Creative Global Investments

Morning market commentary & charts

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Objectivity

Integrity

Creativity

Post FOMC Commentary

The FED's decision to keep rates unchanged comes to no surprise to us, as we have been forecasting that the FED would not raise rates at all in 2016, mainly due to evidence in our research that the US economy in aggregate was slowing since October 2015, and now since Q2 of 2016 on an accelerating basis.

What should investors do now? What are the foreseeable issues for investors to deal with for the remainder of 2016?

1. FED policy not in play (until post US presidential election, likely 2017)
2. US election uncertainties (too close poll results for new allocations to be made)
3. Global macro developments (China, India, EM GDP to remain higher than expected, but slowing)
4. US macro developments (US GDP growth below Eurozone's)
5. Government bond yield premium of 10-Y treasuries to fade over European comps
6. EM government bond yields to continue to be lowered
7. 28-months US$ strength to vane due to absence of macro & yield support, for sure against the EURO, but also EM currencies "(the great unwind" from the 28 months parabolic fallacy based on the immunity of US macro strength to ROW)
8. Geo-political uncertainties

We will discuss these in detail upon client interest.

Global Macro Commentary

In the US, CASS Information Systems, a leading provider of transportation intelligence services, released their freight index for the month of August. On the volume side, shipments were higher by 0.4%, a fraction of the 1.9% average gain for the month of August. The result saw the y-td trend fall back below the seasonal norm through the 9-months of the year. The gain in the month is a positive revelation considering it was this time last year that the trend of shipments started to negatively diverge from historical norms, following the decline in commodity prices over the same timeframe. Slowly, economic indicators are starting to suggest that the economy is not setup for the same fate as what was realized in the last half of 2015. Shipments typically peak for the year in the month of September, coinciding with the peak in manufacturing activity ahead of the important consumer-spending season during Q4. As for expenditures, unfortunately the conclusion isn't as favorable as what volume trends are suggesting. The expenditures index was lower by -3.3% in August, a notable divergence when compared to the average gain of 0.3% for this summer month. Not only is the y-t-d trend hovering well below the seasonal average, it is also lagging versus the trend set this time last year, a factor of overcapacity within the industry driving prices lower. Further improvement looks to be required on the demand side, as suggested by the shipments index, in order to return prices/expenditures back to a normal trend. The obvious impact of these trends is on the earnings of some transportation companies, which could face margin pressures as a result.

Other US macro data released by the EIA showed petroleum inventories in the US score another sizeable drawdown of 6.2MN barrels in oil inventories and a 3.2MN barrel drawdown in gasoline inventories. This increase comes despite a rise in domestic oil production and oil imports, which is gradually returning to levels it was hovering at prior to Hurricane Hermine. The days of supply of both oil and gasoline appear to be resuming a downward-path; a divergence versus the trend realized last year around this time that saw a significant rebound from the August lows. Both readings remain above their seasonal average for this time of year, although gasoline is quickly converging on this historical trend. Overall, the trends in storage levels of both the raw input and the refined product look encouraging, conducive to price stabilization as a supply/demand balance is met going into the slower fall season. However, the bottoming in US oil production and continuing rebound in imports suggests that the threat to supplies still remains. The key variable is hurricane season, which may be causing a temporary blip to the supply side metrics. Weather, which starts to become much more erratic into the fall, can have impacts on both the supply and demand side of the equation, warranting further monitoring over the weeks ahead. Seasonally, the price of oil typically declines between now and December.

Currency Commentary

As an immediate reaction to no policy change by the FED, we see the US$ on the precipice of needing to deflate. All the arguments and hopes and hypes which propelled the US$ to its “temporary parabolic rise in 2014” are no longer in place at this time, and surely looking out over the next 12 – 18 months:

