



Creative Global Investments

Morning Markets commentary & charts

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Objectivity

Integrity

Creativity

Currency Wars anyone?

In a shock move this morning, the Swiss central bank scrapped its minimum exchange rate of 1.20 Swiss francs a Euro, which was introduced four years ago to protect Switzerland from the Eurozone debt crisis. A very strong Swiss currency already has hurt the country's exporters. The Euro had depreciated considerably against the US\$ and this, in turn, has caused the Swiss franc to weaken against the US\$. In these circumstances, the SNB concluded that enforcing and maintaining the minimum exchange rate for the Swiss franc against the Euro is no longer justified. The SNB also cut the interest rate on certain sight deposit account balances to -0.75%, as well as lowering its target range for the three-month Libor to -1.25% to -0.25%, from -0.75% to 0.25%. The Swiss franc rocketed beyond parity with the euro on Thursday after Switzerland's central bank stunned markets by scrapping its long-standing cap on the strength of the currency. The impact reverberated throughout currencies markets, sending the Euro temporarily plunging against the US\$ to \$1.1579, its lowest point November 2003. The US\$ also shot higher more broadly, with sterling adding a cent to \$1.53.

On the back of this "unexpected" SNB action, **we just want to repeat two important statements as of late:**

- 1. The country which wants and can afford a "strong US\$" the least (maybe not in the very short term) has been, and still is the United States.**
- 2. There will not be a rate rise by the Federal Reserve in 2015 (and possibly even for most of 2016)**

The United States via fiscal and monetary policies has been pushing its economic growth based model on one main phenomenon: the continuous devaluation of the US\$ relative to its foreign debtors. Nothing, and absolutely nothing has changed in the past 7 months, which would give us fundamental reasons and conviction to change our views of this.

Whilst some of the pundits are still calling for the "collapse of the Euro" the impacts of a temporary strong US\$ impact are starting to weigh on other economies and their currencies, and not only the commodity producing nations such as Russia, Brazil, Canada, Mexico, Australia etc.

But, let's not be fooled, whilst some economies have to undergo dramatic moves in order to balance the short term impacts of "too weak" and/or "too strong" currencies, it is clear to us, that a leveraged major economy like the US, with most of its short-and long-term debt financed by foreign debt holders, and with its equity market at a 69-year -high with regard to foreign equity ownership, is at the end effect going to be most negatively impacted by a parabolic move in the US\$.

As the strength of the US\$ and the implicit inverse correlation on most commodities (i.e. Oil, Gold, Copper, etc.) is starting to have accelerating deflationary pressures at first at commodity producing economies, it will have an increasingly concerning effect on all economies.

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Yesterday, the **World Bank** slashed its growth forecasts for the global economy for this year and the next. The World Bank now expects 3% growth in 2015 and a 3.3% expansion in 2016, compared with previous estimates of 3.4% and 3.5% respectively, and said that risks to the outlook remain tilted to the downside.

Brent crude was down a further 1.7% at \$45.80 a barrel ahead of US government data, which is expected to show that oil stockpiles in the Stateside increased last week. Officials in the United Arab Emirates and Kuwait were cited as saying that prices will only recover when demand improves later this year with a global supply glut expected to persist into the second half. It appears to us that the Saudi's "pump dump" strategy is having major impacts on US and Canadian Oil Sands and fracking operators and their capex, debt repayment abilities at current \$WTIC equivalent prices of \$45/brl already. Several Canadian and US drillers have already slowed production, reduced capex and even proceeded with project shutdowns, staff-layoffs etc.

Germany's economic growth picked up in 2014, the federal statistics office Destatis said Thursday, stabilizing at the end of the year after a slowdown in the summer. Germany's price-adjusted gross domestic product expanded 1.5% in 2014 after increasing 0.1% the previous year. Household consumption in the Eurozone's largest economy increased 1.1% in 2014, while government consumption rose 1%. Export growth was 3.7% in 2014, compared with 1.6% the previous year. Imports increased 3.3%, after posting 3.1% growth in 2013. Investment in machinery and equipment in Germany was up 3.7% in 2014, while construction investment rose 3.4%, the data showed. The result was slightly better than economists' consensus expectations, which had forecast growth of 1.5% in 2014. The German economy remains "in solid shape" in 2014, and we are raising our 2015 GDP estimate of 1.6% to 1.8% due to positive impacts of a weak Euro, boosting exports into 2015.

