

MONTHLY

Hedge Fund Watch

Risk of a significant short squeeze in US Treasury positions

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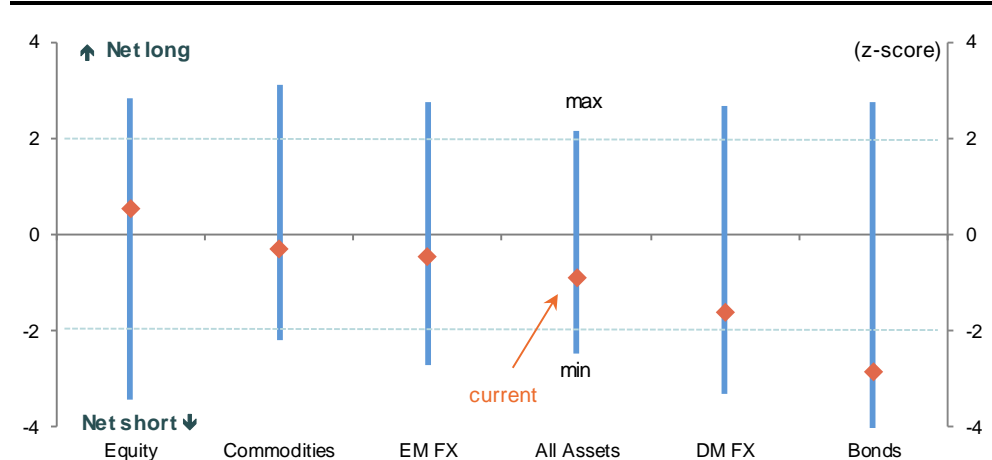
Hedge fund positions, either long or short, tend to reveal valuable insights into financial market trends. We track their behaviour in terms of asset classes, performance and favourite strategies.

■ **New: aggregate positioning charts** Comparing net positions across asset classes has never been easier. In the chart below, the aggregate position on each asset class is shown within its historical range. The “All Assets” category combines these aggregates into a single data point. Currently, this equally weighted average indicates a clear short position.

■ **Long equities but cautious positioning overall** This is the result of a moderate long position in equities (supporting an extension of what is now the longest bull run in the S&P in history) but net short positions in all other asset classes, especially within rates. In this report, we include similar charts for each of the five asset classes, providing positioning details on each of the constituents, as well as charts that show the 4w momentum and long-term historical trend.

■ **Historical short positions on several US Treasuries** Once more, the bond aggregate is pushed down by new record short positions on 5y, 10y and ultra (more than 25y) US Treasury notes. Even if asset managers are natural holders of US Treasuries, current positioning suggests strong anticipation of higher US bond yields. However, as yields have not increased much (on the contrary, the yield curve has flattened further), we highlight that the main short-term risk is probably an equally significant short squeeze in US Treasury positions.

Long equities but cautious positioning overall, especially on US Treasuries



Marker: current net positions long (+) or short (-). Bar: historical range (min-max). Standard deviations around historical average (z-score). Source: CFTC, SG Cross Asset Research/Global Asset Allocation

Hedge fund positions by asset class – “hedge funds positions” refer to all non-commercial positions reported to the CFTC. Data as of 14 August 2018, released 17 August 2018.

Hedge fund strategies – based on funds reporting to EUREKAHEDGE.

Latest data for end June-2018, collected up to 12 July, representing 42.36% of its universe.

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Hedge fund convictions – All asset classes (1)

Composition of our net position aggregates by asset class:
(See Addendum for full disclosures)

Equity
S&P, Nasdaq, Russell, Nikkei
(not MSCI EM or VIX)

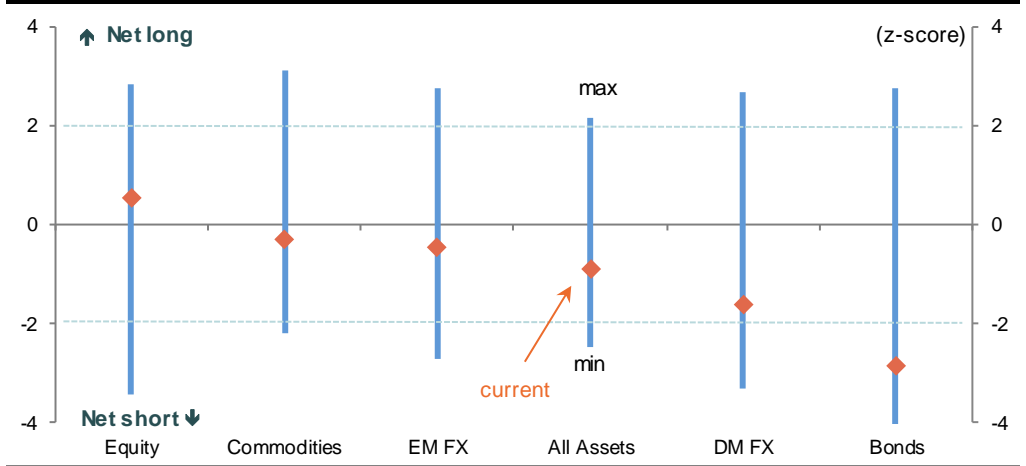
Bonds (US Treasuries)
2y, 5y, 10y, 15-25y,
Ultra T-bonds (>25y)

Developed Market FX (vs USD)
EUR, GBP, CHF, JPY,
CAD, AUD, NZD

Emerging Market FX (vs USD)
BRL, MXN, RUB

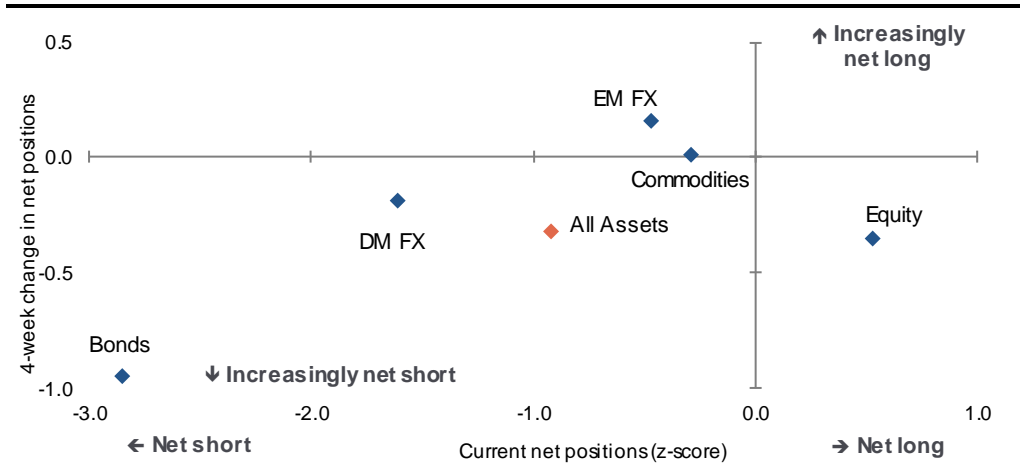
Commodities
Oil (WTI), natural gas,
Gold, silver, platinum, copper,
Corn, soybean, wheat, sugar

Net positions: current levels (long or short) within their historical range



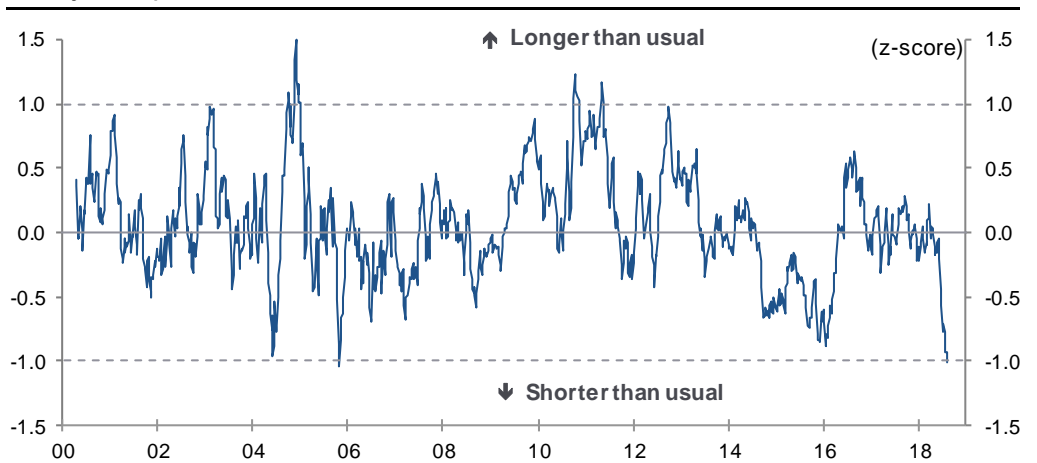
Marker: current net positions long (+) or short (-). Bar: historical range (min-max). Standard deviations around historical average (z-score)

Momentum: current net positions versus 4 weeks ago (vertical)



Horizontal: current net positions long (+) or short (-). Vertical: momentum = change in net positions versus 4 weeks ago. Both in z-score

History of net positions – All asset classes combined

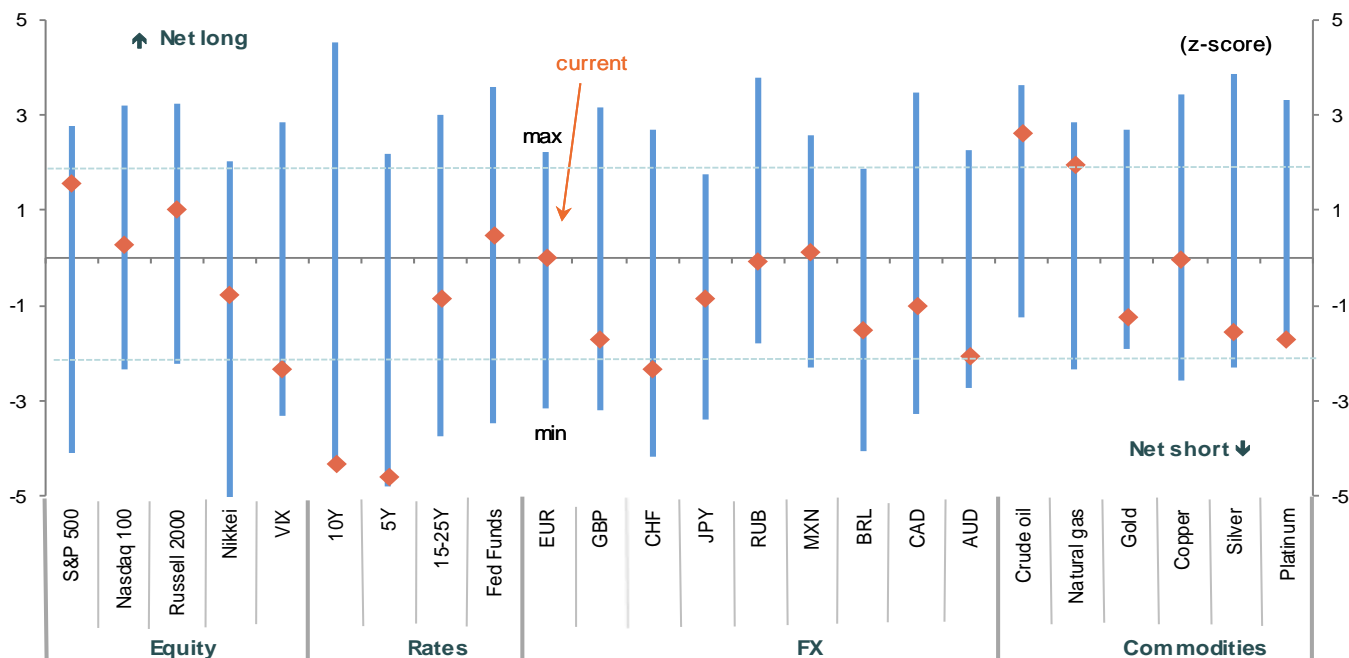


Normalised net positions on All Assets: Equity, Bonds, EM FX, DM FX and Commodities. Dotted lines: 5y z-score of 2 and -2

Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018
Sources for all graphs on this page: CFTC, SG Cross Asset Research/Global Asset Allocation

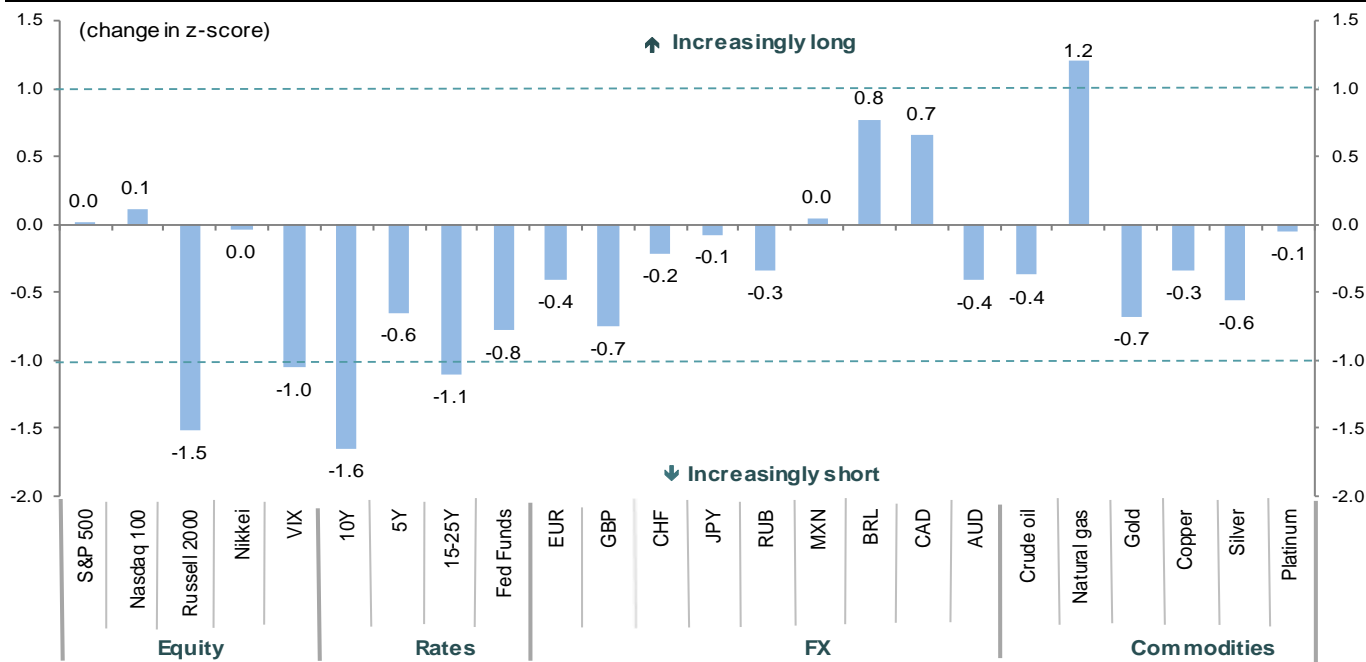
Hedge fund convictions – All asset classes (2)

Net positions: current levels (long or short) within their historical range



Marker: current net positions long (+) or short (-). Bar: historical range (min-max). Standard deviations around historical average (z-score)

