Creative Global Investments

Morning market commentary & charts

Monday, August 24th, 2015

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Objectivity

Integrity

Creativity

Currencies Commentary

2-Year US$ Index Chart

The US$ Index has violated a neckline of a double top that was created by the push above 98.00 in July and August. Our next price objective is near 94.30. The 200-day moving average in just above 94.65. Below there are the May and June lows near 93.15 and 93.55 respectively, and then thereafter, a test of 90 looks very likely to us.

2-Year EUR/US$ Chart

Short covering pushed the EUR/US$ to it's best level in two months; poking through $1.15 for the first time since June 23. Technical indicators are aiming for the May and June highs in the $1.1410-35 area the next immediate targets. Above there, potential exits toward $1.1500-$1.1535, and then towards 1.18

As we have been writing in many reports, the past 14 months unusual and parabolic strength of the US$ is not sustainable, and also not justifiable, not from macro-economic, not from central bank policy delta of US versus ROW, and surely not from a PPP and “safe-heaven valuations” aspect.

Global Macro Commentary

The Eurozone recovery is on track, and particularly now with Greece and the influence of other external headwinds diminishing. Leading economic indicators suggest that Eurozone real GDP growth has maintained its momentum during Q2 and is close to our expectations in Q3 so far. The region’s composite PMI continued to trend higher in the April-July period on the back of advances in both services and manufacturing activity. This is consistent with the improvement seen in hard data, with solid gains in Eurozone retail sales, while loan growth and manufacturing activity has picked up. The region’s stronger growth dynamic in recent quarters also appears to be feeding through to a modest improvement in labor market conditions. In May, the Eurozone unemployment rate stood at 11.1%, its lowest level in over three years. We continue to expect that Eurozone real GDP will advance by +1.6% in 2015 and +1.8% in 2016. However, our inflation outlook has softened due to the temporary violent pullback in global oil prices and weaker trend in the cost of food and other commodities. This has led us to lower our Eurozone inflation forecast to +0.6% y/y at end-2015 before gradually increasing to +1.4% at end-2016.

Our long-term outlook remains mixed due to an array of ongoing challenges. In order to raise potential growth and strengthen the union’s resilience, the IMF has urged Eurozone governments to stimulate demand by increasing spending and lowering taxes, while pushing ahead with labor market reforms and moving faster towards greater risk-sharing and fiscal integration. The IMF estimates that these measures taken together would add upwards of one percentage point annually to Eurozone growth in 2015-16.

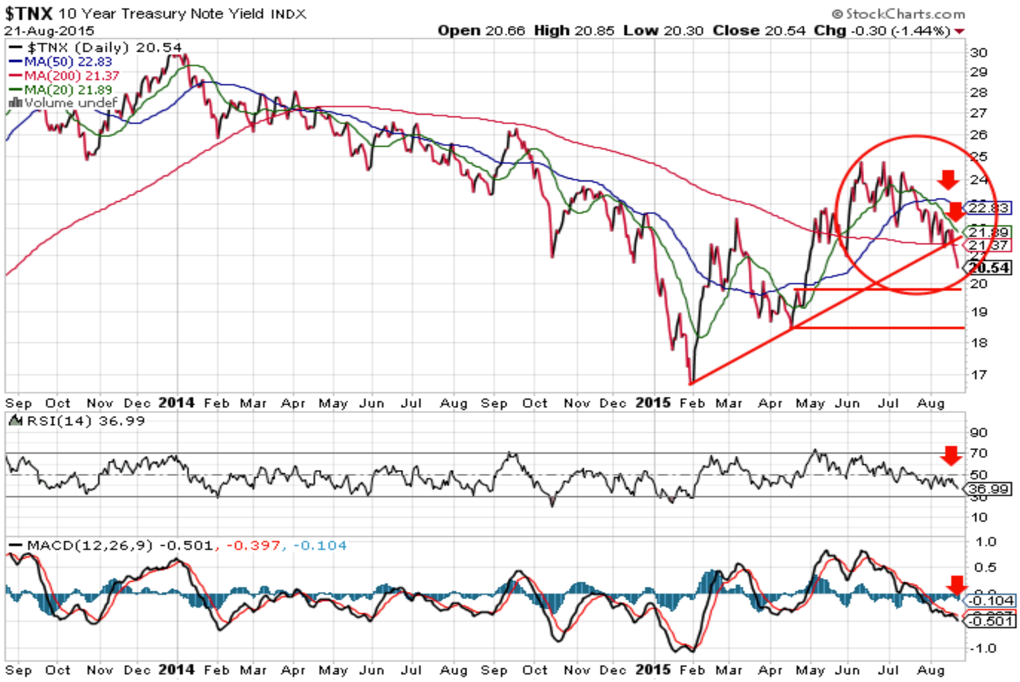
In the US, we also continue to see mixed macro data, which we believe that the FED is also taking into account, unlike most “wishfully and hype-thinking investors”. The Flash Markit Manufacturing PMI in the US unexpectedly dropped to 52.9 in August from a final reading of 53.8 in July. It is the lowest figure since October of 2013 as output, new orders and employment all grew at a slower pace. Manufacturing PMI in the United States averaged 54.17 from 2012 until 2015, reaching an all time high of 57.90 in August of 2014 and a record low of 51 in November of 2012.

