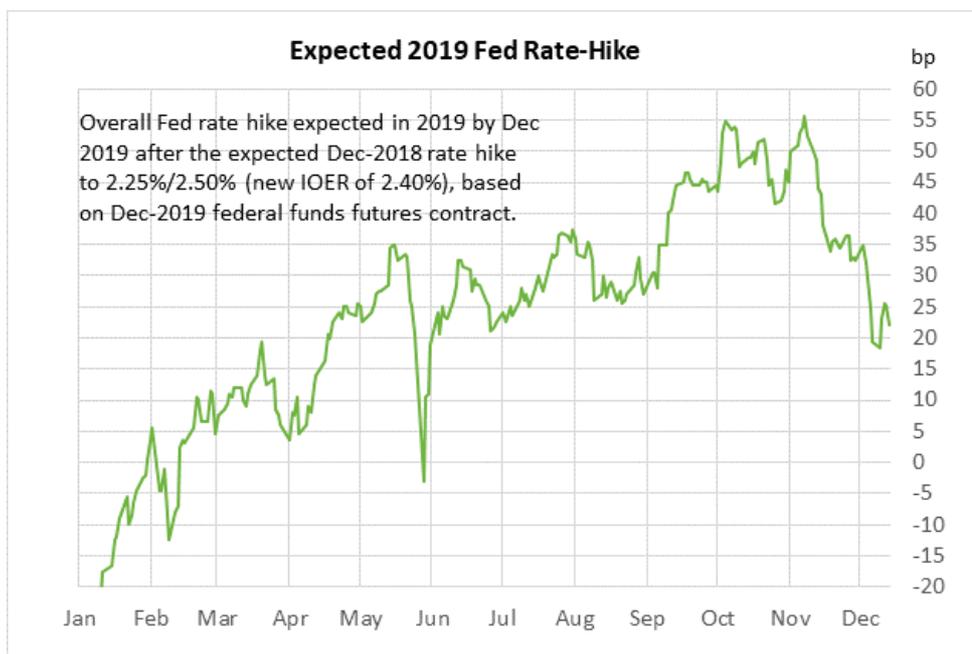
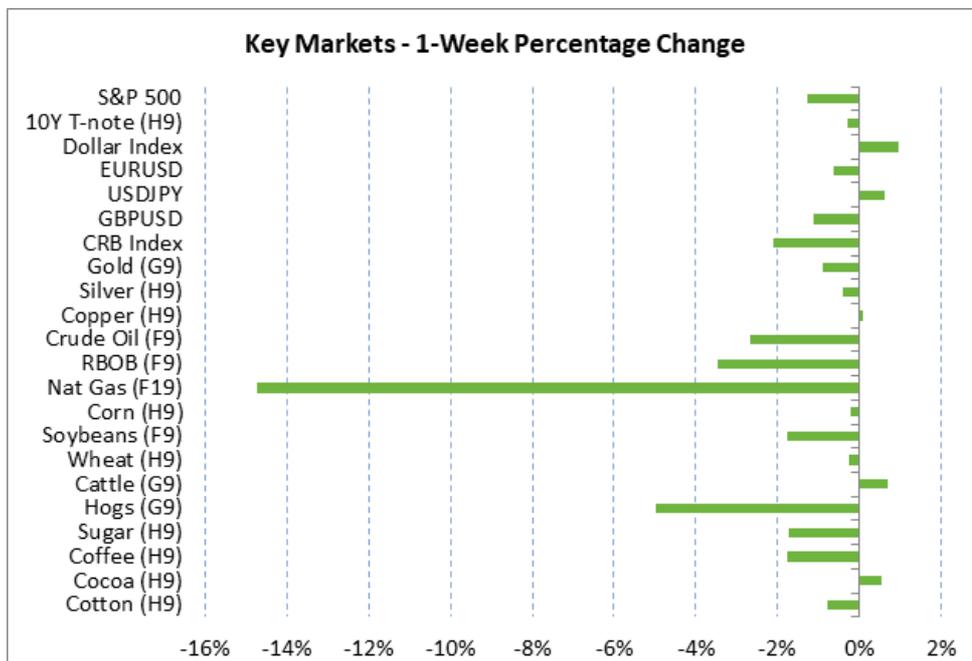


