Creative Global Investments

Morning Market Commentary

Wednesday, August 28th, 2013

Carlo R. Besenius
Chief Executive Officer
cbesenius@cg-inv.com
+(352) 2625 8640

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
Tel: +(352) 2625 8640
Mob: +(352) 691 106 969

Objectivity

Integrity

Creativity

Equity Market Observations

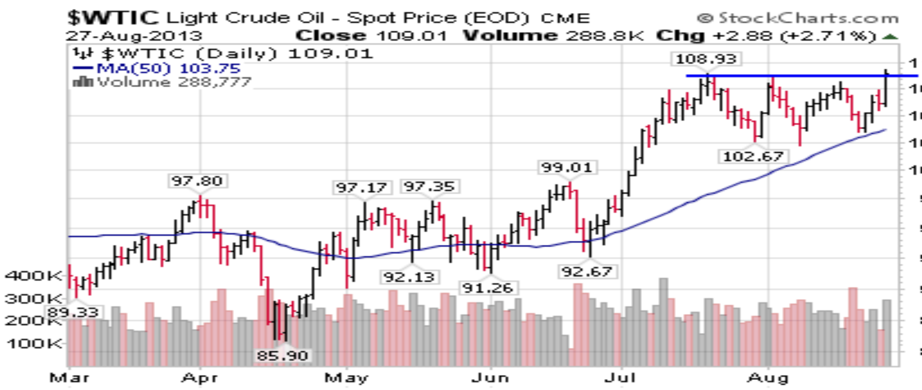
Investment sentiment turned decidedly negative yesterday on concerns about Syria and the US debt ceiling. Asian and European equities this morning traded down as investors continued their steady exit out of risky assets on concerns over increasing tensions in the Middle East.

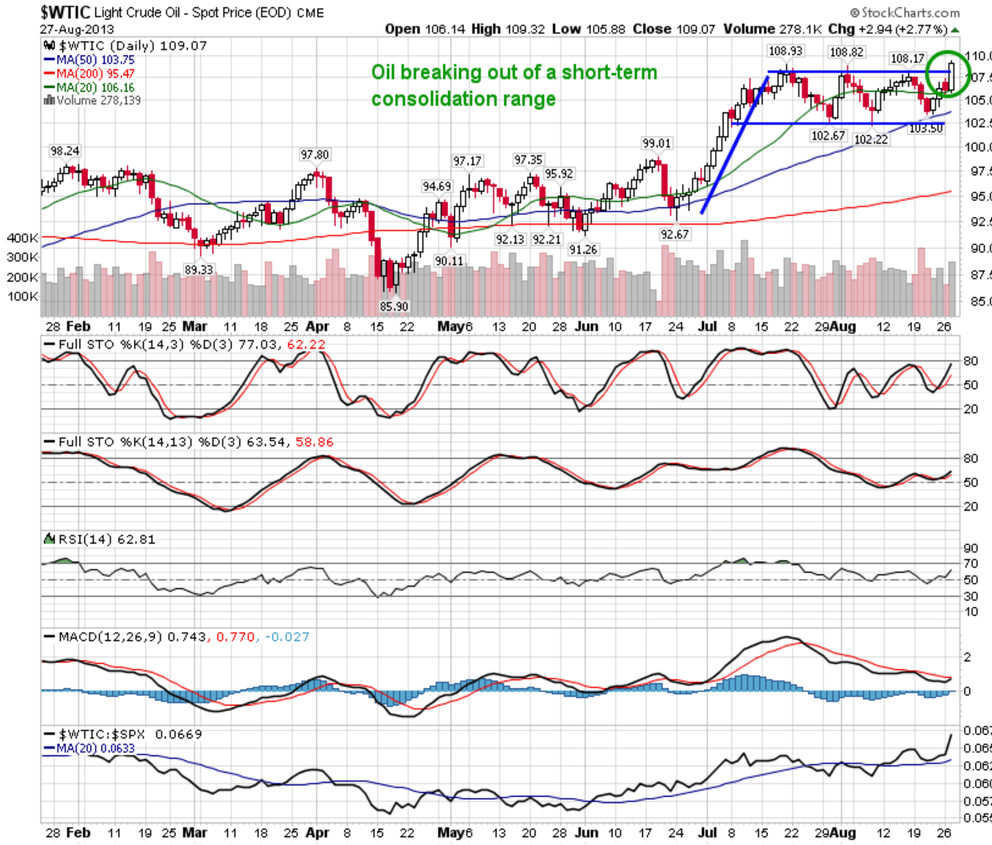
The US said its military is ready to launch strikes in Syria after leaders in the world's biggest economy accused the Syrian regime of using chemical weapons against civilians last Wednesday. US Vice-President Joe Biden said there is "no doubt" that the Syrian government used chemical weapons in an attack, which killed about 300 people. The Syrian government has firmly denied the claims and said it would defend itself against any military action from outsiders. The US said it would release its own intelligence report into the incident at Ghouta, a suburb of the capital. Obama is believed to have made at least 88 calls to foreign leaders to rally up support as the government is reportedly trying to avoid consulting the United Nations at the risk of Russia vetoing any military intervention.