Momentum: change in net positions versus 4 weeks ago

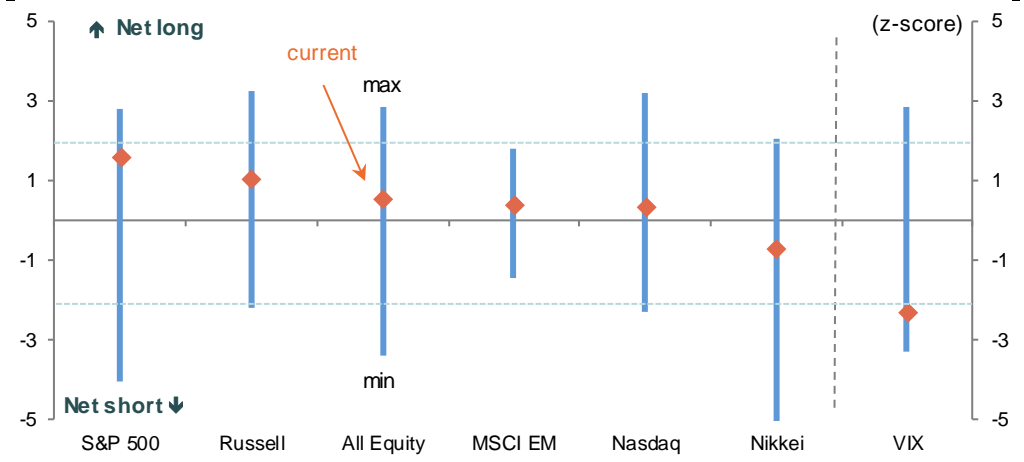


Momentum = change in normalized net positions (z-score) versus 4 weeks ago

Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018
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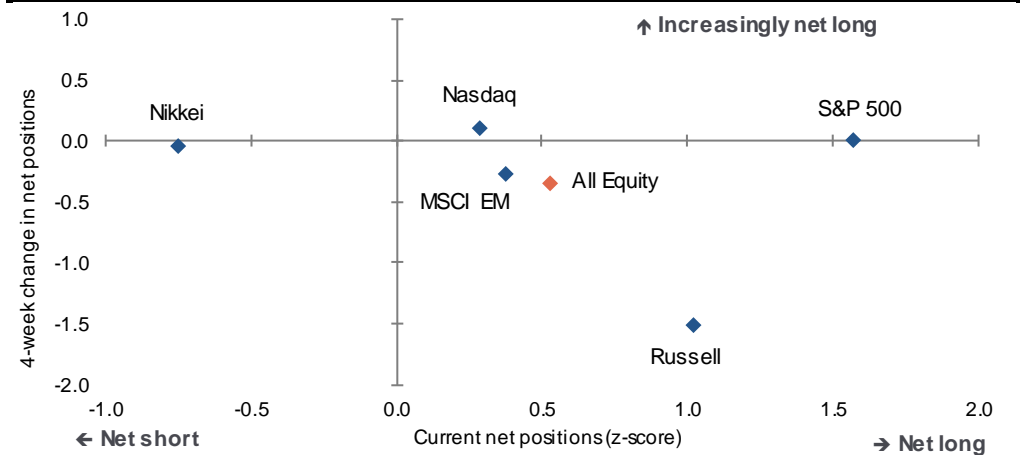
Equity (1)

Net positions: current levels (long or short) within their historical range



Marker: current net positions long (+) or short (-). Bar: historical range (min-max). Standard deviations around historical average (z-score)

Momentum: current net positions versus 4 weeks ago (vertical)



Horizontal: current net positions long (+) or short (-). Vertical: momentum = change in net positions versus 4 weeks ago. Both in z-score

History of net positions – All Equity



Normalised net positions on All Equity: S&P 500, Nasdaq, Nikkei and Russell 2000. Dotted lines: 5y z-score of 2 and -2

Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018
Sources for all graphs on this page: CFTC, SG Cross Asset Research/Global Asset Allocation

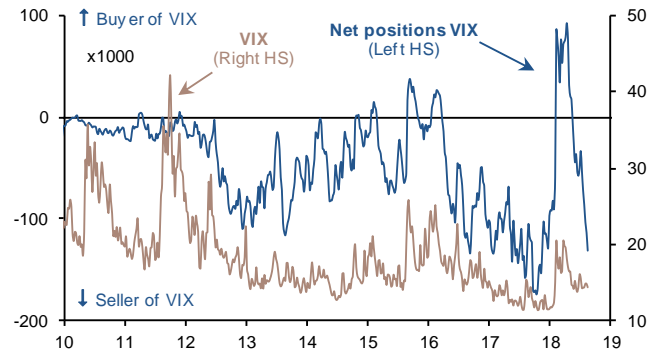
Equity (2)

S&P



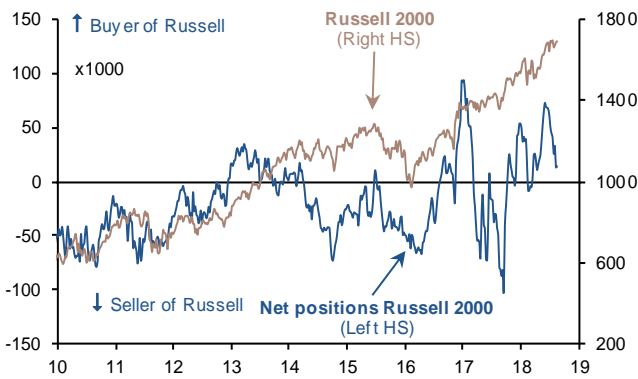
Net positions on S&P 500: Combination of (S&P 500 index x \$250.00) & E-Mini contracts (\$50)

VIX



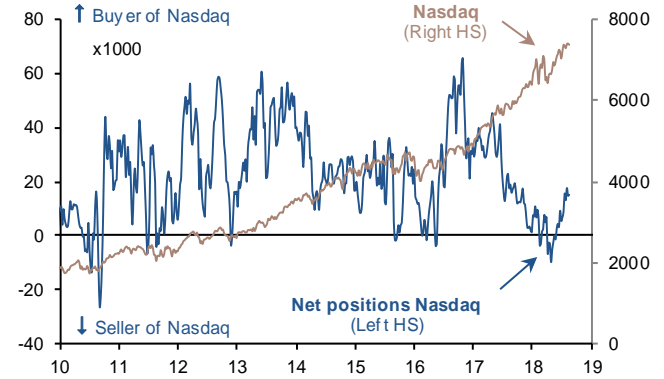
Net positions on the VIX (implied volatility on the S&P 500): (VIX x \$1000)

Russell 2000



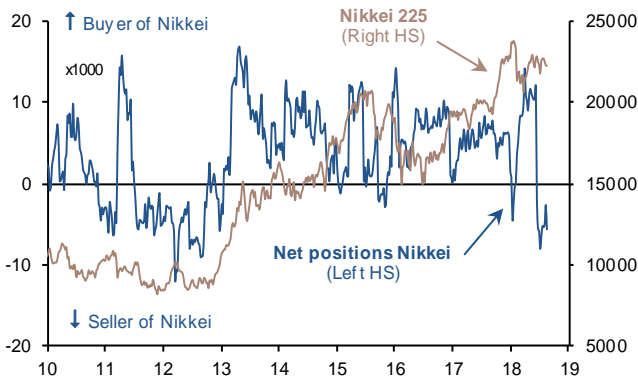
Net positions on Russell 2000: E-Mini contracts on ICE (until 09/2017) and CME (\$50)

Nasdaq



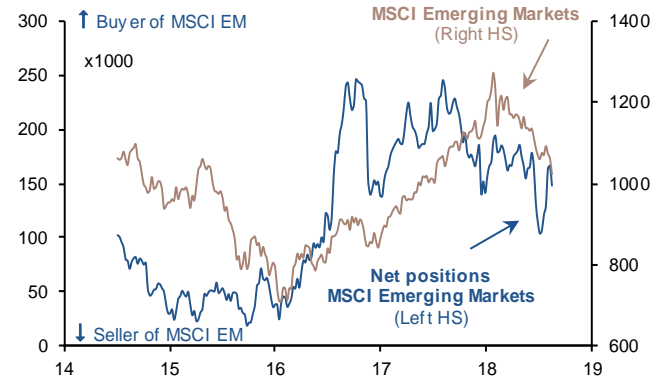
Net positions on Nasdaq : (NASDAQ 100 index x \$100) & E-Mini contracts (\$20)

Nikkei



Net positions on Nikkei: (Nikkei index x \$5.00)

MSCI EM

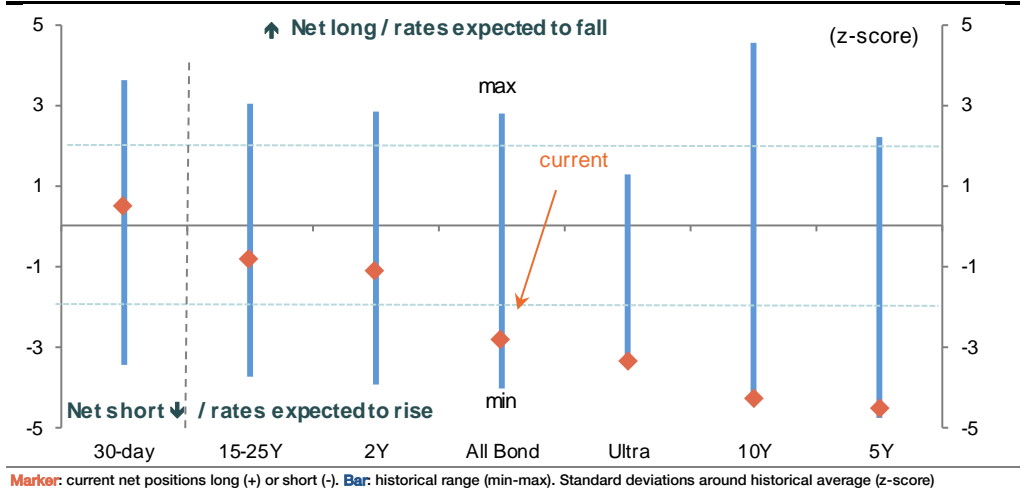


Net positions on the MSCI emerging markets. MSCI index in USD: E-Mini contracts (\$50)

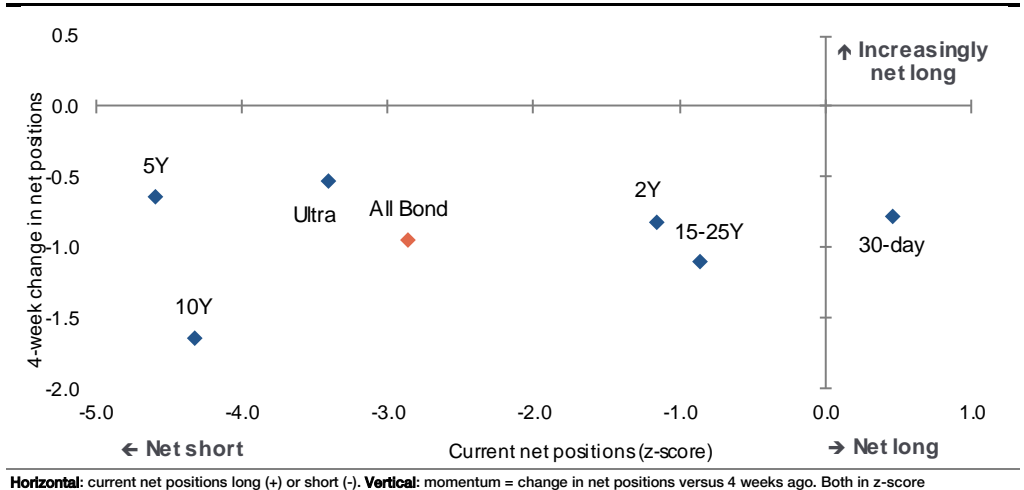
Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018
Sources for all graphs on this page: CFTC, Datastream, SG Cross Asset Research/Global Asset Allocation

Rates (1)

Net positions: current levels (long or short) within their historical range



Momentum: current net positions versus 4 weeks ago (vertical)



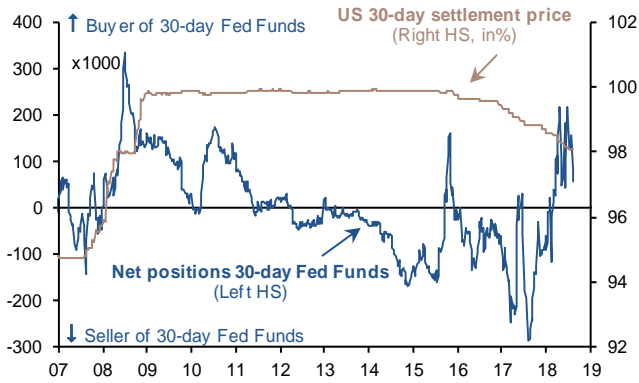
History of net positions – All US Treasuries



Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018
Sources for all graphs on this page: CFTC, SG Cross Asset Research/Global Asset Allocation

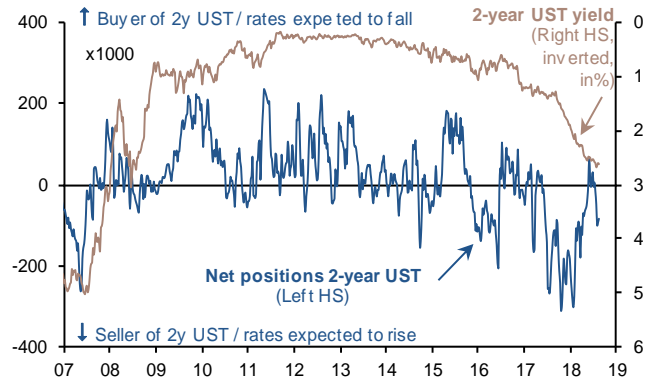
Rates (2)

30d fed funds



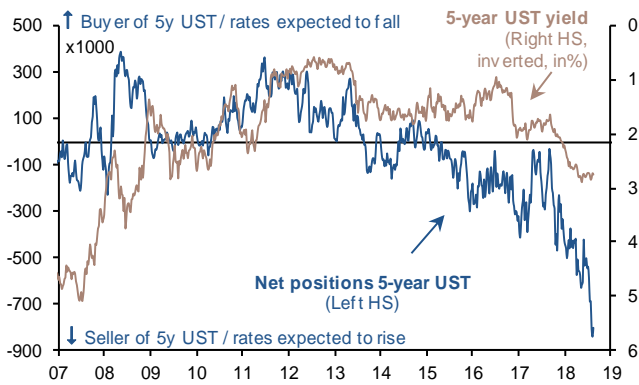
Net positions on 30 day Federal Funds

2y T-Notes



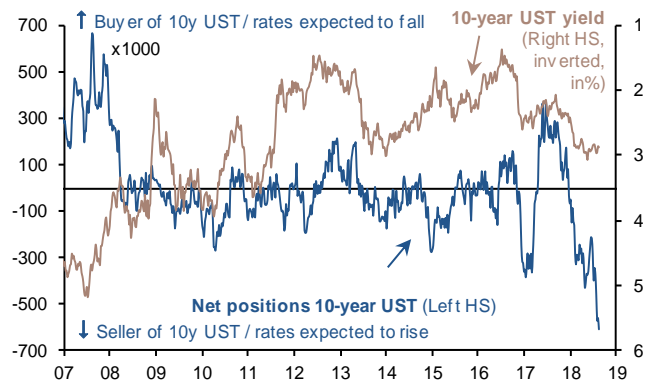
Net positions on 2y US Treasury Notes: remaining term to maturity of not more than 2 years

5y T-Notes



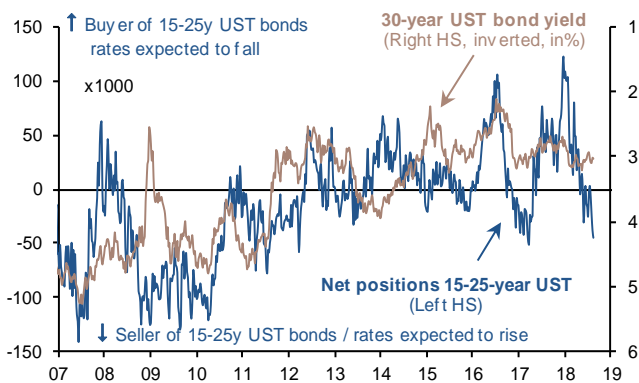
Net positions on 5y US Treasury Notes: remaining term to maturity of not less than 4Y and 2M

