



Creative Global Investments

Morning market commentary & charts

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Objectivity

Integrity

Creativity

Financial Markets News & Noise

The Eurogroup meeting here in Luxembourg today has been touted as the "last chance" for Greece to agree a deal in time of the end of June. Athens must repay EUR 1.6BN due to the IMF by 30th June but has admitted that it has insufficient funds to do and that compromising to unlock frozen aid would be a necessity

European stocks slipped into the red on today, as investors grew increasingly skeptical that the Eurogroup meeting will yield a deal between Greece and its creditors. The Stoxx Europe 600 index, Germany's DAX30 and France's CAC40 were all down 0.7%. Peripheral European stock markets suffered similar losses, with the FTSE Mib and IBEX 35 down 0.4%. Greece's ASE Composite was off 0.1%.

We would not be surprised that there would be a positive outcome for the Greek Saga today in Luxemburg, which then consequently would cause both European equities and the Euro to snap back considerably.

Currency markets commentary & charts

As we were expecting, the US\$ broke down in early European trade today as the after effect of yesterday's FOMC press conference reverberated through the financial markets. Both the Euro and Pound hit fresh monthly highs as traders liquidated dollars longs in the wake of cautious comments by Fed Chairwoman Janet Yellen. Ms. Yellen offered no timeline to the possible rate hike suggesting that the normalization campaign could be delayed to as far forward as March of 2016.

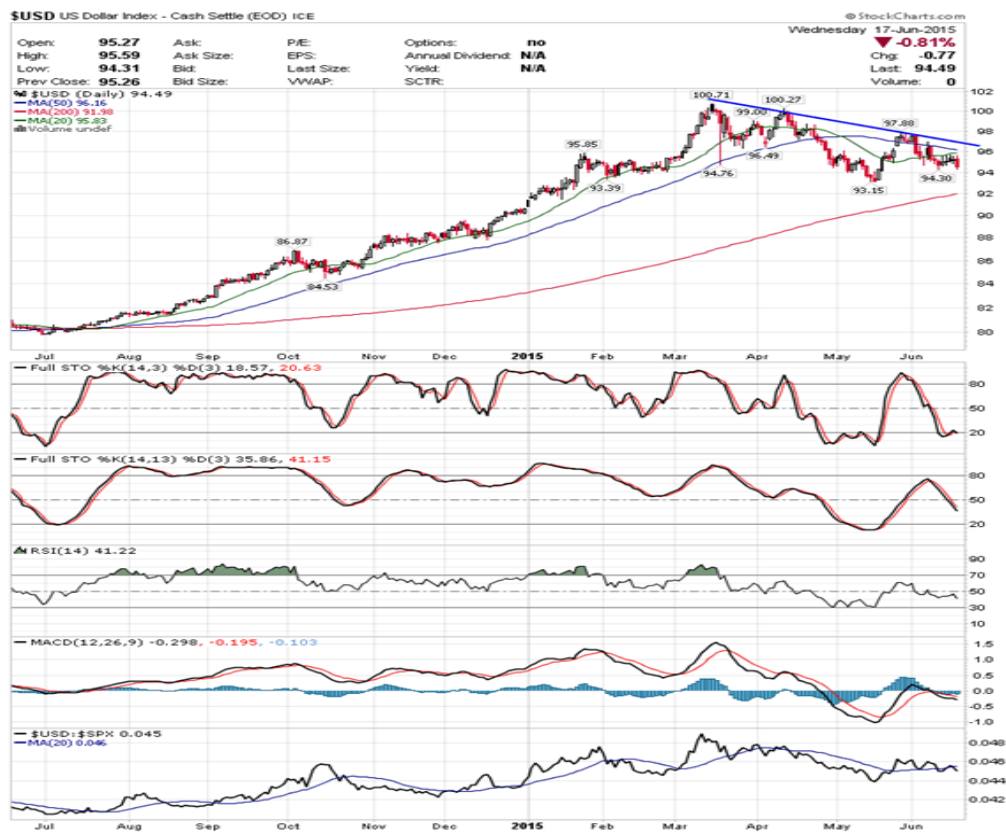
Noting that global growth was tepid and that US growth in H1 of this year missed the Fed's own estimates, Ms. Yellen left plenty of doubt as to whether the Fed will act in September. With the market primed for a much more hawkish message, yesterday's nuanced rhetoric left many dollar bulls disappointed and today price action reflects that sentiment.

