Creative Global Investments

Global fixed income & forex strategy update

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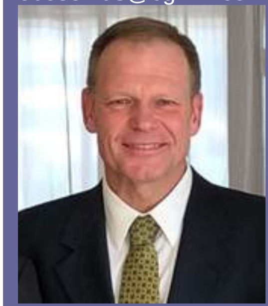

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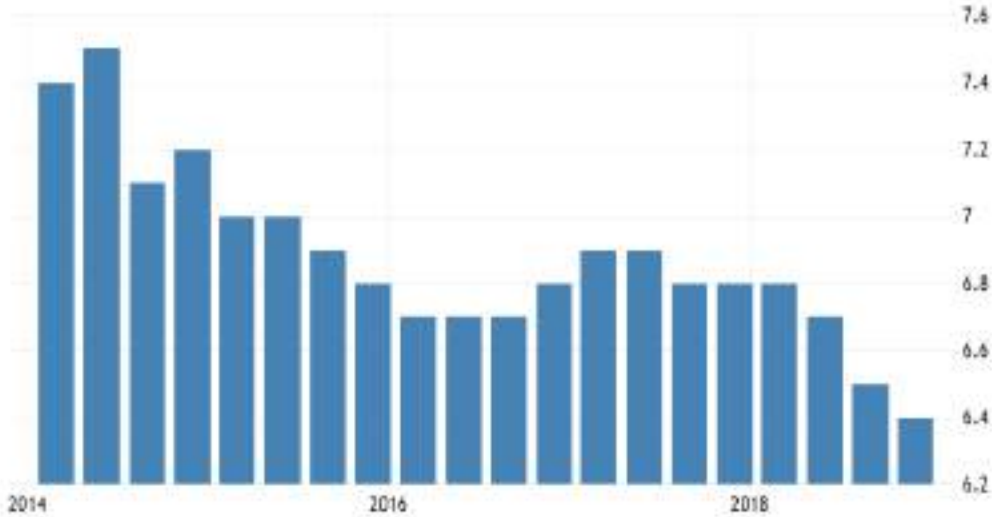
Global Macro Economic Outlook & Commentary

The IMF announced today that it expects global growth this year of 3.5%, down from 3.7% in 2018 and from the 3.7% it had forecast for 2019 back in October, and is trimming the growth outlook for the Euro-zone currency to 1.6% from 1.8%, but for now, keeping its prediction for US growth this year unchanged at 2.5%. Growth in emerging-market countries is forecast to slow to 4.5% from 4.6% in 2018. The IMF expects the Chinese economy to grow 6.2% this year, down from 6.6% in 2018 and slowest since 1990.

The World Bank and the Organization for Economic Cooperation and Development have also downgraded their world growth forecasts.

In Asia, China announced today a 6.6% growth rate for 2018, making it the slowest annual pace that China has recorded since 1990. The economic slowing has been sharper than Beijing expected in the final months of 2018, with Q4 growth only rising 6.4% from a year earlier.



Source: PBOC

China's industrial production increased 5.7% y-o-y in December, up from the 5.4% rise registered in November and beating market expectations of 5.3%. December, nominal retail sales grew 8.2% on an annual basis, a slight acceleration from the 8.1% expansion registered in November.

China's urban fixed asset investment expanded 5.9% in 2018, unchanged from the result in the first 11 months of the year (2017: +7.2%). China's official jobless rate ticked up to 4.9% last month from 4.8% in November.

In Japan, the Bank of Japan is to announce its benchmark interest rate and publish a rate statement on Wednesday. We are expecting for the BoJ to keep monetary policy unchanged. The BoJ will also publish a quarterly report analyzing Japan's economy that will include fresh growth and inflation forecasts through the fiscal year ending in March 2021.

In Europe, December harmonized inflation came in for the EU at and 8-month-low 1.6% (vs. November's 1.9%), well below the ECB's 2.0% target rat. Lower energy prices drove December's fall. Annual average harmonized inflation was unchanged at November's 1.7% in December. Core inflation was stable at the previous month's 1.1%. On a monthly basis, harmonized consumer prices recorded flat growth, contrasting the -0.2% drop seen in November.

