Creative Global Investments

Morning Market Commentary

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Objectivity

Integrity

Creativity

Currency & trade balance observations

The US trade deficit with other nations surged 13.3% in July, largely reflecting higher oil prices and a rise in imports of autos and auto parts. The trade gap widened to a seasonally adjusted $39.1 billion from a revised US$ 34.5 Bn in June, the Commerce Department said today. The value of goods imported into the US rose 1.6% to US$ 228.6 Bn. US imports of petroleum increased in July and demand for foreign-made autos and parts hit a record high. Exports slipped 0.6% to US$ 189.4 Bn, as shipments of US-made commercial planes, industrial engines and finished jewelry declined.

As previously stated, we had expected the deficit to climb back to US$ 40 Bn after an unusually sharp decline in the prior month. The trade gap sank more than 20% in June to the lowest level since the fall of 2009. Although the increase in imports suggests strengthening demand in the US, a larger trade gap usually means slower economic growth at home since America is buying more goods and services from other countries.

The wider gap in July could be another drag on US growth in the third quarter, which has gotten off to a slow start. Economists forecast gross domestic product to taper off to 2.1% from 2.5% in the second quarter. Still, the US trade gap is down 10% from one year ago, largely because the nation is producing and refining more petroleum for export. American exports of petroleum products set another record in July at US$ 12.5 Bn, helped by fracking that has allowed drillers to extract oil previously inaccessible on US territory.

The trade deficits with China and the European Union, which are unadjusted, were the highest on record. The US has been selling more goods and services to South America, however, and exports to Brazil touched a record high.

We are reiterating our views that the US economy does not carry sufficient intrinsic strength to live with a strengthening US$, as the 30-year growing trade deficit shows. We are advising our clients to "sell" US$ against many EM currencies, but in particular against the Rupee, the Real, the Baht, and last but not least against the Euro.

Asian equity markets commentary

The Shanghai Composite Index responded favorably to a better than expected HSBC China PMI report. The Index closed at a three month high.

Technical outlook based on trend, strength relative to the S&P 500 Index and trading above its 20 day moving average is clearly improving.