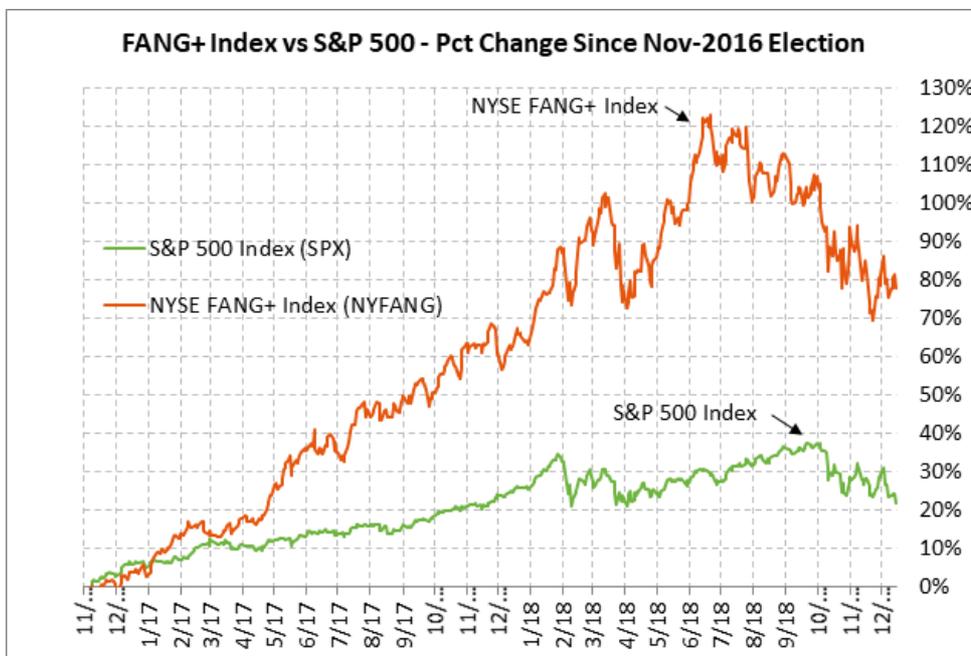
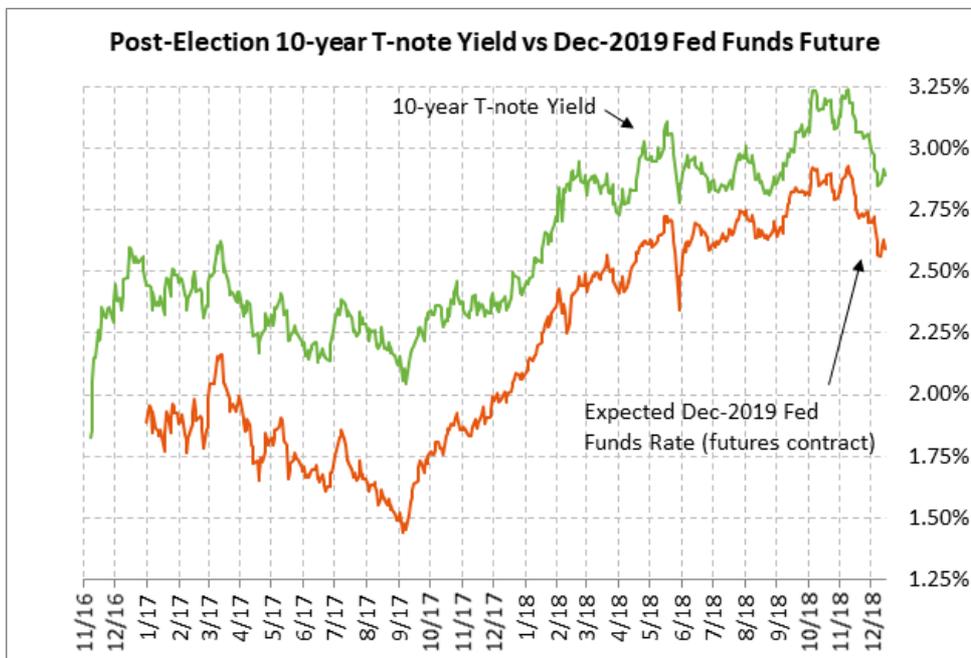
RJO Previews and Perspectives for Monday, Dec 17

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Weekly U.S. market focus -- The U.S. markets this week will focus on (1) the Tue/Wed FOMC meeting where the market expects a rate hike but is also expecting a dovish turn in the FOMC's interest rate guidance, (2) whether there will be a partial U.S. government shutdown this Friday night when the continuing resolution expires, (3) US/Chinese developments on trade and tech tensions, (4) whether the U.S. stock market can avoid extending the downside correction to new lows after last Friday's sharp sell-off, and (5) oil prices, which have moved sideways in the past three weeks at the bottom of the Oct/Nov plunge.

