
From: Ens, Amanda <[REDACTED]>
Sent: Saturday, August 6, 2016 3:38 PM
To: Jeffrey Epstein
Cc: Rich Kahn
Subject: Alpha Checklist from MEGA Americas

Jeffrey, this is our weekly alpha checklist.

For the 10y JGB in yield terms at -9bp, there are stops over 5bp and then 25bp resistance and massive stops above 30bp (but don't see the BoJ letting it get that far in the near term)

From: Kaldor, Gregory <[REDACTED]>
Date: Saturday, Aug 06, 2016, 8:07 AM
To: Ens, Amanda <[REDACTED]>
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Alpha Checklist Summary:

Fixed Income volatility (BAML MOVE Index) is going up relative to equity implied volatility (VIX Index). The move feels structural with Ethan Harris noting in his latest "Ethanomics" <<http://rsch.baml.com/r?q=0=O10vHoy34g-U5LrMQquw&e=amanda.ens%40baml.com&h=clemA>> that the US is beginning to run-up against mild supply-side restraints. This does NOT mean the "stagflation", rather a modest deterioration in the inflation-growth trade-off. It comes in the context of strong US payroll data <<http://rsch.baml.com/r?q=x=F17nFtIDGsULCIZFM7VA&e=amanda.ens%40baml.com&h=Divqlw>> . On top of this, Hans Mikkelsen notes the acceleration in revolving US consumer debt or the first time since the financial crisis <<https://rsch.baml.com/r?q=0zEPAIFhs1saeQff966pQ&e=gregory.kaldor%40baml.com&h=NncE3g>> (see chart below). We also note our BAML GLOBALcycle indicator moved back into positive territory for the first time since late 2014 <<http://rsch.baml.com/r?q=9!nsBXZBz4m4EwYdl23jdQ&e=amanda.ens%40baml.com&h=YKU8fQ>> (see chart below). Both the developed markets (DMcycle) and emerging markets (GEMcycle) components individually shifted into positive territory as well. Furthermore PMIs for the Euro area (ex-UK) and US remain very much an expansionary territory. <<http://rsch.baml.com/r?q=8Vhz=i7ZURvyXyDCoxb!rQ&e=amanda.ens%40baml.com&h=X2vJqQ>> In China, Ajay Kapur notes the drop in REAL corporate bond yields from 10% last summer to only 6% now, helps manage the corporate debt to GDP ratio of 160% with the 70% rise in the China monetary conditions index (CHBGMCI Index) since June last year.

The question is can the fixed income curves handle the pressure? The Bloomberg chart below shows a rising BAML MOVE Index versus VIX Index is strongly correlated to rising US Bank stocks, while detrimental to fixed income.

with three quarters of the European earnings season over, the run-rate of EPS beats stands at 59% - the strongest results in over 5 years. However, most surprises stem from cost management.

The MEGA Trends Index (MLDIMEGL Index, +7.5% YTD), also clearly shows US equity sectors outperforming fixed income sectors. Techs (XLK), Telecoms (XTL), together with Healthcare (XLV) are the three sectors with strongest price momentum in the MEGA Trends Index. Health Care is the one sector with improving Earnings Revision Ratios, Sales Revision Ratios and Management Guidance Ratios
<<http://rsch.baml.com/r?q=k=SlqhpENE!XmBPbWCavcA&e=amanda.ens%40baml.com&h=nFO6cA>> . Besides Energy (XLE), fixed income ETFs now make up 5 of the 6 weakest ETFs in the index (see ranking chart below).

Using Kensho we looked at what happens one week after a simultaneous steepening of the US yield curve in 10s30s by 6pb and a 2% jump in the BAML MOVE index. We find that Regional Banks (KRE) and Russell 2000 benefits as well as Telecoms and Industrials. Click here for the link to the study
<<https://www.kensho.com/finance/warren/studies/edit/75119c5196e94bae8e0eb6277793a596>> .

