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Good morning John,

Overnight Risk-Adjusted Return Monitor

<u>Cross-Asset</u>	<u>Foreign Exchange</u>	<u>Fixed Income</u>	<u>Equities</u>	<u>Commodities</u>
AUD/USD	AUD/USD	10-yr Bunds	Kospi	Brent Oil
Gold	NOK/SEK	10-yr Gilts	SP500	Gold

*This monitor highlights the largest **positive** and **negative** risk-adjusted returns overnight on a cross-asset and single-asset basis, including ~60 investment expressions globally. It is designed to hypothesize where the greatest PnL sensitivity exists and whether outlier price moves are impacting sentiment.

**1d RiskAdj = 10x (Percent Change on Day / 30-Day Realized Volatility)

Overnight Summary & View

The largest negative risk adjusted return overnight across regions and assets is GOLD, a new low for the move and lower close for the third week in a row is underway. Professionals continue to underestimate the extent of control by Central Banks. Point being, balance sheet expansion and lower interest rates are materializing without significantly raising inflationary expectations or creating currency instability. The fact that even the BoJ initiatives underway and new excess JGB volatility cannot elevate the two Gold triggers - global inflation or fx instability - highlights that buyers of Gold weakness remain wrong in the short-term.

Second, Freeport McMoran and Copper are key barometers today, especially as it pertains to hedging global developed market Equity longs with Base Metals.

Copper is -57 bps currently despite a major earth slide at Rio Tinto's largest Copper mine (Bingham Canyon) near Salt Lake City, Utah.

- UBS said this could "wipeout the entire 2013 expected surplus in Copper".
- Deutsche Bank spoke to RIO, best guess is 2-3% EPS cut and a 0.5% NPV cut to company value. Likely to lose 50-100Kte of copper Sales and circa 6-months of production.

If Freeport McMoran (FCX US) cannot perform today, this will emphasize the degree of negative investor sentiment around base metals and why many will continue to use these Commodities as their liability in global long/short portfolios.

Top Overnight Observations

1. Chinese Yuan - 7th straight week of gains; best winning streak in 5-months. The majority continues to call for CNY weakness to help offset the deterioration in Exports, they continue to be wrong.
 - See chart below, the rest of Dollar Asia (ADXY) continues to struggle, rare occurrence of 200-DMAVG coinciding with 5-yr trend line break.
2. Brent Crude Oil continues to struggle, front month contracts are holding the new contango and the backwardation in the Jun13-Jun14 spread continues to decrease, i.e. the roll-yield is now below 3% and down from 8.5% in Q1. Reminder, many use the rate of change in the roll yield to measure the gearing to EPS in the Energy sector. Additionally, the correlation between Brent and MSCI EM is historically high.
3. Growth: IMF (US), S&P (EU), Indonesia, Korea, Columbia all lowered growth expectations in last 48 hours.
4. LaTam: Mexico thesis is Industrial Production and taking that business away from China. Brazil is about the growth of Retail due to the middle class expansion.
 - Mexico Feb Industrial Production M/M: 0.5% v 1.0%e; Y/Y: -1.2% v 0.9%
 - Brazil Feb Retail Sales M/M: -0.4% v +1.5%e; Y/Y: -0.2% v +3.5%e (first fall since 2002)
5. German DAX – post negative comments by Seimens and Daimler this week, Volkswagon is -383 bps. These are three of the top 10 names in DAX Index or ~20% of the weighting and Autos are internal leadership.
 - DB on Volvo - Chinese construction equipment company Zoomlion has warned that 1Q profits will be 60-80% lower in Chinese GAAP in 1Q13 than 1Q12. Zoomlion makes mainly concrete pumps but also other construction equipment. The statement blames weak macro and business adjustment. China CE is horrendously overcapacity, and whilst this is CGAAP and Zoomlion have been very aggressive in capacity/sales in recent years this can't be good for Volvo.

Rareview Macro Model Portfolio - Updates

1. Long Brazil Equity Index proxy for a tactical trade, RVM spent 30 bps of NAV to buy EWZ Sept 46 calls for .80. These are 30 delta options with 68 days to expiry.
2. Short WTI Crude Oil position was stopped out overnight at 107.00 vs. 104.00 entry point.
3. Eurodollar flattener was stopped out yesterday at 74 bps vs. 66 entry point.

Watch List Additions

1. Sugar long: record short interest, positive seasonality approaching, etc.
2. China FXI ETF long: stimulus, data stability, RRR cut, index risk-reward technically positive, etc.
3. Indian Sensex short: Preferred vehicle for EM weakness, Balance of Payment crisis, foreign outflows, etc.

Performance

Year to Date Return 8.67%

Month to Date Return 1.37%

*Source: RVM. Prices as of June 28, 2013

Japan Monitor

<u>Index</u>	<u>Last Price</u>	<u>1D % Change</u>	<u>O/N Low</u>	<u>O/N High</u>
Nikkei	14,589.91	-1.48%	14,413.28	14,953.29
Topix	1,211.98	-0.82%	1,198.58	1,232.02
J-Reit	1,371.16	-1.53%	1,368.45	1,392.65
Mothers	785.31	-2.81%	771.26	808.70
<u>FX</u>	<u>Last Price</u>	<u>1D \$ Change</u>	<u>O/N Low</u>	<u>O/N High</u>
USD/JPY	100.30	-0.13	99.81	100.87
EUR/JPY	131.81	0.16	131.22	132.10
AUD/JPY	92.21	0.11	91.60	92.56
MXN/JPY	8.00	-0.03	7.96	8.06
<u>JGBs</u>	<u>Yield</u>	<u>1D BPS Change</u>	<u>O/N Low</u>	<u>O/N High</u>
2-yr	0.118	-0.4	0.123	0.126
5-yr	0.282	0.2	0.285	0.294
10-yr	0.804	0.5	0.800	0.817
30-yr	1.835	1.2	1.828	1.847

Arrow 1: Comprehensive Easing

- none

Arrow 2: Fiscal Policy

- none

Arrow 3: Growth & Deregulation

- Cabinet Office April Monthly Report: maintained economic assessment that economy was showing signs of picking up recently, while weakness could be seen in some areas. Assessment of personal consumption, exports and bankruptcies were all raised.