Between the EU-countries Greece (0.6%) and Portugal (0.6%) recorded the lowest inflation in December, whilst Estonia (3.3%) and Latvia (2.5%) experienced the highest price pressures. Regarding the largest economies in the Eurozone, inflation fell across-the-board, with price pressures easing in France (1.9%), Germany (1.8%), Italy (1.2%) and Spain (1.2%) in December.

Source: Eurostat

In the US, the University of Michigan's US consumer confidence index slid from a reading of 98.3 for December to 90.7 in January (consensus: 96.4), with the outlook for the domestic economy being the worst since mid-2014. The main issues for consumer confidence are the partial government shutdown, the impact of tariffs, instabilities in financial markets, the global slowdown, and the lack of clarity about monetary policies.

In other news, the Fed reported a slightly better-than-expected increase in US industrial production for the month of December of 0.3% month-on-month (consensus: 0.2%), albeit amid sharp increases in manufacturing and mining output of 1.1% and 1.5%, respectively

Most importantly, we would like to point out the fact that the US government shutdown ordered by President Trump being the longest in history, shown in the table below.

Shutdown	Days	Employees furloughed	Cost to government	President
1980	1	1,600	$700,000	Carter
1981	1	241,000	$80–90 million	Reagan
1984	1	500,000	$65 million	
1986	1	500,000	$62 million	
1990	3	2,800	$2.57 million	H.W. Bush
Nov 1995	5	800,000	$400 million	Clinton
1995–1996	21	284,000		
2013	16	800,000 (total 2.1 million)	$2.1 billion	Obama
Jan 2018	3	692,900		Trump
2018–19	*(28)*	800,000		

source: Wikipedia

One of the least talked-about consequences of the partial shutdown of the US government is its negative effect on the US economy.

Federal spending accounts for just over 20% of the total economy. When that spending is halted, even if only partially, as it is now, demand for goods and services necessarily drops instantly.

Besides some 800,000 government employees who aren’t collecting paychecks, there are hundreds of thousands of government contractors not being paid either. None of them can buy as much as before.

A year ago, Trump and his “supply-side-economics” sidekick Larry Kudlow predicted that their corporate tax cut would cause business investment to soar, which would lead to faster economic growth and higher wages. The tax-cut sugar high faded within six months. Corporate investment rose at a 10% annual rate in 1H of 2018 but then slowed to 2.5% in Q3. According to the Institute for Supply Management, new orders for manufacturing equipment fell by a stunning 11 points in December. The logical explanation is that corporations won’t invest unless they expect an adequate return on such investments. That return depends on there being enough buyers for the goods and services they produce.

But there aren’t enough. Besides all the government workers and contractors who aren’t being paid, American consumers as a whole have seen little if any rise in their paychecks, adjusted for inflation. When Trump slashed corporate taxes he promised everyone else a wage boost of $4,000. It never happened. Instead, the benefits of the giant corporate tax cut went largely into the pockets of top executives and investors.

Corporate stock buybacks continue fueling the temporary stock market boom, but its benefits didn’t trickle down because more than 80% of stocks are owned by the wealthiest 10% of Americans. Unlike typical workers, the wealthy spend only a tiny fraction of what they earn. So when money flows to the top, total demand falls behind.

Again, “trickle down economics” never worked, and they never will. Can someone help Larry Kudlow on this one?

During the past two Trump years, American employers have continued to cut pension and healthcare benefits, and jobs are less secure than ever. One in five is now held by a worker under contract, without any unemployment insurance, sick leave or retirement savings. Trump continues to undermine what’s left of the Affordable Care Act. Over the past two years, some 4Mn employed have lost health insurance coverage.