10y T-Notes



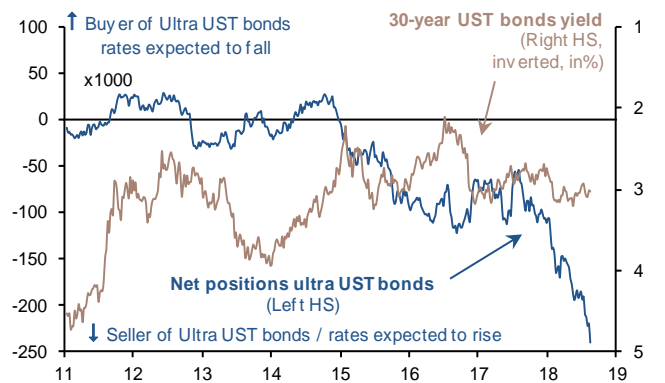
Net positions on 10y US Treasury Notes: remaining term to maturity of at least 6 1/2 years

15-25y T-Bonds



Net positions on 15-25y US Treasury Bonds: term to maturity between 15 and 25 years

Ultra T-Bonds

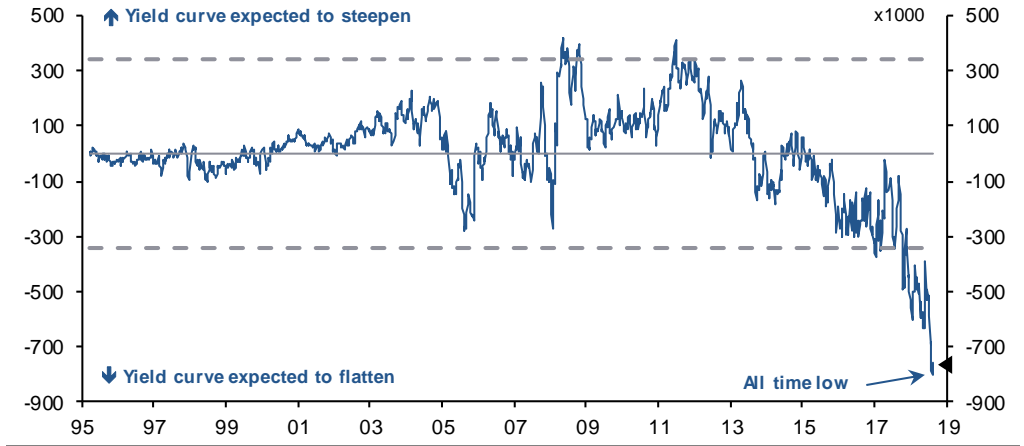


Net positions on Ultra (Long) US-Treasuries (ULT): term to maturity of not less than 25 years

Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018
Sources for all graphs on this page: CFTC, Datastream, SG Cross Asset Research/Global Asset Allocation

Rates (3) – Yield curve

Yield curve: net positions on short-term rates (5y) – long-term rates (15-25y)



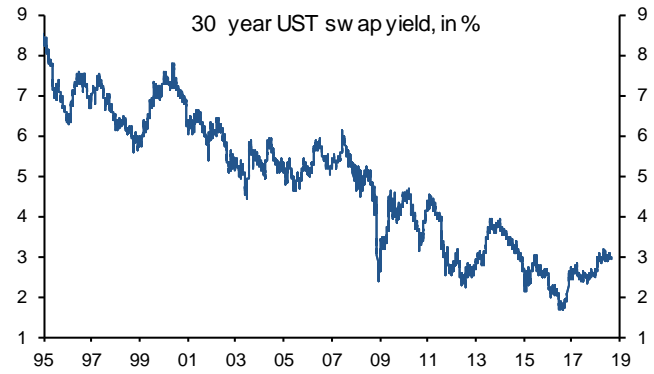
Yield Curve: net positions on short-term rates (5y US T-Notes) minus long-term rates (15-25y) US Treasury Bonds

5y UST swap yield



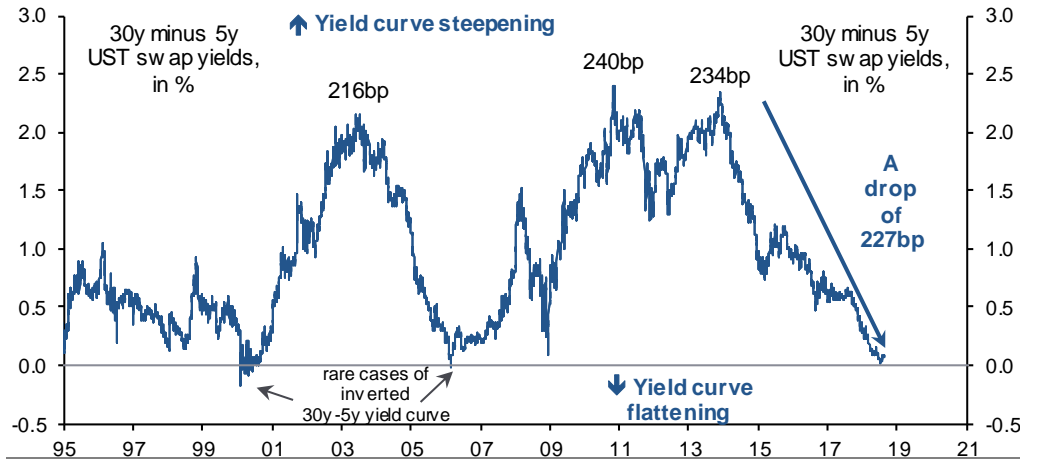
5y UST swap yield, in %. Latest data: 16/07/2018
Source: Bloomberg, SG Cross Asset Research/Global Asset Allocation

30y UST swap yield



30y UST swap yield, in %. Latest data: 16/07/2018
Source: Bloomberg, SG Cross Asset Research/Global Asset Allocation

UST 5y30y swap yield curve



US Treasury (UST) swap yield curve calculated as the difference between 5y and 30y swap yield. Dotted lines: +2 and -2 standard deviations

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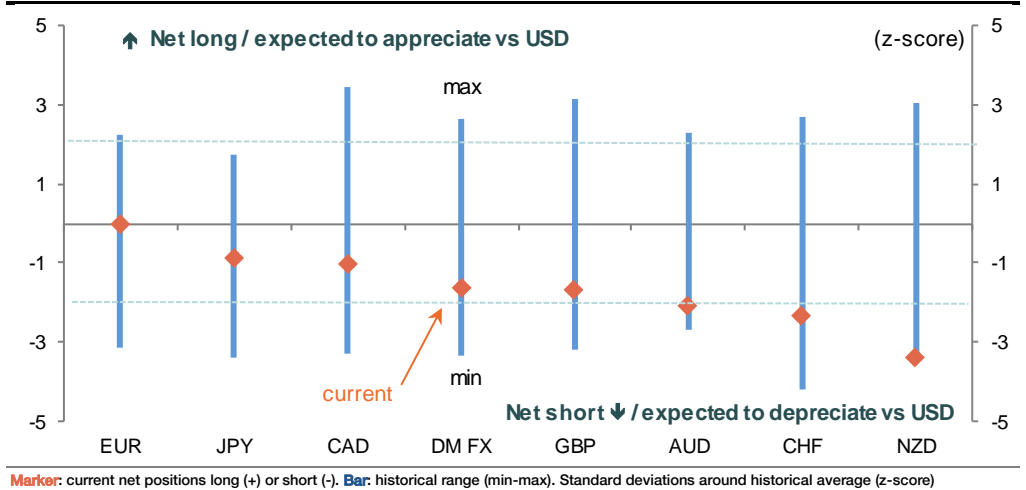
Sources for all graphs on this page: CFTC, Bloomberg, SG Cross Asset Research/Global Asset Allocation

Consult our **1-minute guides** for a quick refresh on the terminology used to describe

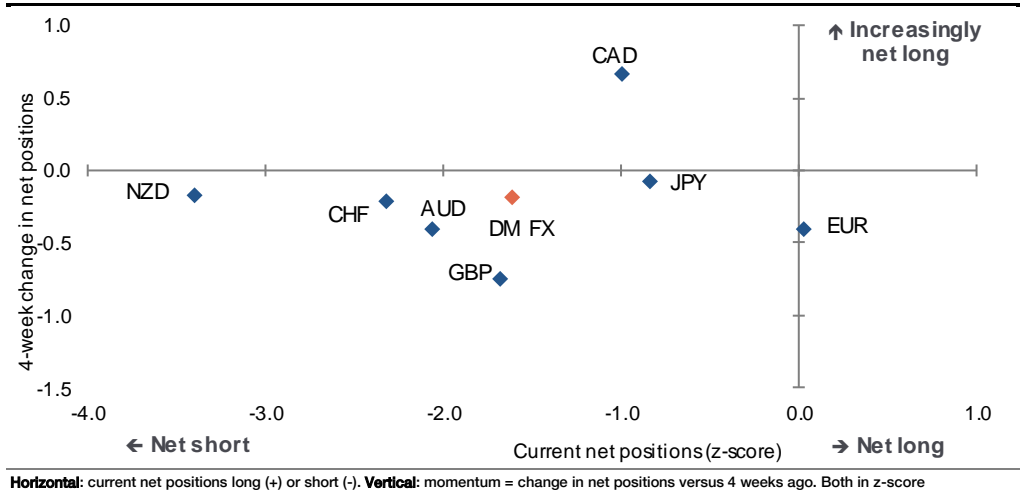
- [yield curve dynamics \(page 22\)](#)
- [rates derivatives \(page 23\)](#)

Developed market currencies (1)

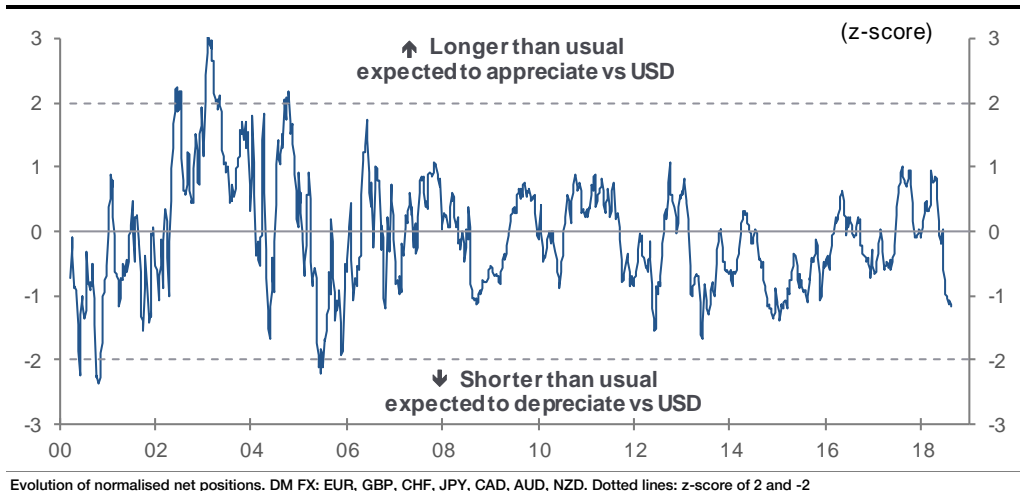
Net positions: current levels (long or short) within their historical range



Momentum: current net positions versus 4 weeks ago (vertical)



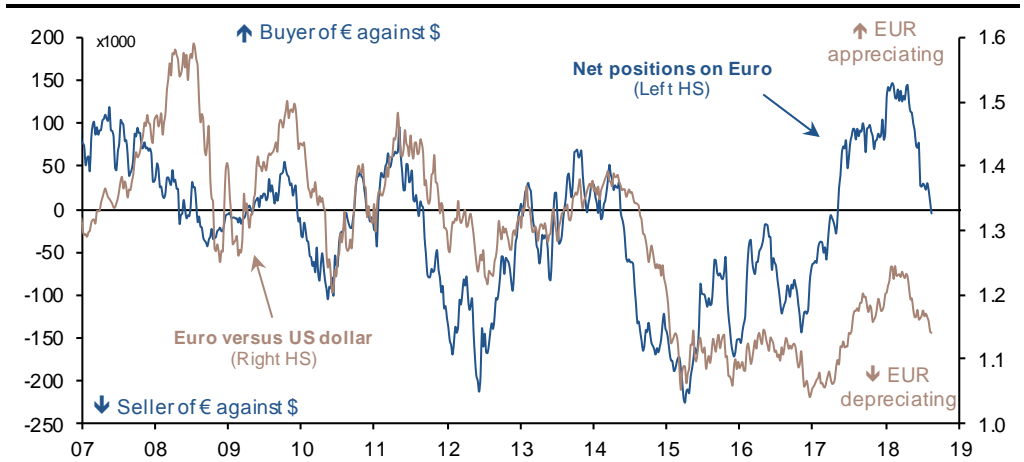
History of net positions – DM FX



Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018
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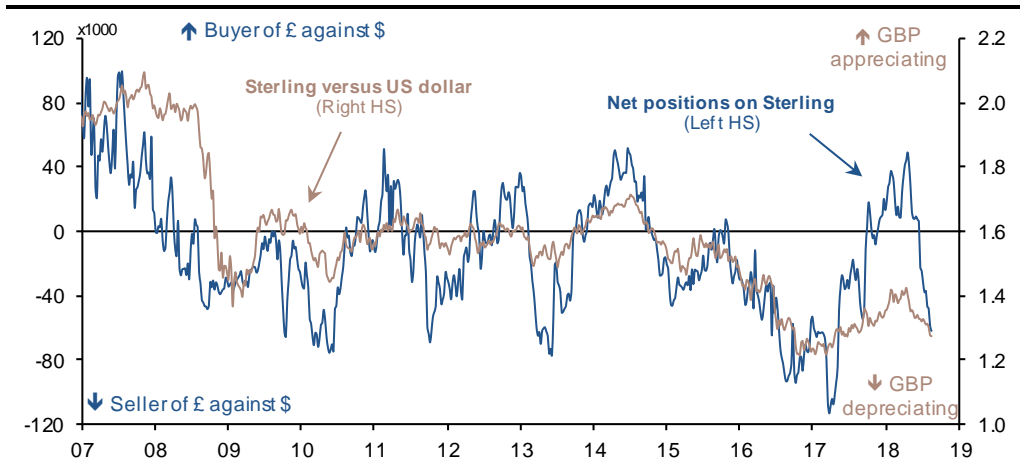
Developed market currencies (2)

Euro



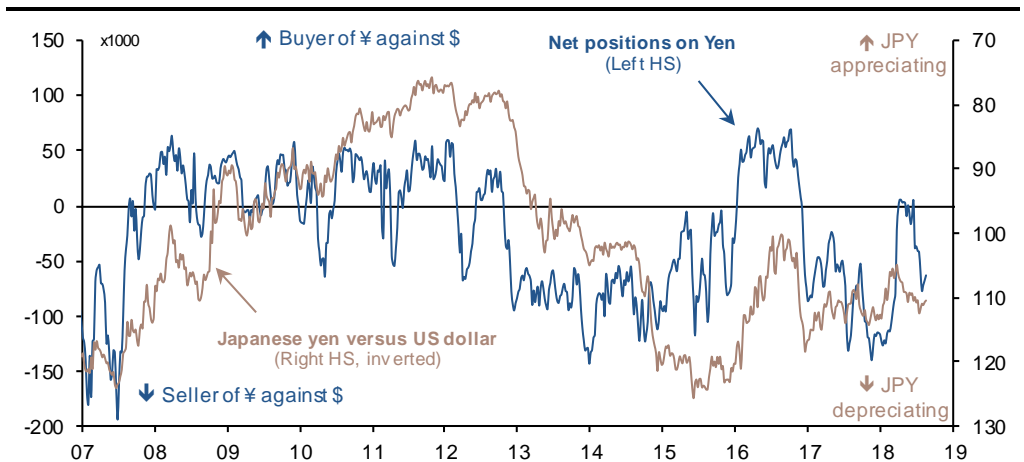
Blue, left-hand scale: net positions on euro (contracts of €125,000). Brown, right hand scale: euro versus US dollar

