



Creative Global Investments

Morning market commentary & weekly charts

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Global Macro Commentary

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Objectivity

Integrity

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In Asia, more than 30 central bank governors from around the world pledged to maintain stability in financial markets at an annual meeting of Bank for International Settlement in Basel, after Britain voted to leave the European Union, Indonesia's central bank said on Monday. The central banks also vowed to work closer together to ensure smooth and stable financial markets, and to support any "anticipatory measures" by the Bank of England, Bank Indonesia Governor Agus Martowardojo said in a statement.

Britain's vote to leave the European Union has increased uncertainty in the global economy, and China hopes for a united and stable EU and a prosperous United Kingdom, Chinese Premier Li Keqiang said today. Britain's vote "has showed its impact on the international market and further increased uncertainties in the global economy", Li told the World Economic Forum (WEF) in the northern city of Tianjin, in the first public comments on Brexit by a top Chinese leader. "I also want to say here that Europe is an important partner for cooperation with China, and China will continue to dedicate itself to maintaining the good development of Sino-Europe and Sino-British ties. So far this year, against the backdrop of slowing growth in the global economy, China's economic operations remain relatively stable, with growth within a reasonable range.

In Europe, last week, macro data revealed the Eurozone's current account balance showing a surplus of EUR 36.2 BN in April, following EUR 26.3 BN in March. As a percentage of GDP, the current account surplus was 3.1% in the 12 months to April, compared with 2.8% one year ago.

The Bank of International Settlements said global economic policy needs an urgent overhaul to cope with a world of persistently high debt and weak productivity and in which monetary policy is out of ammunition. The BIS says that governments must focus more broadly on controlling inflation and should clearly establish central banks' limits to shake off the trap of debt-fuelled growth

In the US, macro data continues to slow. The May trade gap in goods widened to a seasonally adjusted \$60.59 Bn from \$57.53Bn, the US Commerce Department announced today. That's wider than the consensus \$59.7Bn gap expected. Imports grew while exports fell slightly. Imports rose to \$179.63 Bn from \$176.82 Bn, while exports fell to \$119.04 Bn from \$119.29 Bn.

Another report on Durable Goods Orders for May provided insight into the health of factory activity in the US. The headline print indicated that new orders of durable goods fell -2.2% last month, missing estimates calling for a -0.7% decline. Ex-transportation, orders declined by 0.3%, also missing the consensus estimate of no change (0.0%). Stripping out seasonal adjustments, the Value of Manufacturers' New Orders for Capital Goods Industries actually fell by -3.2%, a negative divergence versus the average gain for May of 3.7%. Despite the much lower than average monthly read, the y-t-d trend remains firmly above average as a result of the strength in April's report. A rare decline in new orders for transportation equipment and a sharp plunge in defense orders accounts for the lag in May's report. The Value of Manufacturers' New Orders for Defense Capital Goods was lower by 35.4%, more than three times the average decline for May of -9.3%, while new orders for transportation equipment was down by -2.5%, a divergence versus the 5.7% average gain. New orders for defense goods continues to

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trend above average, while orders for transportation equipment has now fallen below the average trend. Overall, the report doesn't really tell us anything that we didn't already know previous. The growth of sales of transportation goods has been in decline for some time, while the sales of other consumer goods are picking up the slack, keeping the y-t-d change in durable goods in an above average position.

Currencies Commentary

On the currency front, as we had been highlighting in the eventuality of a "Brexit", the British Pound (\$XBP), is the short-term shock-buffer, has risks to drop below 1.25 in the short-term. The decision to leave the European Union is claiming its first victims already today, as UK hedge funds and other financial institutions reveal deep losses suffered in the volatile markets on Friday, as the -12% swing in the British pound, a move not seen since 1967, had triggered margin calls that hit several smaller hedge funds and may have wiped out others. **As we have said over the past 3 months when the \$XBP was trading around 1,50, in the case of a "Brexit", we see the \$XBP vulnerable towards 1,25 in the short-term, and we are maintaining our 1.25 target.**



For the EUR/US\$ we see temporarily increasing risks now to likely retest the old low, of \$XEU 1,0450, however, we do believe that structurally, this level will hold on the short/ medium term, and will reconfirm the long term bottom.

