



Creative Global Investments

Market commentary & charts

Thursday, June 9th, 2016

Currencies Commentary

Carlo R. Besenius
Chief Executive Officer
cbesenius@cg-inv.com



Creative Global
Investments LLC
115 East 57th Street 11th
Floor New York, NY 10022
Tel: 212 939 7256
Mob: 917 301 3734

Creative Global
Investments/Europe
5, op der Heed
L-1709 Senningerberg
Luxembourg/Europe
Tel: +(352) 2625 8640
Mob: +(352) 691 106 969

Objectivity

Integrity

Creativity

The continuing weakness in the US\$ Index helped commodities and US equity prices to rise yesterday.



Again, we see the weakening path of the US\$ to accelerate towards undoing most of its parabolic rise since June 2014 over the coming 9 – 12 months, and this implicitly helping for commodities prices to rise inversely.

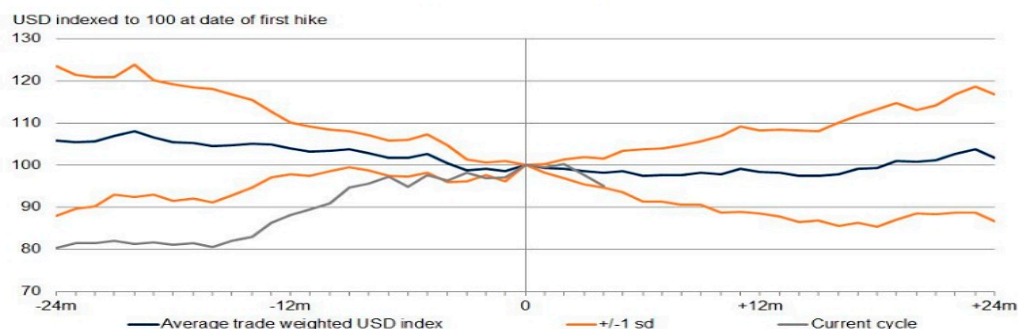


IMPORTANT DISCLAIMER: As a company purely focused on research, CGI LLC has no business relationships with the company covered in this report, be it investment banking, consulting or any other type of relationship. In addition, CGI LLC does not seek and does not intend to seek in the future any such businesses, maintains complete independence and has no conflicts of interest related to the companies in its research universe. Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of CGI LLC or any of its affiliates. In addition, CGI LLC and its employees, including the analyst who wrote this report, hold no equity, debt or other linked derivative investments, the value of which is related in any way, directly or indirectly, to the operating and stock price performance of the company covered in this report. No such investment positions are held in any of the competitors, suppliers or customers of the companies in our coverage universe. This report is provided for information purposes only. It should not be used or considered as an offer of securities and it does not represent a solicitation to either buy or sell any securities or derivatives thereof.

Besides the weakening technical outlook of the US\$ Index, an increasing amount of fundamentals are becoming equally concerning to investors.

Let's take a look at the trade-weighted US\$ back to 1975, before and after the Fed starts the process of raising rates, one can see the performance of the US\$ in the current interest rate cycle has been very different to past cycles. This time, the US\$ rose close to 20% in the 24 months leading up to the first rate hike. Historically, however, the US\$ has depreciated steadily in the run up. **We believe the embedded US\$ strength is way overdone, and that the US\$ index (\$USD) peaked in March 2015 at 100.71.**

The trade weighted US\$ has historically underperformed following Fed rate hikes



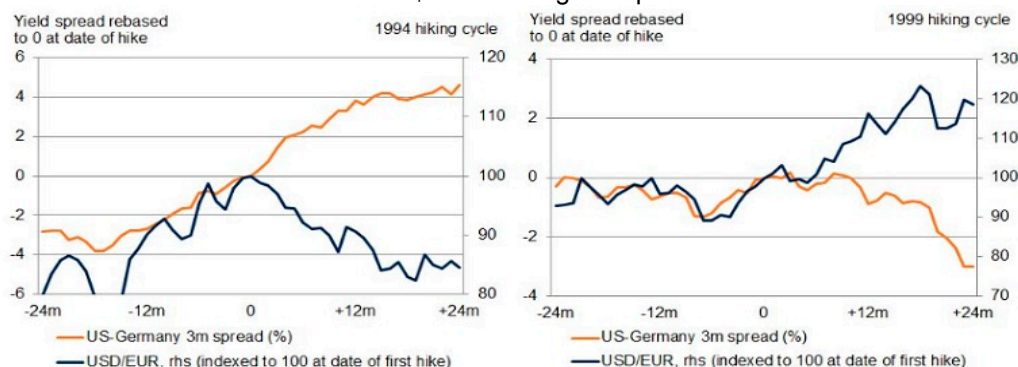
source: Thomson Reuters

The trade-weighted US\$, post rate hikes, tends to weaken by around -1.6% within 12 months. Given the parabolic 1-year exaggerated rise of the US\$, we are of the opinion that the tremendous damage that this US\$ rise has caused globally, the reaction by currency investors with regards to the direction of the US\$ (we still are not expecting, contrary to consensus, for rates in the US to rise versus other major central banks) in the unlikely event of a rate rise by the Fed in June will be opposite to historic incidents.