Sterling



Blue, left-hand scale: net positions on pound sterling (contracts of £62,500). Brown, right hand scale: pound sterling versus US dollar

Yen

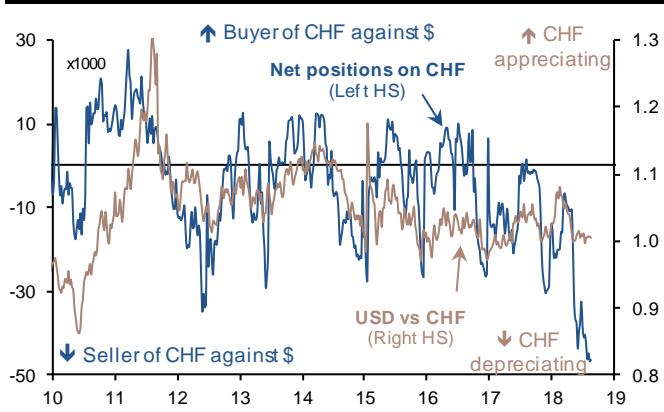


Blue, left-hand scale: net positions on Japanese yen (contracts of ¥12,500,000). Brown, right hand scale, inverted: Japanese yen versus US dollar

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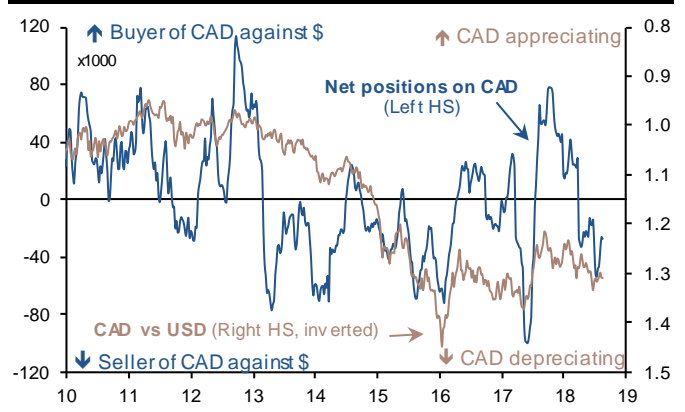
Developed market currencies (3)

Swiss franc



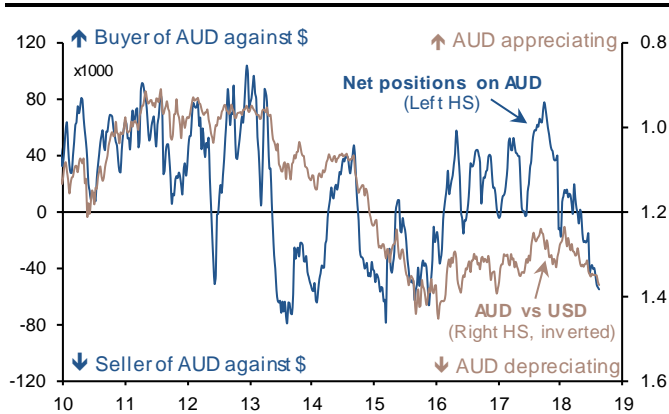
Left: net positions on Swiss franc (contracts of 125,000 CHF).
Right: Swiss franc (CHF) versus US dollar

Canadian dollar



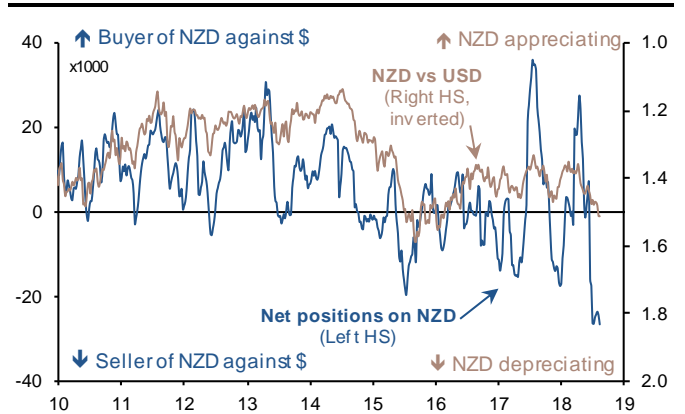
Left: net positions on Canadian dollar (contracts of 100,000 CAD).
Right, Inverted: Canadian dollar (CAD) versus US dollar

Australian dollar



Left: net positions on Australian dollar (contracts of 100,000 AUD).
Right, Inverted: Australian dollar (AUD) versus US dollar

New Zealand dollar



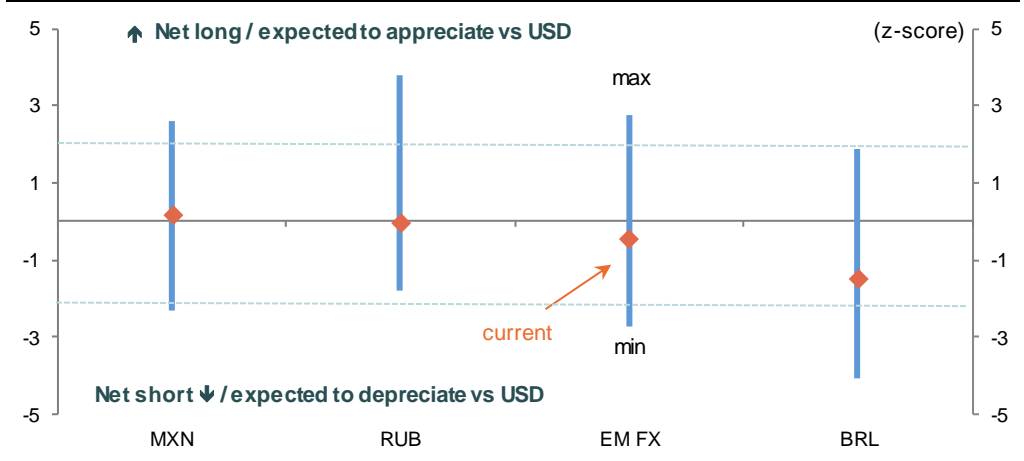
Left: net positions on New Zealand dollar (contracts of 100,000 NZD).
Right, Inverted: New Zealand dollar (NZD) versus US dollar

Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018
Sources for all graphs on this page: CFTC, Datastream, SG Cross Asset Research/Global Asset Allocation

For further reading and detailed analysis of the link between FX and commodities, please consult *When Commos meet FX*, a Cross Asset approach from our colleagues in cross asset strategy, commodity strategy, FX strategy, EM strategy and Equity derivatives strategy teams. Link to the last [When Commos meet FX](#).

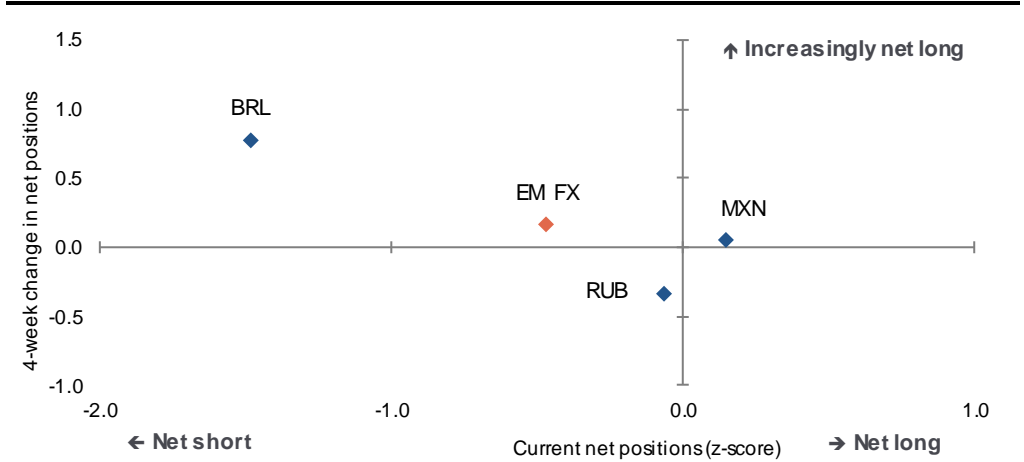
Emerging market currencies (1)

Net positions: current levels (long or short) within their historical range



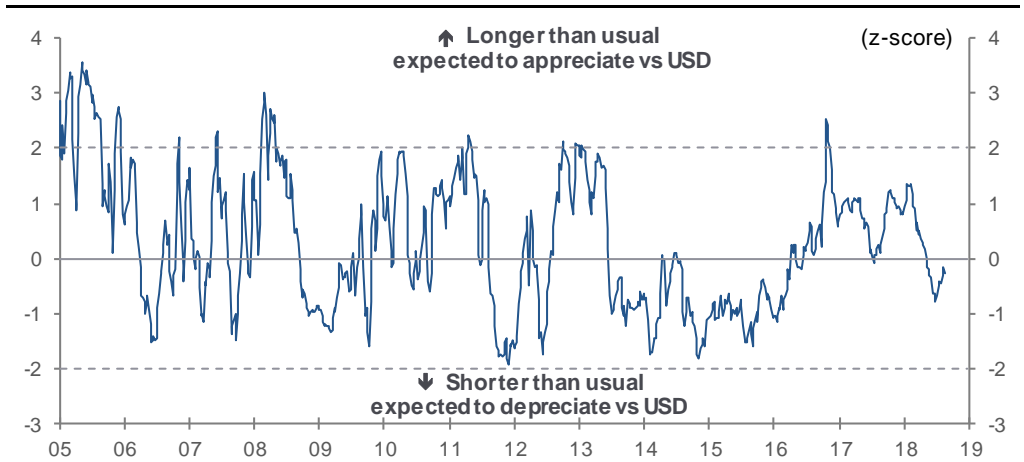
Marker: current net positions long (+) or short (-). Bar: historical range (min-max). Standard deviations around historical average (z-score)

Momentum: current net positions versus 4 weeks ago (vertical)



Horizontal: current net positions long (+) or short (-). Vertical: momentum = change in net positions versus 4 weeks ago. Both in z-score

History of net positions – EM FX

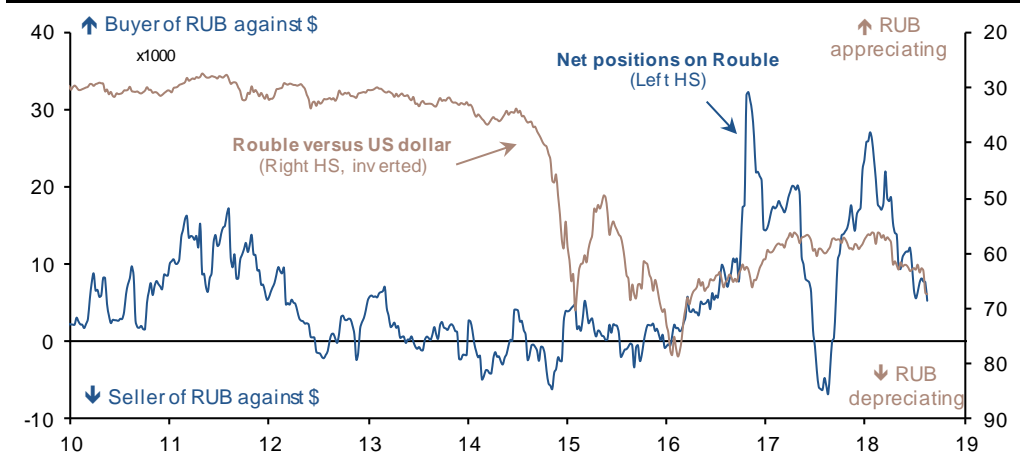


Evolution of normalised net positions on emerging market currencies (EM FX): RUB, MXN, BRL. Dotted lines: 5y z-score of 2 and -2

Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018
Sources for all graphs on this page: CFTC, SG Cross Asset Research/Global Asset Allocation

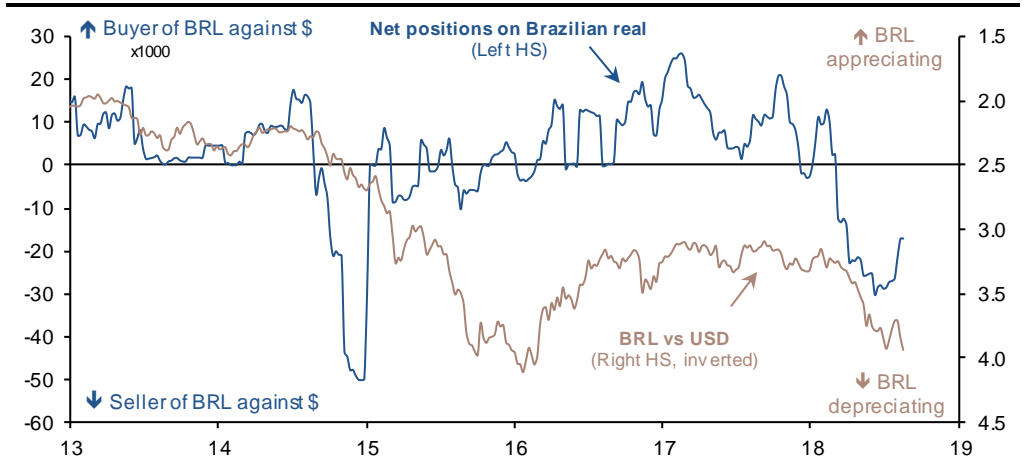
Emerging market currencies (2)

Russian rouble



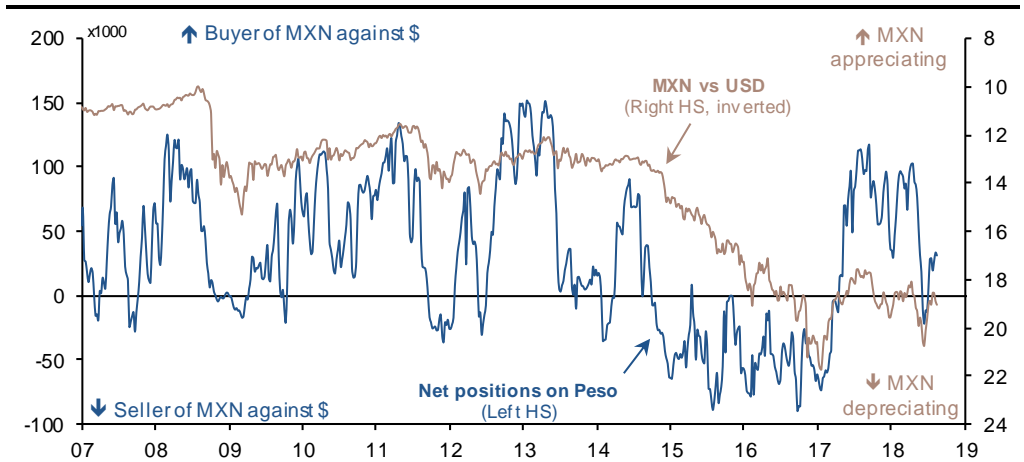
Blue, left-hand scale: net positions on Russian rouble (contracts of 2,500,000 RUB). Brown, right hand scale, inverted: Russian rouble versus US dollar