U.S. health care stocks are expected to take a hit today after the surprise ruling late last Friday by a federal district court in Texas striking down virtually all the key elements of Obamacare as unconstitutional. Obamacare will remain intact for the time being and lower court ruling could be reversed on appeal, but in the meantime, there is increased uncertainty for the U.S. health care system.



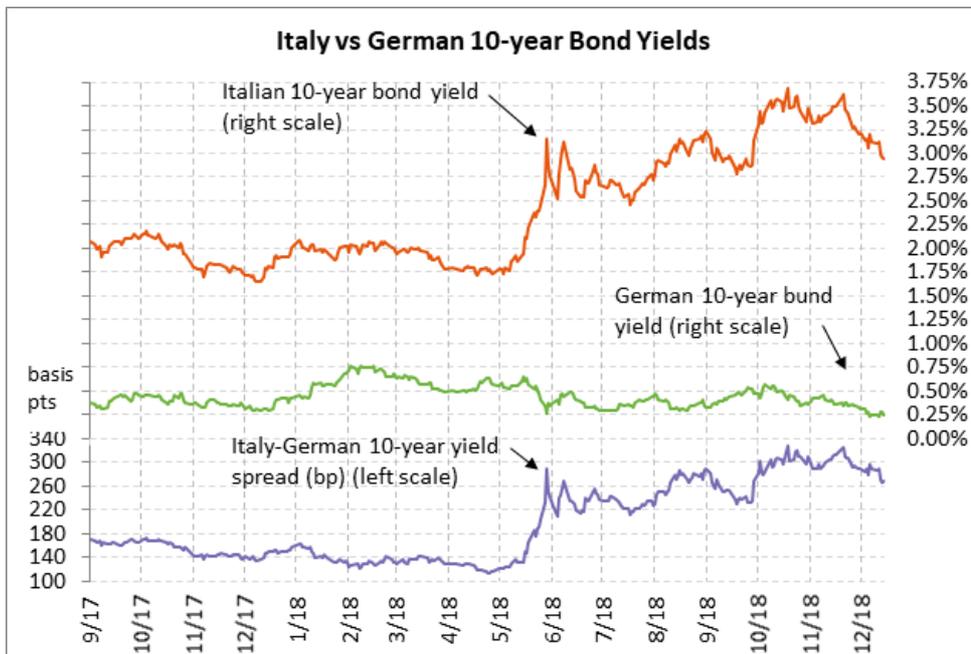


European focus is on economic data, BOE decision, Brexit, and Italy's budget -- In Europe, the markets are watching the slowing economic data with some alarm. The Yellow Vest protests in France are starting to fade but the protests have clearly hurt French economic growth. Last week's French Dec PMI reports were weak with both the manufacturing PMI (-1.1 to 49.7) and services PMI (-5.5 to 49.6) falling below the boom-bust level of 50.0. The overall Eurozone PMI's were also weak with the Eurozone manufacturing PMI falling -0.4 to 51.4 and the services PMI falling by -2.0 points to 51.4. The ECB at its meeting last week went ahead with ending its QE program on Dec 31 but made clear that it is in no hurry to raise interest rates.

Brexit will remain in the headlines this week after Prime Minister May last Thursday received no help at the EU Summit for improving the Irish backstop in order to produce a Brexit separation agreement that could get approved by Parliament before the deadline of Jan 21. Instead, Ms. May's Brexit separation plan appears dead. Ms. May's cabinet members are coming up with alternatives but at this point there appears to be no single plan that could pass Parliament. The deadlock has led to ideas that the most likely outcomes are a delay in the Brexit deadline, a second voter referendum, or a hard-Brexit in March 2019.

The Bank of England at its meeting this Thursday is expected to leave its policy unchanged as it waits to see whether Brexit will turn out to be a disaster. The UK economy continues to show resilience to Brexit uncertainty with Q3 GDP expected to dip to only +1.4% y/y from Q2's +1.5% and then to revive to +1.7% in Q4 and Q1.

The European Commission this Wednesday is expected to decide on whether to begin the "excessive deficit procedure" for Italy despite the fact that Italy has offered to lower its 2019 budget deficit to 2.04% from 2.40%. Italian bond prices have recently rallied due to the Italian government's willingness to compromise, although it remains to be seen whether Italy's offer will be enough to satisfy the EU's demands for a lower deficit and more conservative GDP projections. The markets seem optimistic about an eventual EU/Italy compromise since the 10-year Italian bond yield last Friday fell to a new 2-3/4 month low of 2.94%. Last Friday's Italy-German 10-year yield spread of 269 bp was just 2 bp above last Thursday's 2-3/4 month low of 267 bp.