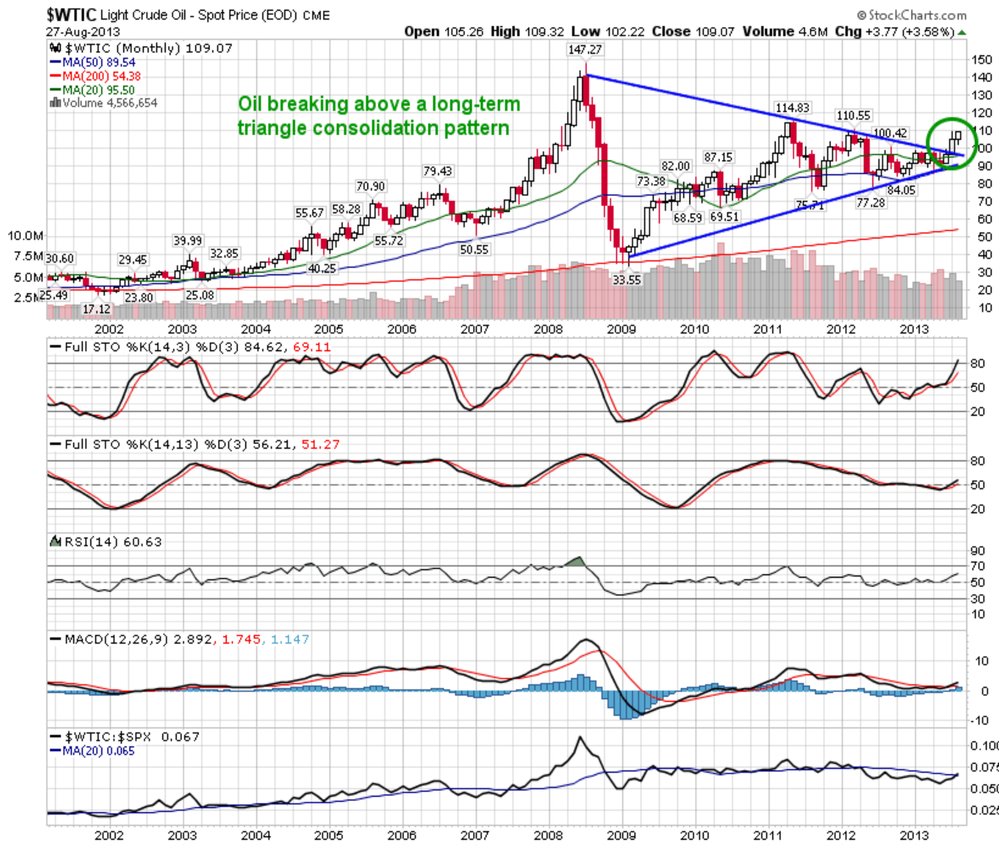
Amidst supply disruption concerns, Oil broke out of a defined range yesterday, completing the previously mentioned bull flag pattern on the chart. We recently noted that Oil had broken above a long-term triangle consolidation pattern, likely leading to higher prices ahead. As the price of Oil climbs, cyclical stocks suffer, particularly those pertaining to the Transportation industry. The Dow Jones US Airlines Index fell 5.4% yesterday, influencing the entire transportation industry lower by 2.6%, as gauged by the Dow Jones Transportation Average.

Seasonally, strength in the price of Oil is typical through the month of September, which leads to the weakest month of the year for consumer discretionary, industrial, and material stocks.

Seasonal weakness in each of these areas leads to buying opportunities into the fourth quarter as oil seasonally declines into the end of the year.







The typical safe-haven assets, such as Gold and Bonds, benefitted, while cyclical stocks, such as Financials, Industrials, and Materials, led market declines.

Despite recent weakness and significant declines recorded in many of the cyclical sectors yesterday and today, the only high beta sector that is showing clear underperformance versus the market over the past few weeks is Financials; Industrials, Materials, and Energy continue to show a recent trend of outperformance, while defensive sectors (Staples and Utilities) continue to show struggle versus broad market benchmarks.

This lack of risk-aversion suggests that panic has yet to set in and investors remain unconcerned, perhaps even unprepared, regarding any short to intermediate-term weakness. Continued declines similar to yesterday's selloff could make investors rethink their strategy of holding firm in cyclical assets.

We have been advising clients since June 2nd to sell equities globally prior to the peak period of seasonal weakness ahead in September and October, and continue to do so.

Seasonal tendencies once again turn positive for broad market indices at the end of October.

Macro Economic Commentary

Upcoming Macro data:

- German Consumer Confidence for September will be released at 2:00am EST. The market expects 7.1 versus 7.0 previous
- Japan Retail Sales for July will be released at 7:50pm EST. The market expects no change (0.0%) on a year-over-year basis versus an increase of 1.6% previous.
- Pending Home Sales for July will be released at 10:00am. The market expects a month-over-month decline of 1.0% versus a decline of 0.4% previous.
- Weekly Crude Inventories will be released at 10:30am.

Past data review

Event	Actual	Forecast	Previous
CNY Industrial Profits YTD (YoY)	**11.10%**		11.10%
JPY Small Business Confidence	**49.7**		49.4
EUR German IFO – Business Climate	**107.5**	107	106.2
EUR German IFO – Current Assessment	**112**	111	110.1
EUR German IFO – Expectations	**103.3**	103.1	102.4
CNY Leading Index	**100.18**		99.81
USD S&P/Case-Shiller Composite-20 (YoY)	**12.07%**	12.10%	12.20%
USD S&P/Case-Shiller Home Price Index	**159.54**	159.3	156.18
USD S&P/CS 20 City s.a. (MoM)	**0.89%**	1.00%	1.04%
USD S&P/Case-Shiller US Home Price Index (YoY)	**10.08%**		10.10%
USD S&P/Case-Shiller US Home Price Index	**146.32**		136.59
USD Richmond Fed Manufacturing Index	**14**	0	-11
USD Consumer Confidence	**81.5**	79	81

Euro Economies

German consumer confidence eased slightly from a six year high heading into September, according to data Wednesday. The GfK Consumer Confidence Survey's forward-looking sentiment indicator fell to 6.9 going in to September from 7 in the previous month. It was the highest level since before the global financial crisis and undercut forecasts for the reading to hold steady.

