



Creative Global Investments

Morning market commentary & charts

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Objectivity

Integrity

Creativity

Macro Commentary

Global macro still weakening

The World Trade Organization today released data for the global goods trade for 2015, which grew by 2.8 percent, based on volume, but in value terms exports slumped by -13.5 percent as the rising US\$ and collapsing commodity prices hammered the value of exports in every region. The value of services exports also fell, by -6.4 percent, although that too was exacerbated by the commodities slowdown, as dry bulk cargo shipping prices fell to record lows

After the disappointing data for 2015, the WTO lowered its forecast for global growth in world trade to 2.8 percent this year, lower than a previous forecast of 3.9 percent. The WTO expects trade to rise to 3.6 percent in 2017, breaking through 3.0 percent for the first time in six years. Its forecasts are based on economic growth of 2.4 percent in 2016 and 2.7 percent in 2017.

However, as history over the past five years has proven, the WTO has regularly revised preliminary estimates downwards because of overly optimistic predictions of economic recovery. Since the financial crisis, trade has grown roughly in line with global economic growth, rather than twice as fast in the years before the crisis. Risks to its latest forecasts were still mostly on the downside, including a sharper than expected slowing of China's economy, worsening financial market volatility and exposure of countries with large foreign debts to sharp exchange rate movements.

Other economic data showed

- US +0.4% Q1 GDP estimate from Atlanta Fed, down from +2.7% a month ago.
- Japanese and European PMI data was well under estimates.

In the short run the absolute level of economic activity is lower than it should be, with financial market finding it hard to advance much further without concrete proof that the economy is truly healthy.

Members of the Federal Open Market Committee were concerned about the threat of slower global growth and low inflation when they voted to keep interest rates unchanged last month, the minutes of the central bank's March 15-16 meeting revealed. Several also cautioned against an increase in April, saying it was signal a sense of urgency about the US economy that they did not think appropriate.

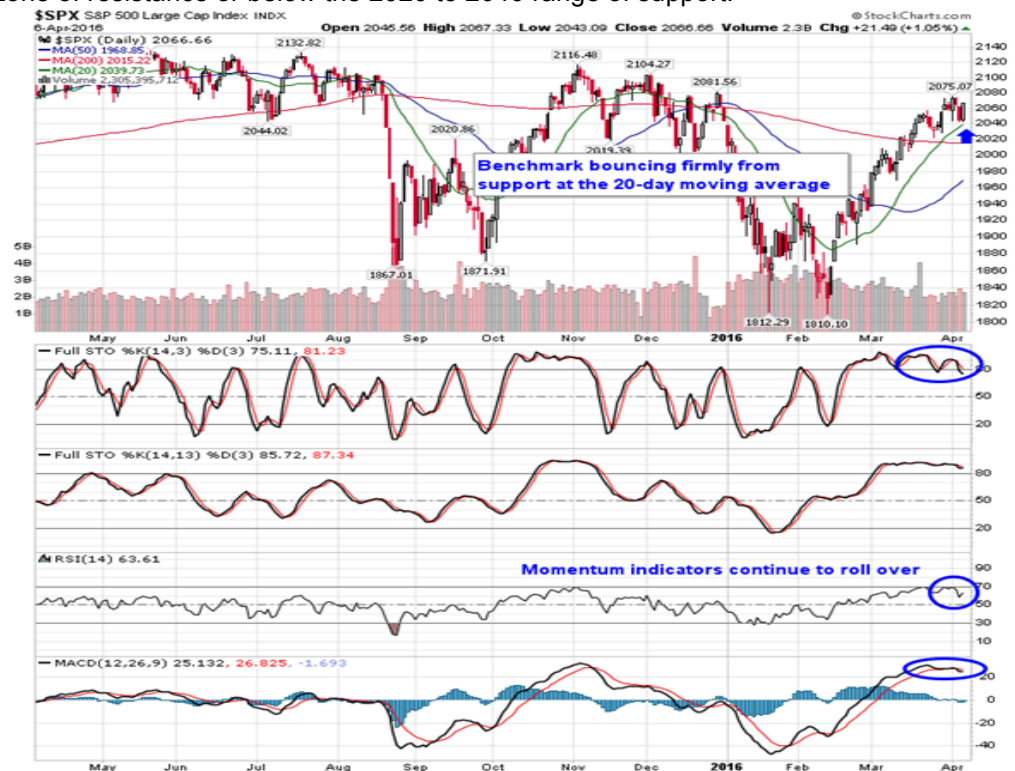
However, some other participants indicated that a hike at the next meeting "might well be warranted if the incoming economic data remained consistent with their expectations for moderate growth in output, further strengthening of the labor market, and inflation rising to 2 percent over the medium term", the minutes revealed.