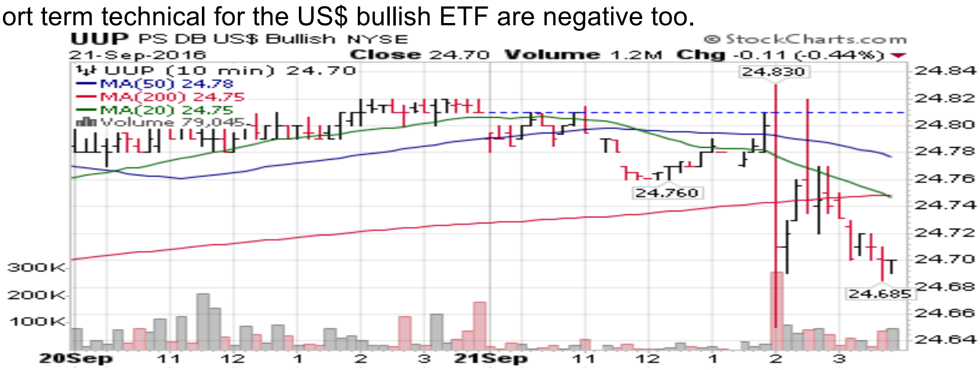
- **US GDP growth and macro superiority to G-10, particularly Europe have completely reversed over the past 3 quarters,** and will get worse. (US consumer crunch, US fiscal limitations, US corporate spending to decline further, US company valuations too high relative to global peers; US corporate earnings to slow further; US corporate buy-backs to slow), we are expecting for the most anemic recovery to falter and reverse into recession in 2017
- **The “implicit yield premium” of US government bonds is narrowing in spite of Eurozone negative yields to prevail**
- **The “safe heaven” trade in the US$ is being unwound** (additionally, commodities prices have bottomed and commodities’ based currencies are going to benefit from the reflation trade)
- **US political risks rising relative to Japan and Europe** (well beyond the US presidential election result)
- **US trade deficit at all-time high** (US exporting companies are at a tremendous disadvantage since well before the 2014 rise of the greenback, but for sure at levels of the US$ index being above 90) (this is not due to bad trade deals and policies, but due to lack of productivity and lower general manufacturing costs and conditions in rest of world)
- **US$ overvalued from a PPP comparison by over 22%**
- **Yuan/Renmimbi manifesting itself as “new reserve currency”**
- **US$ decoupling affects due to many commodities’ based nations de-emphasizing commodities trade from US$ pricing and correlation**

And although we’ve written extensively of why, historically speaking, we believe the dollar is as extended as it became and remains, it has largely been motivated by the Fed, or more precisely, the markets' expectations with future policy. Framing the dollar as a proxy of confidence in the golden age of central banks, where it discretely took flight as the Fed led policy makers in the wake of the financial crisis and soared to Icarus heights on misplaced expectations with more contemporary tightening cycles, we'd argue the apparent indecisiveness in the dollar's technical structure today aptly represents the unresolved tensions in the market that we believe will ultimately become unwound, as challenging economic conditions largely limit the reach of the Fed going forward.

We see increasing fundamental and technical cause for why investors, and particularly foreign investors in the US$ and US$ denominated asset classes are going to unwind lots of their trades in US$ they took on over the past 28 months since the US$’s parabolic rise.

The short & medium term technical outlook for the US$ is negative (RSI & MACD declining). The short-term risks (1 – 3 months) for the US$ are towards the 92 price levels. The longer-term risks are towards 84 support levels, which would only bring the US$ back towards levels where it broke out in June 2014.

Short term technical for the US$ bullish ETF are negative too.