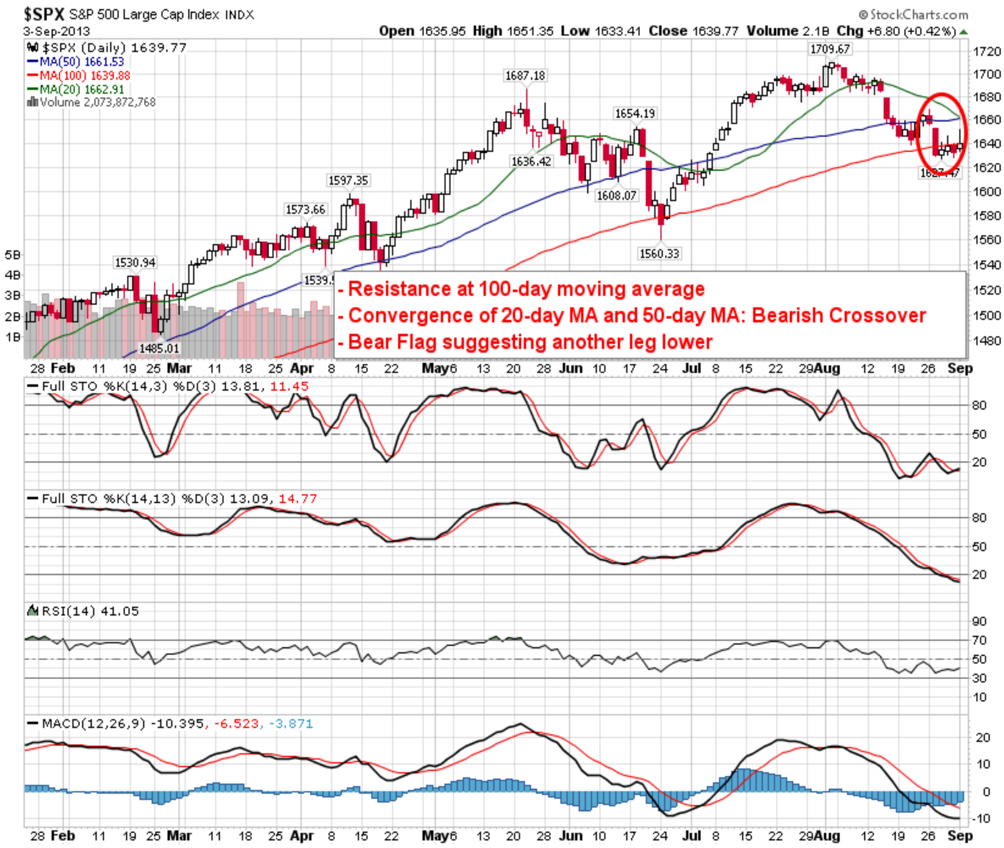
US Equity markets commentary

At the highs of yesterday's session, the S&P 500 was up around 1.10% as traders covered negative bets initiated during Friday's session. As concerns once again escalated that an outbreak of war was imminent, stocks shed almost two thirds of the gain achieved around the opening bell.

The S&P 500 ended at its 100-day moving average, a level that has acted as resistance over recent days.

Short-term consolidation on the chart is giving indications of a bear flag pattern, which suggests another leg lower to follow.

The 20-day moving average continues to point lower and is now intersecting with the 50-day average in what appears to be an imminent bearish crossover. With the weakest period for stocks, from a seasonal perspective, directly ahead and fundamental uncertainties growing, caution remains warranted.



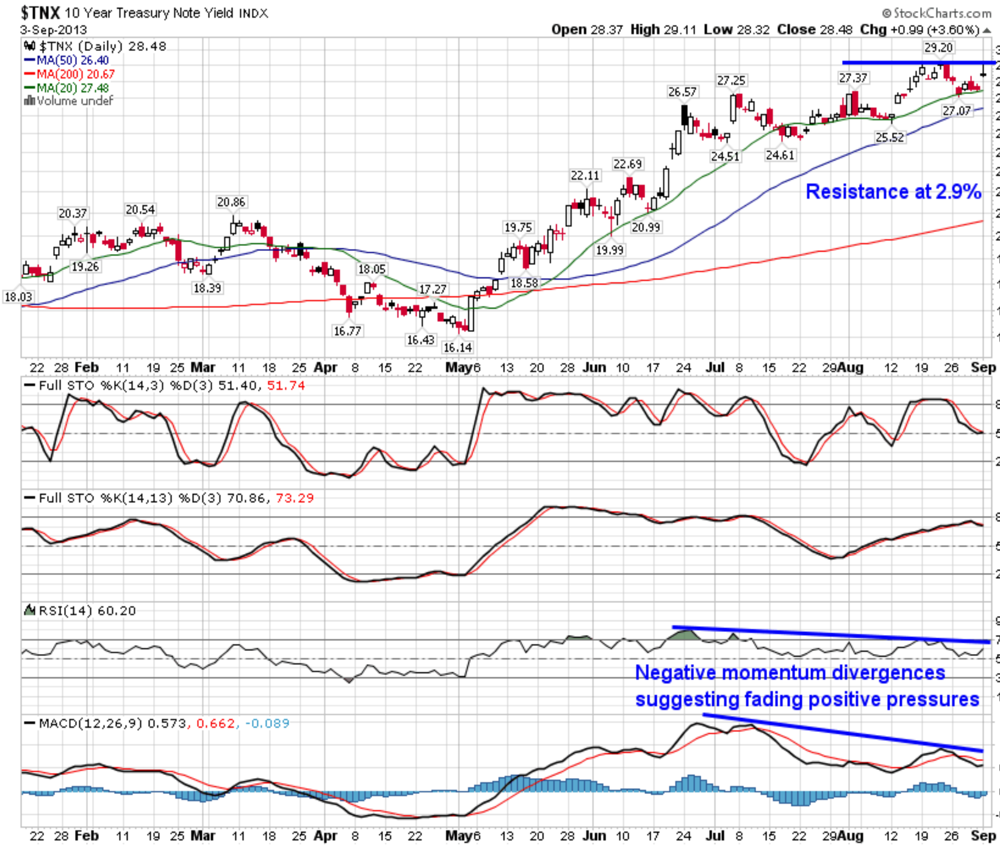
Fixed Income markets commentary

US treasuries sold off yesterday as stocks pushed higher. The yield on the 10-year note once again touched resistance at 2.9%, a critical level marking one of the last lines in the sand of the tremendous multi-year bull market for bonds that really gained legs starting in 2007.