Brazilian real



Blue, left-hand scale: net positions on Brazilian real (contracts of 100,000 BRL). Brown, right hand scale: Brazilian real versus US dollar

Mexican peso

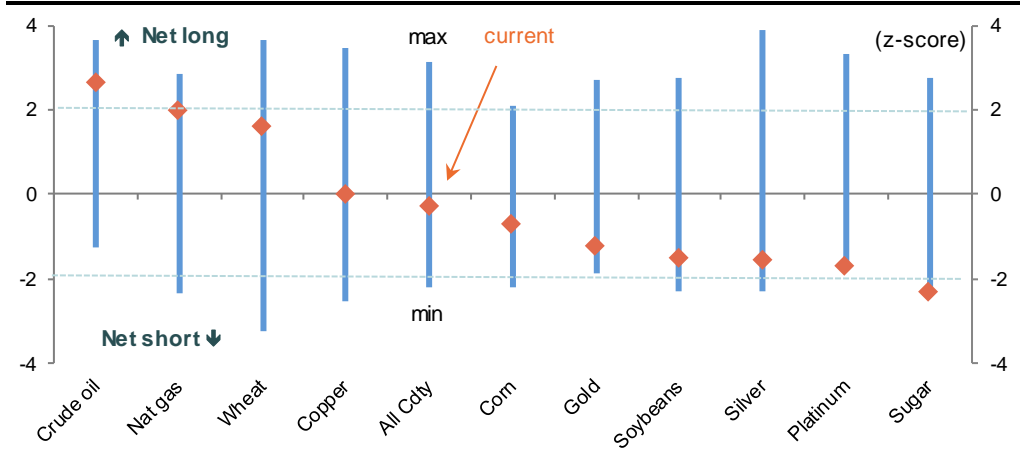


Blue, left-hand scale: net positions on Mexican peso (contracts of 500,000 MXN). Brown, right hand scale: Mexican peso versus US dollar

Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018
Sources for all graphs on this page: CFTC, SG Cross Asset Research/Global Asset Allocation

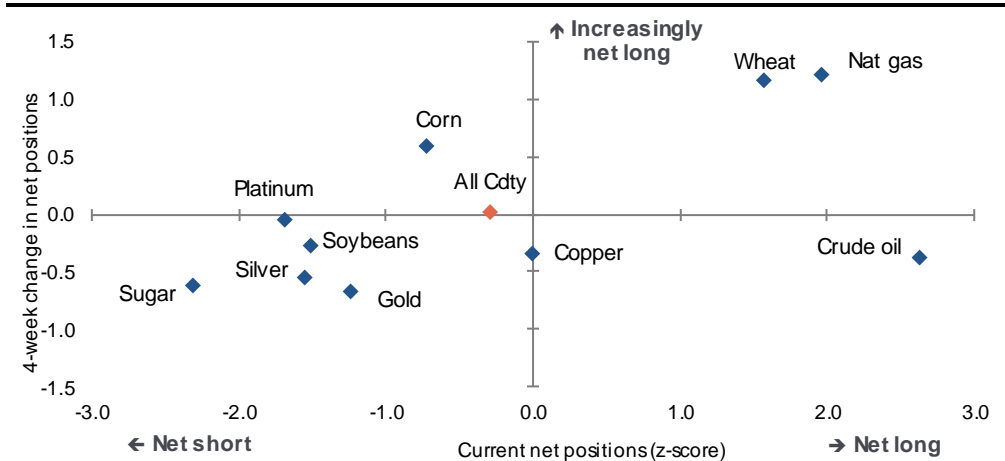
Commodities (1)

Net positions: current levels (long or short) within their historical range



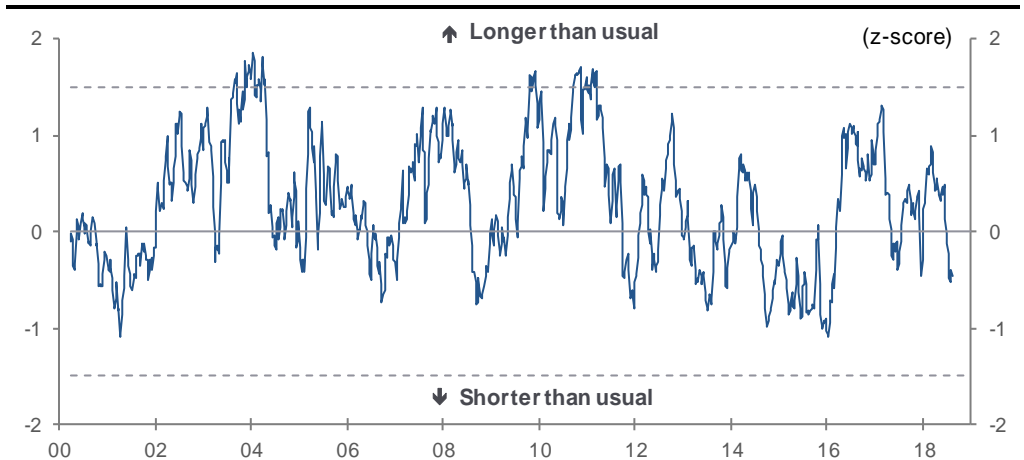
Marker: current net positions long (+) or short (-). Bar: historical range (min-max). Standard deviations around historical average (z-score)

Momentum: current net positions versus 4 weeks ago (vertical)



Horizontal: current net positions long (+) or short (-). Vertical: momentum = change in net positions versus 4 weeks ago. Both in z-score

History of net positions – All Commodities

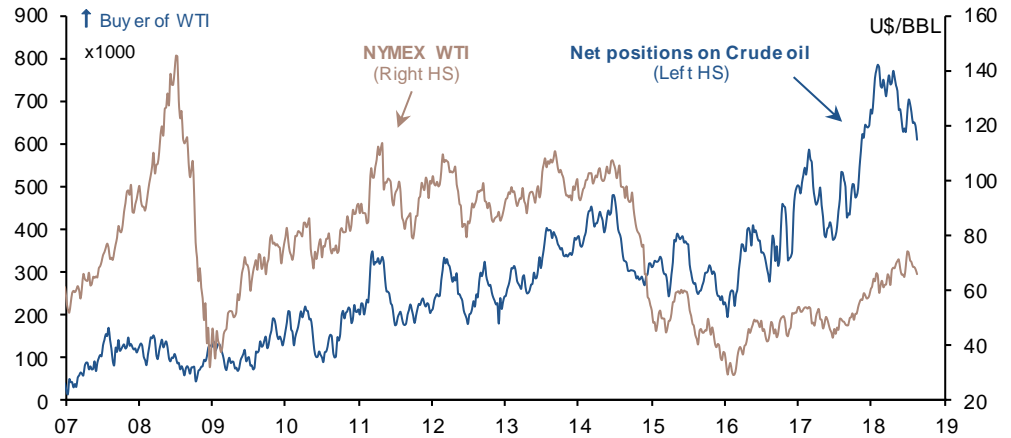


Evolution of normalised net positions on All Commodities: oil, gas, gold, silver, platinum, copper, corn, soybean, wheat, sugar. In 5y z-scores.

Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018
Sources for all graphs on this page: CFTC, SG Cross Asset Research/Global Asset Allocation

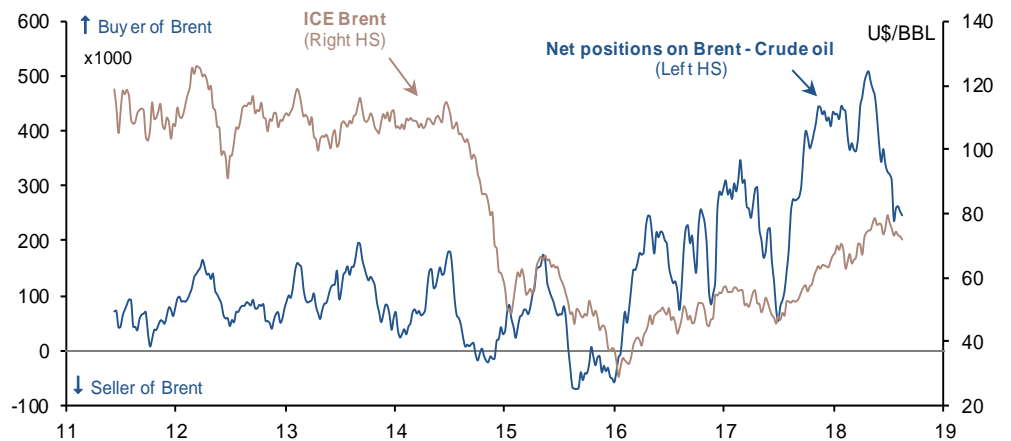
Commodities (2) oil and gas

Crude oil - WTI



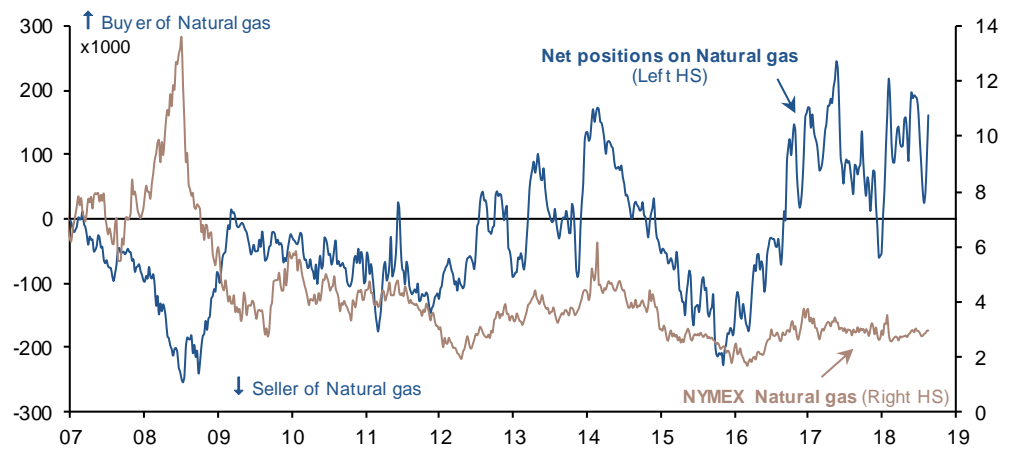
Blue, left-hand scale: net positions on WTI crude oil (Contracts of 1,000 bbl) Brown, right hand scale: oil price, WTI, in \$/bbl.

Crude oil - Brent



Blue, left-hand scale: net positions on Brent crude oil (Contracts of 1,000 bbl). Brown, right hand scale: oil price, Brent, in \$/bbl.

Natural gas

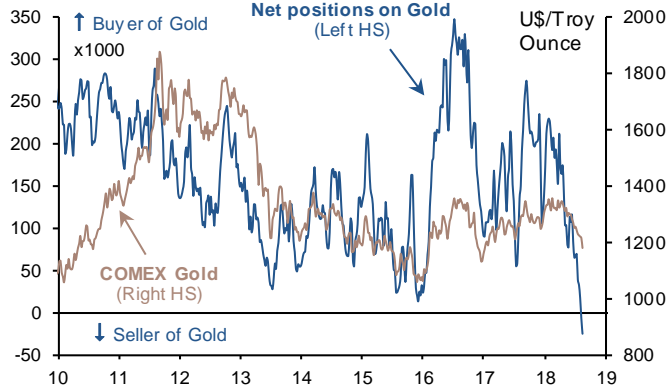


Left: net positions in natural gas (Contracts of 10,000 million British Thermal Units). Right: natural gas price, in \$/mmbtu.

Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018
Sources for all graphs on this page: CFTC, SG Cross Asset Research/Global Asset Allocation

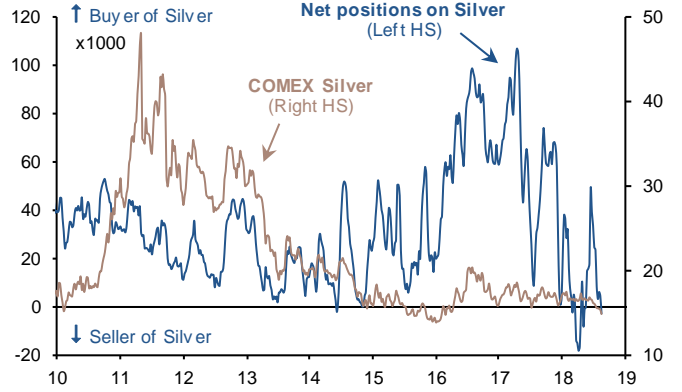
Commodities (3) metals

Gold



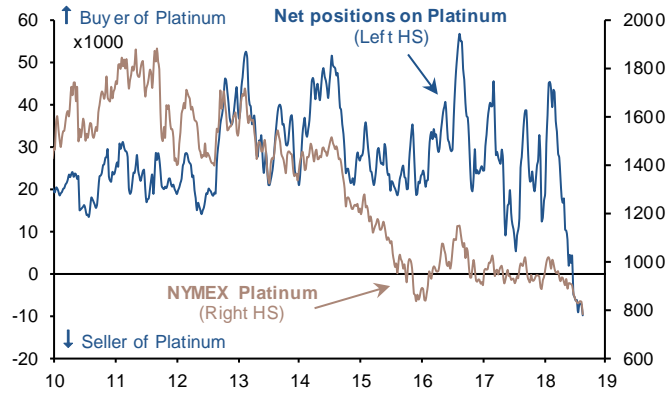
Left: net positions in gold (Contracts of 100 Troy Ounces). Right: gold price, in \$/Troy Ounce

Silver



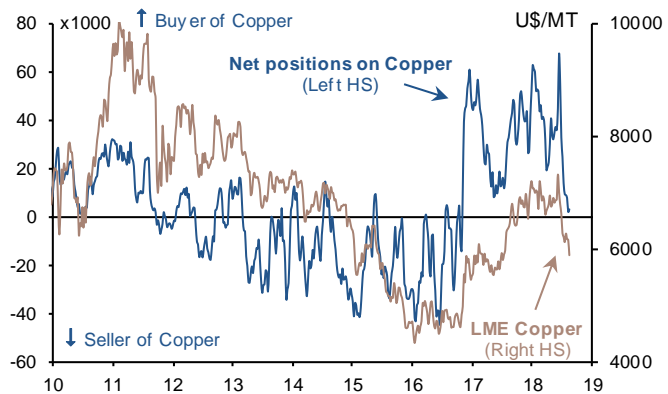
Left: net positions in silver (Contracts of 5,000 Troy Ounces). Right: silver price, in \$/Troy Ounce

Platinum



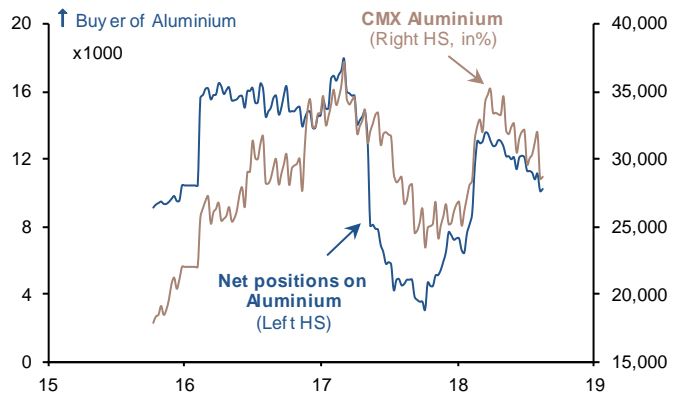
Left: net positions in platinum (Contracts of 50 Troy Ounces). Right: platinum price, in \$/Troy Ounce

Copper



Left: net positions in copper (Contracts of 25,000lbs). Right: copper price, in \$/Metric Ton