In US & Canada:

Ethanol: Despite Brexit and some choppy numbers, trend-like growth continues in the US and globally. The US is beginning to run against mild supply-side restraints, with more demand showing up in prices rather than growth.
<<http://rsch.baml.com/r?q=0vO10vHoy34g-U5LrMQquw&e=amanda.ens%40baml.com&a=p;h=clenmA>> The final evidence of tightening capacity is the modest pick-up in wage and core price inflation. Both average hourly earnings and the employment cost index have accelerated about half a percentage point, and core PCE and core CPI inflation are up 0.3 and 0.7% respectively from their lows last year. This does NOT mean the economy is doomed to dreaded "stagflation". Rather we expect the normal modest deterioration in the inflation-growth trade-off that comes in the latter half of business expansions, albeit from much lower than normal initial inflation rates. In Japan, disappointment over the latest BOJ move has already caused 10 year yields to rise from -9 to -9 basis points. That still means super easy financial conditions. As Deputy Governor Iwata made clear this past week "It's just unthinkable we will reduce the levels of easing." We are cautiously optimistic about the near term outlook for growth and inflation in Japan.

US Economic Weekly: Retail sales data for July will be an important indicator as we assess consumer spending growth for 3Q. We are looking for a solid 0.4% gain in core retail sales.
<<http://rsch.baml.com/r?q=48xdUkNj00dJlp897fEFA&e=amanda.ens%40baml.com&a=p;h=XHpTHA>> Producer and import prices should see growth. We have revised our forecast of 3Q GDP growth to 2.4% (from 1.9%) and 4Q to 2.7% (from 1.7%). This reflects greater inventory build given the sharp drawdown in 2Q. Even with the upward revisions, we project annual growth will only be 1.5% this year, the slowest since the recovery began. Much of the recent weakness owes to headwinds associated with the drop in oil prices, global trade and inventory mismanagement - controlling for the shock reveals a more robust underlying trend.

We see the US job strong gains over the past two months as a payback from the very weak jobs report in March (24,000) and sluggish reading in April (144,000). We think the Fed will wait until December given that there are still global uncertainties on the horizon, as well as the US election at home

<http://rsch.baml.com/r?q=xmFI7nFtIDGsULCIZFM7VA&e=amanda.ens%40baml.com&a=p;h=Divqlw> . Information service and leisure & hospitality sectors saw the biggest acceleration in average job growth in July and June versus May and April, of roughly 40,000 each. We have been particularly encouraged by the increase in the labor force participation rate (LFPR) which has shown an influx of new entrants into the labor force. The LFPR has increased for seven of the last ten months, showing a notable move higher since October. This means that there have been cyclical gains sufficient to offset the persistent downward pull from the aging population. This means that there is greater capacity in the labor market and perhaps a longer runway for this business cycle.

CFTC Data: Asset Managers sold \$3bn of S&P 500 futures to Aug 2. Leveraged Funds sold \$2.4bn of S&P 500, \$6.6bn 10-yr Treasury. <http://rsch.baml.com/r?q=TRRQfWewgH-O2SQAefRSPw&e=amanda.ens%40baml.com&a=p;h=kbJog> Net position at or near 3-year extremes are: Asset Manager net position in MSCI EAFE and EM index at or near all-time highs and long EURUSD near 3-year high (98%tile); Leveraged Funds net position in EM also near 3-year high (97%tile) and short GBPUSD near 3-year low. In Commodity futures, Managed Money positioning in gold and silver near a 3-year high (98% and 99%tile, respectively) while Other Reportable WTI Crude positioning is at all-time high (data since June 2007).