The Euro broke through the key 1.1400 level while the Pound pushed through 1.5900 aided by slightly better Retail Sales data that came in at 0.2% versus 0.0% eyed. The anti-dollar move was broad in scope with only kiwi lagging the rest of the field after New Zealand GDP data missed the mark and pushed the pair to fresh lows under the .6900 figure in early Asian session trade.

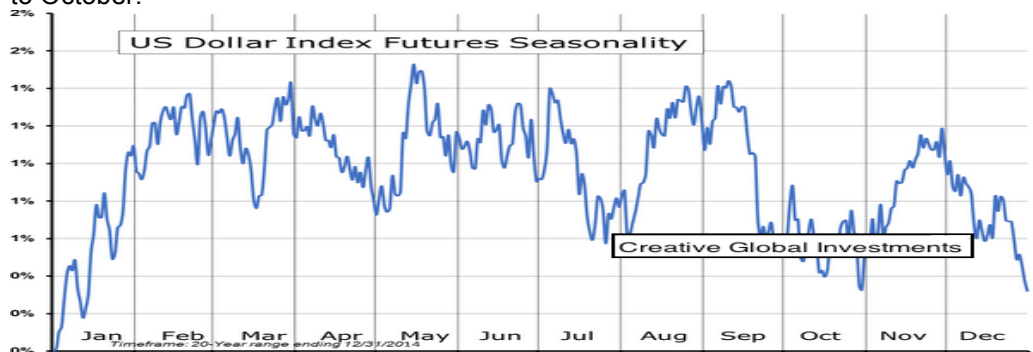
Resistance for the \$USD is becoming apparent at the declining 50-day moving average, suggesting the intermediate trend is turning lower. Previous resistance from which the currency benchmark broke above at the start of this year between 89 and 92 is implied to be support, likely keeping the longer-term trend alive as the Fed maintains a path towards tightening.

We maintain our Q2 price target of .90 for the \$USD index, and our EUR/US\$ price target of 1.18, and for the US\$/YEN of 126.

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Seasonally, the \$USD has peaked on average in May, gradually trading lower through to October.

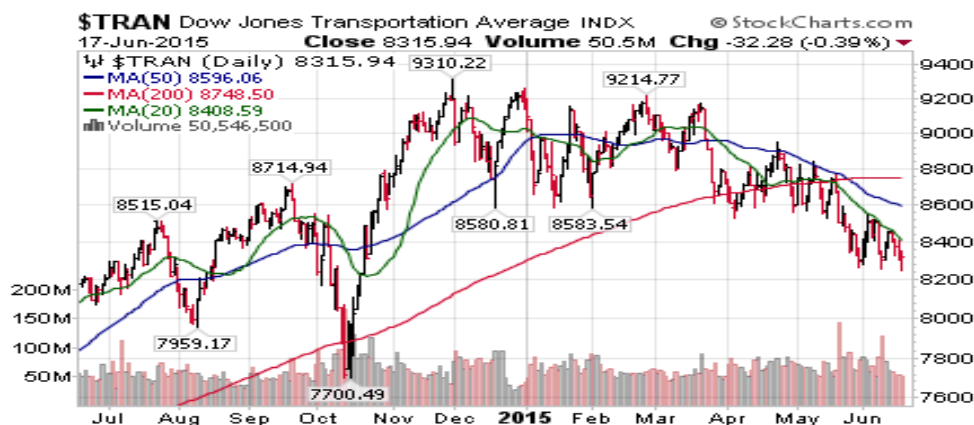


The US Dollar ETF proxy also moved lower.