We continue to see central banks having no choice but to weaken their currencies in order to deal with terminally ill economies.

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Equities Commentary

Stocks ended higher on Wednesday with the S&P 500 Index bouncing from its rising 20-day moving average, a level of support that has proven to be very pivotal to the short-term trend since the market bottomed in February. Momentum indicators continue to roll over, suggesting waning buying pressures. With the number of levels of resistance directly overhead combined with levels of support directly below at major moving averages, it may take a catalyst to fuel a break, either above the 2080 to 2100 zone of resistance or below the 2020 to 2040 range of support.



While some investors have summoned up the courage to buy stocks again, the truth is that they have few attractive alternatives. MLPs are an ongoing disaster (for example, investors are discovering every day that they owe taxes on these investments even when they lost money).

Commodities remain attractive (although, temporarily oil prices dropped last week as conflicting comments by OPEC on production cutbacks were made).

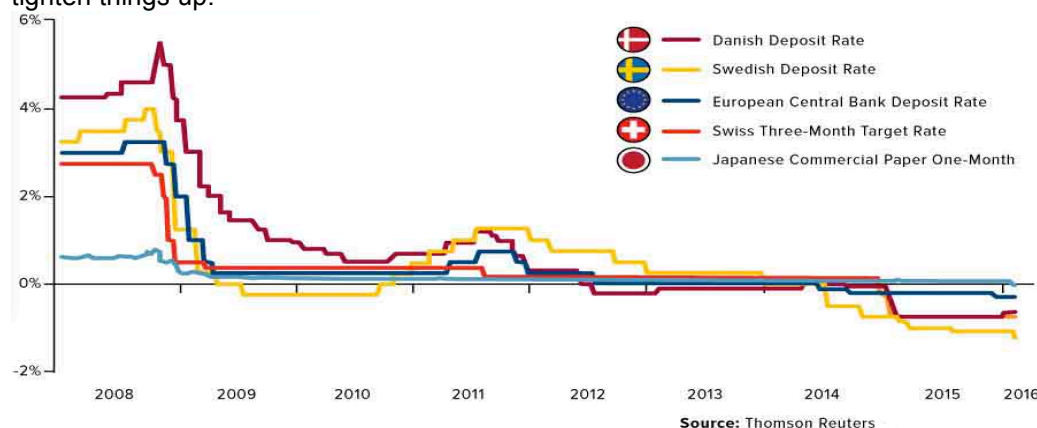
As we have written many times over the past 18 months, stocks are the only game in town, for now, at least until early May when they enter their period of seasonal weakness until the end of August, and for now, when it comes to total returns (European dividend period peaking).

Unfortunately, in the case of US stocks, they are very overvalued. They squeezed out a slight gain in Q1, as we were anticipating, after dropping sharply in January.

But we still believe G-10 equities' markets are in a bear market and that investors should use this reprieve to reduce exposure and "park the proceeds for the summer in US treasuries and European peripheral 10-Year government bonds, like in Spain, Italy, Greece, France.

Despite the fact that stocks rallied, one more time with heavy lifting by Janet Yellen, who re-confirmed she wouldn't do anything to upset the apple cart over the next few months in view of the fact that the global economy is struggling.