The US three-month earnings estimate revision ratio (ERR) fell slightly in July for the second month, to 0.90 from 0.93 in June. The ratio remains above its long-term average of 0.85 - a positive signal for near-term market returns

<http://rsch.baml.com/r?q=kVSlqhpENE!XmBPbWCavcA&e=amanda.ens%40baml.com&a=p;h=nFO6cA> . The more volatile one-month ERR improved last month to 0.99 from 0.69, suggesting an equal proportion of upward vs. downward revisions in July (during the bulk of earnings season). Health Care, Energy, and Materials have all seen more positive than negative revisions to earnings on a three-month basis. The three-month sales forecast revision ratio fell for the second consecutive month in July, to 0.71 from 0.76.

The Nasdaq Biotechnology Index (NBI) has surpassed S&P500 (up 13% vs. 5%) since the end of 1Q, thanks to increased M&A activity and solid 2Q earnings reported by the large-cap biotech companies as a group

<http://rsch.baml.com/r?q=KshqavZi10ZXzt4rARRumQ&e=amanda.ens%40baml.com&a=p;h=kez8IA> . Recent NBI rally suggests a "real" turn in market sentiment post-major sector sell-off beginning last August. 62% of S&P 500 companies have beaten on EPS, 52% have beaten on sales and 40% have beaten on both compared to full-quarter historical averages of 53%, 57% and 35%, respectively.

A PM's guide to stock picks: Value factors, which ranked among the weakest in the first half, posted the strongest results in July <http://rsch.baml.com/r?q=gDUoS1M0AhtgorQt3CVi5Q&e=amanda.ens%40baml.com&a=p;h=67zH8w> (+5=9%), led by Forward P/E (+8.2% July / +1.6% YTD). Other Value factors also fared well, with most gaining 5-7% last

month. On a year-to-date basis, Value factors on average (+6.9%) are still short of the benchmark's 9.4% return. Foreign Exposure also enjoyed an upsurge, gaining 6.3% in July

Credit Research:

Credit Market Strategist: Hans Mikkelsen one key development we have been tracking this year is the acceleration in revolving consumer debt (credit cards) for the first time since the financial crisis. <https://rsch.baml.com/r?q=s0zEPAIFhs1saeQFf966pQ&e=gregory.kaldor%40baml.com&h=NncE3g> This, no doubt, is because consumers feel secure in their jobs and are experiencing significant gains in net worth. In July alone we saw consumers adding \$10bn of credit card debt (in data for banks, which accounts for 2/3 of credit card debt), about a quarter of this year's increase. The US economy clearly is strong enough to sustain the yield differentials that drive inflows to US credit and credit spread tighter.

The HY Wire: We have seen in the past when foreign money searches for yield it can mean the beginning or the end of what seems like a secular rally. The stories we hear today reminds us of 2007, when Japanese investors began to reach for yield in sub-prime CDOs when fundamentals suggested it was the time to exit. <http://rsch.baml.com/r?q=nDn2dail5rf!ycG4Gdsm5g&e=amanda.ens%40baml.com&a=p;h=NwxA5A> With nice gains of nearly 9% ex-commodities so far in 2016, we would try and position portfolios not for further gains, but for protection. Spread tightening will be tough to come by absent a rise and rates, we think, and though yields could go lower, the relative value argument versus risk free or higher quality paper isn't there in our view.

We see significant upside for UK non-fins names CDS. The Bank of England's expanded gilt and corporate bond QE program is to acquire another £60bn of gilts and up to £10bn of corporate bonds <http://rsch.baml.com/r?q=IT1f6B3jVFOuAtsMqWBvvQ&e=amanda.ens%40baml.com&a=p;h=LvmRDA> . UK names CDS have been lagging in the past months heading into the EU referendum. That trend continued and strengthened post Brexit. We find that the BoE could potentially target 19 names of the iTraxx Main constituents on top of those that fall into the ECB's CSPP scope. That would bring the total number of eligible names under the CSPP, or the BoE CBPS, to 79.