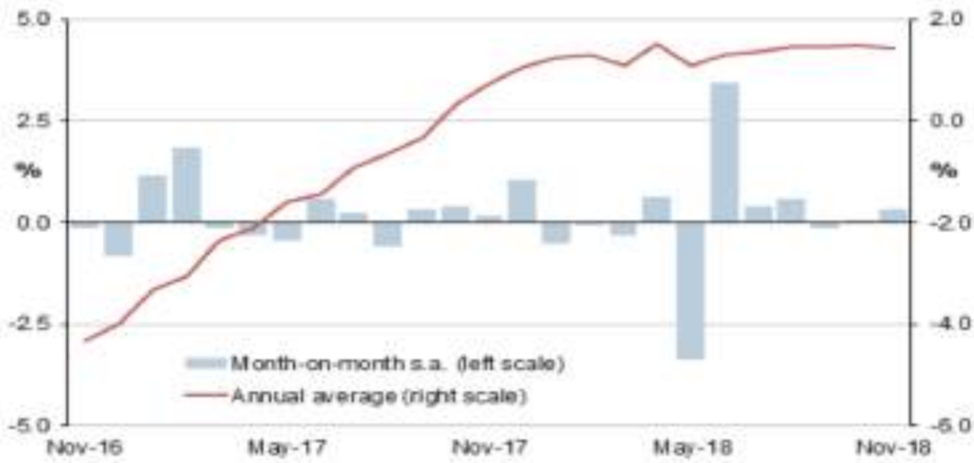
Trump’ s campaign pledge to spend USD1Trn to reconstruct the nation’s roadways, waterworks and bridges, so far has been a myth, and now, of course, it will be the Democrats’ problem, as they control Federal spending.

“Trumponomics” premises are flawed. Cutting taxes on big corporations and the wealthy doesn’t stimulate investment. It only creates a bigger national debt that has to be paid off somehow, sometime.

And who’s going to have to pay it off, either in higher taxes or fewer government services?

Like in the past, it will become ownership of average Americans, who are already being shafted by Trump’s policies.

Brazilian economic activity accelerated 0.3% m-o-m seasonally-adjusted, and above October’s flat growth. On an annual basis, economic activity expanded a 1.9% in November, down from October’s 2.9%. Annual average growth in economic activity fell from October’s 1.5% to 1.4%. Consensus expectations are for the Brazilian GDP to grow 2.3% in 2019, unchanged from last month’s estimate. For 2020, analyst consensus sees GDP rising 2.5%



As we had warned in our 2019 Global Macro outlook & Investment Strategy, the global macro momentum is losing steam on an accelerating basis. Data from around the world is weakening since December of 2018.

Additionally, we currently see 4 unresolved issues that negatively impact global investors:

- **Central Banks and their monetary policies too slow** to react to the rapidly deteriorating macro environment
- **The US - China Trade Dispute**. Although negotiations between the US and China restarted this week, US officials are notoriously skeptical of China and the failed talks not resulting in the big concessions desired by US. President Trump has set a March 2 deadline to cut a deal.
- **The US Government Shutdown** – and the fact that the Democrats as last are week in charge of Federal spending and not giving Donald Trump the USD5.7 BN of border wall funding he seeks
- **Brexit deal or no deal?** March 29 is the crucial deal date the UK has to comply with. If the UK fails to reach a deal with the European Union by that date, it will automatically trigger a "hard Brexit" which means leaving the EU with no trade deal in place - the worst possible outcome.

As long as those issues weigh on investors' minds, we see it hard for global equities markets and commodities to rise from current levels.

On the contrary, with valuations where they are for equities, and particularly relative to bonds, and with more geo-political stress and uncertainties, we continue to advise for investors to "temporarily park" money and new cash in bonds, and particularly in US treasuries, which are offering very good returns, relative to their downside risks, and mostly relative to equities and commodities.

All in all, given the rosy forecasters needing to sober up a bit and revise forecast down for the next 2 – 3 years, we do not see the FED likely to continue to tighten its monetary stance to keep inflation in check, which would tighten global financial conditions and could trigger further emerging-market capital outflows and currency depreciation, and implicitly a prolonged USD appreciation, which neither the US policymakers nor the consumer (still 72% of US GDP) can afford.