Economic Data & Market Related

Feb Tertiary Industry Index: 1.1% vs. 0.7% est vs. -.01% prior revised up from -.03%

Tertiary Industry Index: Evaluates monthly change in output produced by Japan's service sector; only measures service industries catering mainly to domestic needs; key indicator of domestic activity.

BoJ purchased ¥2.51T in JGBs across the curve in today's bond buying operation (as indicated)

Demand for the 5-10-yr JGB operations was more than 3X the offer; Demand at the shorter dated operations was about 4X the offer

80% of big retailers forecast higher FY13 sales, profits – Nikkei

Data & News

Growth

IMF Draft report: Lowers forecast for US 2013 GDP to 1.7% from 2.0% prior

S&P Capital Goods Industry Report Card: Chance of European recession to last into 2014 lowered to 33% from 40% prior

Money Flow (Lipper data)

Equity funds report net inflows totaling \$2.007 billion, with Domestic Equity funds reporting net inflows of \$0.795 billion and Non-Domestic Equity funds reporting net inflows of \$1.822 billion

ExETF Emerging Markets Equity funds report net inflows of \$0.524 billion

Net inflows are reported for All Taxable Bond funds (\$3.999 billion), bringing the rate of inflows of the \$3.773 trillion sector to \$6.883 billion/week

Net inflows of \$1.806 billion were reported for Corp-Investment Grade funds while High Yield funds reported net outflows of \$0.079 billion

Money Market funds report net outflows of \$8.566 billion

ExETF Municipal Bond funds report net outflows of \$0.618 billion

Read Through: High Yield and Municipal continue to experience outflows

Eurozone

Feb Industrial Production M/M: 0.4% vs. 0.2% est vs. -.6% last revised down from -.4%

Feb Industrial Production Y/Y: -3.1% vs. -2.5% est vs. -2.4% last revised down from -1.3%

China

Beijing Mar Existing Home Sales m/m: +332%; y/y: +294% - Centaline

Evergrande Real Estate Group 3333.HK: To raise home prices by 2-10% - Chinese press

Hong Kong will not withdraw property curbs over the next six months - financial press

Singapore

Q1 Advance GDP in surprise contraction, manufacturing slumps

Q1 Advanced GDP Q/Q: -1.4% vs. +1.7% est

Q1 Advance GDP Y/Y: -0.6% vs. 0.0% est

Central Bank (MAS): To maintain policy unchanged, cuts inflation view, allow for gains in SGD

Maintained both the slope and width of the currency trading band, as well as the level at which it is centered

Thailand

Central Bank Asst Gov stated that it might take measures if household debt and asset prices continued to rise and affect long term financial stability.

Noted that it would continue to monitor capital inflows

India

Feb Industrial Production Y/Y: +0.6% vs. -1.3% est

Mar CPI Y/Y: 10.39% vs. 10.7% est vs. 10.91% Feb

March Food prices Y/Y +12.42%

Australia

Debt Agency (AOFM) sees no rush of Japanese inflows as yet - financial press

PM Gillard: AUD strength new normal; Budget to move to surplus over time; Budget allows scope for rate cut - financial press

House price expectations index rose sharply in April to the highest level since July 2010, rising to +53.9 (vs +26.7 in Jan). Broader consumer view on housing more complex as April saw assessments of whether now is good time to buy fall sharply from the upbeat reads in Oct-Mar.

New Zealand

Economists at ASB Bank said the strength in the Kiwi could cause the RBNZ to not raise rates until 2014 – financial press

RBNZ creates new macro financial department, reflects emphasis on macro financial stability

New Zealand's hot housing market bothers central bank

RBNZ sweating on housing bubble as prices hit records

RBNZ mulls bank lending restrictions

Rate hikes might be needed but would fuel soaring kiwi

Loose global monetary policy pours capital into NZ

Asian buying of NZ homes risks public backlash

LaTam

Peru Central Bank: ref rate unchanged at 4.25%, expected

Chile Central Bank: nominal overnight rate target unchanged at 5%, expected

Cen bank says peso has further appreciated in multilateral terms
Central bank, gov't met earlier Thursday to discuss peso strength
Currency at same level that triggered intervention in 2011

United States

M-2 money supply up \$67.8 Bln in Apr 1 week (M1 up \$53.0 Bln)

Fed balance sheet grows again on week: \$3.210 Trln vs \$3.198 Trln
Fed Treasury holdings \$1.814 Trln vs. previous \$1.806 Trln
Fed Agency MBS holdings unchanged at \$1.071 Trln

Central banks' US debt holdings fall \$1.355 Bln to \$3.292 Trln
Central banks' US Treasury holdings fall \$1.752 Bln to \$2.953 Trln
Central banks' US Agency holdings rise \$773 Mln to \$301.38 Bln

Dollar Asia (ADXY Index) 5-Year Trend Coinciding with 200-DMAVG



Source: Bloomberg LP

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Rareview Macro LLC | Soundview Plaza | 1266 E. Main Street | Suite 700R | Stamford | CT | 06902

www.rvmacro.com