Aluminium



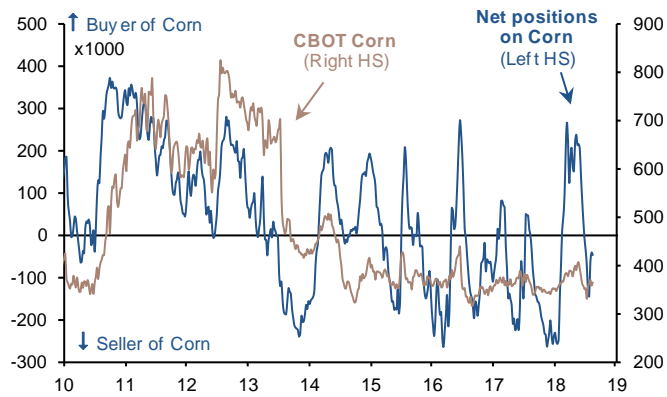
Left: net positions in aluminium (Contracts of 25 metric tons). Right: aluminium price, in \$/Metric Ton

Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018

Sources for all graphs on this page: CFTC, SG Cross Asset Research/Global Asset Allocation

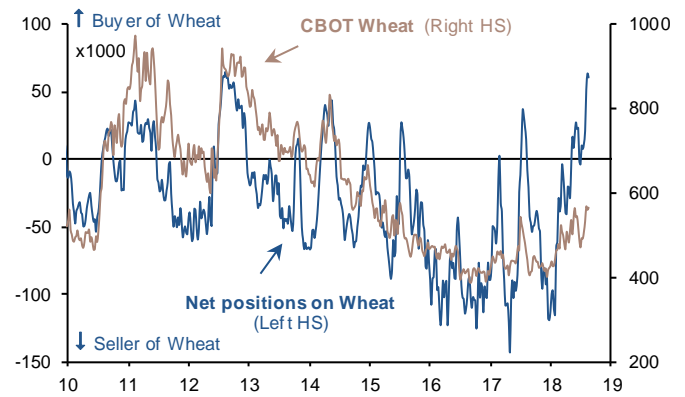
Commodities (3) agriculture

Corn



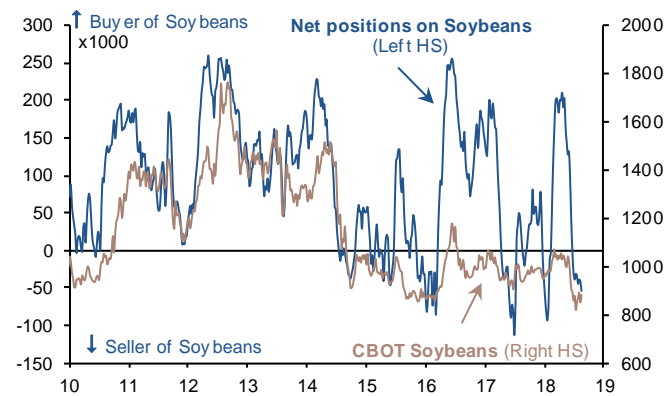
Left: net positions in corn (Contracts of 5,000 Bushels). Right: corn price, in \$/bsh

Wheat



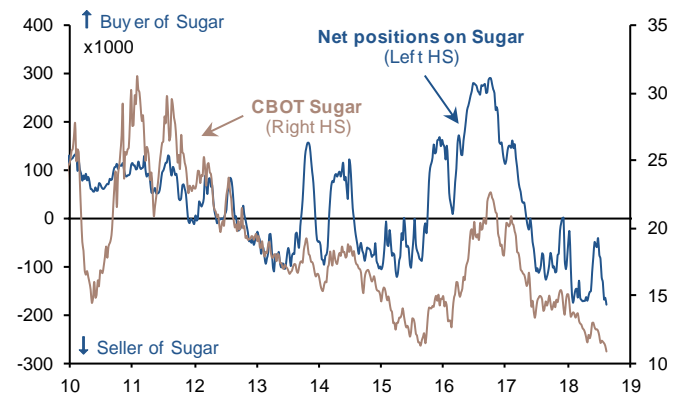
Left: net positions in wheat (Contracts of 5,000 Bushels). Right: wheat price, in \$/bsh

Soybeans



Left: net positions in soybeans (Contracts of 5,000 Bushels). Right: soybeans price, in \$/bsh

Sugar



Left: net positions in sugar (Contracts of 112,000 lbs). Right: sugar price, in cts/lb

Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018

Sources for all graphs on this page: CFTC, SG Cross Asset Research/Global Asset Allocation

For further reading and detailed analysis of commodities, please consult the [Commodity Compass](#) from our colleagues in the commodity team. Link to the last [Commodity Compass Positioning Analytics](#).

Hedge fund positions – Table

Equities

Total Open Interest	Hedge Funds' share of Open Interest	Market	Net Position Latest	-4 weeks Net Position	Positions at start 2018	Historical Net Long Date	Contracts Net Long contracts	Historical Net Short Date	Contracts Net Short contracts
17-Aug	17-Aug		17-Aug	20-Jul	05-Jan				
830	22%	S&P 500	37	36	32	Jan-09	71	Sep-07	-125
103	52%	Nasdaq	15	16	7	Oct-16	66	Aug-06	-30
553	49%	Russell 2000	14	40.8	49	Jan-17	94	Sep-17	-102
1,004	41%	MSCI EM	148	121	157	Oct-16	246	Sep-15	19
32	56%	Nikkei	-6	-5	1	Apr-13	17	Jun-08	-41
493	70%	VIX	-131	-72	-92	Apr-18	93	Oct-17	-175

*For MSCI EM (data available since 07/2014), 19 represents the minimum Net positions which are exceptionally Net long.

Bonds

Total Open Interest	Hedge Funds' share of Open Interest	Market	Net Position Latest	-4 weeks Net Position	Positions at start 2018	Historical Net Long Date	Contracts Net Long contracts	Historical Net Short Date	Contracts Net Short contracts
17-Aug	17-Aug		17-Aug	20-Jul	05-Jan				
2,097	49%	2Y UST Notes	-84	-18	-226	May-11	236	Oct-17	-311
4,470	42%	5Y UST Notes	-805	-691	-447	May-08	387	Aug-18	-843
4,608	35%	10Y UST Notes	-611	-374	-52	Aug-07	668	Aug-18	-611
1,048	28%	30Y UST Bonds	-45	3	109	Dec-17	123	May-06	-172
1,071	40%	ULTRA UST Bonds	-241	-210	-106	Jun-12	29	Aug-18	-241
1,905	22%	30-Day Fed Funds	59	127	-93	Jan-00	334	Jan-00	-286

Currencies

Total Open Interest	Hedge Funds' share of Open Interest	Market	Net Position Latest	-4 weeks Net Position	Positions at start 2018	Historical Net Long Date	Contracts Net Long contracts	Historical Net Short Date	Contracts Net Short contracts
17-Aug	17-Aug		17-Aug	20-Jul	05-Jan				
628	60%	EUR	-5	23	130	Feb-18	147	Apr-15	-226
296	60%	GBP	-62	-37	18	Jul-07	100	Mar-17	-113
93	62%	CHF	-46	-43	-16	Nov-04	41	Jun-07	-79
214	72%	JPY	-63	-59	-123	Apr-16	70	Jun-07	-194
20	44%	RUB	5	8	26	Oct-16	32	Aug-17	-7
208	94%	MXN	31	29	35	Jan-13	152	Sep-16	-90
31	103%	BRL	-17	-27	0	Feb-17	26	Dec-14	-50

Commodities

Total Open Interest	Hedge Funds' share of Open Interest	Market	Net Position Latest	-4 weeks Net Position	Positions at start 2018	Historical Net Long Date	Contracts Net Long contracts	Historical Net Short Date	Contracts Net Short contracts
17-Aug	17-Aug		17-Aug	20-Jul	05-Jan				
3,170	21%	Crude Oil	609	673	671	Feb-18	784	Jan-98	-64
1,605	23%	Natural Gas	162	45	5	May-17	246	Jul-08	-254
741	55%	Gold	-25	39	172	Jul-16	348	Apr-99	-88
297	63%	Platinum	3	9	63	Aug-16	57	Aug-18	-10
271	70%	Silver	-3	8	23	Apr-17	107	Apr-18	-18
85	108%	Copper	-10	-9	19	Oct-17	68	Oct-15	-45
2,227	28%	Corn	-47	-134	0	Oct-10	373	Mar-16	-265
996	34%	Soybean	-54	-34	-64	May-12	260	Jun-17	-113
661	39%	Wheat	61	12	-100	Jun-95	149	Apr-17	-143
1,185	39%	Sugar	-179	-122	-49	Sep-16	291	Aug-18	-179

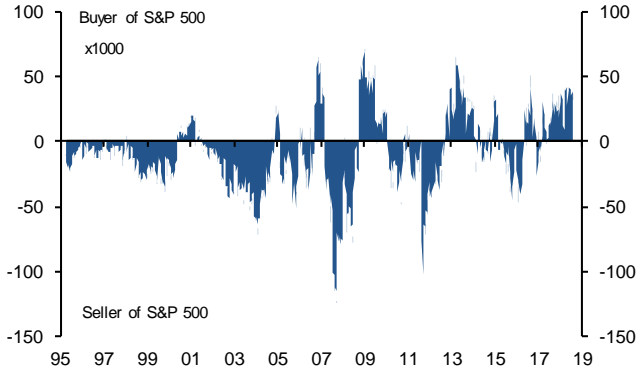
Total open interest (O.I.) and net short positions are stated in number of contracts (/1000). Refer to Methodology page for contract specifications on each asset class.

Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018

Sources for all tables on this page: CFTC, SG Cross Asset Research/Global Asset Allocation

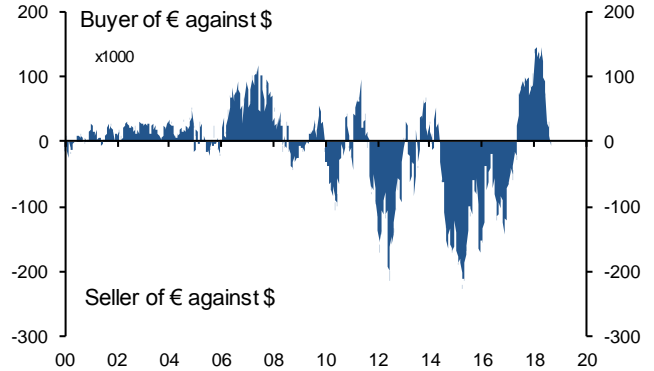
Hedge fund net positions – Long-term view

Net positions on S&P 500



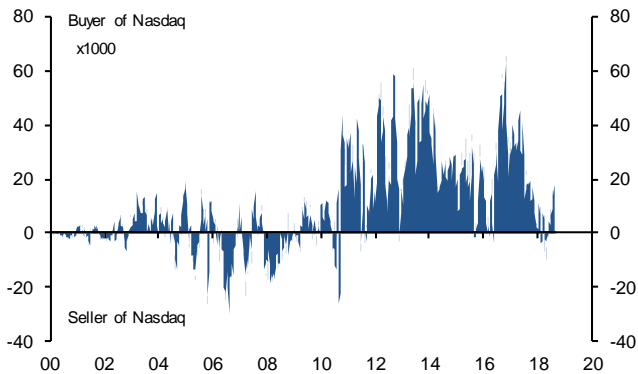
Combination of standard (\$250) contracts and E-Mini contracts (\$50). Start date: 31/03/1995

Net positions on EUR



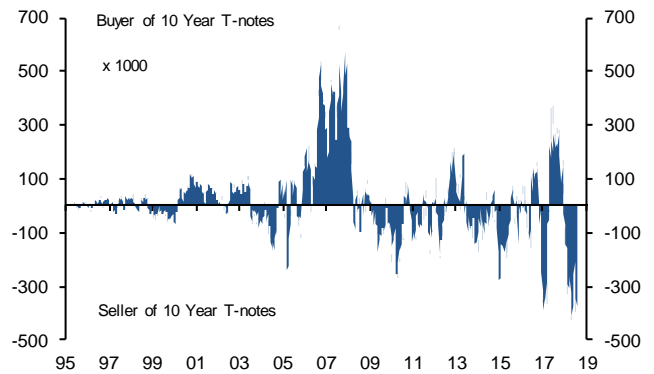
Contracts of 125,000 EUR. Start date: 31/12/1999

Net positions on NASDAQ 100



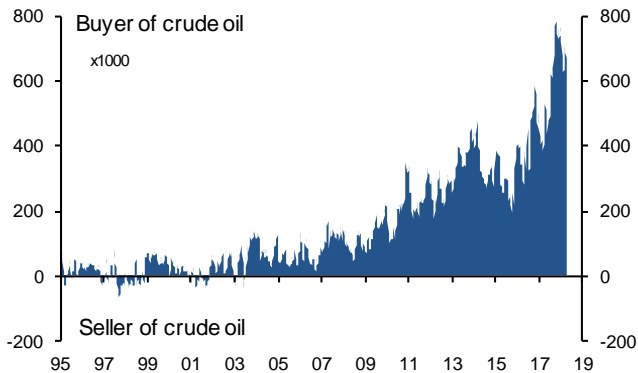
Combination of standard (\$100) contracts and E-Mini contracts (\$20). Start date: 31/12/1999

Net positions on US 10-Y Treasury Notes



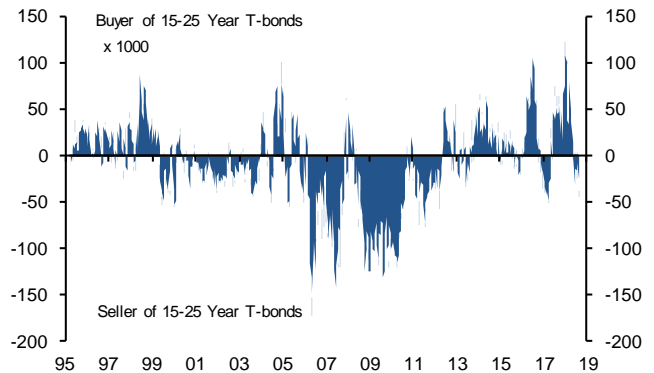
Contracts of \$100,000 face value. Start date: 24/03/1995

Net positions on crude oil



Contracts of 1,000 barrels. Start date: 21/04/1995

Net positions on US 15-25Y T Bonds



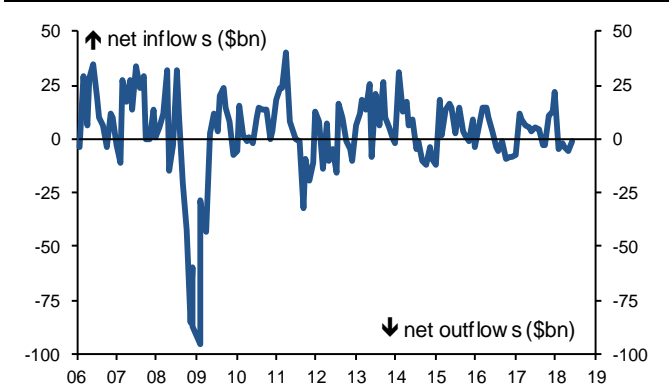
Contracts of \$100,000 face value. Start date: 24/03/1995

Net positions: all non-commercial positions reported to the CFTC. Data as of 14/08/2018, released 17/08/2018

Sources for all graphs on this page: CFTC, SG Cross Asset Research/Global Asset Allocation

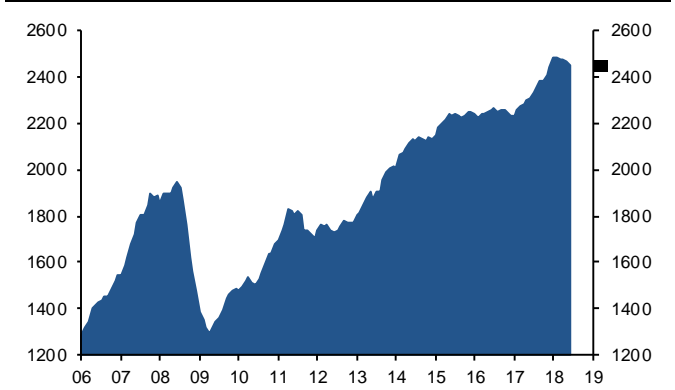
Hedge fund strategies (1) – Flows and assets

Global net inflows / net outflows (\$bn)



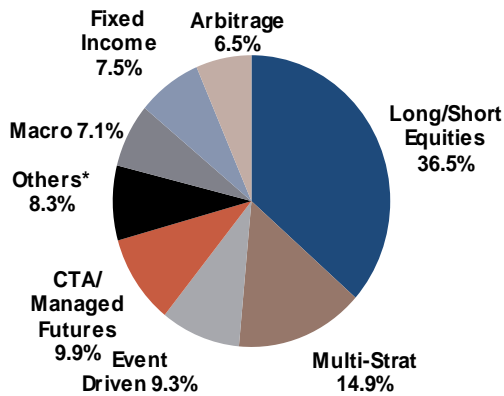
Global equals total of all types of hedge funds. Net inflows in \$bn.