Negative momentum divergences on the chart of the 10-year yield suggests that recent positive pressures on the cost of borrowing may be fading, an event that typically precedes a change of trend.

Should fear and panic escalate within equity markets, investors may flock back to the bond market, bidding up prices and pushing down yields, in order to sit out the storm.

Seasonal tendencies remain positive for fixed income asset prices through to the end of the year.



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

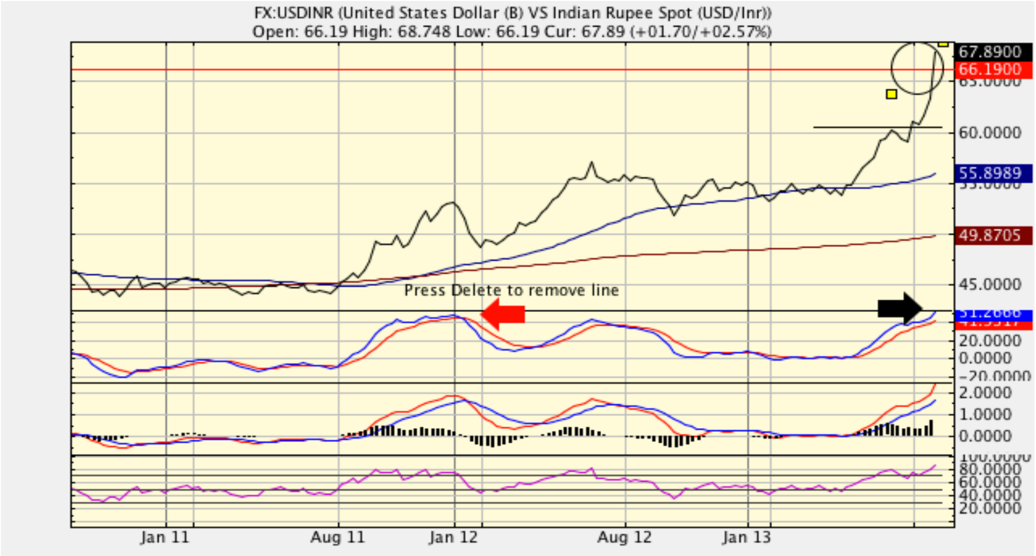
We do not think so however. But we rather see a tremendous buying opportunity for long term focused institutional investors in Indian, Chinese, Russian, Brazilian, Indonesian, Thai and Malaysian equities and their inherent currencies.

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$.



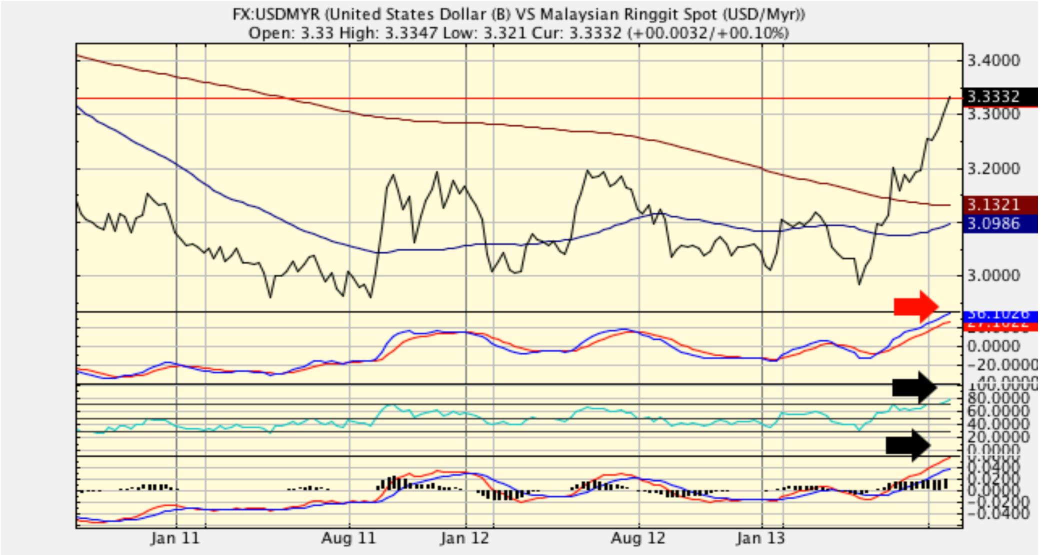
There are two primary reasons for this crash.