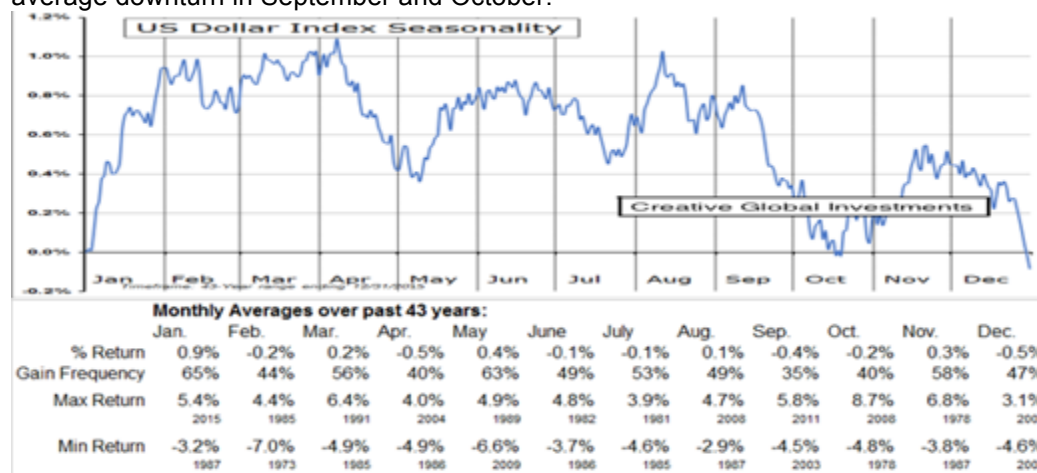


As already reported in the media, EU central bankers and other global central bankers have already been engaged over the weekend in discussions to "stabilize" currency markets, in order to avoid "too dramatic volatility" in all Euro and US\$ crosses.

The US\$ index traded back above the gap that was opened following the prior week's disappointing monthly employment report. A stronger US\$ generally has negative implications for stocks and commodities, threatening the rally in each from the Q1 lows. The Fed surely avoid to hype further strength in the US\$ when it holds its FOMC meeting this week. Given today's economic data announcement of May US trade deficit widening close to an all-time high \$60.59Bn, we are seeing the US\$ trapped in the current range of \$USD 97,50 and \$USD 93 for the coming weeks. **Whilst the technicals since the "Brexit" may have changed in favor of the US\$, we believe that Ms. Yellen will be leaning heavily against a break above that range.**



Seasonal tendencies for the US\$ in June, July, and August are generally flat prior to an average downturn in September and October.

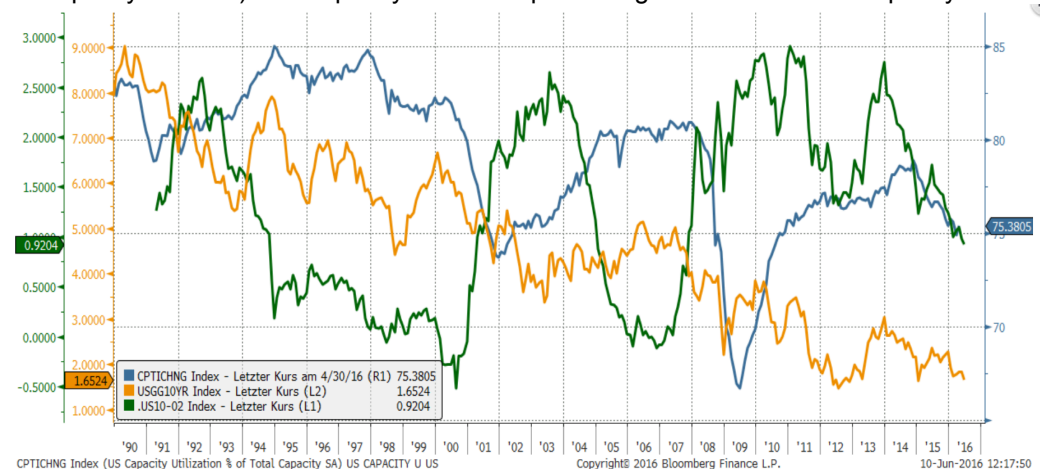


Fixed Income Commentary

Short term, as we have repeatedly commented, the best place to "hide" will be 10-Year US treasuries. In the past 3 days, the yield for the \$TNX has dropped below 1,50%, close to our initial 2016 end of summer target of 1,40%. **Given the unexpected "Brexit" and its impacts on investors strategic re-thinking, we see the \$TNX likely shoot way above our initial targets, and the yield on the \$TNX could drop well below the 1,15 levels before the end of the summer.**



This is one chart we have been focusing on for the past 2 years, and found it helpful in gauging the FED's moves (or the lack there of, with the exception of their December 2015 policy mistake). US capacity utilization percentage versus total US capacity.