FX & Fixed Income: [/span](#)

US Rates Weekly: US dollar LIBOR settings have been shifting higher over recent weeks largely due to two factors (1) reluctance from prime money funds to offer unsecured funding at the 3-month tenor, which now extends beyond the mid-October reform implementation date, and (2) a potential pullback in willingness to lend post-Brexit <http://rsch.baml.com/r?q=MyA1vumbudoXRk-bo5zVDQ&e=amanda.ens%40baml.com&a=p;h=j8d1wg> . Of these two, we think that money market reform is the larger contributing factor. The lack of prime fund supply has caused investors to raise their offering amounts to achieve funding beyond these tenors causing LIBOR rates to increase. Although the cost

of the US dollar swap line is OIS+50 basis points, we do not think that this level constitutes a binding upper bound on the level of LIBOR largely due to regulatory capital charges and stigma considerations. We update our supply-impact analysis on rates, curve and spread to get a sense for how the market responds to big issuance dates. On supply days with a z score >1, 10y rates and 30y rates rise 58% and 68% of the time, respectively, and the average rate change on these dates has been 1.2bp and 1.7bp.

GBP is set to fall further in the medium-term despite the recent build in shorts. GBP/USD at 1.25 could be sooner than later <http://rsch.baml.com/r?q=bH8F430GYNp4T-JCBK-2ag&e=amanda.ens%40baml.com&a=p;h=IM6JSg> . Do not expect an FX boost to C/A deficit due to the make-up of UK net foreign assets position which is geared to commodities. Build up in shorts limits GBP downside for now but use rallies to 1.35 as levels to sell topside structures.

In International:

Global Economic Weekly: PMIs for the Euro area (ex-UK) and US remain very much in expansionary territory. <http://rsch.baml.com/r?q=8Vhz!i7ZURvyXyDCoxb!rQ&e=amanda.ens%40baml.com&a=p;h=X2vJqQ> China's official PMI did dip below 50, typically seen as the dividing line between manufacturing expansion and contraction, but China's manufacturing PMI has tended to run lower than in other countries. Risks may remain skewed to the downside, but the early warnings signs aren't signaling a global slowdown. Risks to global growth are still arrayed to the downside, but we expect a decent 3.0% global GDP growth rate this year and look for growth to accelerate to 3.5% globally in 2017.

Our GLOBALcycle coincident indicator improved once again in July -the fifth gain in six months - and moved back into positive territory for the first time since late 2014. Both the developed markets (DMcycle) and emerging markets (GEMcycle) components individually shifted into positive territory as well <http://rsch.baml.com/r?q=9!nsBXZBz4m4EwYdl23jdQ&e=amanda.ens%40baml.com&a=p;h=YKU8fQ> . Business conditions improved in most of the countries we monitor: all GEM-10 economies and most DM regions recorded higher economic conditions indexes (ECIs) last month.

Europe Economic Weekly: The final set of July PMIs painted a gloomy picture for UK economy, pointing to a downturn in growth. Conversely, they confirmed resilient post-Brexit sentiment in the Euro area, so far <http://rsch.baml.com/r?q=aAMlaBV5Nvux!MHoCcBuWg&e=amanda.ens%40baml.com&a=p;h=0LrO1g> . The Bank of England over-delivered with a strong package and they suggest more to come too. The strong fiscal hints are important. The authorities showed today they understand it. This is important for confidence. We find evidence that German occupational pension liabilities held as unfunded book reserves and demographic ageing have been a significant driver of rising corporate net lending since at least the early 2000s. This suggests that capex growth may stay weak, despite decent growth and profits and good financial conditions.

European Earnings Season Update: With three quarters of the European earnings season over, the run-rate of EPS beats stands at 59% - the strongest results in over 5 years. However, most surprises stem from cost management <<http://rsch.baml.com/r?q=J6WJvi1PqMOtTaYplxpcyg&e=amanda.ens%40baml.com&a=p;h=LN2zWg>> , given only 44% of firms beat top-line estimates. The season can also be considered as a "low quality beat", as earnings beats were not rewarded as much as misses were punished.