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.**

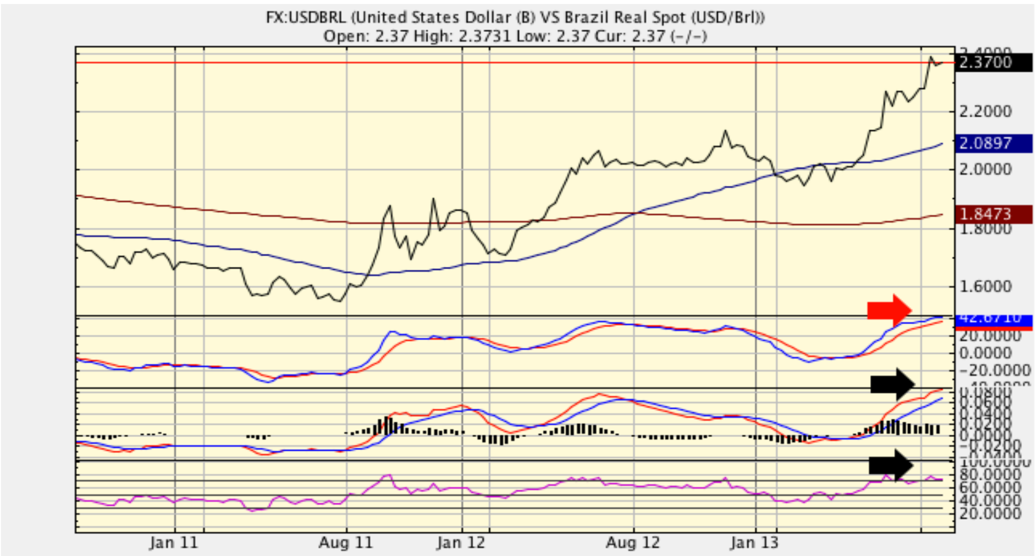
2. **Something over which authorities in New Delhi have little control: the coming end of the credit glut in the United States. No More American "Hot Money"**

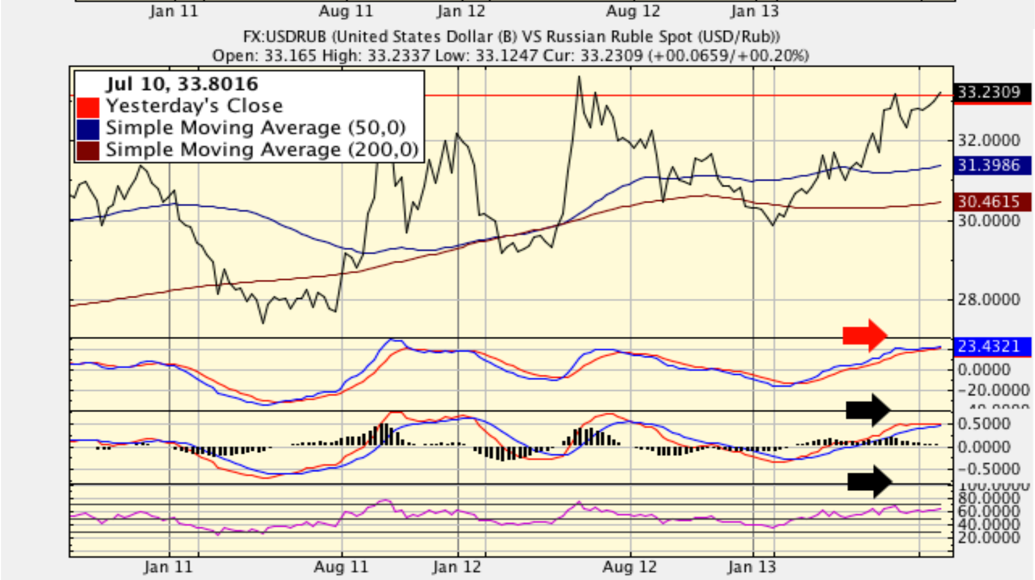
Much of the money the US Federal Reserve Bank released onto the market as a way of stimulating the economy eventually made its way to India or other emerging markets, where it drove up property values and stock prices.

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.