Over in China, The broader economy isn't doing as well as desired by officials and figures show the Chinese economy growing at a 7% rate in Q2 seem not enough, as the weakening Chinese growth has exerted downward pressure on China's currency. The Chinese central bank allowed the currency to decline by almost -4% earlier this month. This has had a boosting affect on the EURO, and implicitly the opposite affect o the US$, not only due to the Yuan-US$ peg ratio.

Watch for consequences of a weaker Yuan for the Japanese, Korean and other Asian economies and their currencies and competitiveness outlook. A sustained weaker Yuan is going to cause riffs between Yen, Won, Baht and not only US$- and EURO-denominated ASEAN trading partners and economies in the near future.

Global Fixed Income Commentary

The US 10-year Treasury yield fell 14.2 bps (-6.47%) last week, and broke below the important psychological 2.0% support in this mornings trade. It is also the upper end of the bottom carved out in late-March and the month of April. The 200-day moving average near 2.14% may now serve as resistance. Intermediate trend remains down. Yield remains below its 20-day moving average. Short-term momentum indicators are trending down. As we were predicting, the 10-Year US treasury yields may well be on the way and likely aiming for lower than tour Q3 target of 1.85%.

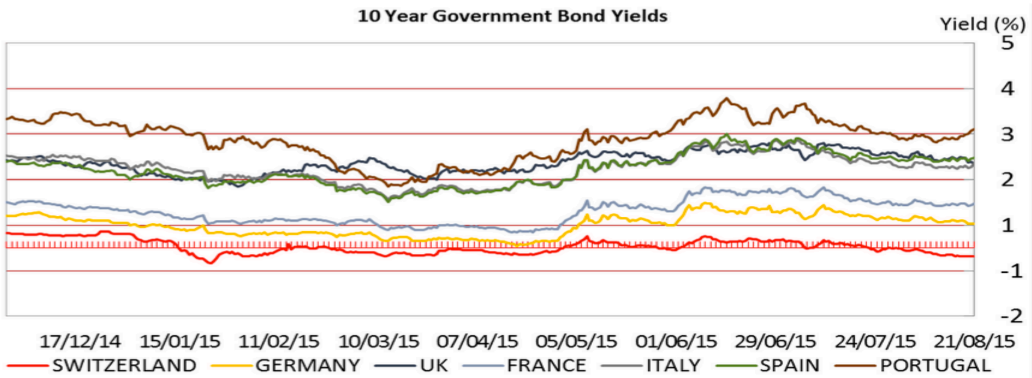


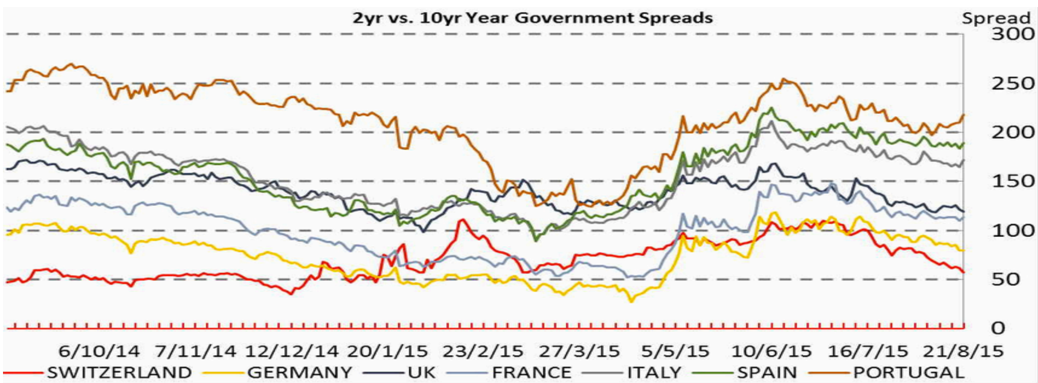
Looking at the long term technical picture of the 10-Year Treasury bond yield, the index is in the middle of its 35 year trend channel, and short term technical are gaining momentum for yields to go lower. Both RSI and MACD are negative, and are supporting our views of lower yields to prevail in the medium term.