Hence why the US\$ carry trade should diminish and inherently weaken the US\$. We therefore continue to see fundamental and technical evidence that the US\$ will likely weaken all through the summer, even if interest rates between the US and Japan and Europe were to diverge further.

Unlike in past cycles, when looking at the relationship between the US/Germany interest rate differential and the performance of the US\$/EUR exchange rate, we believe that the US\$'s recent 2-year parabolic strength has been totally overdone, and will not continue, even in the case where our "no rate hike in 2016" scenario were not to pan out. The impact of interest rate differentials on US\$ movements in past cycles looks to be stronger before the first rate hike than after it. This in 2016, as in the 1994 and 1999 hiking cycles, where initially rates and currencies moved together before a pronounced divergence occurred when the Fed finally hiked.

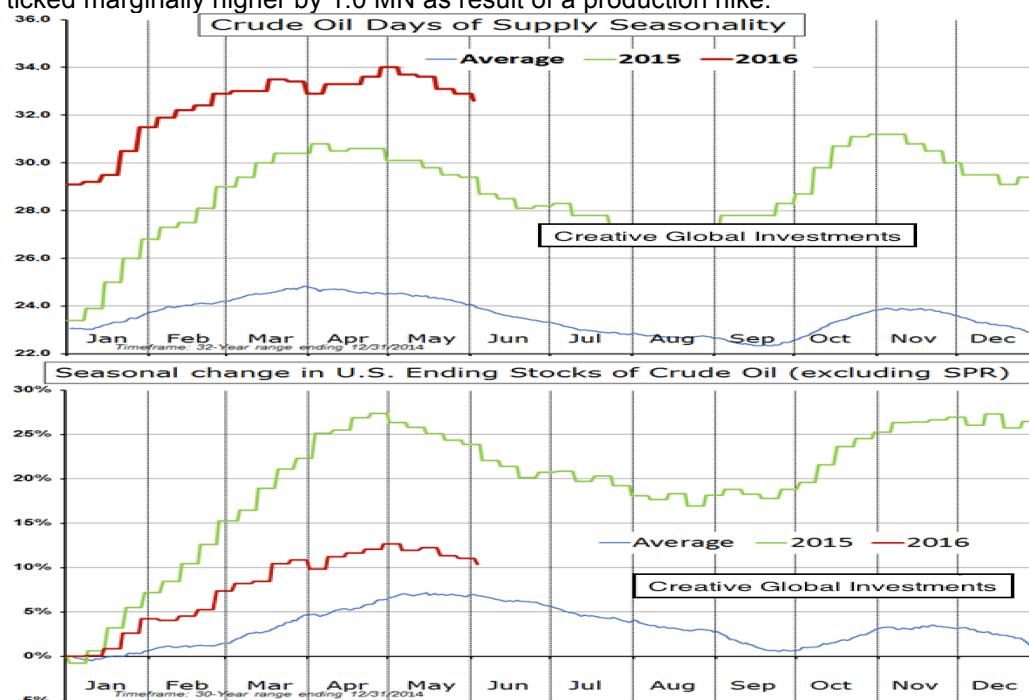
Interest rates and US\$/EUR divergence post Fed rate hikes



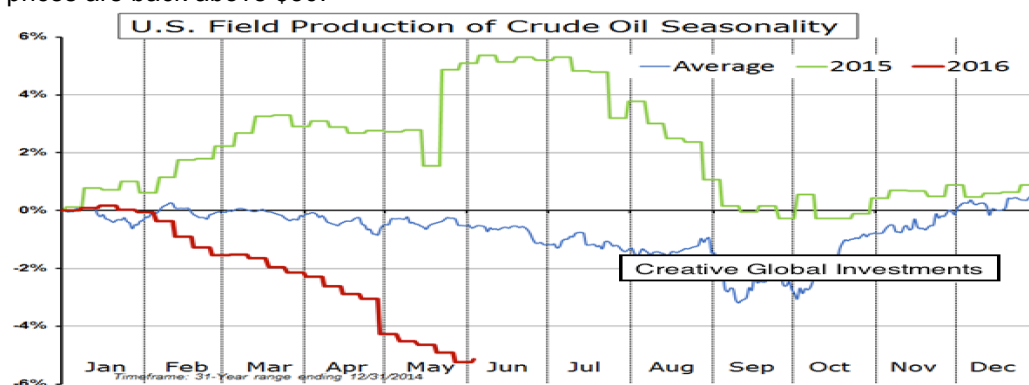
source: Thomson Reuters

Commodities Commentary

Oil (WTI) charted a new y-t-d high following the latest EIA report on oil inventories. Oil inventories are indicated to have declined by 3.2 MN barrels, while gasoline inventories ticked marginally higher by 1.0 MN as result of a production hike.



