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FIRST QUARTER REVIEW 2017

Gold · Equities

Livestock · Soy Complex

GOLD

BY SEAN LUSK, DIRECTOR WALSH COMMERCIAL HEDGING SERVICES

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The first quarter rally in Gold and Silver rally came on two fronts. First traditional seasonal buying to start the New Year began with a sustained push higher in both gold and silver which traditionally ends around Valentine's Day as jewelry demand begins to wane in the second half of February. This is one of the few times of the year when an investor may see both equities and precious metals move higher; this year was no exception. The second and most visible reason was the new administration taking power in Washington. Very early in his Presidency, Donald Trump bemoaned that the Federal Reserve tighten interest rates too aggressively in 2017, citing that a lower Dollar would be in the United States best interests when addressing trade deficits with Mexico, Japan, and China to name a few. Asset managers from a myriad of investment classes took heed ignoring hawkish commentary from Fed governors igniting what became as the re-inflation trade. Commodity sectors abroad from energies, currencies, metals, and even grains were bought in tandem against the Dollar ahead of the latest Fed meeting in March. Despite strong earnings results and steady job growth, the investment community started to pare back the thought of three potential rate hikes amid growing political headwinds in Washington and around the world.

Both Gold and Silver have seen ten percent performance gains before profit taking set in ahead of the FOMC meeting in March , which in a surprise to some ,the Fed raised rates again for the second time in three policy meetings. While hawkish on the surface, the Fed noted that they would still like to see better improvement in the underemployment rate along with raises in hourly earnings and decreased debt per household. However the biggest announcement following the March rate hike announcement was that the Fed's inflation gauge was not near where the Fed would like to see it, therefore giving pause to thoughts of any further rate hikes until late summer/fall in my opinion. Following the Fed meeting in mid- March, Silver has rallied from a pre report low of 16.82 per ounce to a high of 18.27 in a two week span. Gold has rallied from a mid march low of 11.96 up to 1261.0 in the same timeframe.

Although we haven't seen the same type of buying resurgence in other commodity sectors, I think it speaks to the allure of Gold and Silver for both a reflation trade and a safe haven investment. I believe gold's fortunes in the second quarter will be inversely tethered to the performance of the stock market. The question going forward and one I believe will be in the news a great deal will be when comprehensive tax relief is sent to congress for a vote? In my view, a main reason for the stock market rally was investor anticipation of corporate tax rates being slashed by 50 percent and as a consequence a repatriation of funds sent back in to America. Should this drag on through summer and early fall without a vote, I believe we could see a pullback in equities as investors get impatient, which in turn should spur Gold and Silver higher. This is just one scenario that I see igniting the metals trade higher in 2017. Federal Reserve policy, the global economy, and physical demand for gold and Silver especially from China and India will obviously drive price. However I believe the reaction of the stock market will be the main driver that affects Gold and Silver prices in the second quarter and beyond.

Technical's come in as follows for both Gold and Silver for the second quarter. For Gold support comes in first at 1220.8 and then down at 1196.8. A close under 1196.8, takes the market down to the 2107 low at 1146.8. Resistance is at 1295.1, and then up at 1332.4. A close over 1332.4 sets up 1377.5, the low at 1146.8. Resistance is at 1295.1, and then up at 1332.4. A close over 1332.4 sets up 1377.5, the 2016 high as next upside target. For Silver, support comes in at 17.57 and then down at 16.97 and 16.60. If 16.60 can't hold the market could move all the way down to 14.96. Resistance is up at 19.21 and then up at 20.18.

Sean Lusk, Co-Director Walsh Commercial Hedging Services Division

Sean Lusk is a registered commodity broker and Co-Director of the Commercial Hedging Division of Walsh Trading in Chicago. Sean began in the business as a runner on the trading floor during summer breaks from college in 1993. Upon his graduation from Southern Illinois University at Carbondale in 1996, Sean began his career on the trading floor of the Chicago Mercantile Exchange (CME). Overseeing billions of dollars of transactions working as a clerk in the Eurodollar pit, Sean took the next step and became a floor broker and member of the CME in 2003. He handled customer orders for banks and investment houses from all over the world from inside the Libor pit at the CME.

Now, at Walsh Trading, Sean utilizes his experience in the marketplace and his professional client service skills to aid and assist customers in their trading endeavors.

Sean writes daily and weekly commentaries focusing on Precious Metals and Agricultural Markets along with related market activity. He has been quoted in various media outlets discussing futures markets. These include, Futures Magazine, Reuters, Forbes, Kitco, Nikkei Press and CCTV.com.

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EQUITIES

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2017 started off with an optimistic view for the equity markets. With an election in the rearview mirror and an inauguration ahead, the markets got off to a good start. The run up to start the year seemed to be euphoric. Some sectors seemed to be out shooting fundamentals, and others seem to just be getting started.

The 2016 election results , with Republicans taking control of all three branches gave many the feeling that there was an easier path to economic growth ahead. Three factors are the main driver of that belief; deregulation, tax reform, and fiscal stimulus. The continued possibility of those happening will be the biggest determining factor in continued growth in the equity markets.