The Bank of England has warned Nationwide it is forbidden from cutting lending to small firms to meet tougher safety rules. Threadneedle Street last night reacted angrily to reports that Britain's biggest building society has delayed plans to start lending to small and medium-sized businesses

UK's regulator Ofgem promises the biggest shake-up of the energy retail market since competition began. All UK households will receive simplified gas and electricity tariffs by the end of the year and must be told the cheapest deal available from their supplier by the spring, industry regulator Ofgem said on Tuesday

US Economy

US consumer confidence, which edged higher this month, surprising analysts who had expected a slight decline. The Conference Board's index rose to 81.5 in August from an upwardly revised 81.0 in July consensus estimate: 79.0, driven by an increase in the economic expectations index which was boosted by improved labor-market sentiment.

US Equity markets commentary

We have been advising clients since June 2nd to sell equities globally prior to the peak period of seasonal weakness ahead in September and October, and continue to do so.

Seasonal tendencies once again turn positive for broad market indices at the end of October.

As anticipated, the VIX did rise substantially yesterday.

The decline in stocks on the session pushed the S&P 500 Index below the 100-day moving average, a level that had supported the market back at the June low.

Should a similar rebound from this level fail to occur, yet another significant moving average will be taken out, setting a path toward the 200-day moving average, a level that had not been tested since the November lows of last year.

The 200-day moving average, now at 1558, is hovering around the same level as the low set back in June, a reasonable level of support that appears likely to be tested.

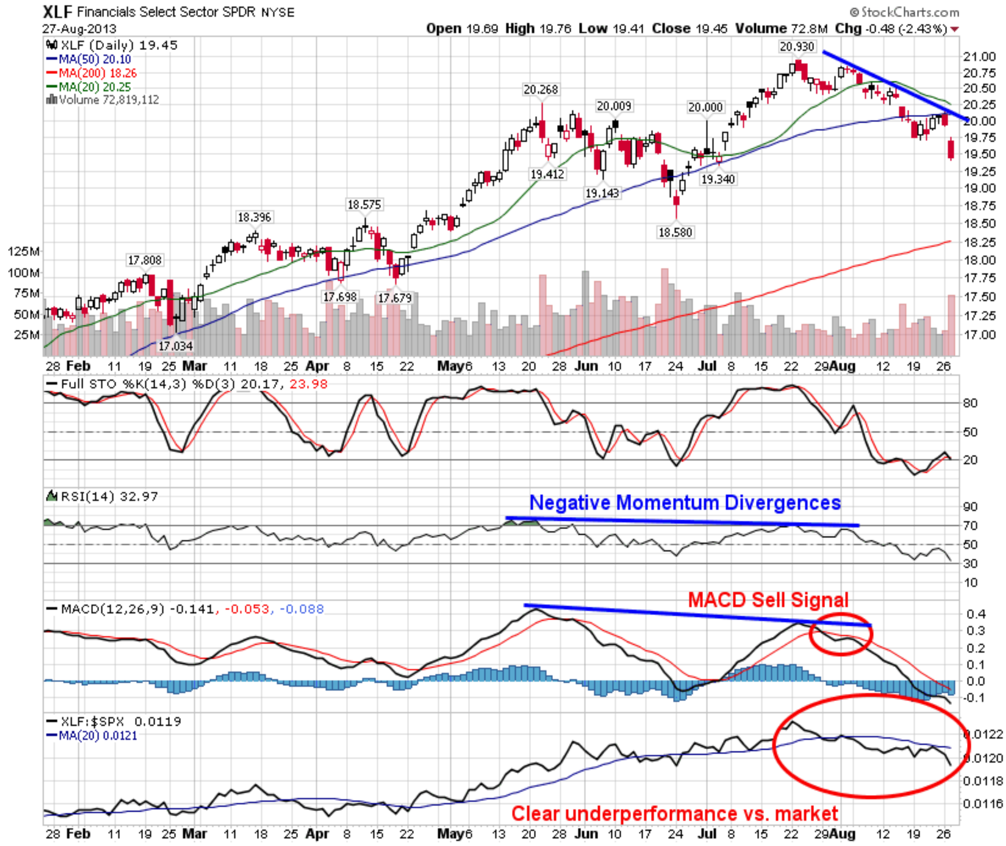
Percent of S&P 500 stocks trading above their 50 day moving average fell sharply.