European 10- Year Government bond yields also came down significantly last week. Bund-yields dropped below our anticipated .60bps this morning. Again, 10-Year Government bonds in the US and Europe are in the midst of their period of seasonal strength, and we continue to expect lower yields from here towards the end of September to materialize.

Country	Latest yield	Spread vs bund	Spread vs T-bonds
Australia	2.51%	+1.96	+0.50
Austria	0.88%	+0.33	-1.13
Belgium	0.93%	+0.39	-1.07
Canada	1.27%	+0.72	-0.74
Denmark	0.78%	+0.23	-1.23
Finland	0.75%	+0.21	-1.25
France	0.93%	+0.39	-1.07
Germany	0.55%	—	-1.46
Greece	9.84%	+9.30	+7.84
Ireland	1.27%	+0.73	-0.73
Italy	1.86%	+1.31	-0.15
Japan	0.35%	-0.19	-1.65
Netherlands	0.77%	+0.22	-1.24
New Zealand	3.17%	+2.62	+1.16
Portugal	2.64%	+2.10	+0.64
Spain	2.01%	+1.46	<0.01
Sweden	0.53%	-0.02	-1.47
Switzerland	-0.20 %	-0.75	-2.20
UK	1.80%	+1.25	-0.21

The yield compression that we were predicting correctly between peripheral market 10-Year bond yields and the Bund yields also continue to materialize, and we see technical evidence of further momentum for this phenomenon to continue.





Global Equity Markets Commentary

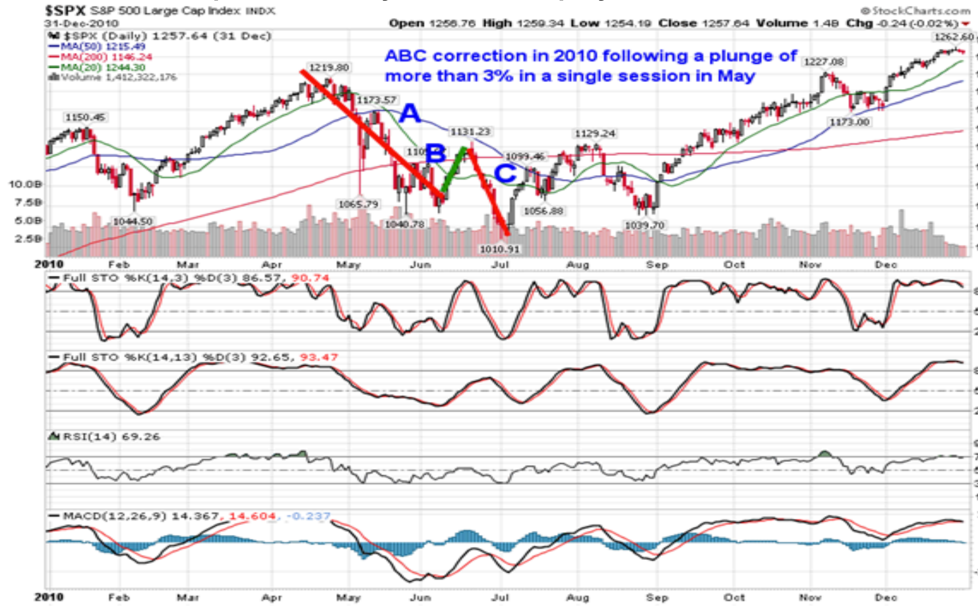
First of all, again, let's not be confused by "silly pundits commentary's", that "Chinese equities were overvalued, and were weighing on the overall global equity markets" and concerning investors to a "global equity markets selloff". This is plain and utter nonsense!

