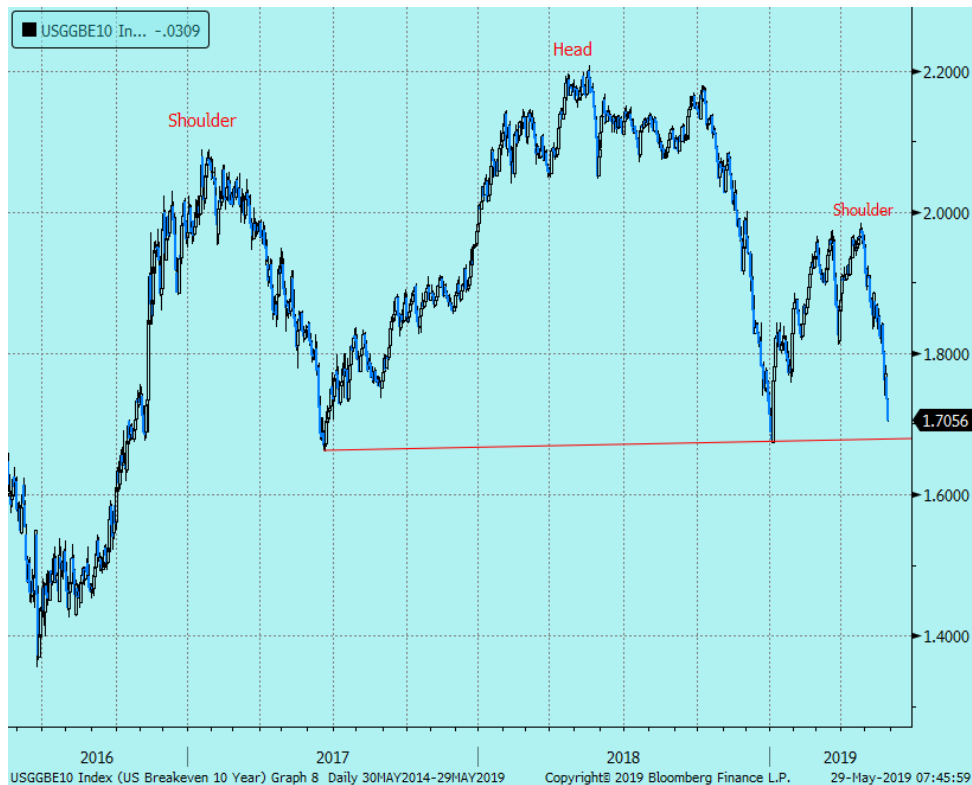
As I stated last week, this potential oil breakdown is HUGELY important. The US is now the world’s largest producer of oil so a move into the lower \$50s would be another economic headwind for the US. For example, how did that Dallas Fed survey look yesterday?

Dallas Fed Manufacturing Outlook level of General Business Activity back negative...



I would go so far to say an oil collapse would force the Fed's hand thus making the rally in fixed income completely warranted. The Fed watches inflation expectations closely. Since oil/energy is a major input into inflation expectations, it is thus no wonder that breakevens are collapsing. This will get the Fed's attention.

US 10yr breakevens: back to the 2017 "lowflation" lows and....another bearish head and shoulder formation...



All to say it is a troubling picture today as trade wars continue to languish too long taking the world economy down one country at a time. Risk assets need some sort of lifeline. Obviously a positive trade war headline would help, but I actually think it comes down to the economic data and can it hold up or is it on the verge of another step lower in the end of cycle.

I never thought I would say this, but the Richmond Fed today is kind of important. There have been four regional Fed surveys so far. NY (strong), Philly (fine), Kansas City (weak), and Dallas (disaster). Notice a geographic trend there? Northeast is ok and the South/Midwest not so much. That makes sense given the oil weakness and the farmers getting trashed by trade wars.

So you have two good and two bad surveys. That makes Richmond the tie breaker. Pretty ironic the Mason-Dixon Line is now relevant again as an economic border. The point is; PMI's are getting dangerously close to slipping into contraction in the US. A weak Richmond Fed would increase that risk, and a strong one would potentially save the day.

Kind Regards,

Mark Orsley

Head of Macro Strategy, North America



130 West 42nd, 23rd Floor Tel +1 646 205 6193
New York, NY 10019 Cell +1 914 456 9446
United States Email orsley@prismfp.com

#NC2

#substantive

Prism Financial Products LP email disclaimer:

This communication and any attachments to it may be confidential, subject to legal privilege, or otherwise protected from disclosure, and is intended solely for the use of the intended recipient(s). If you are not the intended recipient, please immediately delete, destroy and make no further use or disclosure of it, and any attachments, printouts and copies of it, and notify Prism Financial Products LP ("Prism LP").

This communication is not intended for retail clients and Prism LP will not make such products or transactions available to retail clients. It is your responsibility to reach your own determination as to the status under MiFID II of the materials and products Prism LP provides to you, as well as to whether the relevant provisions of MiFID II would be applicable, in light of your current domicile and business activities. Prism LP may share any part or all of the materials contained herein with other clients before, at the same time, or after the materials are made available to your staff. The views contained herein are not a personal recommendation and do not take into account whether any product or transaction is suitable for a particular investor.

Prism LP is not responsible for information stated to be obtained or derived from third party sources or statistical services and makes no representation and accepts no responsibility or liability for the completeness or accuracy of this communication. No confidentiality or privilege is waived or lost by any mis-transmission. Recipients are advised to conduct their own virus checks. Prism LP may monitor and store communications by e-mail, other messaging services and telephone, to the extent permitted by law.

This communication is not an advertisement, an offer, invitation or a solicitation to buy or sell securities or investment products, an official confirmation of any kind and is not intended as investment advice or recommendation. Before making an investment decision, investors should ensure they have sufficient information to ascertain the legal, financial, tax and regulatory consequences of an investment to enable them to make an informed investment decision. The information in this communication is subject to change without notice. The performance and value of any financial product may fluctuate and may be subject to sudden and large movements that could result in a loss equal to or in excess of the amount invested. Past performance is not a reliable indicator of future results.

Prism LP is a limited liability company formed in the State of Delaware with registration number EIN 81-1326349 and authorized to do business in the State of New York at its registered office at 650 Fifth Avenue, 17th Floor, New York, NY 10019, United States of America. Prism LP is authorized and regulated by the National Futures Association and the Commodity Futures Trading Commission (NFA ID: 0496102) in the United States of America. Prism LP is an appointed representative of its affiliate Prism Financial Products LP in the United Kingdom, which is authorized and regulated by the Financial Conduct Authority (FRN: 607481). Prism LP's registered branch office (FRN: 782608) is at The Grove, 248A Marylebone Road, London, NW1 6JZ, United Kingdom. VAT registration number: 253 5845 88.