While the year started off with great optimism for symmetry from all branches of government, some of that optimism may have faded a bit. The failure to pass any healthcare reform, has given reason to question if the administration will be able to move forward with tax reform. As we move away from a general idea and into more intricate details of possible plans, the market has been reacting. Any hints of tax reform not on course could put a cap on further market moves to the upside.

Also on the radar in the second quarter are interest rates. THe Federal Reserve will meet two times, once in May and once in June. Many market observers are calling for three hikes for the year. With one already under their belt, the June meeting looks like the next likely occasion for another rate hike. The potential for further Fed action has most likely been priced in the markets already. But if it looks like the Fed is backing away way from its current course, look for a strong market reaction.

Just as important as any action from the May and June FOMC meetings , will be its statements. Fed watchers have a tendency to look at FOMC decisions with a fine toothed comb, and these two meetings will be no different. The Fed has still been harping on the data being the determining factor for further action. Current job numbers, and the rate of inflation seem to be support more hikes this year.

If the Fed were not to follow through, it might give the markets another set of jitters. By not taking any action it could give the idea that the economy is not strong to handle another rate hike. That doesn't mean we would see a sell off for sure. In recent years bad economic data has often led to higher moves in the Dow and S&P. The indices have at times become safe places to park money in recent years. But there is the chance that a lack of action by the Fed translates to a weaker outlook for the economy. It would not be out of the question for a possible strong sell off to occur.

The big concern regarding both the S&P and Dow heading into the summer is a correction. Since the start of the year, the markets haven't seen anything more than a 2% pull back, Both index markets have put in new all time highs They have had a few move down, but always seem to bounce back, trying to get to those previous highs. Of greater concern would be a correction along the lines of 5-10%. A move like that would catch a lot of investors off guard, especially those who bought in on the recent move up.

The market will continue to embrace any new or indicators that tax reform and deregulation are still in play. Those factors combined with any action from the Federal Reserve should give the markets to keep climbing higher. Just don't expect it to be a move straight to the top.

John Weyer, Co-Director Walsh Commercial Hedging Services Division

John Weyer started in 1992 as a runner for an independent brokerage group in the Eurodollar pit at the CME. As a clerk he helped handle thousands of contracts from institutional customers on a daily basis. John's customer relationships and skill set helped enable him to become a CME member and execute customer orders as a floor broker. He later made the transition to a "local", trading his own account in 3 Month Eurodollar futures.

John now uses the skills and experience acquired after 20 in the futures industry to help customers with their risk management at Walsh Trading as a Co-Director of the Commerical Hedging Divsion.

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LIVESTOCK

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LIVE CATTLE

Live Cattle traded to its all-time high in November 2014 at 172.75. Since making the high it has been in a two and a half year downtrend. Live Cattle traded to its low for the down move in October 2016, bottoming at 96.10. Since making the October low, it has rallied to test resistance at the 100 month moving average. Live Cattle has been battling the 100 MMA for the past 4 months, stopping just below it in December and February and just above it in January and March. The 100 MMA ended March 2017 and the first quarter at 119.80. The rally from the low peaked in January at 121.45 and closed weak, near the month low (113.975) at 114.825. It formed a Shooting Star candle formation, which is a bearish candle (after a rally) formation. Bears couldn't take control of trade in February, as an attempt to trade lower was met with buying and the market closed in the upper end of its range but below the January high. Bulls attempted to push Live Cattle higher in March, trading above February's high and the 100 MMA but couldn't sustain the buying and broke down at the end of the month closing near the lows of the month. In another bearish sign for Live Cattle, the March open and close trading range (the candle body) engulfed the February open to close range. Even with these bearish formations Live Cattle is locked in a trading range from the December 2016 low (108.175) to the January high. It has formed a ledge and a breakout from either the high or the low could lead to Live Cattle's next move. A breakout above the January high could lead to a price target at 130.65 while a breakdown from the December low could lead to a decline down to 101.675.

FEEDER CATTLE

Since making its all-time high in October 2014 at 245.75, Feeder Cattle has been in a downtrend for the past two and a half years. It made a series of lower highs and lower lows, culminating (so far) in the October 2016 low at 114.65. Since making the October 2016 low, Feeder cattle has been on a short-term uptrend. It made a high in January 2017at 131.75, a higher low in February at 120.50 and now a new high in March at 137.425. The March rally was strong, as price raced higher after breaking above the February high at 125.90. It also took out the 8 month moving average (125.80) and went above the 13 month moving average (133.225) to the high at 137.425. It couldn't stay above the 13 MMA however, as it ended the month with the front contract (May) settling just below it at 132.70. The settlement price is just above the 50% retracement level (132.3125) of the downmove from the August 2016 high (149.975) to the October low. The 13 MMA (133.225) will act as a pivot going forward. Trading above the pivot could lead to a test of resistance at the 61.8% retracement level (136.48) of the August – October down move and then the 137.425 high. Clearing these hurdles could lead to a test of resistance at the 100 MMA (147.775) and the downward sloping 21 MMA (149.125). Staying below the pivot could lead to a test of the 8 MMA and then trendline support (October 2016 low to March 2017 low) at 122.025. If Feeder Cattle breaks through the trendline, a test of the October low is possible. Holding at this level could set up a potential double bottom formation. A new low keeps the downtrend intact.