There was the largest inflow into European IG funds ever: High grade funds recorded their 21st week of inflows and the highest ever <<http://rsch.baml.com/r?q=hAh1tfyuoaccXL6FnMZnJg&e=amanda.ens%40baml.com&a=p;h=REpcNQ>> since the start of our data set. Flows into the asset class have doubled w-o-w, and propelled the year to date cumulative inflow to over \$13bn. Flows into equity funds remained in negative territory for the 26th consecutive week. Almost \$80bn has left the asset class over that period.

The Bank of Japan's "comprehensive assessment" in Sep MPM is creating intense speculation <<http://rsch.baml.com/r?q=Mo7tW4OZTG2RNQMGBzdFTQ&e=amanda.ens%40baml.com&a=p;h=3mWliQ>> . BoJ may make QQE more flexible which would enhance policy sustainability. Steeper yield curve, stronger yen and weaker equity but bank shares to rise. If the BoJ does move to make policy more flexible, we think the focus will be on JGBs, rather than on negative interest rates. In that case, the BoJ will have to stress the price stability target is more likely to be met by increasing flexibility, rather than by cutting back on easing.

10y JGB Yield: 4.025% still maintains a down-trend</=>

Australia Economic Weekly: We expect the RBA to sit on the sidelines for the rest of the year in order to observe how the 50bps of easing this year <<http://rsch.baml.com/r?q=KhuCqwzCi8CTID8mrycrjQ&e=amanda.ens%40baml.com&a=p;h=mB2zgA>> . However, we expect a 25bps cut in 2017, most likely at the February meeting. We expect the RBNZ to ease rates by 25bps to 2.0%. The Bank appears to be more comfortable to tackle the currency now that tighter macro prudential measures have been announced.

In Commodities:

Global Energy Weekly: The seasonal drop in WTI prices to our \$39/bbl 3Q16 target has been felt throughout the light-end of the barrel . While we see a crude price recovery to \$50-53/bbl from here, we expect NGLs prices to continue to decrease</=> <<http://rsch.baml.com/r?q=!zdkzqYKG29bMaJYT2T53g&e=amanda.ens%40baml.com&a=p;h=tFpikA>> as fundamentals weaken seasonally into the fourth quarter. NGLs ex. propane stocks have built by 56 mn barrels since early March, the largest seasonal build ever.

Oil Inventory Monitor: The current call this week, was the sharp drop in gasoline stocks (-3.2mmb) - which is one data point in support of lower required run cuts <http://rsch.baml.com/r?q=Dg3Fte5!fdlqa33fDuxjvg&e=amanda.ens%40baml.com&a=p;h=UK06Jw> . We believe it is this interplay that will create volatility in crude oil and product pricing near term. Ultimately, we believe the stock overhang will unfold slowly, creating a slow burn in the refining sector. We grow more confident in our view that calls for oil prices to drop below \$40 level for a transient period. As we head into the back end of the year, we continue to see strong product demand and declining non-OPEC production balancing oil fundamentals.

Global Metals Weekly: Zinc prices have risen by 56% YoY YTD. Reported inventories are well below recent highs, while physical premia trade above the lows <http://rsch.baml.com/r?q=alsCEm3a6PI5xBWH-neYSQ&e=amanda.ens%40baml.com&a=p;h=fj7xlg> . The rally was ultimately triggered by a tightening concentrates market on the back of permanent, as well as temporary mine closures. The impact of these supply losses has been visible in ore shipments for instance from Australia and China.