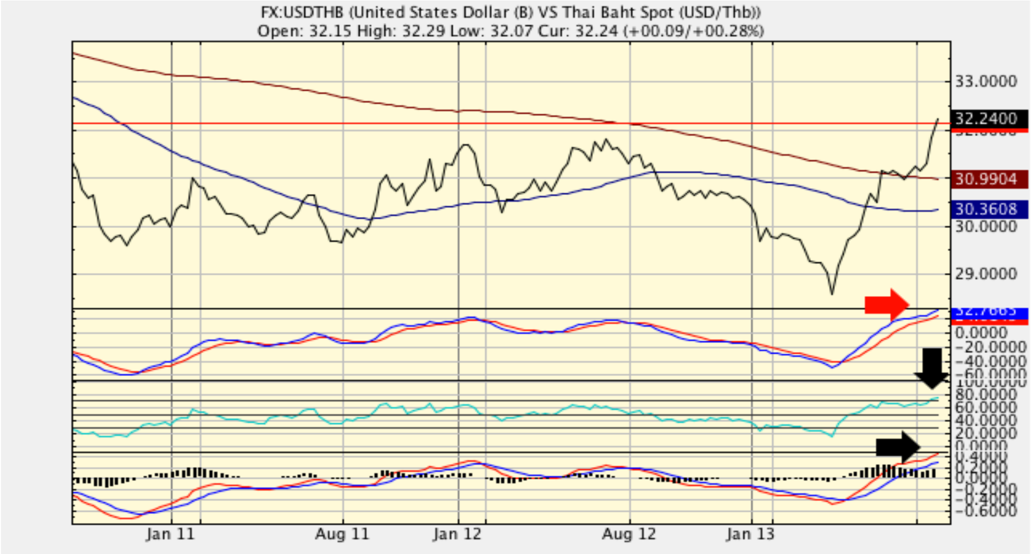




It is true that the leading BRICS country, China, is not directly affected by the current currency crisis, since the Yuan is not freely convertible. But the country's Communist rulers are struggling with their own banking crisis and an urgently needed reorientation of Chinese industry toward more domestic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

Gold & Precious metals

An interesting sentiment/economic strength indicator in the commodity market is showing a potentially bearish setup. Copper has underperformed gold over the last few weeks, charting what appears to be the right shoulder of a head-and-shoulders topping pattern on the chart of Copper versus Gold.

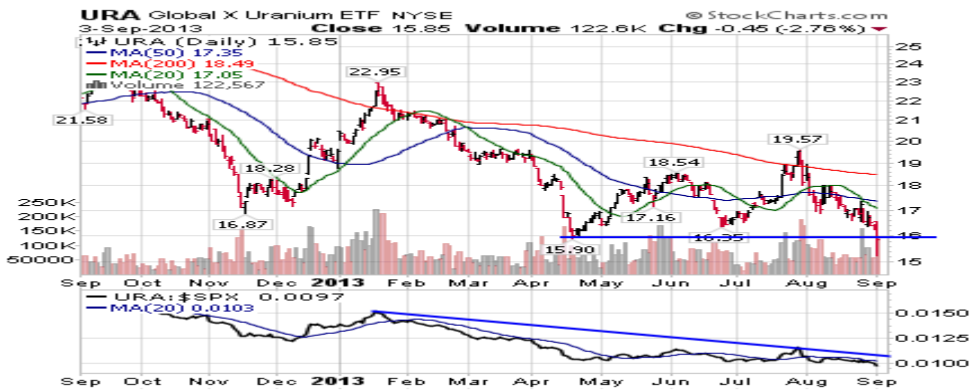
The relative underperformance of Copper coincides with the period of seasonal weakness for this industrial metal; between the start of September and the end of November, Copper declines around 8%, on average, relative to Gold. Despite some optimistic manufacturing reports over recent days that are conducive to higher Copper prices, the performance relative to Gold looks weak, suggesting that seasonal norms are likely to materialize.

September is by far the weakest month for the relative performance of the industrial metal and a break below the neckline of the head-and shoulders pattern suggests downside potential of 8% in the Long Gold/Short Copper trade, consistent with seasonal norms.

The implications of a move like this are risk aversion, whereby investors are likely to sell stocks, possibly in high beta sectors. The setup for seasonal weakness and volatility for risk assets, such as stocks and commodities, remains intact, which could mean treacherous sailing ahead.

Gold was remarkably strong yesterday despite exceptional strength in the US$. Usually, they have a high negative correlation. That's good news for gold, gold stocks and gold ETFs!

Uranium stocks and related ETFs are responding to more concerns about nuclear leakage in Japan.



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