LEAN HOGS

Since peaking at the all-time high in March 2014 at 133.425, Lean Hogs has been in a downtrend. It made its low for the down move in October 2016 at 40.70. Since making the low, Lean Hogs has seen a strong rally take place. It has made higher highs every month (November2016 through March 2017) since making the low in October 2016. It has now retraced 38.2% of the March 2014 to October2016 downtrend; reaching 78.25 in March 2017. This is a new high for the up move and it breached the 38.2% retracement level at 76.125. It couldn't close the Month and the first quarter above it however, as it settled below it at 73.85. The June contract is the current front contract month for Lean Hogs and the 38.2% retracement level will act as the pivot level for the next quarter. A recovery from the March settlement price could see Lean Hogs test the 38.2% retracement level and then the 78.25 high. A breakout above here could lead to a test of resistance at the 50% retracement level at 87.05. Hurdles for this potential rally could be at the 100 MMA (79.925) and the 50 MMA (81.625).A failure from the 38.2% retracement level could see Lean Hogs test support at 66.575 (the March 2017 low). A breakdown below the March low could see a test of support at the January 2017 low (62.55) and then the November 2016 high at 57.325.

Ben DiCostanzo, Senior Technical Analyst

Ben is a graduate of Pace University with a degree in Accounting. In 1984, he became a member of The Index and Options Markets of the CME. He is Series 3 Licensed. Ben has been involved in many areas of the Securities industry, from working as a runner on the NYSE to taking care of professional traders and institutional clients for Salomon Brothers on the CME. He traded equities as a local before moving on and working with individual clients.

Ben understands that every client's need are different and he prides himself in tailoring his service to each client's unique circumstances and needs. Individual client experience, risk tolerance, and capital all play a role in how he approaches the markets. He is very involved in all markets using technical analysis to find opportunities. Ben's approach is driven by principles of capital preservation. His trading philosophy is that if you can recognize and manage risk, you have a better chance to be successful in trading. Ben advises all his clients to always use stops as money management – in his opinion, it is the most important ingredient in trading commodities.

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SOY COMPLEX

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The Soy Complex has been in a downtrend since the beginning of the year. The high was set in place on January 19th at a price of 1090114. Looking forward into the summer months, the USDA has estimated an increase in planted acres of 6 million. This increase is significant and if trendline yield is realized can put the domestic carryover at the tend of the year above 500 million bushels. This, compiled with the record crops in South America, and the projected 87-89mmt global carryover, equates to lower prices. This assumes no unforeseen weather issues. The present value of soybeans at 970 per bu appoximately is considered high and presnts both speculative and hedging opportunities. Given the stocks to usage ratios and the available exportable supplies an eventual price approaching $8.25 per bushel is not out of the possibility. As with anything, it is important to quantify the risk.

Products

The oil share value at present is 32.7%-33%. The meal value has carried the largest part of the crush over the last few years in actuality. This dominance may be coming to an end. The global soy scenario has changed. The market, in general, is oversupplied and given the plant projections will stay so. The high crush rates are creating alot of meal. This, while demand has slowed alot, also competitive meals are readily available. The veg oil market on the other hand is a bit tight. The palm oil market is in a replinishing phase. The soyoil is in high demand while biofuel demand remains strong. The main point in the next few months is given the current setu-up oil share may show gains over the next quarter. If the market experiences any major showdowns in the crush rate, beam oil could experience a reasonalbe amount of relative growth.

John Walsh, President, Walsh Trading, Inc.

John began his career in the futures industry in 1986 at privately held firm, Barnes and Company. Barnes and Company was known for its presence at the Board of Trade, particularly in the agricultural sector. From Barnes, John held positions at the privately held firm, Argus and then at Continental Grain. During his time there, Continental Grain was one of the largest clearing firms in the world. Continental Grain had, and continues to maintain, extensive holdings in the cash cattle, poultry, swine, and agriculture industries. At Continental Grain, John had various responsibilities including working for the Options Group and the Risk Management Group where he serviced clients located all over the world.

In 1996, John left Continental Grain to found Walsh Trading, Inc., currently a registered Independent Introducing Broker (IIB) and an NFA member with the ability to clear at multiple, futures clearing merchants at the benefit of its clients. John's focus at Walsh Trading has been on hiring and cultivating talented individuals and building relationships throughout the industry. Walsh Trading services some of the largest companies in the world, in their respective fields, as well as individual investors with a commitment to always putting the needs of its customers first.

John trades all markets, but concentrates his efforts in the agricultural sector, more specifically in the relationships revolving around the soybean crush. His trading methodology is based on fundamentals and a personally designed technical system.

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