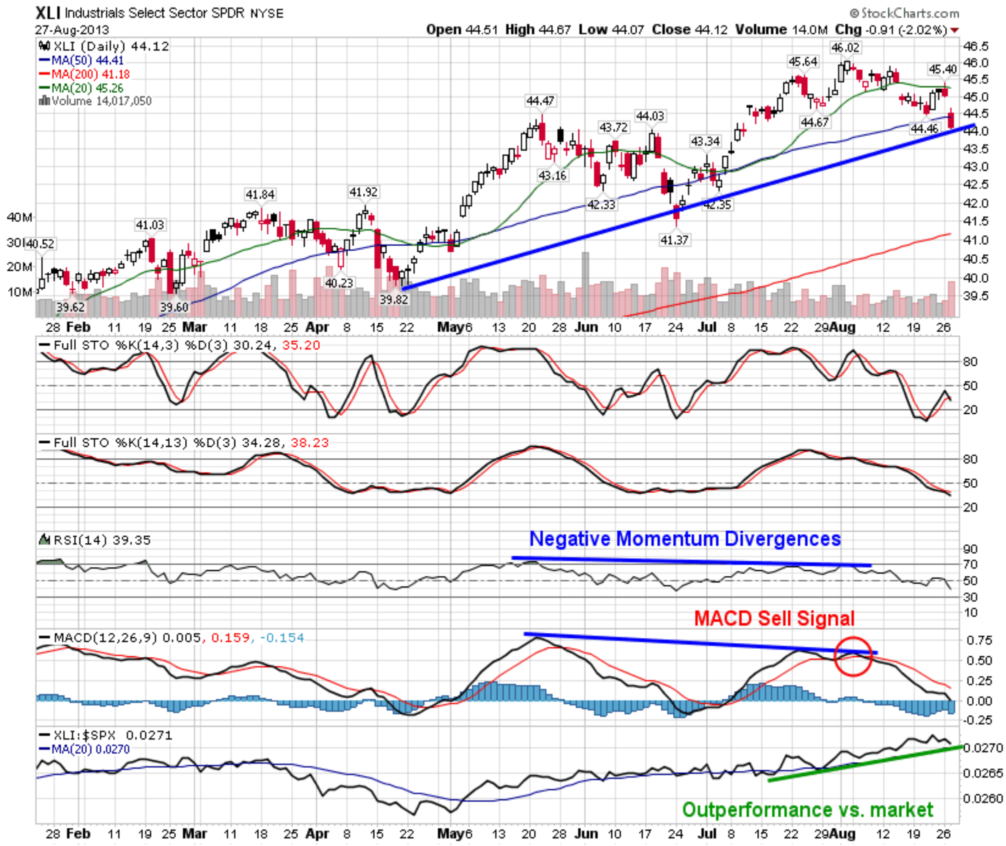

$SPX S&P 500 Large Cap Index INDX
27-Aug-2013
Open 1652.54 High 1652.54 Low 1629.05 Close 1630.48 Volume 2.2B
$SPX (Daily) 1630.48
MA(50) 1659.84
MA(200) 1558.32
MA(20) 1676.08
Volume 2,176,221,696
Benchmark has broken through support at the 50-day moving average. Next minor support at 1600. Trading activity remains well outside of the previous rising trend channel that lifted stocks from November through May
Full STO %K(14,3) %D(3) 22.28, 24.77
RSI(14) 35.14
Momentum indicators diverging from price action as the technical indicators show evidence of rolling over
MACD(12,26,9) -7.305, -1.670, -5.635

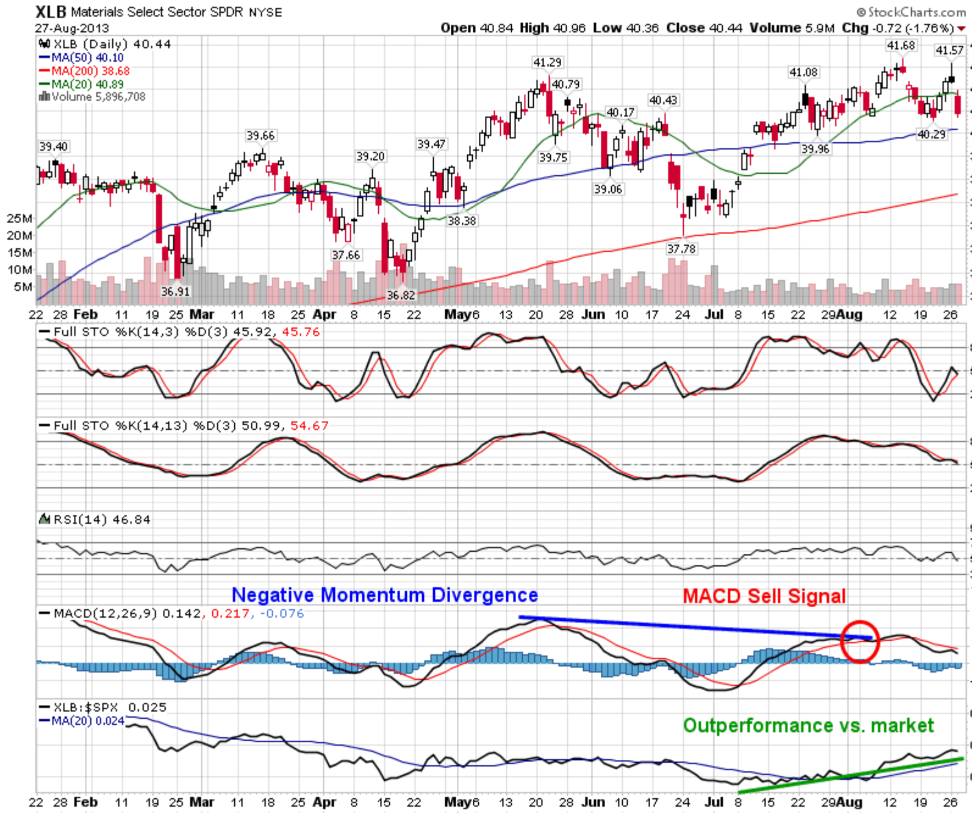

GDX Market Vectors Gold Miners NYSE
27-Aug-2013
Close 29.10 Volume 63.0M Chg -1.31 (-4.31%)
GDX (Daily) 29.10
MA(50) 26.17
Volume 62,975,916