The Eurozone's trade surplus widened in November as exports rose, indicating that a weakening Euro is starting to provide a boost to the economy. The European Union's statistics agency today announced the Eurozone recorded a surplus in its trade in goods with the rest of the world of EUR20 bn (\$23.6 bn), up from EUR16.5 bn in the same month of 2013. Seasonally adjusted figures recorded a 0.2% increase in exports from October, while imports were unchanged. Exports have been volatile in recent months, falling very slightly in October after a September surge.

India's central bank made also surprise move on today to cut its interest rate to 7.75%, thanks to lower-than-expected inflation. The benchmark interest rate, or the level at which The Reserve Bank of India (RBI) lends to commercial banks, had been kept at 8% since last January. The move came ahead of the bank's regular meeting next month and analysts said it paved the way for further cuts. The RBI cited a "sharper-than-expected decline" in the price of fruits and vegetables since September last year as one reason for the policy shift. It also said "ebbing price pressures in respect of cereals and the large fall in international commodity prices, particularly crude oil" had played a part in the move. The RBI has been under pressure from government and businesses to reduce its interest rate to give the struggling economy a boost. Lower interest rates lead to increased lending, which in turn helps economic expansion.

US equity markets commentary & charts

The \$SPX is at a critical support level, and may not have enough underlying strength to stay above that level.



Major technical event by S&P 500 stocks to 11:00 AM. 30 S&P 500 stocks broke support levels. Financials were one sector most notably breaking support.

13 S&P Financials broke support:

\$ACE,\$AIZ,\$BEN,\$GS,\$HBAN,\$HIG,\$JPM,\$MS,\$PRU,\$SCHW,\$STT,\$TMK,\$UNM

S&P Financial Index (\$SPEN) broke support at 318.07. Trend is no longer up.

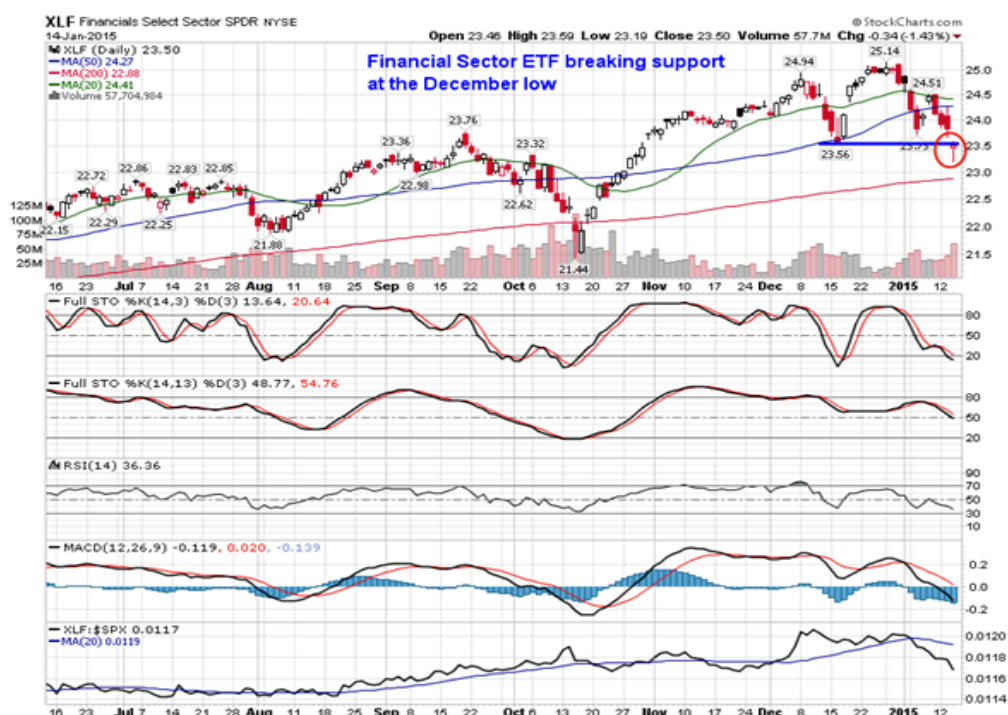


The financial sector ETF (XLF) broke below short-term support at \$23.56, suggesting downside implications to \$22.50. The ETF has traded predominantly above its 200-day moving average for the past year and a half, keeping the longer-term positive trend intact.