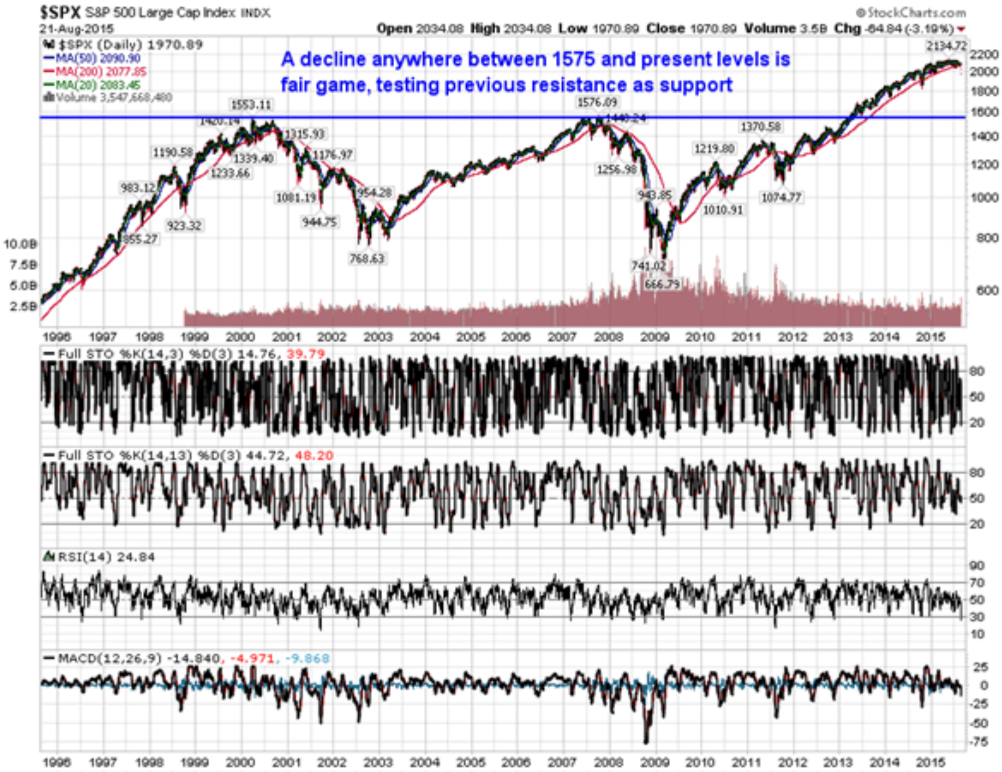
US equities, now valued at over 52% (fifty two percent) of total global market capitalization, also being held by foreign investors at a 67-year highest level, did not need a "Grexit" or "chinese equities overvalued" type-excuse for starting to correct to significantly lower levels, and likely much further to go. The US economy is barely 18% of global 2015 GDP, combine this with US trade being at 17% of global trade, (plus the US trade deficit continuously rising since the late 80's), US equity markets did not need an excuse like "Chinese equities selloff" to deservingly being sold by US and foreign investors. As we have written often in the past 6 months, US stocks were on an "all-time high" cyclically adjusted P/E basis, likewise by comparison of forward looking P/E's (now in 2015 even declining earnings, due to the unsustainable recent parabolic strength of the US$ and its negative impact on the 47% earnings from S&P 500 companies coming from abroad), and from a Tobin's Q perspective, US stocks are outrageously overvalued, and mostly by comparison to its global peers. So, no excuse from "frothy Chinese equities" needed.