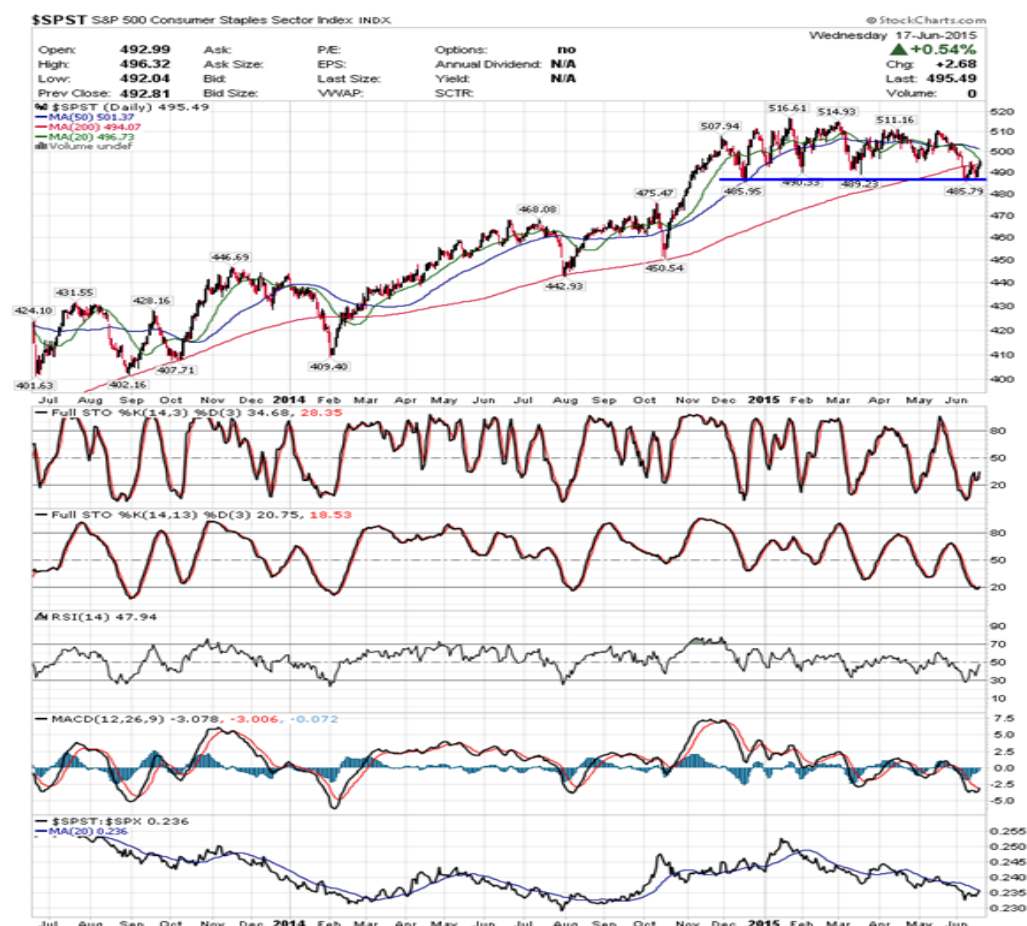
Equity markets commentary & charts

The Dow Jones Transportation Average fell to a nine month low despite late strength by most US equity indices.



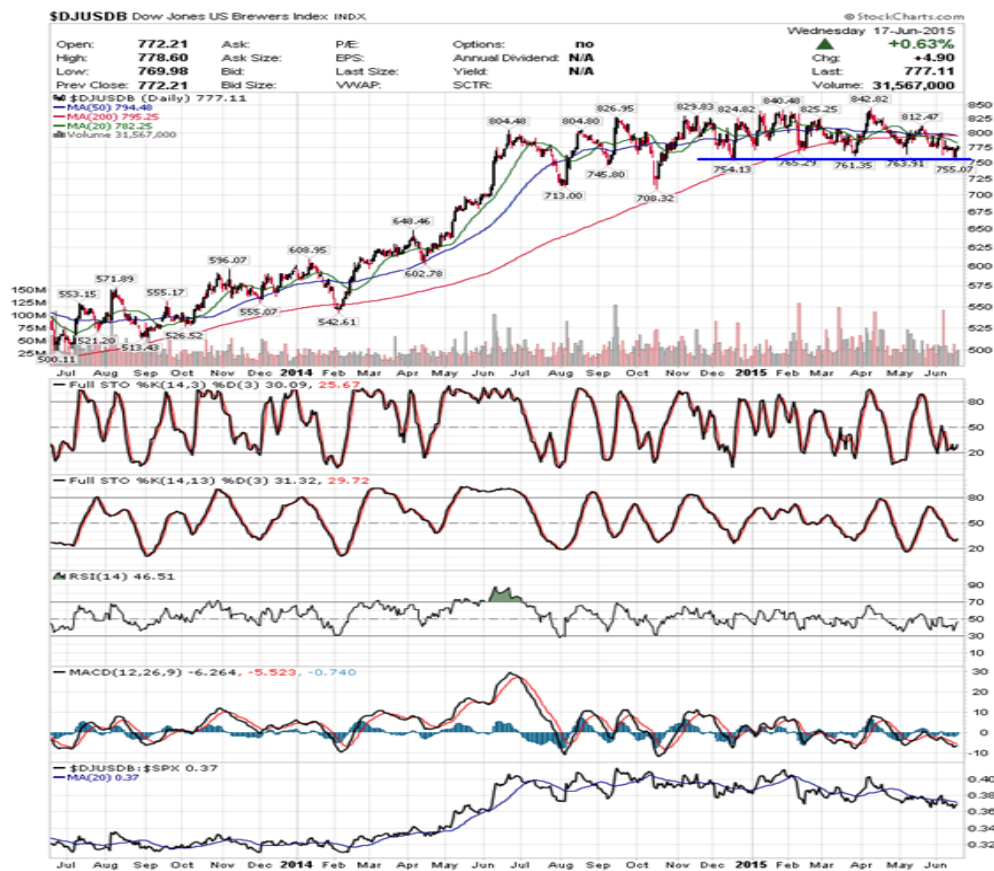
The recent declines in the US\$ is allowing for a short-term reprieve of the negative pressures impacting consumer staples companies, many of which are heavily exposed to currency fluctuations.