The recent increases in volatility of all asset classes globally as a sign that the pillars of the global financial system are fundamentally unstable and could lead to a renewed panic snowball reaction by investors and consumers into the next significant economic and financial crisis. Giant "central counterparties" (CCPs) that clear most of the USD540 Trn in financial derivatives are themselves vulnerable to failure in times of extreme stress.

Currencies & fixed income commentary & charts

The USD extended a double top pattern last week. Again, we see November 6th US election as a pivotal point for asset allocations between bonds and equities, and even significantly impacting the future downward direction of the USD.

Consequently we see 10-year Treasuries relatively inexpensive to US equities, and hence we advise investors to increase weightings towards 10-Year Treasuries, in spite of seasonal period of weakness. Given the wider spreads of US Treasuries over EU and Japanese 10-year government bonds, we see foreign investors continuing to find better value in US treasuries and increase allocations.

Investors Sentiment Indicators

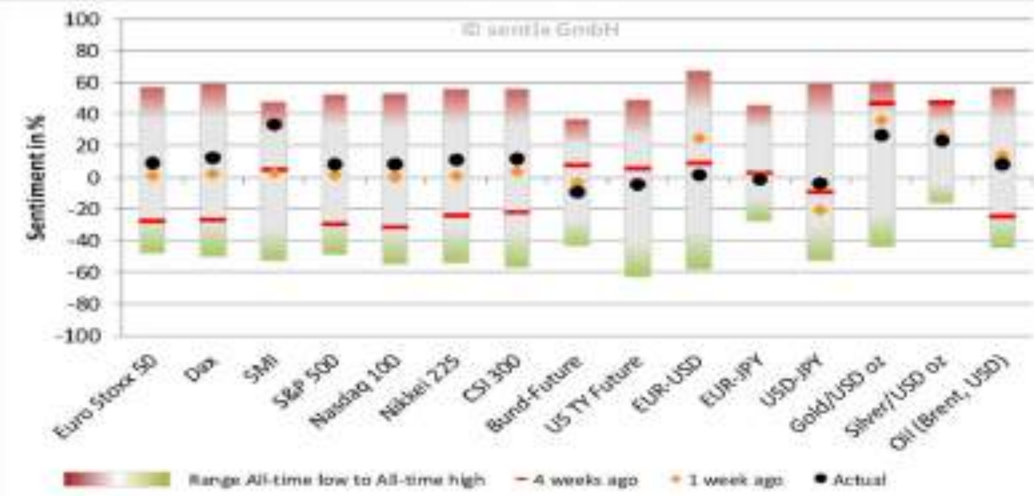
According to the latest ***sentix*** Investors' survey, sentiment on the stock markets is hardly changing. The bias does not show any new life energy either. Investors are waiting for the Brexit vote in the British parliament.

Signals from the ***sentix*** data universe/statistical highlights

	DAX	ESX50	SMI	S&P 500	Nasdaq	Nikkei	CSI 300	Bunds	T-Bonds	EUR-USD	EUR-JPY*	USD-JPY	Gold	Silver	Oil
Sentiment			X												
Strategic Bias										X		X		X	
Neutrality Index										X	X	X			X
Overconfidence Index								X							

* highlights markets for which the sentix indicators display extreme values

Emotions are showing strength on the currency side. The USD is under fire. The high neutrality on the US bond market is conspicuous. A directional decision and a large movement are to be expected from this