Global assets under management (\$bn)



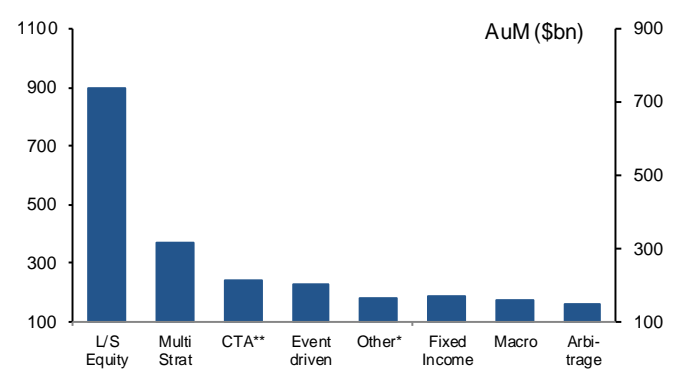
Global Assets under management in \$bn.

Assets under management as a % of Global AuM



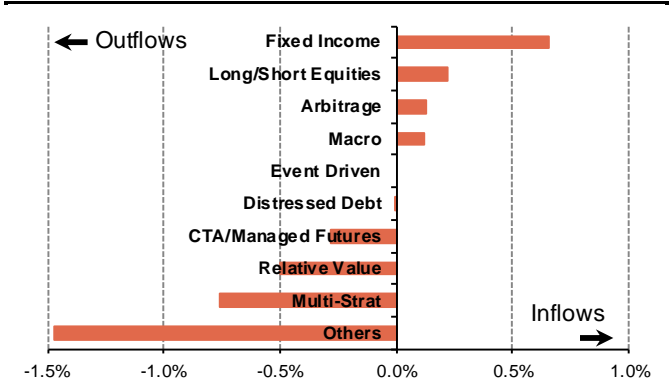
Assets under management by HF strategy, as a percentage of global Assets under Management. CTA**: Commodity Trading Advisor (CTA) / Managed Futures. Other*: distressed debt, relative value, others.

Assets under management by strategy (\$bn)



Assets under management by HF strategy, in \$bn. CTA**: Commodity Trading Advisor (CTA) / Managed Futures. Other*: distressed debt, relative value, others.

Latest monthly net inflows or net outflows, as a % of AuM

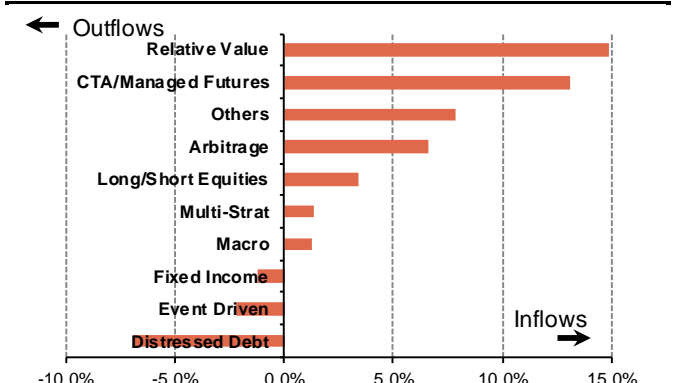


Latest monthly net inflows/ net outflows, as a percentage of assets under management (AuM) The AuM taken into account is the one at the beginning of the month.

Hedge fund strategies – based on funds reporting to EUREKAHEDGE.

Latest data for June-2018, collected up to 12/07, representing an estimated 42.36% of its universe.

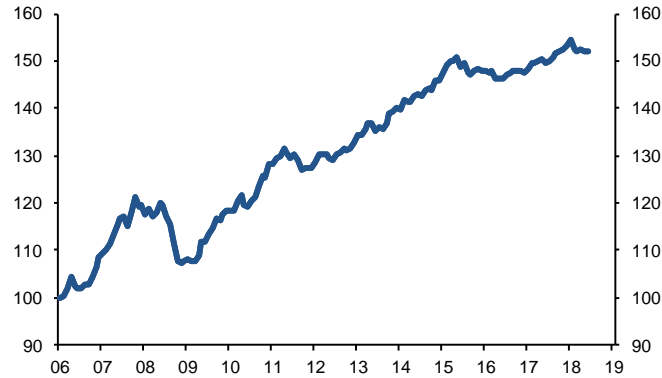
Net inflows or net outflows since the start of 2011, as a % of AuM



Total net inflows or net outflows, as a percentage of assets under management (AuM) The AuM taken into account is the one at the beginning of January 2011.

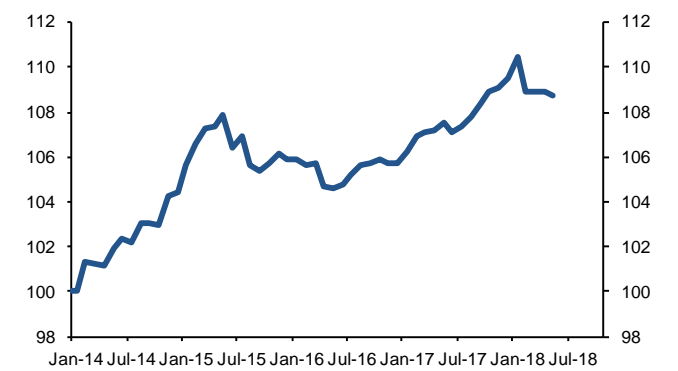
Hedge fund strategies (2) – Performance

Global hedge fund performance since 2006



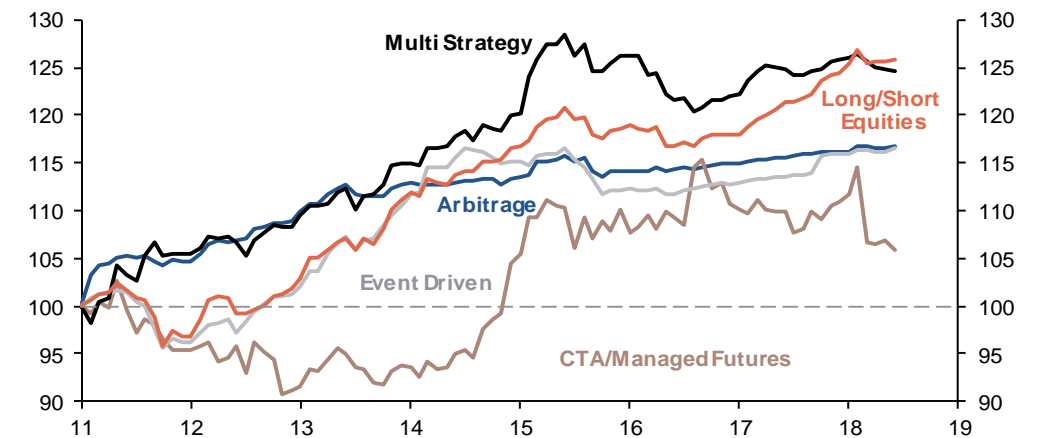
Global Hedge Funds performance, in US\$ (Base 100 = 01/01/2006).

Global hedge fund performance since January 2011



Global Hedge Funds performance, in US\$ (Base 100 = 01/01/2011)

Hedge fund strategy performance since January 2011



Strategies index performance, in US\$ (Base 100 = 01/01/2011). Source: SG Cross Asset Research, Eurekahedge

Inflow analysis by strategy

Assets under Management (\$bn)	Assets under Management (% of total)		Net In May 2018 (\$bn)	Inflows since Jan 2016 (\$bn)	Performance in May 2018 (%)	Since Jan 2016 (%)
897	36.5%	Long/Short Equities	2.0	24.9	-0.3%	5.8%
367	14.9%	Multi-Strat	-2.8	4.4	0.2%	-1.1%
229	9.3%	Event Driven	0.00	-5.0	0.0%	3.9%
243	9.9%	CTA/ Managed Futures	-0.7	26.7	-0.4%	-2.7%
159	6.5%	Arbitrage	0.2	8.8	0.1%	2.4%
174	7.1%	Macro	0.2	2.0	0.2%	1.9%
184	7.5%	Fixed Income	1.2	-2.1	0.1%	3.7%
56	2.3%	Distressed Debt	0.0	-4.3	0.0%	3.3%
80	3.3%	Others	-0.40	8.1	-0.1%	2.3%
67	2.7%	Relative Value	-1.00	4.6	0.0%	4.6%
2456	100	GLOBAL	-1.3	68.1	-0.1%	2.6%

Source: SG Cross Asset Research/Global Asset Allocation

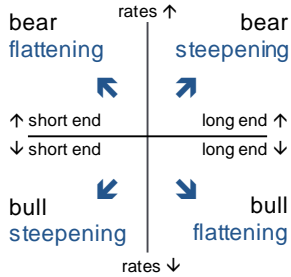
Source: SG Cross Asset Research/Global Asset Allocation. Monthly performances in percentage, based in US\$. CTA: Commodity Trading Advisor
Source: SG Cross Asset Research, Eurekahedge

Hedge fund strategies – based on funds reporting to EUREKAHEDGE.

Latest data for June-2018, collected up to 12/07, representing an estimated 42.36% of its universe.

One-minute guide – Yield curve dynamics (no formulas)

Magic cube of yield curve moves



Source: SG Cross Asset Research/Equity

Example

3y fwd 5s30s bear steepener

A 3 year forward steepening of the yield curve between the 5y sector and the 30y sector. Bear steepening means that the 30y rates rise faster than 5y rates. This is a **swaption** agreement based on two underlying yield curves (for 5y and 30y rates).

Bull bonds: bonds prices rise/interest rates fall when growth slows ↔ Bear equity

Bear bonds: bonds prices fall/interest rates rise when growth accelerates ↔ Bull equity

Yield curve or term structure of interest rates:

Line that plots the interest rates of bonds at different maturity dates (but equal credit quality)

- **short end** of the curve: maturities of less than two years, e.g. 1 month (1m) or a year (1y)
- **belly** of the curve: 3-7y sector
- **long end** of the curve: maturities of more than 10 years, e.g. 30y

A yield curve is always stated for a set point in time: **spot** curve, **forward** curve

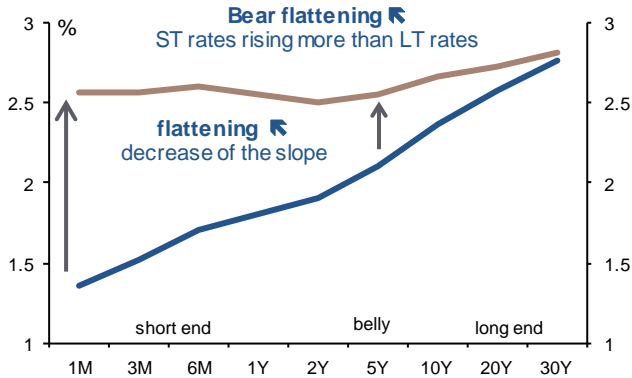
Curve dynamics: changes in the **slope** between short term (ST) and long term (LT) rates.

- **Steepening** ↗: increase in the spread between LT and ST rates
- **Flattening** ↘: drop in the spread between LT rates and ST rates
- A curve is said to be **inverted** when LT rates are **lower** than ST rates

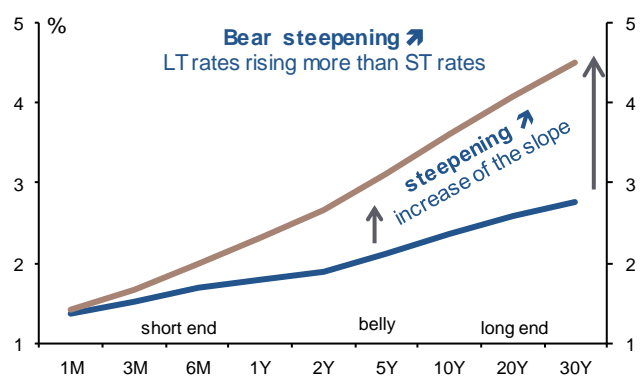
Flattening and steepening of the yield curve can happen both in a context of **rising rates** ↑ (**bear** bonds) or **falling rates** ↓ (**bull** bonds):

- **bear flattening** ↘: ST rates are rising ↑ faster than LT rates
- **bear steepening** ↗: LT rates are rising ↑ faster than ST rates
- **bull flattening** ↘: LT rates are falling ↓ faster than ST rates
- **bull steepening** ↗: ST rates are falling ↓ faster than LT rates

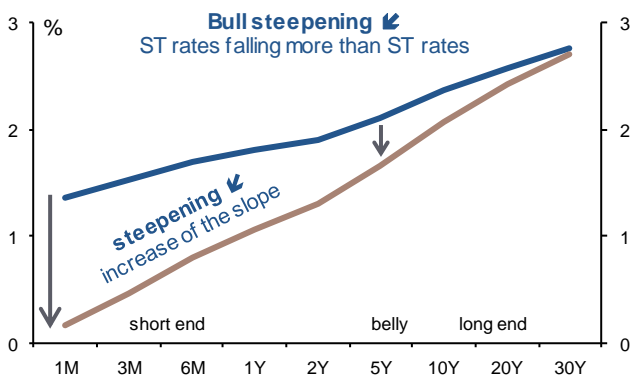
Bear flattening – Yield curve ↘ and interest rates rising ↑



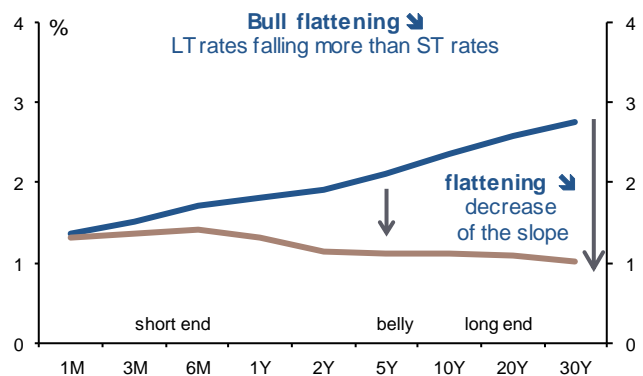
Bear steepening – Yield curve ↗ and interest rates rising ↑



Bull steepening – yield curve ↗ and interest rates falling ↓



Bull flattening – yield curve ↘ and interest rates falling ↓



Theoretical examples of yield curve steepening and flattening.