Equity Investors continue to enjoy a scenario, where global central banks' actions are coordinated in order to push real assets and implicitly equities into bubble territory. The world's major central banks keep on further easing policy (in many cases pushing interest rates deeper into negative territory) or, in the case of the Fed, did nothing to tighten things up.



We see few reasons to believe that the recent rally is sustainable, and we maintain our S&P 500 target of 1650-1750 for the end of Q2, with the current rallies being nothing more than a bear market rally that will soon end.

In the past weeks, investors have invested billions of US\$ in the US junk bond market, where we were able to see increasing signs of a near term collapse. **We are advising for equity investors in the US not to chase the rally any longer, and instead lighten up on US equities and raise cash and allocate towards alternatives such as 10-Year US treasuries and into commodities.**

According to Standard & Poor's, there are \$1.2 TRN of high yield debt maturing between now and 2020, of which nearly 60% of this debt was issued between 2012 and 2014 with average yields of 6.2%. By the end of 2014, the average yield rose to 8% and surpassed 11% early in 2016 before dropping back to roughly 8.2% at the end of Q1 2016.

We have identified over \$280 BN of debt rated B- or lower maturing through 2020 with most coming due in 2019 and 2020, which is a number investors should get acquainted with, as we see this as one possible catalyst for panic in the streets in the coming 12 months. When singling out the weakest sectors with the largest amounts of debt maturing through 2020 one should watch carefully:

- Media and entertainment (\$220 BN)
- Oil and gas exploration and production (\$112 BN)
- Retail and restaurants (\$81 BN)
- Financial institutions (\$99 BN)
- Metals, mining and steel (\$44.3 Bn)

These bonds are trading too low, so you can't short them. Stay away. (Shorting bonds is dangerous because you have to pay out the coupon.)

Again, as we have written in the past 12 months, we have seen macro indicators in the US since March 2016, if the US economy does not experience a recession (or worse) between now and 2020, which would accelerate the demise of many of these companies.

The high yield market has benefitted from unusually low interest rates since the financial crisis, but those conditions are coming to an end not because of the Fed's actions but because the market has repriced risk.

OIL update

Oil prices regained strength following bullish comments from OPEC member Kuwait and an unexpected decline US crude inventories. Kuwait's Governor for the Organization of Petroleum Exporting Countries (OPEC), Nawal Al-Fuzaia, said she was confident both OPEC and non-OPEC members will go along with plans to cut crude output at the upcoming meeting in Qatar on 17 April.

US Department of Energy's statistical arm EIA said American crude oil inventories fell 4.9 MN barrels in the week to April 1, compared with analysts' expectations for an increase of a 3.1-3.2 MN barrels. West Texas Intermediate crude rose 4.9% to \$37.77 per barrel and Brent increased 4.6% to \$39.71 per barrel.

Oil prices were also higher after data on Wednesday from the Energy Information Administration showed a surprise draw in US inventories. They fell by 4.9 MN barrels last week, versus expectations for a 3.3 MN increase.

April brings a twice-yearly Energy sector ritual called "borrowing base redetermination." This is where banks have to examine the assets, liabilities, and cash flows of E&P companies to assess their capacity for paying current loans and taking on new debt.

This matters a lot when the price of oil is so volatile. In this process last October, banks used WTI crude forecasts that were probably close to \$50 a barrel.

That situation will not be good for E&Ps in need of more financing as the value of their reserves - their "borrowing base" - gets cut by as much as 30%. They are still furiously pumping cheap oil just to pay their existing debts and keep the wells and cash flowing. To survive, they are forced to increase supply and further build the glut of inventories that only keeps the price of oil down.

What bank in the world would lend them more money if the oil price/supply equation were only expected to get worse? These Energy sector dilemmas should also be a headwind for the broad market and the economy as the impacts continue to spillover into manufacturing and banking.