Commodities Commentary

We may not be getting \$60 oil in the coming 4 weeks, but the weakness in oil that started in mid-2014 has clearly ended. We maintain our most aggressive \$68/brl price target for year-end 2016. We can see five reasons why today's oil dip won't last, and why prices will rise, albeit in fits and starts. **The main reasons why we see Oil prices continue to rise over the coming 3 – 6 months are:**

1. Falling US\$

After it's parabolic rise since June 2014, we see the US\$ as having reversed course, and we see it to decline towards the .88 from currently .94 by end 2016

2. Nigeria disruptions

The declining security situation in Nigeria's oil-rich Niger Delta. There, an indigenous insurrection has cut oil production, taken control or destroyed oil infrastructure, made moves that signal a tenuous alliance with terrorist

organizations elsewhere within and without the country, and cut oil exports significantly.

3. Libya disruptions

Libya's civil war continues to wreak havoc with the country's oil exports, as transport and port facilities become pawns in an ongoing power struggle. Another cause for concern in Libya is the emergence of ISIS

4. US declining production

Our research shows the pricing threshold for new US increase in production of about \$65/brl, but only for half-cycle projects (those for which infrastructure and well completions are already in place)

5. Canadian declining production due to wildfire disruptions

The fires have extended from the oil sands of Alberta east into the oil regions of Saskatchewan, and conditions remain very volatile with fires still raging and a limited ability to control the spread. Over the past 10 days, further cuts in oil sands production have been announced.

Not only for oil, but for commodities in general, we see the current counter trend likely accelerate into 2H 2016.



Equities Commentary

Stocks traded sharply lower on Friday and since the open this Morning as investors reacted to the UK referendum vote that resulted in a win for the leave camp. Many benchmarks realized some of the largest one-day declines in years as a massive re-pricing ensues.

The S&P 500 Index was rejected again from resistance above 2100, inching through significant support around 2040. The benchmark has not charted a weekly close below this level since mid-March. Instantly, a new head-and-shoulders topping pattern has become apparent with Friday's plunge completing the right shoulder. While certainly not as clean as the topping pattern that we saw in April and May, the setup still suggests downside to around 1975 (or an additional 3% below present levels) should the break of support at 2040 be confirmed. Variable support identified yesterday around the 50-week moving average, closer to 2020, presents a formidable hurdle to the downside. As has been highlighted a number of times over the past couple of months, momentum indicators have been negatively diverging from price ever since April, unable to confirm

the recent short-term highs in the benchmark, triggering warning signals as buying momentum waned. The weight of the market is clearly to the downside.