Source: SG Cross Asset Research/Global Asset Allocation

One-minute guide – Swaptions terminology (no formulas)

An **interest rate swap** (IRS) is an agreement where two counterparties exchange one stream of future interest payments for another. Typically, this involves exchanging fixed and floating rates.

Payer = party that wants to pay a fixed interest rate and receive a floating rate

Receiver = party that wants to receive a fixed rate and pay a floating rate.

A **swaption** (rates derivate) is an option on an underlying interest rate swap.

Payer (swaption) = a **put** on bond prices (and therefore a “call” on interest rates)

It starts to make money when interest rates rise above a predetermined level (the strike)

Receiver (swaption) = a **call** on bond prices (and therefore a “put” on interest rates)

It starts to make money when interest rates fall below a predetermined level (the strike)

Premium = the cost up front (now) of buying an option; the gain up front of selling an option

Examples

3y30y (forward rate)

30 year rates in 3 years time

3y30y payer (swaption)

a ‘call’ on 30y rates in 3y from now

3y30y payer spread (swaption)

combination of ‘buying a payer’ and ‘selling a payer’, both on 30y rates but with different strikes. Swaption contract with 3y horizon.

atmf/3.95%

at the market forward + 3.95%

3y fwd 5s30s bear steepener

This is a swaption agreement based on two underlying yield curves (for 5y and 30y rates). A 3 year forward steepening of the yield curve between the 5y sector and the 30y sector. Bear steepening means that the 30y rates rise faster than 5y rates.

Swaptions bring in a degree of non-linearity: the payoff on a long swaption position is made conditional on a given scenario for rates materialising, while the downside is limited to the upfront premium in an adverse scenario.

Factors that influence the price of the swaption are:

- option expiry period
- volatility level of the underlying
- premium (or discount) of implied volatility over delivered (realised) volatility
- strikes can be set at-the-money (**atm**), out-of-the-money (**otm**) or even in-the-money (**itm**)

Gamma: short-term position strongly dependent on realising volatility around particular events

Vega: long-term positions that are less sensitive to realising volatility on any particular events

The cost of a long swaption position can be reduced by selling an option with the same underlying and expiry but with an otm strike:

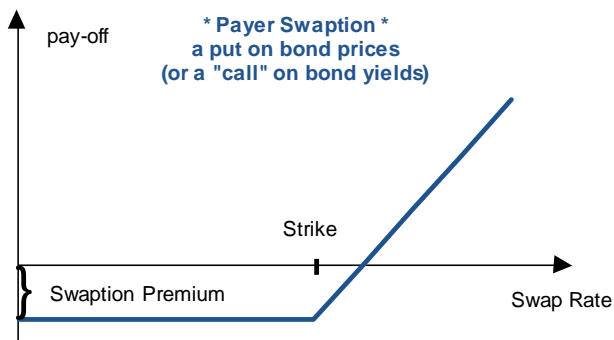
- buying an option (you pay a premium) and
- selling another option (you receive a premium)

The result is a position that will have a capped upside.

Payer spread = combination of buying a payer and selling an otm payer

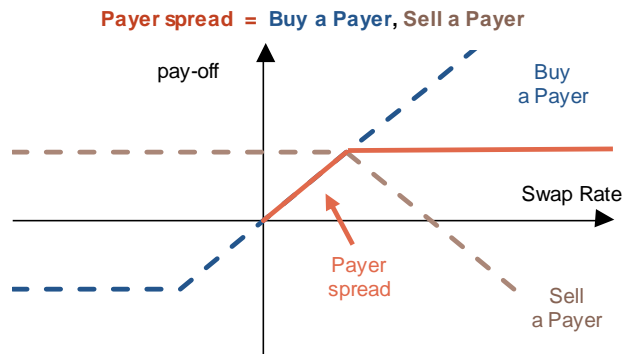
Receiver spread = combination of buying a receiver and selling an otm receiver

Payer (swaption): a “call” on higher interest rates



A **payer** swaption pay-off diagram
Source: SG Cross Asset Research/Global Asset Allocation

Payer spread: limited exposure to higher interest rates



A **payer-spread** pay-off diagram
Source: SG Cross Asset Research/Global Asset Allocation

Terminology

Eurekahedge

All hedge fund strategy data is provided by EUREKAHEDGE, an independent data provider that tracks over 24,686 alternative funds globally. Indices are equally weighted averages of price performance in local currency. New and obsolete funds are frequently added in order to maintain a fund universe that is as representative as possible and to avoid survivorship bias. Historical index values are altered accordingly. We will indicate on the cover of our report which month the latest data corresponds to, based on fund reporting until that date, and the estimated percentage of funds represented as part of the total universe of funds reporting to Eurekahedge.

Hedge fund strategies

Below are some brief descriptions of the hedge fund strategies mentioned in this report. They are meant to facilitate the reading of our report, not to provide complete or exclusive definitions such as employed by Eurekahedge when classifying the funds it covers.

Long Short. Buying long equities that are expected to increase in value and selling short equities that are expected to decrease in value.

Multi-Strategy. The use of several strategies within the same pool of assets.

Event Driven. Taking significant positions in companies with "special situations."

CTA/Managed Futures. Going long or short in futures contracts in areas such as metals, grains, equity, soft commodities as well as foreign currency and US government bond futures.

Arbitrage. Exploits the price differentials that exist as a result of market inefficiencies.

Macro. Holdings primarily based on overall economic and political views of various countries.

Fixed Income. Exploits arbitrage opportunities in interest rate securities.

Distressed Debt. Becoming a major creditor of a company whose bonds trade at very low prices.

Relative value. Going long a certain instrument while going short another instrument in a way that has no net exposure to broad market moves (also called a market neutral strategy).

CFTC: Commodity Futures Trading Commission

The mission of the Commodity Futures Trading Commission (CFTC) is to protect market users and the public from fraud, manipulation, and abusive practices related to the sale of commodity and financial futures and options, and to foster open, competitive, and financially sound futures and option markets.

The CFTC assures the economic utility of the futures markets by encouraging their competitiveness and efficiency; ensuring their integrity; protecting market participants against manipulation, abusive trading practices, and fraud; and ensuring the financial integrity of the clearing process. Through effective oversight, the CFTC enables the futures markets to serve the important function of providing a means for price discovery and offsetting price risk.

How to read the way SG monitors hedge fund positions

■ CFTC definitions

Net position. The difference between the open long contracts and the open short contracts held by a trader in any one commodity. Data we use have at least a lag of one week with real positions.

Open interest. The total number of futures contracts long or short in a delivery month or market that has been entered into and not yet liquidated by an offsetting transaction or fulfilled by delivery.

Futures and options. For our analysis we use the COT (commitment of traders) futures and options combined reports provided by the CFTC.

■ E-Mini Futures contracts and US equity index Futures contracts on CME

Futures on the S&P 500, the Nasdaq and Russell 2000 come in two sizes; the large ones are the standard futures that continue to trade on the floor of the Chicago Mercantile Exchange (CME); the smaller ones are E-Mini futures (1/5 of the size of a standard CME futures) where trade is fully electronic. Trading volume in the standard futures has now been surpassed by that of the E-Minis that are now the most highly traded stock-index futures in the world.

E-Mini S&P 500 futures are legally binding agreements to buy or sell the cash value of the S&P 500 Index at a specific future date. The contracts are valued at \$50 x the future price. For example, if the Mini S&P 500 future price is at 920.00, the value of the contract is \$46,000 (\$50.00).

On US equity index graphs of this report, we have decided to combine the two contracts. Example for the S&P 500:

We add 1/5 of the E-Mini futures (\$50) to the standard contracts (\$250).
 $(\text{S\&P 500 Standard} \times \$250.00) + (1/5 \text{ E-Mini S\&P 500} \times \$50.00)$

Disaggregated COT (Commitment of Traders Report)

In the commodity section, the CFTC provides a breakdown into the four following categories:

1. **Commercials:** producers, merchants, processors and end users. The largest of these market participants often dispose of fully equipped and well staffed trading rooms.
2. **Swap dealers:** primarily banks that use futures to manage over-the-counter (OTC) risks associated with their swaps book or index fund offerings (flow of funds into commodity indices).
3. **Managed money:** registered commodity trading advisors or commodity pool operators that actively trade on behalf of clients, frequently hedge funds (hence the title of this report).
4. **Other reportables:** traders that do not fit in any of the other categories. Traditionally the CFTC adds this category to that of managed money, a practice that we continue to follow for example in our net inflow graphs and table, but not in the bar charts with the disaggregated view.

Please observe that what we call “commercials” here is not directly comparable with the other breakdown provided by the CFTC between commercial and non-commercial traders.

Addendum

A specific contract size for each asset class

	Equity & Volatility	Data available since	Contract size	
EXCHANGES	S&P 500 stock index - CME	31/03/1995	(S&P 500 index x \$250)	
	E-Mini S&P 500 stock index - CME	19/09/1997	(S&P 500 index x \$50)	
	NASDAQ 100 stock index - CME	18/06/2010	(NASDAQ 100 index x \$100)	
	E-Mini NASDAQ 100 stock index - CME	31/12/1999	(NASDAQ 100 index x \$20)	
	E-Mini Russell 2000 stock index - ICE	01/05/2009	(Russell 2000 index x \$50)	
	E-Mini Russell 2000 stock index - CME	22/12/2017	(Russell 2000 index x \$50)	
	CME Chicago Mercantile Exchange	VIX futures - CBOE	31/12/2004	(VIX x \$1000)
		Nikkei stock average - CME	31/12/1999	(Nikkei index x \$5)
	CBOT Chicago Board of Trade	MSCI Emerging Markets Mini - ICE	04/07/2014	(MSCI EM index x \$50)
		Bonds & Money Market		
CBOE Chicago Board Options Exchange	2y US Treasury notes - CBOT	31/12/1999	(contracts of \$200,000 face value)	
	5y US Treasury notes - CBOT	31/12/1999	(contracts of \$100,000 face value)	
	10y US Treasury notes - CBOT	24/03/1995	(contracts of \$100,000 face value)	
ICE InterContinental Exchange	US Treasury bonds - CBOT	24/03/1995	(contracts of \$100,000 face value)	
	ULTRA US Treasury bonds - CBOT	31/12/2010	(contracts of \$100,000 face value)	
NYMEX New York Mercantile Exchange	30-day federal funds - CBOT	31/12/1999	(contracts on \$5,000,000)	
	Interest rate swaps 5y - CBOT	01/11/1994	(contracts of \$100,000 notional principal)	
	Interest rate swaps 30y - CBOT	01/11/1994	(contracts of \$100,000 notional principal)	
COMEX Commodity Exchange Inc	Currencies			
	Euro - CME	31/12/1999	(contracts of 125,000 EUR)	
	British pound sterling - CME	31/12/1999	(contracts of 62,500 GBP)	
	Swiss franc - CME	31/12/1999	(contracts of 125,000 CHF)	
	Japanese yen - CME	31/12/1999	(contracts of 12,500,000 JPY)	
	Australian Dollar - CME	06/06/2003	(contracts of 100,000 AUD)	
	New Zealand Dollar - CME	06/06/2003	(contracts of 100,000 NZD)	
	Canadian Dollar - CME	24/03/1995	(contracts of 100,000 CAD)	
	Russian Ruble - CME	01/05/2009	(contracts of 2,500,000 RUB)	
	Brazilian Real - CME	08/04/2011	(contracts of 100,000 BRL)	
	Mexican Peso - CME	31/12/1999	(contracts of 500,000 MXN)	
	Energy & Metals			
	Crude oil, light sweet NYMEX	21/04/1995	(contracts of 1,000 barrels)	
	Natural Gas - NYMEX	23/06/2006	(contracts of 10,000 million British thermal units)	
	Brent Crude - ICE	07/01/2011	(contracts of 1,000 barrels)	
	Gold - COMEX	21/04/1995	(contracts of 100 troy ounces)	
	Copper-grade #1 - COMEX	21/04/1995	(contracts of 25,000 pounds)	
	Silver - COMEX	21/04/1995	(contracts of 5,000 troy ounces)	
	Platinum - COMEX	21/04/1995	(contracts of 50 troy ounces)	
	Aluminium MW US PLATTS - COMEX	09/10/2015	(contracts of 25 metric tons)	
	Agricultural Commodities			
	Corn - CBOT	06/01/2006	(contracts of 5,000 bushels)	
	Soybeans - CBOT	24/03/1995	(contracts of 5,000 bushels)	
	Wheat - CBOT	21/04/1995	(contracts of 5,000 bushels)	
	Sugar No. 11 - ICE	06/01/2006	(contracts of 112,000 pounds)	

Source: SG Cross Asset Research, CFTC

Dynamic composition of All Asset aggregates

SG All Asset aggregates	Date	Asset
All Equity (4)	31/03/2000	S&P 500
	31/12/2004	Nikkei, Nasdaq
	02/05/2014	Russell 2000
All Bonds (5)	07/04/2000	10Y UST Notes, UST Bonds
	31/12/2004	2Y UST Notes, 5Y UST Notes
	15/01/2016	Ultra UST Bonds
All FX (10)	24/03/2000	CAD
	31/12/2004	EUR, GBP, JPY, MXN, CHF
	06/06/2008	NZD, AUD
	02/05/2014	RUB
	15/04/2016	BRL
All Commodities (10)	24/03/2000	Soybeans
	21/04/2000	Gold, Oil, Copper, Silver, Platinum, Wheat
	07/01/2011	Corn, Sugar
	24/06/2011	Natural gas
All Assets (29)	21/04/2000	All Assets is the sum of All Equity, All Bonds, All FX and All Commodities Initially 11 underlying constituents: S&P 500, 10Y UST, UST Bonds, CAD, Gold, Oil, Copper, Silver, Platinum, Wheat, Soybeans
	15/01/2016	Currently 29 underlying constituents: Ultra UST being the latest joiner

For inclusion in our aggregate series we require a minimum of 5 years net position data. Aggregates are based on equally weighted normalised positions (z-scores). Charts showing the historical evolution of aggregated asset positions are based on rolling 5y Z-scores, not on the full history.
Source: SG Cross Asset Research/Global Asset Allocation, CFTC

APPENDIX

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Total shareholder return means forecast share price appreciation plus all forecast cash dividend income, including income from special dividends, paid during the 12 month period. Ratings are determined by the ranges described above at the time of the initiation of coverage or a change in rating (subject to limited management discretion). At other times, ratings may fall outside of these ranges because of market price movements and/or other short term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by research management.

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The sector weightings are assigned by the SG Equity Research Strategist and are distinct and separate from SG equity research analyst ratings. They are based on the relevant MSCI.

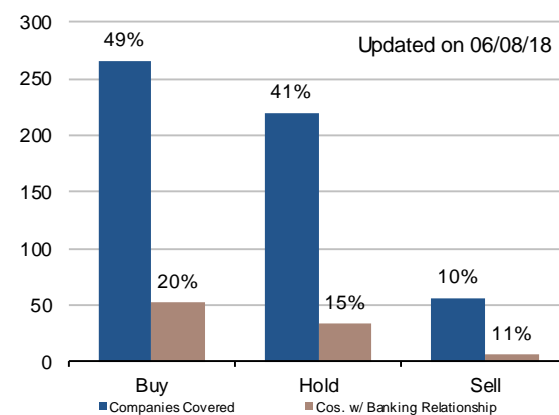
OVERWEIGHT: sector expected to outperform the relevant broad market benchmark over the next 12 months.

NEUTRAL: sector expected to perform in-line with the relevant broad market benchmark over the next 12 months.

UNDERWEIGHT: sector expected to underperform the relevant broad market benchmark over the next 12 months.

The Preferred and Least preferred stocks are selected by the covering analyst based on the individual analyst's coverage universe and not by the SG Equity Research Strategist.

Equity rating and dispersion relationship



Source: SG Cross Asset Research/Equity

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