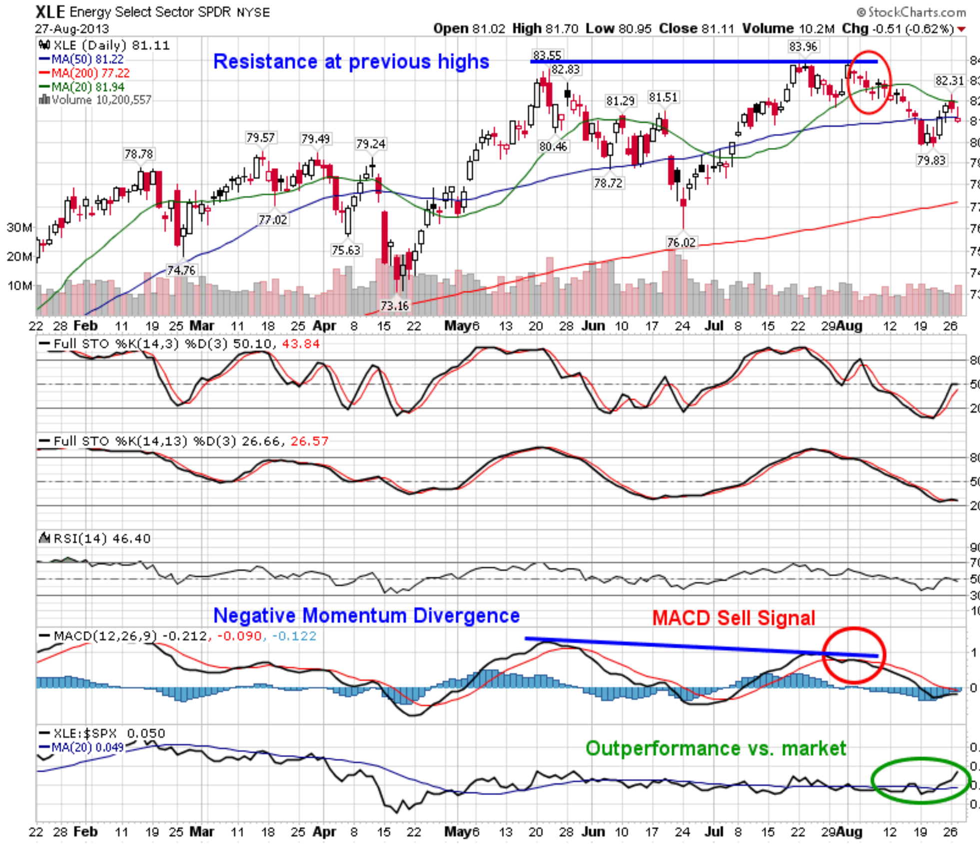

XLE Energy Select Sector SPDR NYSE
27-Aug-2013
Close 81.11 Volume 10.2M Chg -0.51 (-0.62%)
XLE (Daily) 81.11
MA(50) 81.22
Volume 10,197,157

Intermediate technical deterioration continued.