The underlying situation in the Oil market hasn't changed much. The OPEC-Russia meeting is still on for April 17, and should result in a deal to cap oil production. This will help manage the market's expectations for how much more supply will be coming on the market, while allowing demand growth to catch up with supply.

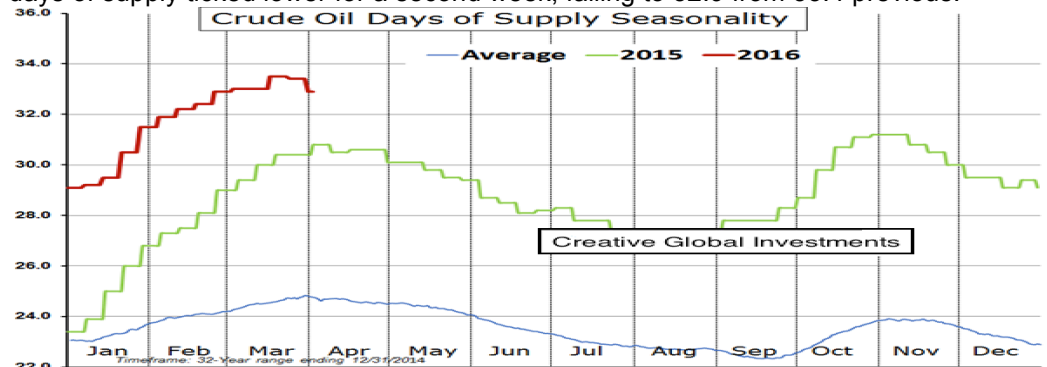
Longer-term, however, we're setting ourselves up for an overcorrection. The IEA reported this week that about \$100 BN of oil investments had been cut as a result of slump in oil prices.

That investment is crucial for future oil supply. It takes about \$300 BN just to keep production at today's level. With cuts at the \$100 BN level, the current supply "glut" will turn into a shortage rather quickly, and as we anticipated by the end of the summer 2016.

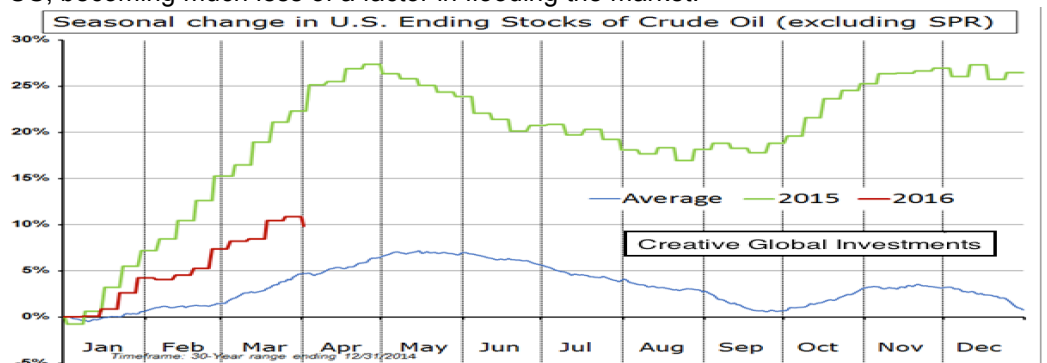
The price of WTI Crude has bounced firmly from around \$35, cementing the previous level of resistance that was evident at the end of January as a level of support.