In Emerging Markets:

The Inquirer - The Fundamental Reason to buy Asia: Ajay Kapur notes we are heartened by the drop in REAL corporate bond yields from 10% last summer to only 6% now - important in managing the burden of corporate debt/GDP of 160%. <http://rsch.baml.com/r?q=nNEblZBxFIR7yGJAbWIDag&e=amanda.ens%40baml.com&a=p;h=eS9NiA> We are heartened by the 15% YoY rise in the credit multiplier (loans divided by the monetary base) - almost 20-year highs - that leads Asia ex-Japan's earnings revisions, and for cyclical sectors. We are also encouraged by the 26% YoY rise in China's Tier 1 property market prices, and that all tiers are seeing rising prices (11%YoY) - a US\$22trn market that is transmitting monetary policy. We are heartened by the 70% rise in the China monetary conditions index (CHBGMCI Index) since June last year, that LEADS China's nominal GDP growth by two quarters, and presages much stronger nominal growth in the next two quarters.

Emerging Convictions: Oil is dipping in line with seasonal drivers and oil-related currencies and credit spreads are moving mostly in line. Get ready to buy RUB <http://rsch.baml.com/r?q=xlryyFCT-KRK-NK0Y6uynQ&e=maxim.borbat%40citadel.com&h=Jw1MKg> . LatAm CDS has become an attractive alternative to short dated bonds in Brazil, Mexico and Colombia. In Asia we examine three summer risks that could reinforce risk reduction. We are short 6M CNH vs USD, EUR, JPY, AUD and MYR.

Asia Economic Weekly: Historically, Korea GDP growth tends to pick up after the implementation of fiscal stimulus. On average, real GDP growth increased around 0.8ppt by the fourth quarter after the start of stimulus during the past episodes <http://rsch.baml.com/r?q=KwyEOM-hzQLSDEYx277ZhQ&e=amanda.ens%40baml.com&a=p;h=IZchnQ> . Assuming it is implemented in September, the implied growth impact for this and next year will likely be around 0.1ppt

and 0.2ppt, respectively, in line with our earlier tentative calculation. We reiterate our 2016 GDP forecast of 2.7% and our call for Bank of Korea (BoK) staying on hold for a while, subject to incoming data.

India: The GST legislation passed and it is a very material change to indirect taxation. It will reduce costs, increase compliance, and help the economy. Valuations are stretched. The GST may not insulate from downside. Avoid Beta. <http://rsch.baml.com/r?q=0bqeEwfxiU5K-NK0Y6uyynQ&e=maxim.borbat%40citadel.com&h=qxpqaQ>

LatAm Economic Weekly: Investor's focus in Brazil will be on the many steps that Temer's administration has ahead. <http://rsch.baml.com/r?q=Pdcd7CFsSo!L3SsKw0hHbA&e=amanda.ens%40baml.com&a=p;h=EPRxlG> Debt renegotiation with states and spending caps will be discussed in the coming week. The pension reform project should be sent to Congress, after the final vote on Rousseff's impeachment, now scheduled for the end of August. In Mexico, we revised down GDP growth amid tighter monetary and fiscal policies, and weaker external demand for Mexican products. We now forecast the economy to expand 1.9% this year and 2.1% next year. Inflation will decline in Argentina, leading the central bank to lower interest rates.

EEMEA Equity Strategist: Populism in EEMEA, Europe and the US is likely the main theme for the autumn. <http://rsch.baml.com/r?q=7uxdfGrkL10S46veH8!MLQ&e=amanda.ens%40baml.com&a=p;h=NHW5TQ> To watch: 1) Above all, the 8 November US elections. 2) The potential disintegration of the EU-Turkey migration deal. 3) The rise of populism in S. Africa's 3 August municipal elections. 4) Any upside surprise in the populist vote in Russia's 18 September elections. 5) Whether Austria's presidential election on 2 October brings the first anti-EU head of state. 6) Italy's October/November constitutional referendum, which could lead to major instability in the biggest Peripheral economy. Finally, adding to the eventful autumn are Moody's Turkey review and the 21 September Fed meeting, as dovish market pricing creates a skew towards a hawkish surprise that could hurt emerging markets (EM).

MEGA Trends Momentum Ranking;

Greg Kaldor
Managing Director

US MEGA (Macro Equity & Global Alpha)

Bank of America Merrill Lynch

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