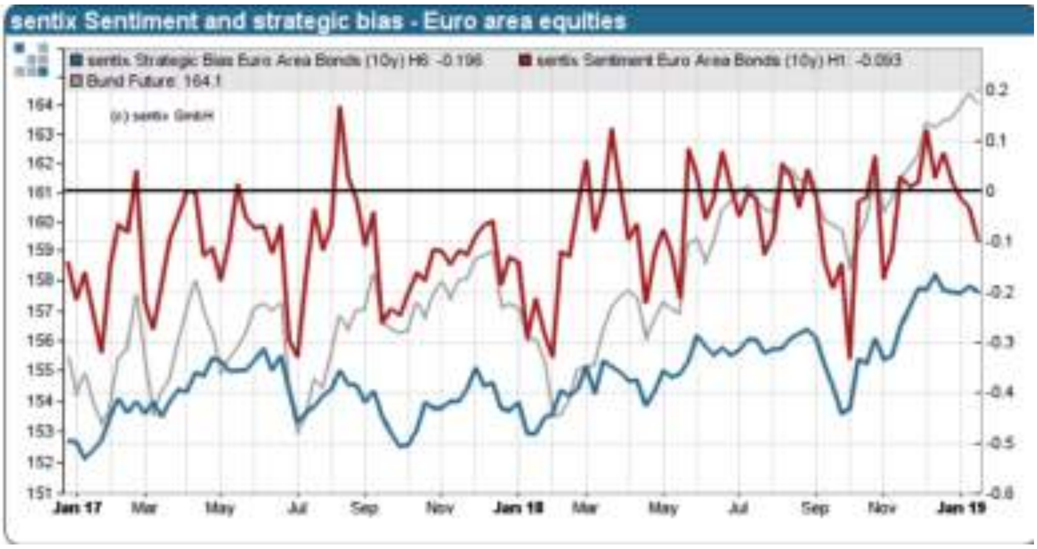


Investors are turning away from the USD and towards the EUR. Sentiment against the EURUSD is climbing to a 52- week high. As the bias continues to rise, there are more signs of a sentiment impulse accompanying a trend reversal than of a contrary sell signal at EURUSD.

The sentiment for USDJPY also falls to a multi-year low. The multi-year range has been abandoned and investors are rethinking the USD. The slump in the strategic bias against USD-JPY continues. In the chart on the right we have deliberately presented the entire ***sentix*** history. This makes the extent and dynamics of this change even more impressive. Obviously there is a very significant trend change taking place here, which is also likely to be important for other asset classes due to the strong correlation of USD-JPY with investors' risk behavior.

For US long bonds, both the short- and medium-term Neutrality Index climb to new 52-week highs, and extreme, this usually happens at important market points and before new trend spurts. The sum of the two indices is therefore also record-breakingly high and signals that a volatility surge is imminent

The high level of overconfidence currently seen in Eurobonds represents a brake on further price gains. On the positive side, however, the mood quickly deteriorates and the bias remains stable at the same time. Bonds thus continue to represent a good holding position and diversification in a mixed portfolio, although consolidation is likely to continue in the short term.



The mood is also improving strongly for EM Bonds. However, positioning and sentiment are not yet as advanced as with equities, so there is still room for improvement here.

US Dollar weekly charts

US Dollar Index trades at 95.68

Intermediate trend is Negative. $USD is rejecting the pullback. $USD is below the 50-day MVA.

Short-term momentum indicators are rolling over.

EUR USD trades at 1.141

Intermediate trend is Neutral. $EURUSD rebounded from the lower trendline
$EUR USD rejected from the 50-day MVA.

Short-term momentum indicators are rolling over.

USD CHF trades at 0.987

Intermediate trend is Negative. $USDCHF is retracing from the top of the channel / 50-day MVA.

Short-term momentum indicators are Positive.

USD GBP trades at 0.777

Intermediate trend is Negative. $USDGBP is going to test the lower trendline.
Price remains below the 50-day MVA.

Short-term momentum indicators are Negative.

USD JPY trades at 108.71

Intermediate trend is Negative. $USDJPY is ranging after the flash crash.
$USD JPY below above the 50-day MVA.

Short-term momentum indicators are rolling over.

AUD USD trades at 0.72

Intermediate trend is Neutral. $AUD USD retraced from support. Price is above the 50-day MVA.

Short-term momentum indicators are Positive.

NZD USD trades at 0.682

Intermediate trend is Positive. $NZD USD rejected from the lower trendline. Price moved above the 50-day MVA.