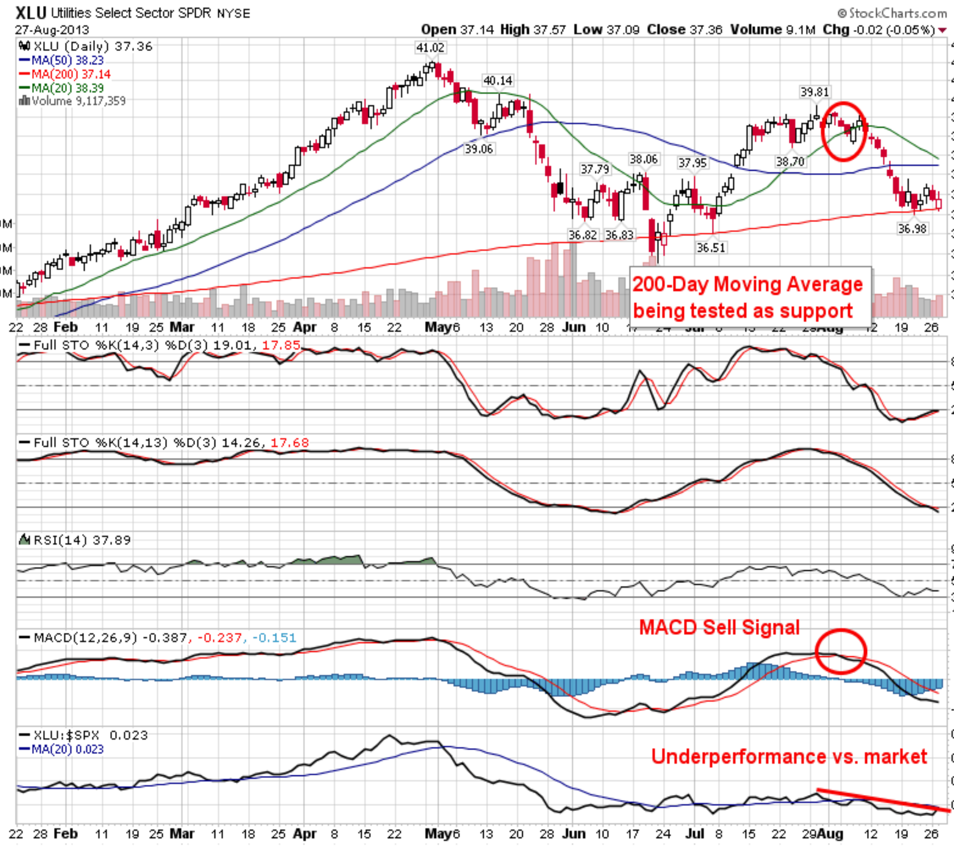





XLB Materials Select Sector SPDR NYSE
27-Aug-2013
Open 40.84 High 40.96 Low 40.36 Close 40.44 Volume 5.9M Chg -0.72 (-1.76%)
Negative Momentum Divergence
MACD Sell Signal
Outperformance vs. market


XLE Energy Select Sector SPDR NYSE
27-Aug-2013
Open 81.02 High 81.70 Low 80.95 Close 81.11 Volume 10.2M Chg -0.51 (-0.62%)
Resistance at previous highs
Negative Momentum Divergence
MACD Sell Signal
Outperformance vs. market


XLP Consumer Staples Select Sector SPDR NYSE
27-Aug-2013
Open 39.44 High 39.64 Low 39.40 Close 39.53 Volume 11.5M Chg -0.21 (-0.53%)
Resistance at previous highs
Negative Momentum Divergences
MACD Sell Signal
Underperformance vs. market


XLU Utilities Select Sector SPDR NYSE
27-Aug-2013
Open 37.14 High 37.57 Low 37.09 Close 37.36 Volume 9.1M Chg -0.02 (-0.05%)
200-Day Moving Average being tested as support
MACD Sell Signal
Underperformance vs. market

Currencies

As the credit glut in the US nears an end, the currencies of developing countries like India, Thailand and Indonesia are plummeting. Now there are fears that a similar scenario of the 1997 market crash is on the horizon

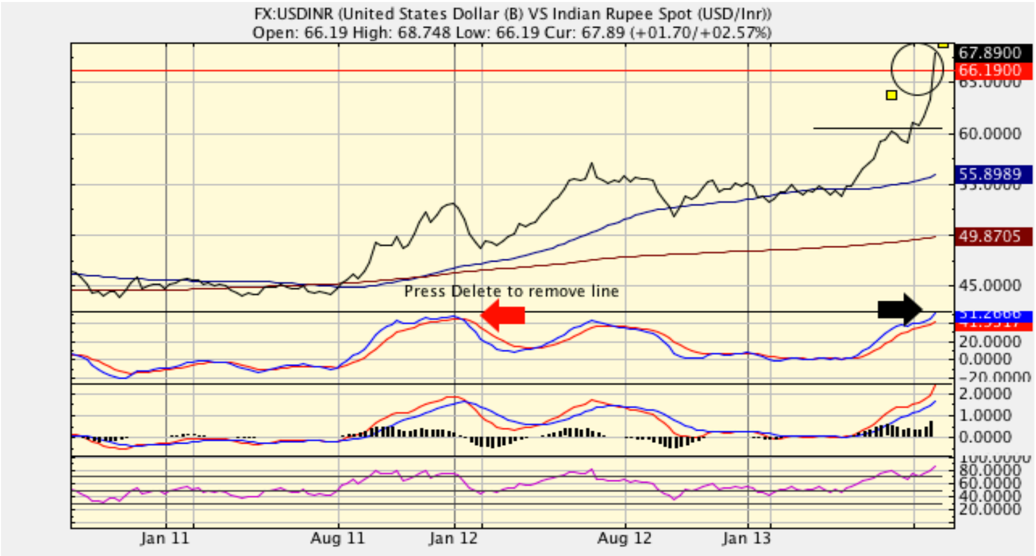
We do not think so however. But we rather see a tremendous buying opportunity for long term focused institutional investors in Indian, Chinese, Russian, Brazilian, Indonesian, Thai and Malaysian equities and their inherent currencies.

The Indian rupee plumbed new depths this morning, as risk aversion swept global markets ahead of a possible US-led military strike in Syria, while many other currency pairs moved in narrow ranges. The rupee was among the hardest-hit of the emerging-market currencies, with the US$ +1.6975% rising to an all-time high of 68.72 rupees, before pulling back a little. The US$ was fetching 67.86 rupees by mid afternoon in Mumbai, compared with 66.19 rupees late Tuesday in North America. Since May, the rupee has lost 17 percent of its value against the US$.

All of the following 5 currency charts are showing a breakout of the US$ to well beyond 4 standard deviations on MACD, RSI and TSI.

Although the 50-dayMVA and 200-dayMVA's are all in favor of a US$ strengthening, we are having a tough time seeing those extreme stochastics' conditions to prevail.

Something will have to give, and we do think it will be the US$.