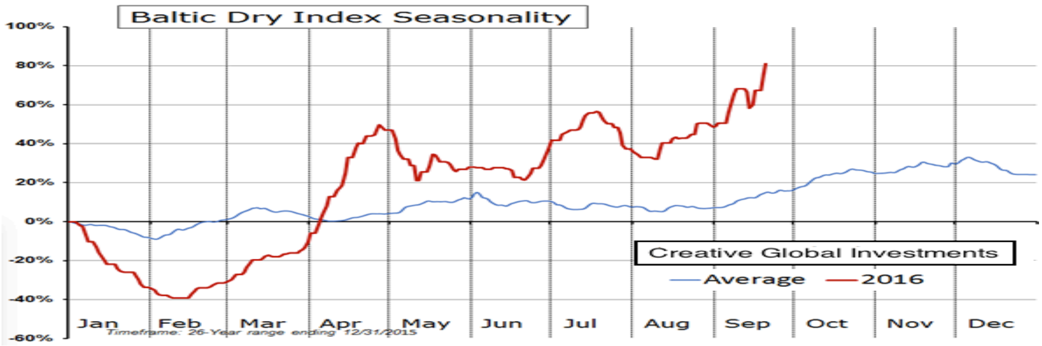


Equities Commentary

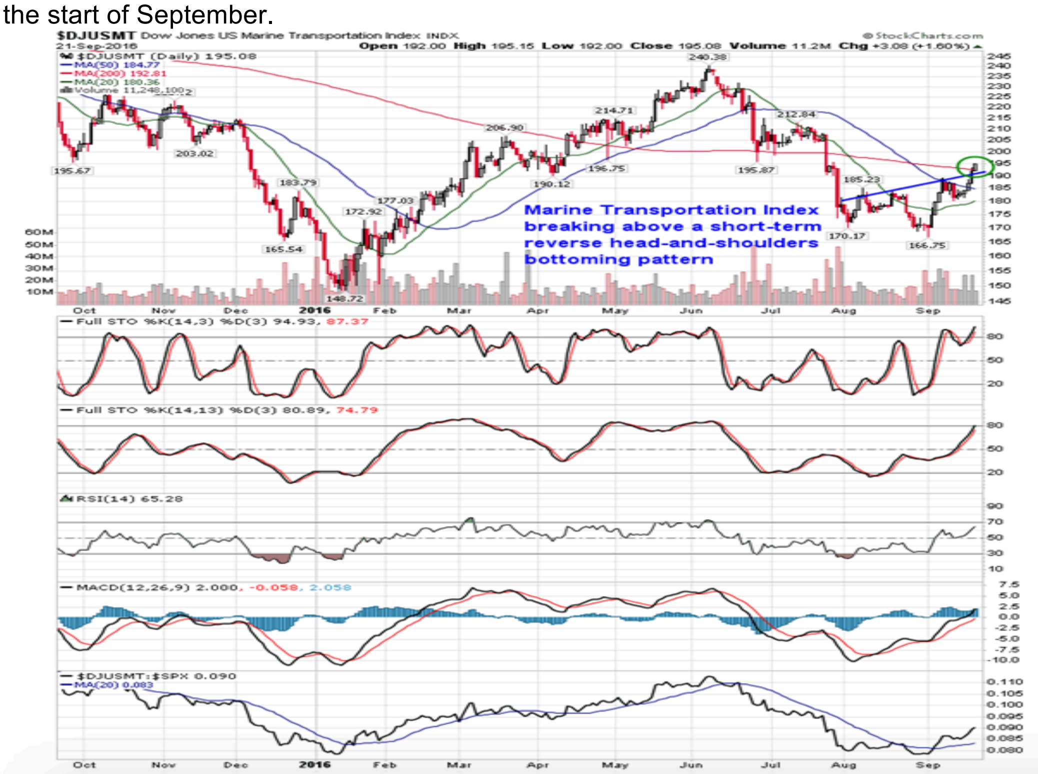
While one transportation indicator is suggesting that pricing pressures are on a downward trajectory, another is suggesting that they may be picking up. The Baltic Dry Index, which provides an assessment of moving major raw materials by sea, has broken above a declining trend channel that spans all the way back to 2013.

The index has gained almost 200% since bottoming in February of this year, coinciding with a significant low in commodity prices. Gains in this indicator are typically a sign of economic strength as demand to ship goods to international destinations increases, leading to pricing pressures of carriers of these goods.

Seasonally, the Baltic dry index typically rises between the start of September and the start of December, benefitting the stocks of marine transportation companies over a similar timeframe.

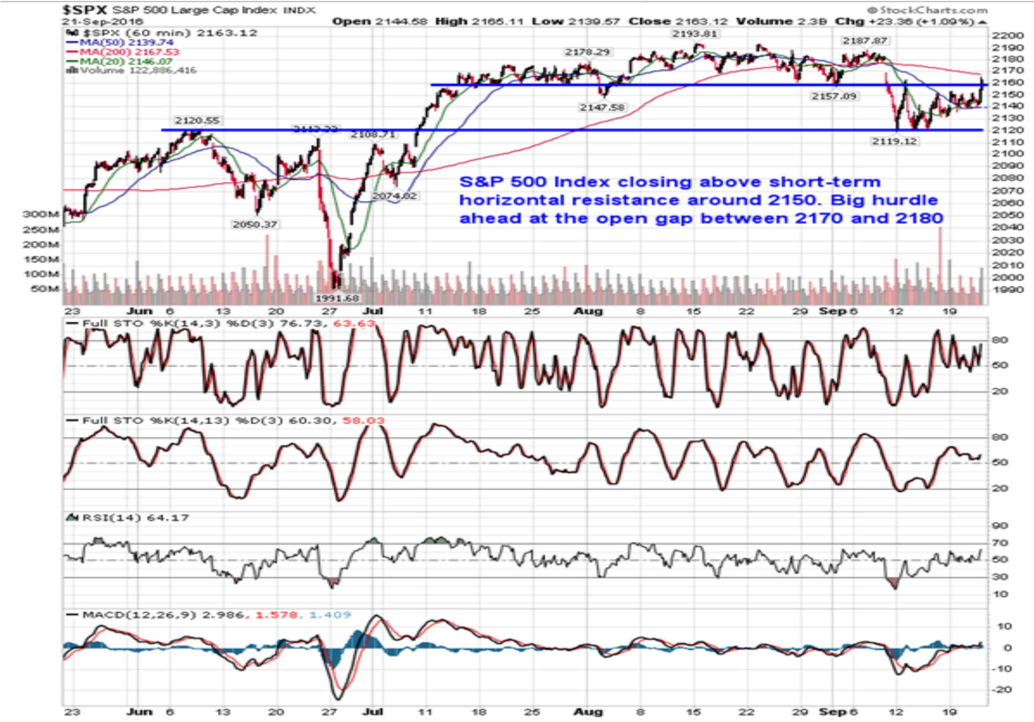


The Dow Jones US Marine Transportation Index has already shown signs of breaking above a short-term reverse head-and-shoulders bottoming pattern, the upside target to which points to 205, or approximately 5% above Wednesday’s close. Momentum indicators and relative performance have improved significantly since price bottomed at the start of September.