Weakness over the near-term may present ideal buying opportunities for the spring period of seasonal strength when the sector averages gains of around 2.3% in both March and April.

Investors will have another opportunity to react to earnings from companies in the sector when Bank of America and Citigroup report on Thursday

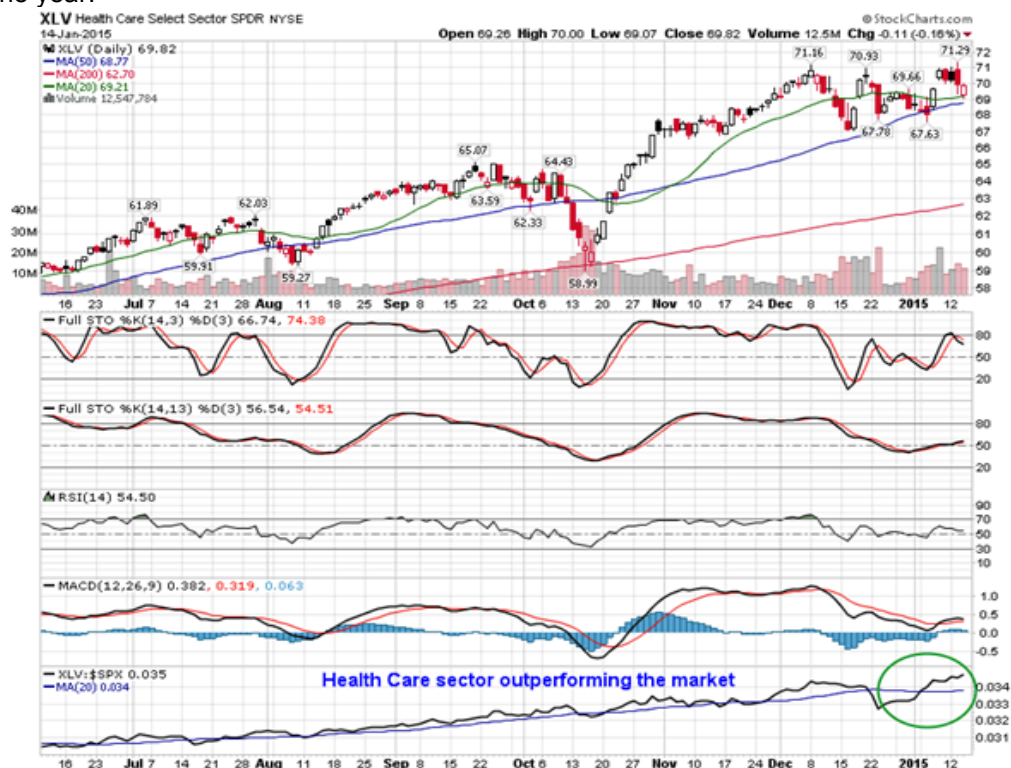
Stocks struggled on Wednesday, pulled lower by a cut in the global growth forecast from the World Bank and disappointing bank earnings from JP Morgan and Wells Fargo. The financial sector posted a loss of 1.43%, leading the market to the downside. The sector has been significantly underperforming the market since the year began as record low rates and concerns pertaining to the sector's exposure to loans for energy companies have kept investors away from stocks in this space, despite mildly positive seasonal tendencies for this time of year.



Risk aversion is becoming increasingly apparent. Defensive equity sectors have been outperforming the market since the year began as investors rotate into lower beta stocks with less exposure to the global economy and/or falling commodity prices. This defensive stance is similar to last year when investors rotated into stocks in the Utilities and Health Care sectors, leaving the broader equity market to falter in the first month of the year.