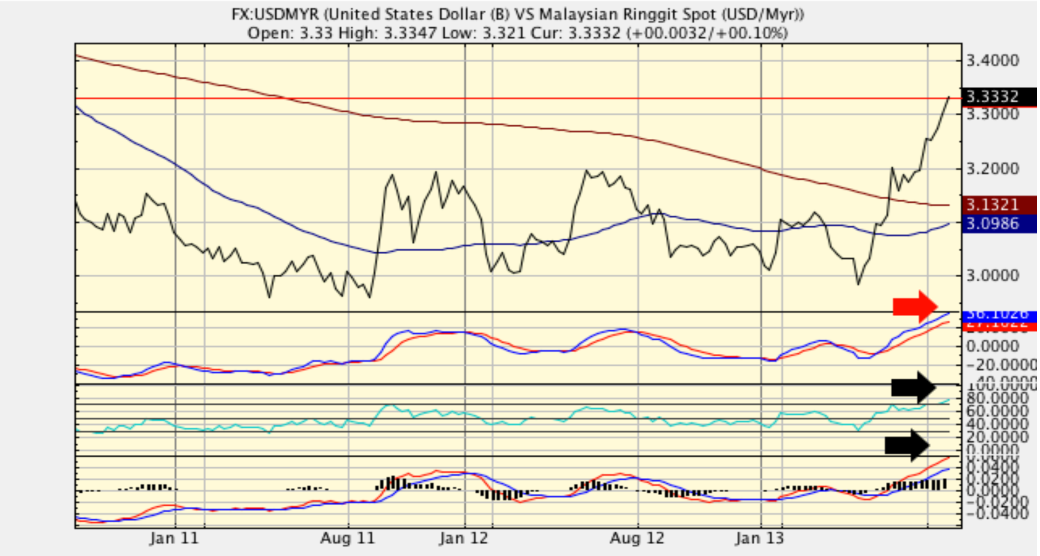
There are two primary reasons for this crash.

1. **Investors have lost faith in India's economic miracle and in Indian politicians. Growth has dropped by nearly half, the country's trade balance continues to slip further into the red, stock prices are practically in free-fall and inflation is deepening the divide between rich and poor.**

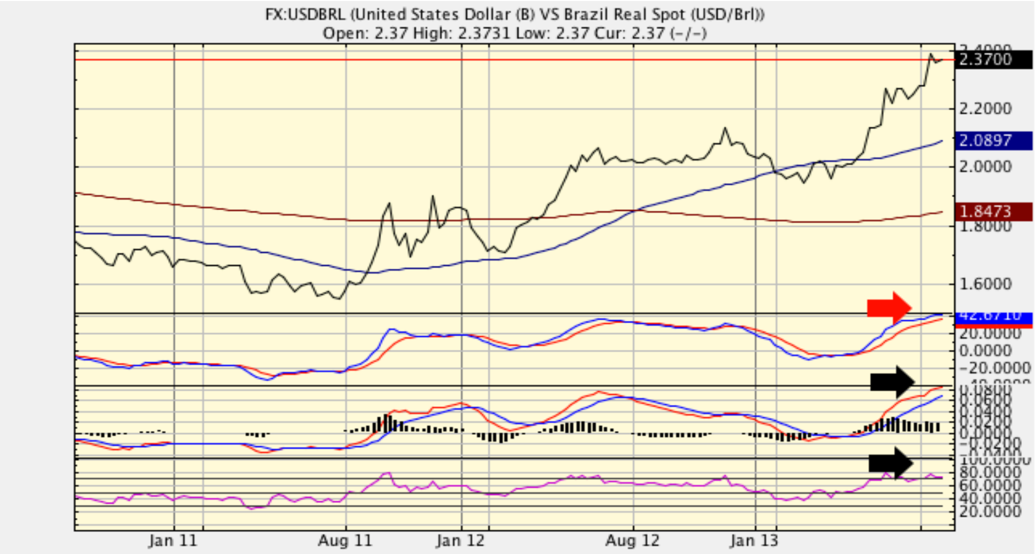
2. **Something over which authorities in New Delhi have little control: the coming end of the credit glut in the United States. No More American "Hot Money"**

Much of the money the US Federal Reserve Bank released onto the market as a way of stimulating the economy eventually made its way to India or other emerging markets, where it drove up property values and stock prices.

In May, Federal Reserve chair Ben Bernanke hinted at a change of course. Since then, investors have speculated about a coming end to quantitative easing, and increasingly have pulled their money out of emerging markets. Currency values are now dropping in many countries that previously profited from foreign capital, like Brazil, Russia, Thailand, Malaysia, and South Africa, but hardly anywhere is the phenomenon as extreme as in India.



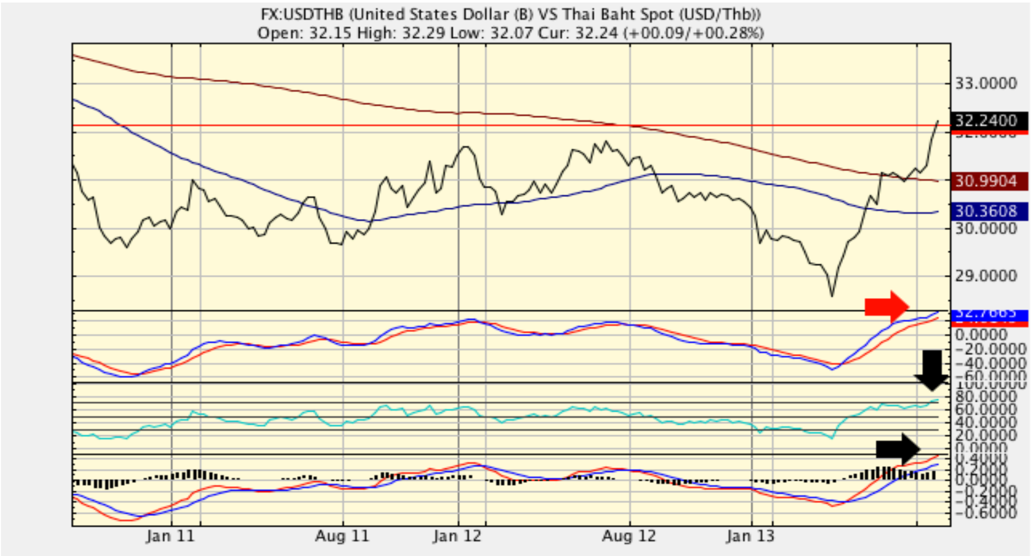
Until recently, Brazil, Russia, India, China and South Africa were seen as winners in the 2008 global financial crisis. Economists even predicted that these ascending countries would be able to "decouple" themselves economically from crisis-ridden Europe and the US. Instead, those countries are now quaking at the prospect of an end to the flow of so-called "hot money" from the US and Europe.