The days of supply of oil ticked down to 32.6, the lowest level since February, and the days of supply of Gasoline ticked marginally higher to 24.9. Domestic oil production showed its first weekly increase since March, with 10,000 more barrels per day being produced now versus the week prior, the increase, albeit marginal, is the largest of the year, suggesting that producers are being enticed back into the market now that oil prices are back above \$50.

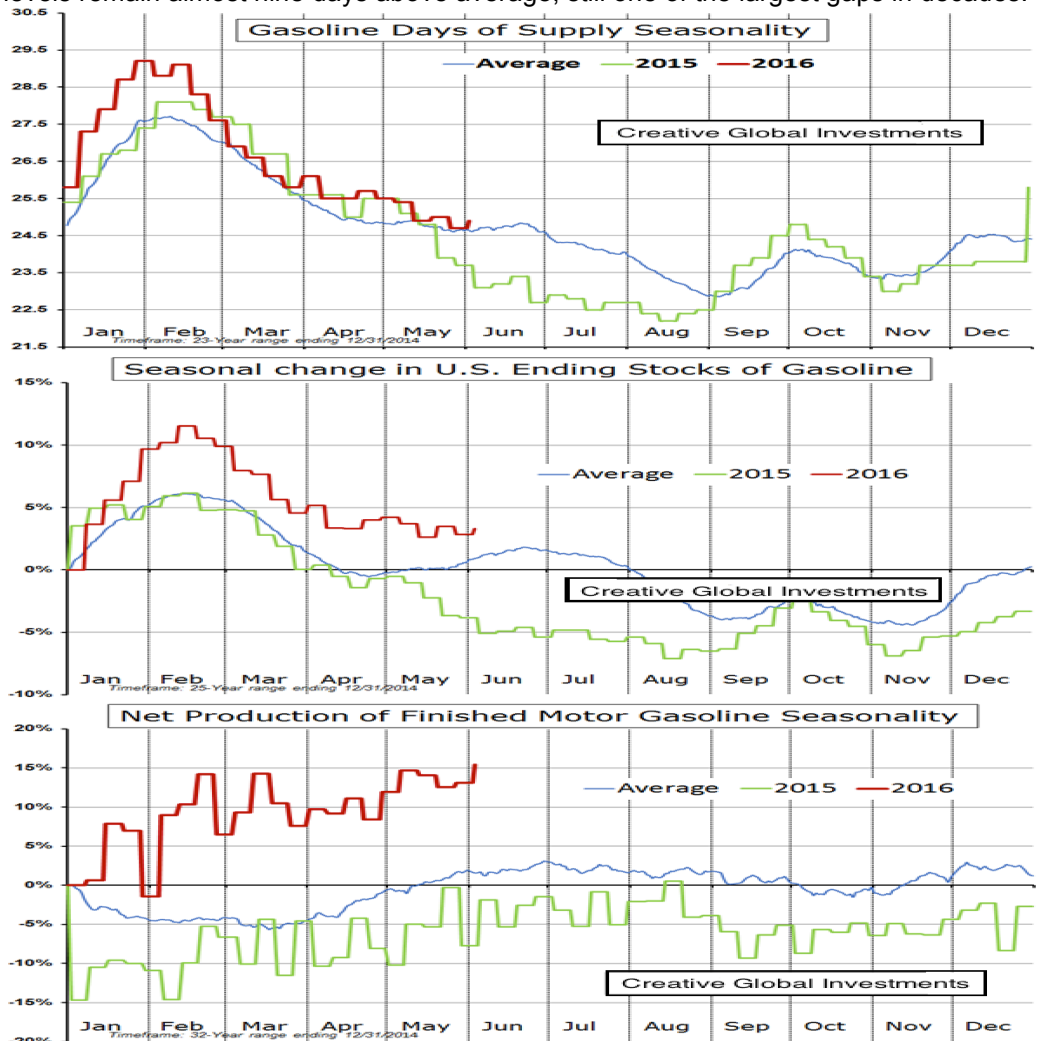


As our research shows continued negatives for the US\$, which inversely impacts the price of commodities and particularly the price of WTI Crude, which closed yesterday at a new 10-month high at US\$ 51/brl.