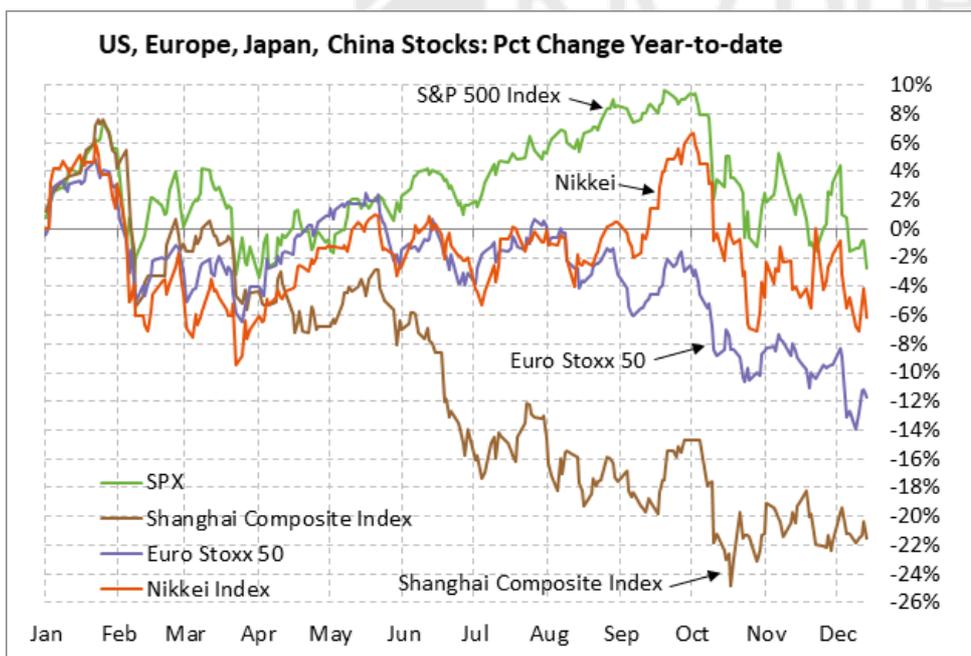


Asian focus is on China policy and BOJ meeting – The Asian markets this week will continue to focus on the Chinese stock market, which remains on thin ice in a narrow 2-month trading range. The Chinese economic outlook worsened last week with the news that Nov industrial production eased to a 16-year low of +5.4% y/y from Oct's +5.9% (versus expectations of unchanged +5.9%) and that Nov retail sales eased to a 15-year low of +8.1% from Oct's +8.6% (vs expectations of a rise to +8.8%).

The markets will carefully watch China's annual Economic Work Conference on Wednesday through Friday. China's economic leadership is expected to set its economic policy direction for the next year with a focus on bolstering the economy with softer monetary policy levers and some fiscal stimulus through tax cuts. China is also expected to continue trying to stave off new Trump tariffs by opening its economy, trimming its "Made in China 2025" goals, and cutting tariffs.

In concessions to President Trump, China last week bought some soybeans and dropped the 25% retaliatory tariff on US autos for Q1-2019. The US/Canadian arrest of Huawei CFO Meng has not yet had a negative impact on the US/Chinese trade talks. China is so far responding to that arrest on a separate track with its tit-for-tat detention of two Canadians on national security grounds.

The Bank of Japan at its meeting on Thursday is expected to leave its monetary policy unchanged since Japan's inflation figures are still far below target. The BOJ this week is expected to leave its policy rate unchanged at -0.1% and its 10-year JGB yield target unchanged at zero with a range of +/- 0.20%. The 10-year JGB yield has fallen sharply in the past two months in sympathy with lower U.S. and European bond yields and fell to a new 4-month low of 0.035% last Friday, reversing all of the upmove seen in July-Oct.



U.S. shutdown will go down to the wire – The House is on recess until Wednesday night, which means there will be only two days late this week to avoid a partial U.S. government shutdown on Friday night when the continuing resolution expires. The markets are not overly worried about a shutdown because it would involve only a few agencies of the government. In order to avoid a U.S.

government shutdown over Christmas, there are options to punt with a short-term CR until after Christmas or into the new year.

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