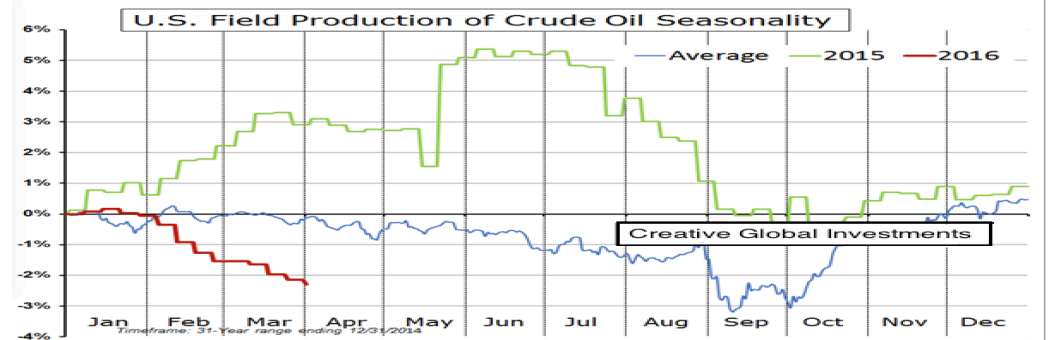
As yesterday's data showed, the US energy sector experienced a drawdown in crude inventories. Crude oil inventories declined by 4.9 MN barrels last week, reversing a trend of inventory builds that has dominated since the start of the year. The Crude Oil days of supply ticked lower for a second week, falling to 32.9 from 33.4 previous.



Last week we suggested that the peak in oil inventories would be realized within the month; this report further confirms that supply and demand fundamentals are starting to converge with the days of supply rolling over and supply side pressures, at least in the US, becoming much less of a factor in flooding the market.

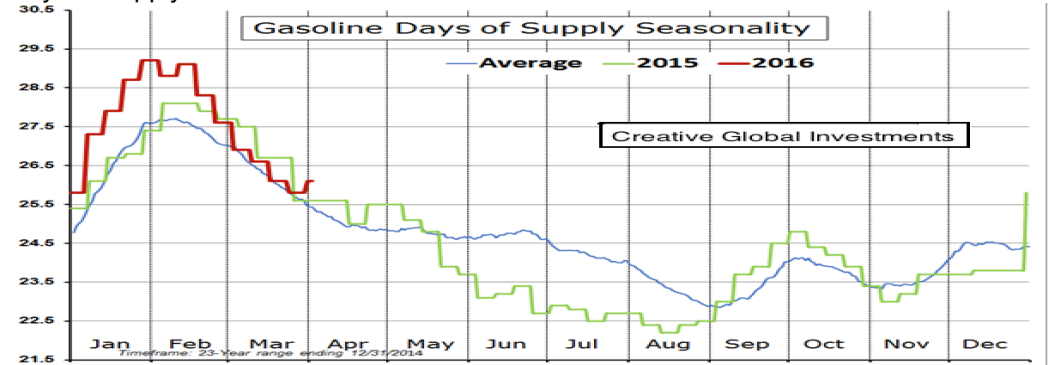


Helping alleviate bloated supplies of the energy commodity is the continued decline in domestic production, which is hovering 2.2% below the average pace through to the start of April.

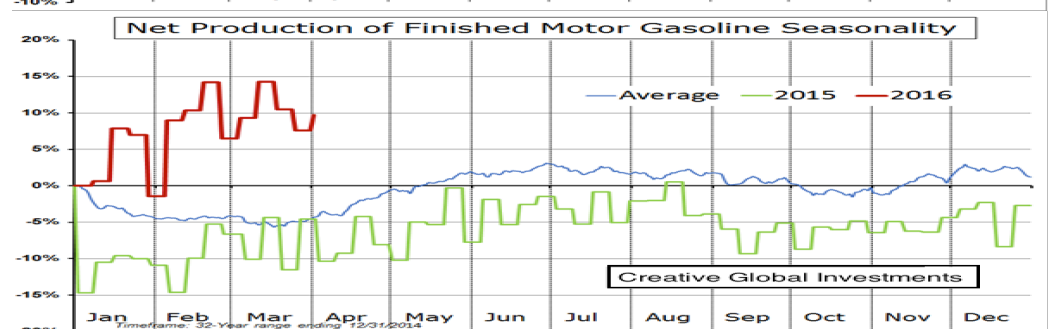
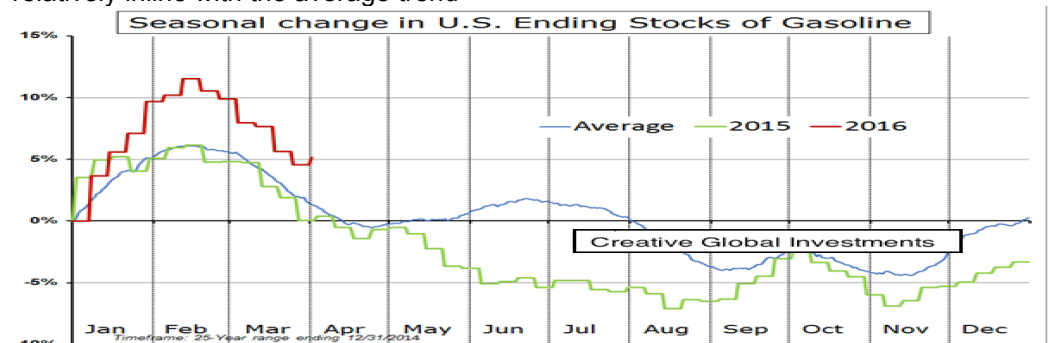