We have stated since our 2016 CGI Global Investment Strategy & Outlook since mid December 2015 that prices of Oil and other commodities had totally overshot to the downside, and were below extractable global balanced prices. This scenario could not last for very long, and hence we had (and still do) high conviction of our seemingly very high WTI price targets for end of Q2 of \$52/brl, and \$68 for year-end 2016.



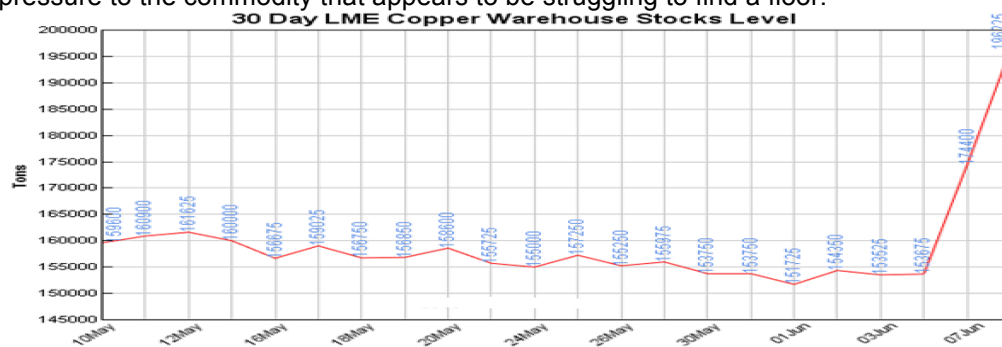
Demand for the refined product will remain robust through the months ahead. Inventory levels remain almost nine days above average, still one of the largest gaps in decades.



While commodities and stocks are seeing a positive influence from a lower US\$, Copper has not yet. Copper is down around -10% since the highs set at the end of April. \$COPPER recently failed to overtake its declining 200-day moving average, a significant hurdle that has restricted upside momentum since 2011. Psychological support is implied at \$2.00/lb. \$COPPER has significant implications pertaining to the strength of global demand, particularly in China where investors continue to scrutinize the strength of the economy.



Inventories have just jumped by over 27% to the highest level since February, rebounding from some of the lowest levels in the past five years and adding further pressure to the commodity that appears to be struggling to find a floor.



Seasonally, the metal benefits from a secondary period of strength between mid-June and the end of July before turning lower into the end of the year.



Carlo R Besenius, CEO & Head of Global Strategy

cbesenius@cg-inv.com

office: +(352) 26 25 86 40

mobile: +(352) 691 106 969

Luxembourg/Europe

Sabine CJ Blümel, Head of Global Automotive Research

sblumel@cg-inv.com

office: +44 (7785) 301588

London, UK

Feliks Lukas, Director of Corporate Consulting

flukas@cg-inv.com

office: 212 939 7256

mobile: +(385) 9848 8951

Kastela, Croatia

Gary Schieneman, Managing Director,

Global Accounting and Finance

gschieneman@cg-inv.com

office: 917-868-6842

New York, NY, USA

Steve Gluckstein, Global Strategist

sgluckstein@cg-inv.com

office: 212 939 7256

mobile: 732 768 8843

New York, NY, USA

Marc Peters, Head of Global Industrial Strategy

mpeters@cg-inv.com

office: +(352) 26 25 86 40

mobile: +352 621 36 44 50

Luxembourg/Europe

Allison M Cimon, Director of Sales & Technology

amcimon@cg-inv.com

office: 646 228 4321

Boston, MA, USA

Jennifer Crisman, COO

jcrisman@cg-inv.com

office: +(352) 26 25 86 40

Luxembourg/Europe

IMPORTANT DISCLAIMER: As a company purely focused on research, CGI LLC has no business relationships with the company covered in this report, be it investment banking, consulting or any other type of relationship. In addition, CGI LLC does not seek and does not intend to seek in the future any such businesses, maintains complete independence and has no conflicts of interest related to the companies in its research universe. Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of CGI LLC or any of its affiliates. In addition, CGI LLC and its employees, including the analyst who wrote this report, hold no equity, debt or other linked derivative investments, the value of which is related in any way, directly or indirectly, to the operating and stock price performance of the company covered in this report. No such investment positions are held in any of the competitors, suppliers or customers of the companies in our coverage universe. This report is provided for information purposes only. It should not be used or considered as an offer of securities and it does not represent a solicitation to either buy or sell any securities or derivatives thereof.