Typically, defensive sectors, mainly Utilities and Consumer Staples, are the worst performers in the month of January, suffering from the so-called "January Effect" as investors take on more risk to start the new year.

When investors shy away from risk to start the year, concerns are raised pertaining to the strength of the market for the entire calendar year.





Commodities Commentary & charts

Seasonally, this is the time of year for copper to perform well, gaining from mid-December through to April and May, benefitting from increased manufacturing and industrial production into the spring months. Copper has historically shown an inverse correlation to the direction of the US\$ Index; as the US\$ has strengthened, the price of copper has traded lower, and vice versa.

With a long-term basing pattern in the currency index just becoming apparent, a continued long-term decline in the price of copper has a high probability of being realized.

The US\$ is expected to have a negative influence on the commodity market and the stocks of commodity producers for some time.

Copper is down around 21% since hitting a July peak of \$3.30. Back in November, the commodity traded below significant support around \$3.00, breaking through the lower limit of a descending triangle pattern that dates back to the peak charted in 2011. The bearish setup targets levels below \$2.00, potentially reaching towards the 2008 low of around \$1.25. The fact that the price of copper continues to breakdown within its period of seasonal strength suggests that global economic fundamentals remain weak as demand struggles to support the price; the stronger US\$ is also a significant factor. Copper is the most sensitive commodity to the movement of the US\$.



Fixed Income commentary & charts

As globally the macro picture is not getting substantially better, and as inflationary pressures are easing ever since, we are currently reviewing our 2015 and 2016 targets for yields for 10-Y government bonds, globally.

The Indian Central Bank (RBI) and Swiss National Bank (SNB) decisions to cut rates today are further evidence of yet another round of central bank actions in order to keep the economies rolling.

The 30-year mortgage rate has decreased over 40 basis points since the oil plunge began in earnest in mid-2014. While the 30-year mortgage rate still rests well within the confines of its 29-year downtrend channel, it's worth noting that long-term rates have rarely been lower.

10-Y government bond yields in Europe are still showing lower prints.

At this point, we are advising investors to take short-term profits, ahead of the ECB meeting and announcement of QE to be launched in form of full bond buying.

As our readers and clients know only too well, we have been forecasting lower long-term rates since beginning of Q1 2014, as detailed in our 2014 Global Investment Strategy Outlook. The 10-Y US Treasuries yields have fallen from 3.00% to currently 1.83%, which is both in magnitude and in timeline precisely where our forecasts were back at that time.



Consequent to lower base yields for governments worldwide, inclusive of the US, mortgage rates have been declining as of late. This is due in part to an already low inflation rate that is coming under increased downward pressure as a result of the significant drop in oil and commodities' prices.



Germany (1% 15 Aug 2024)	0.41	-	0.43	-0.02
France (1.75% 25 Nov 2024)	0.66	+ 25	0.66	0.00
Belgium (2.6% 22 Jun 2024)	0.63	+ 21	0.62	0.01
Italy (2.5% 1 Dec 2024)	1.74	+ 133	1.74	0.00
Spain (2.75% 31 Oct 2024)	1.58	+ 117	1.55	0.03
Denmark (1.75% 15 Nov 2025)	0.68	+ 27	0.70	-0.02
Finland (2% 15 Apr 2024)	0.47	+ 5	0.48	-0.02
Netherlands (2% 15 Jul 2024)	0.49	+ 8	0.49	-0.01
Austria (1.65% 21 Oct 2024)	0.51	+ 10	0.52	0.00
Czech Republic (5.7% 25 May 2024)	0.33	- 8	0.33	0.00
Ireland (3.4% 18 Mar 2024)	1.14	+ 73	1.14	0.00
Slovenia (4.625% 09 Sep 2024)	1.90	+ 149	1.90	0.00
Hungary (5.5% 24 Jun 2025)	3.44	+ 303	3.39	0.05
Portugal (5.65% 15 Feb 2024)	2.64	+ 223	2.65	-0.01

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