Then, looking towards the technical state US equities and particularly the S&P 500 was in, as we wrote since March 2015, US equities had a lot of issues regarding the number of stocks holding the market up. With breadth thinning every week, it appeared to be a matter of time before the market would have a larger pullback. The size of the intraday moves over the past 3 days indicates that the large institutions were selling this pull back, which we were also correctly predicting. The S&P 500 Index closed below support around 2040 on Thursday, opening the door for a move towards the next significant level of support around 1970, or the lows charted last December. With Friday's decline of over -3%, that support was hit almost immediately, closing around this level as of the close. Next level of reference is the October low around 1820, which, if achieved, would represent a decline of around -15% from the previous peak, fulfilling the requirements of a correction. The last time the large-cap benchmark recorded a correction, or a move of -10% or more, was in 2011 in the midst of the 2011 crash that was caused by fears of contagion in Europe, as well as the downgrade of the US credit rating. The bearish move, albeit not there yet, is certainly due. A head-and-shoulders topping pattern on the chart of the S&P 500 Index targets a move to 1950, or a drop of over -4% from the now broken neckline of 2040. Unfortunately, the velocity of the downside move over the past couple of sessions suggests something more significant.

The VIX Index spiked 15.20 (118.47%) last week above its 20, 50 and 200 day moving averages. Intermediate trend changed to up from down. Short-term momentum indicators are trending up.

Since the recovery from the 2009 lows began, the only other time that the S&P 500 Index recorded an over -3% decline in a single session was during the 2010 and 2011 equity market downturns, both of which did not end on the initial plunge. A standard ABC correction is increasingly becoming a possibility, whereby the initial plunge is followed by a rebound attempt and then another leg lower, leading to eventual buying opportunities. Longer-term and looking at the worst case scenario, anything between present levels and 1575 is realistic, leading to a move back towards the multi-year breakout level and testing previous resistance as support. **Seasonally, the weakest and most volatile period of the year for the equity market is still to come.**





So, some of the pundits issuing senseless headlines like “Chinese equities are on unsustainable prices, as every local investor has participated in the recent rise, and mortgaged the house in order to do so”. Again, we can just shrug off as “ridiculous and utter garbage”, when comparing to the situation of individual investors’ participation in the US stock markets.

Less than 10% (ten percent) of Chinese retail investors hold Chinese equities currently. Let’s compare that to 62% of US household equity ownership (which the like’s of Jim Cramer and “CNBC circus of pundits” are pushing with loud screaming and short breath daily???).

So, a first observation to make is that the Shanghai Index has performed exactly as we had predicted since January 2015. At first, we had anticipated that the $SSEC was going to move from 3,250 from the beginning of the year to our 4,900 mid year target (most aggressive sell side target of all strategists), which it did, and even surpass it towards 5,150. Then, as per our Q3 Global Strategy Outlook, we had predicted that the $SSEC would give all of its 2015 gains back, by calling for an intra-quarter low of 3,250, which the $SSEC hit today with its close of 3,210 (-298).

Will the rollercoaster continue for the remainder of the year for the $SSEC?

We believe that the Chinese officials, combined with market speculators, who had missed the 65% rise of the $SSEC since the beginning of the year, and for most who also missed the -35% decline since the top, there is a “clean slate” now for getting back invested into Chinese equities, and particularly the $SSEC. **We maintain our 12 – 18 months high target for the $SSEC of 5,800.**

Weekly Investment Conclusion

Global equity markets entered into a meltdown phase on Friday, and are undergoing a usual "Sell in May & Go away"-type summer correction, or as we had correctly predicted for 2015 "Sell before May & Go away". This has happened historically more often than not on a 60-year comparison. We are expecting for the downside momentum to continue this week.

International events could influence equity markets again this week. More mixed news from China is expected over the short term. The drop in crude oil prices is squeezing the economies of oil producer nations including Russia, Venezuela and selected Middle East countries. Political instability is possible.

In Europe and the US, economic news is expected to show a mixed-to-stable economic growth momentum in Q3, a scenario that likely will continue to occupy investors about timing of the first increase in the Fed Fund rate. Again, we do not see enough positive sustainable macro data in the US, neither globally, for the FED to raise rates in 2015.