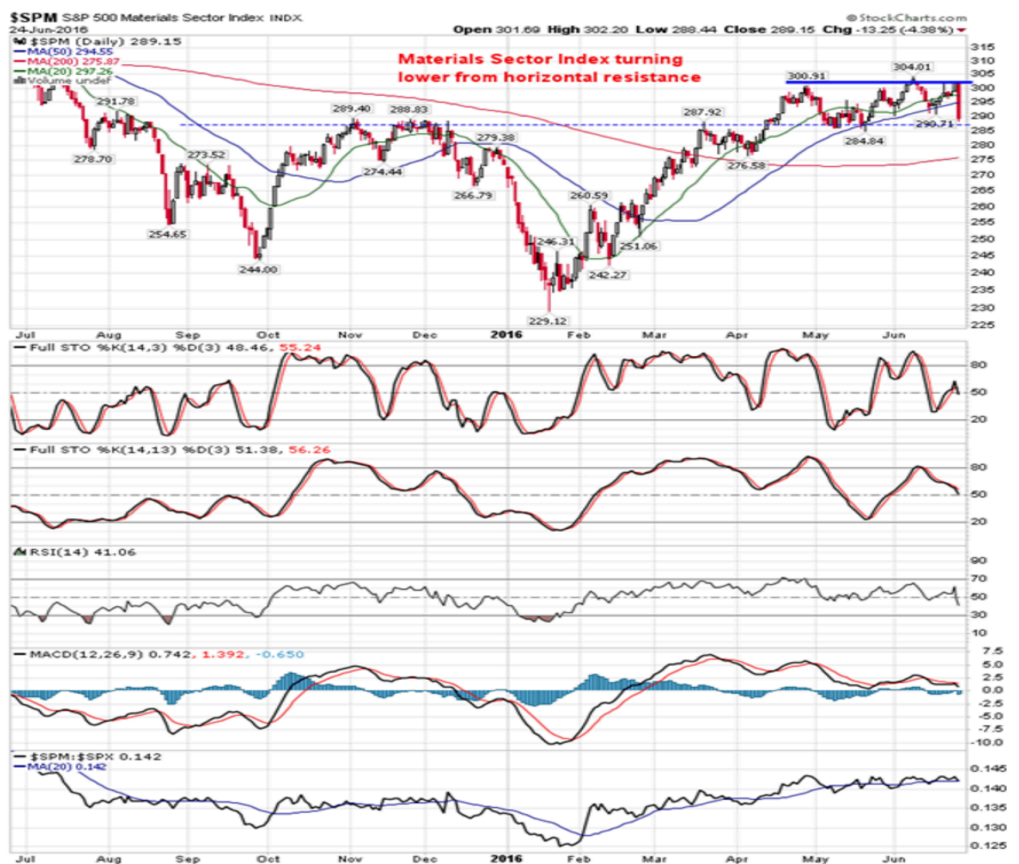
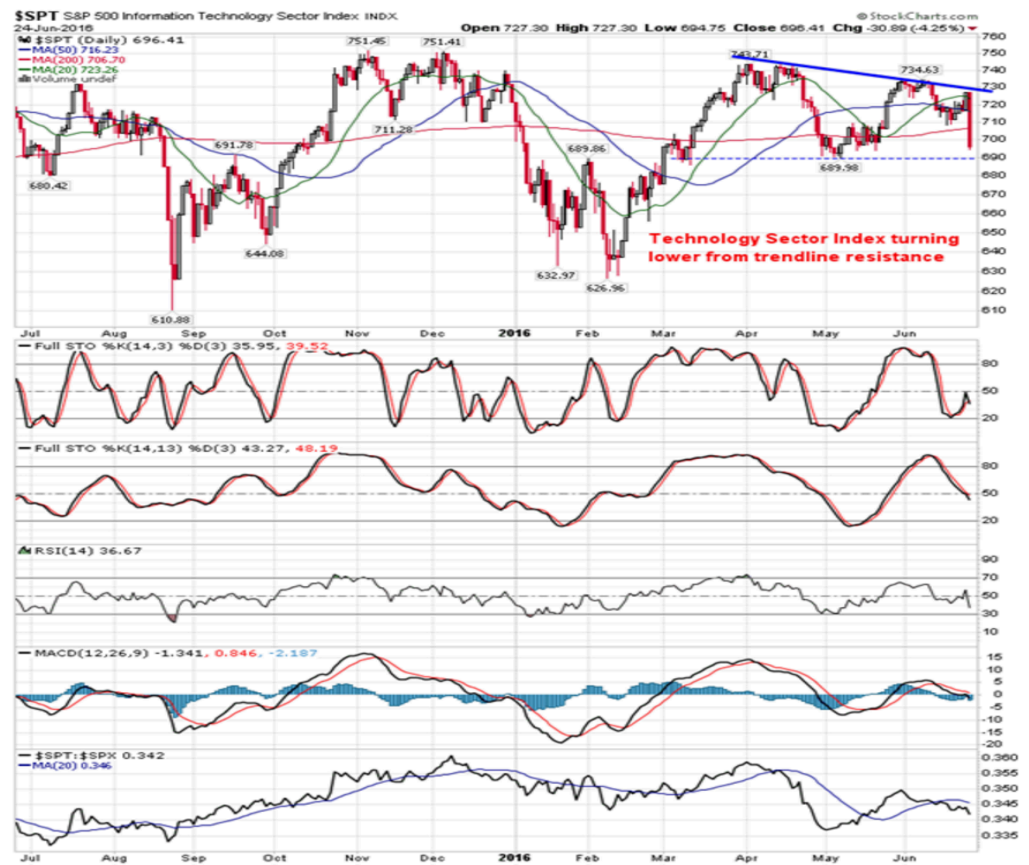


Looking through the sectors and industries of the US market, topping patterns are ubiquitous. The KBW Bank Index also completed the right shoulder of a head-and-shoulders topping pattern, downside target of which suggests potential declines of an additional 4% to 5%.



As well, the S&P 500 industrial, health care, technology, materials, energy, consumer discretionary, and financial sector indices are all turning lower from resistance.







Weekly Investment Conclusion

"Brexit shock waves" continue to rattle all asset classes globally. We see conceptionally no asset class and no geographic area not to be impacted by the outcome of the referendum. Brexit is expected to continue to impact equity markets negatively this week. Precious metals and precious metal equities and ETFs are the exception. This is the season for higher volatility and lower equity markets until just before US Presidential election day.

Brexit and its related uncertainty for world equity and currency markets are not over. Over the weekend, Moody's downgraded the UK's economic outlook from stable to negative. The vote on Friday is just the start of a renegotiated agreement that could last up to two years.