The consumer staples ETF is showing short-term double bottom support at the lower limit of a trading band that stretches back to the start of the year; support at the 200-day moving average is also easily apparent.



One industry that tends to perform well within the sector during the summer months is the brewers, for obvious reasons. Brewing stocks tend to gain during the warmer weather that the summer offers.

The Dow Jones US Brewers Index is showing the same range-bound trade as the broad sector; the lower limit of the range is presently being tested.



Fixed Income commentary & charts

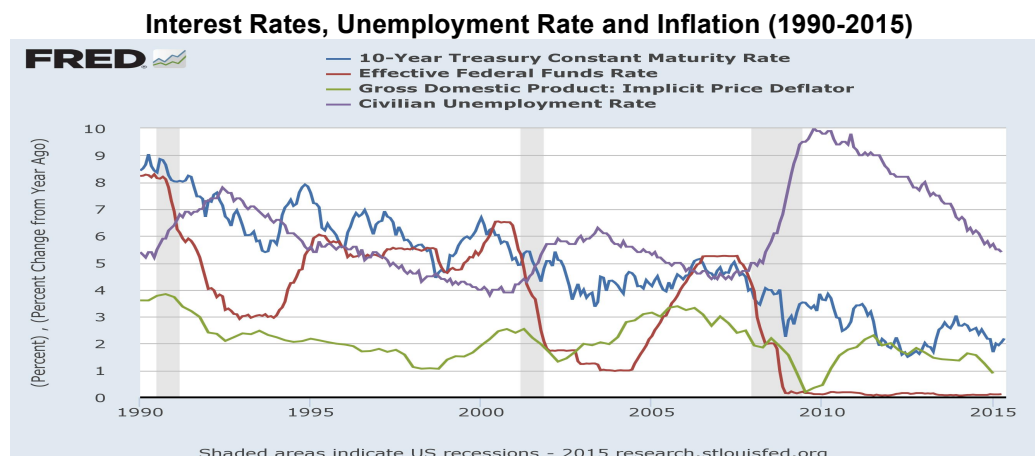
US Bonds

What could investors experience in the eventuality of a rate hike in 2015?

With the rate hike in most investors short term view, we would like to highlight what past experience of rate hikes has shown what might happen to bond portfolios.

The chart plots the interest rates, inflation and unemployment rate since 1990. The rate hikes in 1994 and 2004 both started when the unemployment rate was around 5-6% and kept dropping. The current unemployment rate stands at 5.5%. Even the inflation threat is less of a problem than that in the last two rate hikes, it is totally justified that the Fed starts tightening as the job market continues to improve.

We believe that the past 21 days sell off in US and European 10-year Treasuries is overdone, and that current market prices constitute a clear "buy" signal. We are advising for investors to step up investments into 10-year US and European bonds, which sold off excessively in the past week, on nothing but a bit of improving, but still mixed, and not sustainable macro data from Europe and the US in the past three days.



In 1994, the Fed raised fed funds rate by +300 basis points over the course of one year. Consequently the 10-Year Treasury yield rose by +200 basis points.