As per many writings over the past 2 months, and clearly the center focus of our Q3 Global Investment Strategy Outlook" most equity markets around the world enter into a period of seasonal weakness between now and the middle of October. Seasonal influences for North American and European equity markets are negative between now and the second week in October. Historically, the month of September is the weakest month of the year for equity markets.

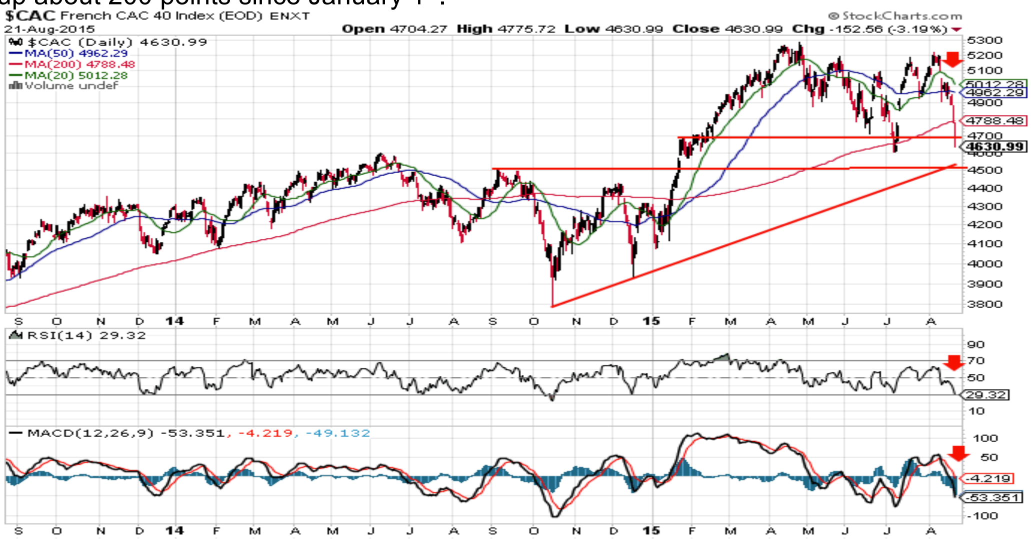
However, short term, some equity markets already are deeply oversold. **Short and intermediate technical indicators are trending down and most are oversold. However, signs of a bottom have yet to appear.** The S&P 500 Index already is down -7.59% from its recent high, the Dow Jones Industrial Average has fallen -10.31%, the NASDAQ Composite has dropped -10.05% and the TSX Composite has plunged -13.21%.

For European equities and ROW equities, most of the correction already has occurred. European equities are cheap, some cheaper now than on January 1st.

European equities offer the highest dividend yield, and have a significant "currency tailwind" to drive earnings higher for the rest of 2015 and well into 2016. For example:

the DAX 30 has dropped over -2,570 points (-20.7%) from its top in April, and offers investors currently a cheaper point of entry than on January 1st, 2015.

The CAC 40 has dropped -785 points (-14.8%) since its top of 5,290 in April, and is just up about 200 points since January 1st.



The AEX has dropped 77 points (-15.19%) since its April high of 507.

All three equity indices offer great opportunity for investors to increase weightings towards top global, leading companies, enjoying a tremendous earnings momentum (currency tailwind) combined with superior, well cash-flow covered dividend yields. We are advising for investors to add aggressively towards German and French equity indices and stocks at current levels, as we believe that markets will reward them with alpha returns until year end 2015.

For US equities, as we mentioned earlier, there is room for significant continued “surprise and disappointment” for investors. Between now and mid-October, we are expecting for equity markets to build a base before they once again can resume an intermediate uptrend. Patience is needed during this period. Meanwhile, market volatility has prompted the precious metal sector to move higher. Its period of seasonal strength lasts until the end of September.

History is repeating. US equity markets historically have recorded an average decline of -10% during the six-month period prior to the first increase in the Fed Fund rate. A study from 1945 to present on US equity markets showing impact of the first increase in the Fed Fund rate showed that the S&P 500 Index suffered an average drop of -10% to -12% sometime during the six month period prior to the first increase in the Fed Fund rate.

Again, we are not assuming that the first increase in the Fed Fund rate this year occurs in September, and hence, why we are anticipating for US equity markets to continue correcting, until they will reach -10% to -12% in total correction.

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