Short-term momentum indicators are Positive.

USD CAD trades at 1.327

Intermediate trend is Neutral. $USDCAD closed below the 50-day MVA. $USD CAD is testing the 1.32 support.

Short-term momentum indicators are Mixed.

USD MXN trades at 19.00

Intermediate trend is Negative. $USDMXN will test the 18.8 support. $USDMXN is below the 50-day MVA.

Short-term momentum indicators are Negative and Oversold.

Euro weekly charts

EUR GBP trades at 0.862

Intermediate trend is Negative. $EUR GBP is testing the 200-day MVA.

Short-term momentum indicators are Negative.

EUR JPY trades at 124.04

Intermediate trend is Negative. $EUR JPY rejected from the former support. $EUR JPY remains below 50-day MVA.

Short-term momentum indicators are Negative.

EURCHF trades at 1.127

Intermediate trend is Negative. $EUR CHF rejected from the upper trendline. $EUR CHF is below the 50-day MVA.

Short-term momentum indicators are Positive.

JPY weekly charts

AUD JPY trades at 78.28

Intermediate trend is Negative. $AUD JPY retraced back inside an expanding channel. $AUD JPY is below the 50-day MVA.

Short-term momentum indicators are Positive.

GBP JPY trades at 139.95

Intermediate trend is Negative. $GBP JPY rejected from the lower trendline. $GBP JPY is below the 50-day MVA.

Short-term momentum indicators are Positive.

JPY trades at 91.76

Intermediate trend is Positive. $XJV is potentially forming a flag.

Short-term momentum indicators are rolling over.

EM currencies weekly charts

USD BRL trades at 3.72

Intermediate trend is Neutral. $USDBRL is sitting on the important support.
$USBRL is below the 50-day MVA.

Short-term momentum indicators are Mixed.

USD ZAR trades at 13.73

Intermediate trend is Negative. $USDZAR is going to test the lower trendline.
$USD ZAR remains below the 50-day MVA.

Short-term momentum indicators are Negative.

Fixed Income weekly charts

$TNX trades at 27.31

Intermediate trend is Negative.
$TNX is retracing to test the overhead resistance.
Price remains below the 50-day MVA.
Short-term momentum indicators are Positive.

$UST2Y trades at 2.53

Intermediate trend is Negative.
$UST2Y rejected from the 2.55 resistance.
Price remains below the 50-day MVA.
Short-term momentum indicators are Mixed.

$TYX trades at 30.77

Intermediate trend is Neutral.
$TYX remains in a range between 29.5 and 31.5.
Price remains above 50-day MVA.
Short-term momentum indicators are Positive.

UK 10-year trades at 1.236

Intermediate trend is Negative.
Price is testing the 1.23 support.
Price moved below the 50-day MVA.
Short-term momentum indicators are Negative.

Intermediate trend is Negative.
Price rebounded from the support at 0.12.
Price is below the 50-day MVA.
Short-term momentum indicators are Positive.

Germany 10-year trades at 0.220

Intermediate trend is Negative.
Price is pressuring the support at 2.70.
Price is below the 50-day MVA.
Short-term momentum indicators are Mixed.

Italy 10-year trades at 2.761

Spain 10-year trades at 1.378

Intermediate trend is Negative.
Price looks ready to retest the 1.30 / 1.20 support.
Price moved below the 50-day MVA.
Short-term momentum indicators are Negative.

Greece 10-year trades at 4.232

Intermediate trend is Neutral.
Price is in an ascending triangle.
Price remains below the 50-day MVA.
Short-term momentum indicators are Negative.

Intermediate trend is Negative.
Price broke a 3.2 support.
Price remains below the 50-day MVA.
Short-term momentum indicators are Negative.

China 10-year trades at 3.140

Intermediate trend is Neutral.
Price rebounded from the strong support.
Price remains below the 50-day MVA.
Short-term momentum indicators are rolling over.

Japan 10-year trades at 0.008

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