In 2004, the Fed adopted a more orderly and slower approach. It took two years and +25 basis point rate-increase every meeting to raise the Fed funds rate by +425 basis points. Consequent to the Fed's action path in 2004, long-term rates barely moved. After dropping by -30 bps during the first part of rate hike, the 10-year Treasury yield ended up on +60 bps higher than when the rate hike started.

As we have been writing in length, we do not see the Fed to start raising the Fed funds rate in 2015. And even if this were the case, we believe

- **The rate hike will be slow, orderly and data-dependent.** The current GDP deflator, the Fed's favorite measure of inflation, stays at 1%, which is well below the Fed's target of 2%. There is no rush for the Fed to jerk up rates. Globally, just to the contrary, other major central banks are implementing loose monetary policies, which will make the US\$ even stronger, and the strong, and likely in the case of a rate hike, strengthening US\$ would hurt US exports, thus GDP growth.
- **Bonds will have slightly negative returns.** As our baseline projection, the Fed will raise fed funds rate by +175 bps in 24 months. With respect to 10-Year Treasury yield, given its current low level, we expect it will rise by +100 bps, somewhere between the 1994 and 2004 rate hikes.

Bond Market Performance During Rate Hikes

(%)	Fed Funds Rate	Ten-Year Treasury Rate
1994 Rate Hike		
Feb-94	3.00	5.75
Feb-95	6.00	7.8
2004 Rate Hike		
Jul-04	1.00	4.50
Jul-05	3.25	4.20
Jul-06	5.25	5.10

The yield on the 10-year treasury note broke resistance at 2.3%, pushing to the highest level in seven months; broken resistance of an apparent ascending triangle pattern calculates upside potential to around 2.9%, which would test the 2013 highs and potentially confirm the conclusion to the bull market trend for bonds that began in the 1980s.



Long-term trend line resistance stemming from the 2007 highs, just prior to the flurry of buying in the bond market amidst significant equity market declines in 2008/09, hovers around 2.6%, a level that could become the basis of a neckline of a head-and-shoulders bottoming pattern that would suggest significantly more upside as the bond trade unwinds. Some of these outflows may find their way into the equity market, supporting stock prices, but a limit will be reached when investors enticed by the higher yields shift back to the beaten down asset class as fast as they left.



We see no macro fundamental neither technical evidence at this point that the long-term declining trend in yields will suddenly shift to a long-term rising trend; a prolonged range-bound trend, either as part of a bottoming pattern or a stagnant period, is the more probable scenario.



Seasonally, yields have fallen over the past 30 years during the summer months, pushing bond prices higher, as investors de-risk portfolios, but the looming increase of the fed funds rate has investors front-running the potential action.

We believe that the past 4 weeks sell off in US and European 10-year Treasuries is overdone, and that current market prices constitute a clear "buy" signal.

We are advising for investors to step up investments into 10-year US and European bonds, which sold off excessively in the past 4 weeks.