Brexit was the main factor to cause a spike in the VIX Index. An elevated level for the VIX Index along with an intermediate correction in equity markets has become a regular feature in recent years between mid-June and mid-October. History is repeating.

The latest **sentix** survey provides a timely view of investors' views in the wake of the UK referendum vote to leave the EU. In terms of equities and bonds, pessimism and optimism has increased in equal measure, though survey readings are not yet extreme on either asset class. The most market move for the likes of DAX, EuroSTOXX and Bunds has been a sharp decline in investor neutrality on the near-term, though uncertainties persist on the strategic outlook for equities and bonds.

In the near-term, sentiment has moved more notably in FX and commodities, with sentiment readings for EUR/USD hitting their lowest levels of the year in the latest survey and **Gold readings reaching the high end of their historic range. Investor sentiment has become poles apart on EUR/USD and Gold.**

For US equities, earnings reports this week are sparse: 11 S&P 500 companies are scheduled to report. Focuses are on Nike, Monsanto and Constellation Brands

The seasonal peak for the S&P 500 Index passed on June 15th and the TSX Composite Index passed on June 4th.

Usual mild strength in North American equity markets during the first two weeks in July in anticipation of Q2 corporate results is expected to be muted at best this year. Consensus for Q2 results on a y-o-y basis by S&P 500 companies shows a -5.2% decline in earnings and a -0.8% slip in revenues.

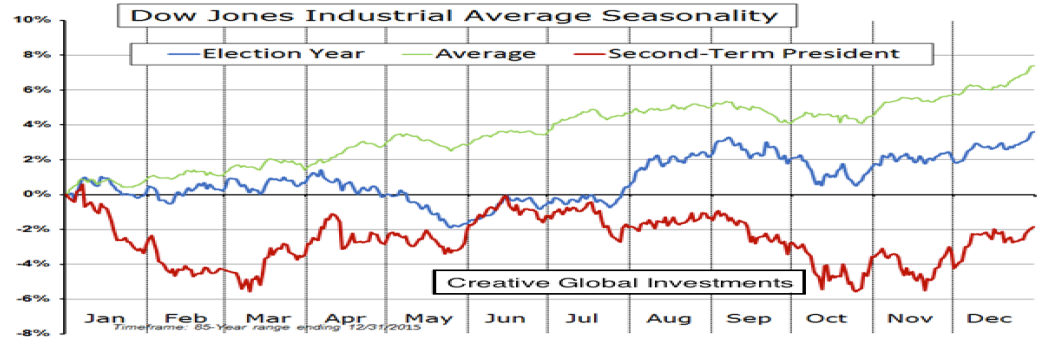
Consensus for earnings by Dow Jones Industrial Average companies is slightly better: Average (median) gain on a y-o-y basis is an increase of 2.1%.

Consensus views improve in 2H of 2016. Consensus shows y-o-y earnings gains by S&P 500 companies of 1.2% in Q3 and 7.5% in Q4. Sales are expected to increase 2.3% in Q3 and 5.1% in Q4.

Technical scores for most equity markets, commodities and sectors plunged on Friday in response to "Brexit". Intermediate term technical indicators on North American equity markets (e.g. Percent trading above their 50-day moving average, Bullish Percent Index) are trending down and have yet to show signs of bottoming. Some no longer are intermediate overbought.

Short-term technical indicators (Stochastics, RSI, MACD) for most equity markets, commodities and sectors are trending down, but have yet to show signs of bottoming. The exceptions were precious metals and precious metal equities. Most of the drops were recorded by entities that fell below their 20-day moving average and changed their short term momentum indicators to down from up.

Historically, the Dow Jones Industrial Average on average has reached a seasonal peak in mid-June in Presidential election years following a two term President. US equity markets subsequently move lower until near Election Day. History is repeating.



We see conceptionally no asset class and no geographic area not to be impacted by the outcome of the referendum. Short term, as we have repeatedly commented, the best place to “hide” will be 10-Year US treasuries. In the past 3 days, the yield for the \$TNX has dropped below 1,50%, close to our initial 2016 end of summer target of 1,40%, and now to our revised 1.15% yield target.

Equities globally, but also in the US remain in a bear market and we believe recent gains are going to reverse sooner rather than later. World equity markets and most economic sensitive sectors recorded an important inflection point on Friday. **As we have been warning since the beginning of May, when global equities had reached their peak of annual seasonal strength in late April/mid May, we are advising investors to aggressively sell Chinese, Japanese, US and EU equities immediately, as many macro-economic, geo-political and political risks will likely rise over the next 2 – 4 months into the summer.**

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