Nevertheless, Gasoline's uptick in production drawing on the raw input allowed for an increase in inventories for the finished product. This trend may continue through the week ahead as an unexpected patch of cold weather to start the spring has hit the US Northeast, potentially impacting demand pressures related to automobile consumption.

Gasoline inventories rose by 1.4 MN barrels, causing a rather abnormal uptick in the days of supply to 26.1.

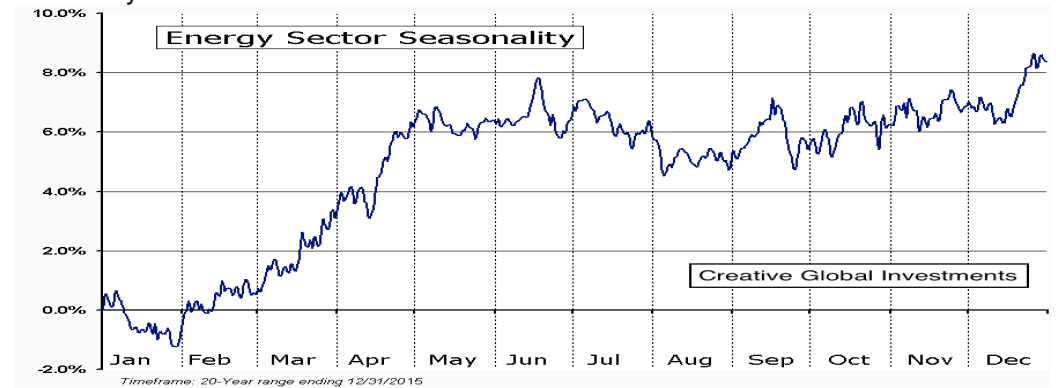


The rate of change of gasoline stocks continues to hover around 3.8% above average, despite the supply/demand fundamentals, as implied by the days of supply, remaining relatively inline with the average trend



No matter how overbought and overvalued the market is right now, we continue to see

good value in the Energy sector as Oil prices have clearly bottomed, but also considering the fact that the period of seasonal strength for the energy sector lasts historically until mid June.



Monthly Averages over past 20 years:												
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
%Return	-0.7%	1.3%	2.7%	3.2%	0.3%	0.0%	-0.5%	-1.1%	0.2%	1.1%	0.5%	1.2%
Gain Frequency	35%	60%	70%	70%	65%	50%	55%	45%	55%	65%	60%	55%
MaxReturn	13.9%	18.3%	14.6%	14.5%	10.2%	5.8%	8.0%	7.2%	13.7%	17.0%	8.1%	13.8%
	2006	2005	1999	1999	2009	2005	2010	2000	1998	2011	2006	2003
MinReturn	-10.9%	-12.5%	-3.7%	-5.3%	-11.8%	-6.8%	-14.0%	-11.6%	-12.6%	-18.0%	-8.8%	-10.0%
	2008	2009	2005	2005	2010	2001	2008	1998	2011	2008	2014	2015

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