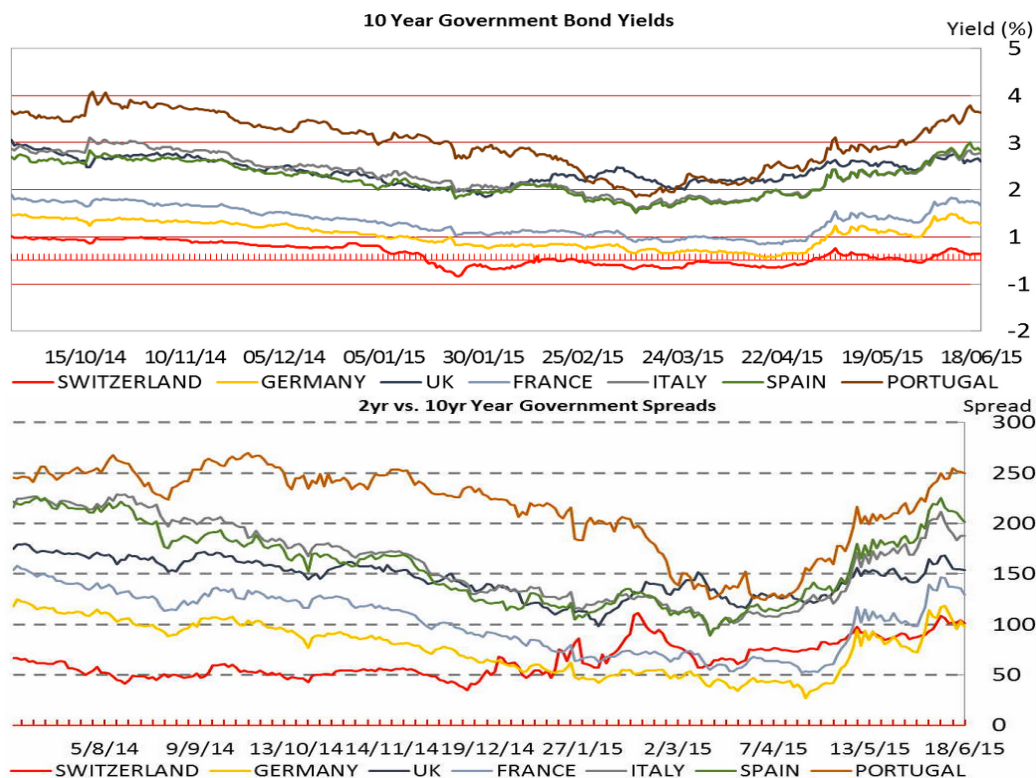


International Bonds

European 10-Year government bonds are entering their period of seasonal strength from mid-May until end of August.

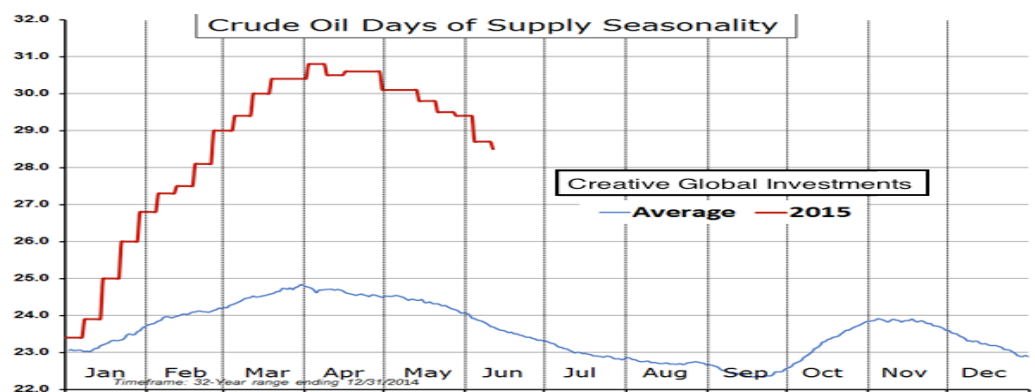
Country	Latest yield	Spread vs bund	Spread vs T-bonds
Australia	2.88%	+2.13	+0.60
Austria	0.99%	+0.25	-1.28
Belgium	1.19%	+0.44	-1.09
Canada	1.75%	+1.00	-0.53
Denmark	0.94%	+0.19	-1.34
Finland	1.01%	+0.26	-1.26
France	1.16%	+0.41	-1.12
Germany	0.75%	—	-1.53
Greece	13.04%	+12.29	+10.76
Ireland	1.66%	+0.91	-0.62
Italy	2.29%	+1.55	+0.02
Japan	0.44%	-0.31	-1.83
Netherlands	1.01%	+0.27	-1.26
New Zealand	3.72%	+2.97	+1.44
Portugal	3.13%	+2.39	+0.86
Spain	2.29%	+1.54	+0.01
Sweden	0.98%	+0.23	-1.30
Switzerland	0.11%	-0.64	-2.17
UK	1.98%	+1.24	-0.29

After the short-term current correction in US, European and Japanese 10-Y treasuries, which we expect to last for another few days, we are expecting for further yield compression between French, Italian, Portuguese, Spanish 10-Y Government bonds and the German bunds to materialize over the coming 2 - 3 months, and are advising for investors to increase their weightings into Spanish, Italian, Portuguese, Irish 10-Year bonds into the current correction



Commodities Commentary & charts

The price of Oil and Gasoline traded lower following the release of the latest EIA inventory report. Crude oil declined by 2.7 MN barrels, while gasoline inventories increased by 500,000 barrels. The result put marginal downward pressure on the days of supply of oil to 28.5, while gasoline days of supply was relatively unchanged at 23.2; crude oil days of supply remains well above average, while gasoline days of supply is well below average for this time of year.





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