It is true that the leading BRICS country, China, is not directly affected by the current currency crisis, since the Yuan is not freely convertible. But the country's Communist rulers are struggling with their own banking crisis and an urgently needed reorientation of Chinese industry toward more domestic consumption.

As China's economy falters, its imports of raw materials from other newly industrialized countries declines as well, which means China's southeast Asian neighbors in particular are suffering on two fronts. Indonesia, Malaysia and Thailand are now not only exporting less to China, they are also forced to stand by and watch as investors flee en masse from the Indonesian rupiah, the Malaysian ringgit and the Thai baht.

P. Trairatvorakul, the head of Thailand's central bank, has tried in vain to calm the markets. The general economic situation is "still okay," he declared, adding that the baht was moving in line with economic fundamentals.



Indonesia's central bank governor, A. Martowardojo, has likewise played down the seriousness of the situation, saying, "the worst times of capital outflow in June and July are already over. Pressures against the rupiah are unlikely to continue."

Sure, many investors still have doubts about the Indonesian government's ability to combat the crisis effectively. All this brings up some unpleasant memories: It is precisely these so-called "tiger economies" that, following a period of artificially inflated growth, triggered the 1997 Asian financial crisis. That debacle began in Thailand, where the newly rich middle class constructed skyscrapers and mansions and purchased luxury cars, all on credit. When this bubble became apparent, hedge funds in London and New York began speculating on a baht crash.

Thailand had pegged its currency to the US$. To maintain the exchange rate and fend off speculators' attacks, the country introduced nearly its entire foreign currency reserves onto the market within a very short space of time. Ultimately, the country's central bank had to capitulate to the hedge funds. Thailand abandoned its peg to the dollar and the baht tumbled in value. The country's debts also increased because most loans had been in US$. Thailand ended up practically broke.

Next, trouble hit a number of banks in Malaysia and Indonesia, where enraged mobs looted shops owned by Chinese businesspeople; Suharto's dictatorship collapsed soon after. South Korea, too, only narrowly escaped national bankruptcy thanks to a US$ 58 BN International Monetary Fund loan.

This time around, newly industrialized countries are better armed against capital flight. Having learned a lesson from the Asian financial crisis, they have increased their foreign currency reserves and partially reformed their banking sectors. Even more importantly, their currencies are no longer pegged to the US$.

Sure, the capital flight currently taking place also illustrates how far the BRICS countries and the Asian tigers still are from overtaking Western industrialized countries; and to what degree these countries' accomplishments are now in jeopardy.

Central banks of developing countries, with the exception of China, lost a total of more than US$ 80 billion between just May and July through the selling of US$ to protect their currencies.

Indonesia's foreign currency reserves have shrunk by 18 percent since the beginning of the year. Until recently, the country was a favorite for foreign investors. Thanks to its boom in raw materials, the country's manufacturing was still growing by over 10 percent in April, faster than almost any other country in the world. Companies from Europe, the US and Japan have built car and electronics factories in the country because, in addition to other factors, they also have faith in Indonesia's impressively well-functioning democracy.

At the same time, nearly half of Indonesia's almost 240 million inhabitants live on less than US$ 2 a day. The rupiah's drop has forced the country's poor to cut back on food even more, while their newly rich neighbors search feverishly for a way to protect their wealth. As a precaution, the central bank in Jakarta has forbidden the withdrawal of US$ from ATMs.

These developing countries are in a tight spot. To curtail rapid capital flight, they would need to raise interest rates considerably, but doing so would cause the country's economy to stall. The governments of India and Indonesia are particularly leery of causing that sort of nightmare scenario: both have elections in the coming year.

However, we do think that the current currency demise for the rupee, the baht, the real, and the rupiah is clearly overdone, and are advising investors to start to increase holdings in both the rupiah and the baht, and in both countries equity markets. US investors have to realize that India, Russia, Brazil, Thailand, Indonesia, Malaysia, all countries where their currencies have declined by an average of over 17% since January 2013 implicitly have gained 17% competitive advantage over the US in the meantime.

Our advice to investors is to add towards equities in those currency crippled markets, as the currently 17% US$ strength vis-à-vis those markets is not going to last, at least not with tremendous economic ramifications.

So, US investors should use the temporary US$ strength against those currencies, increasing their buying power, and add towards company equities in those markets, who just got 17% cheaper, and yet, 17% more globally competitive.

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

Trish Twining, Managing Director of Sales
ttwining@cg-inv.com
office: 7817710117
Boston, MA, USA

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