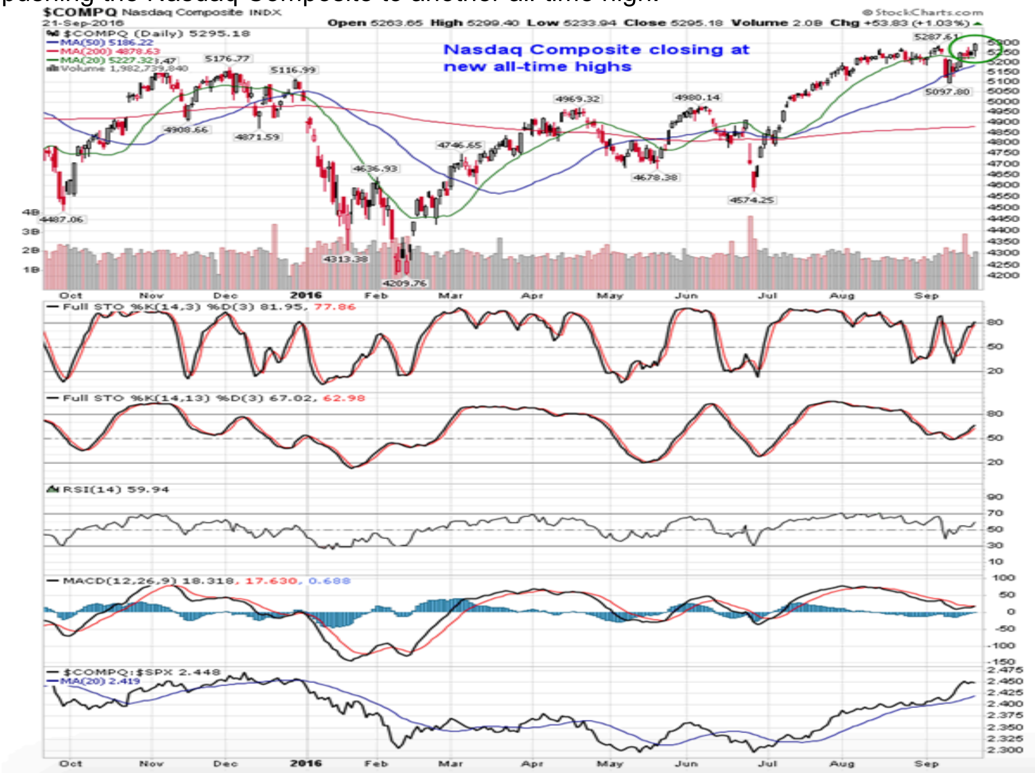


Stocks in the US jumped yesterday and this morning similarly around the world, as the US Federal Reserve kept rates on hold, choosing "to wait for further evidence of continued progress toward its objectives."

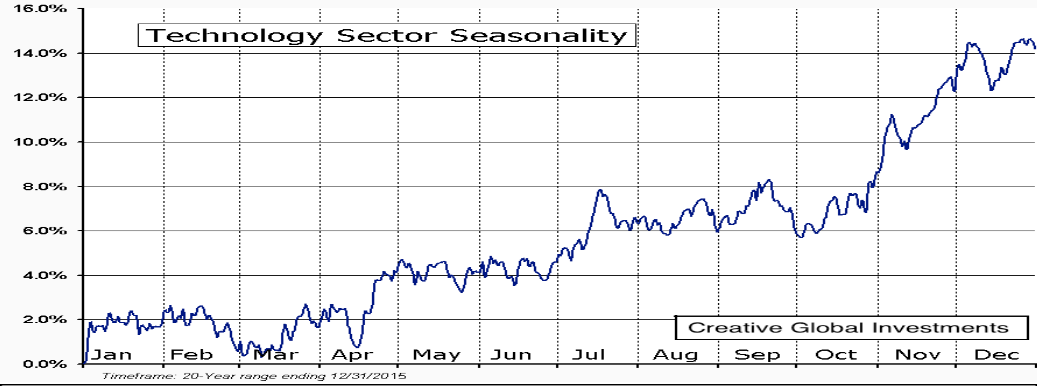
Major equity benchmarks posted gains of over 1% with the S&P 500 Index closing above the significant battle-line identified in yesterday's report around 2150. Gap resistance between 2170 and 2180 is expected to be the next hurdle, as well as the 50-day moving average, which sits at the lower limit of this bound. Gains on the day were dominated by cyclical sectors as investors maintain a risk-on stance, seeking to benefit from accommodative central bank policies around the globe.



Leading the pack remains the technology sector, which charted another multi-year high, pushing the Nasdaq Composite to another all-time high.

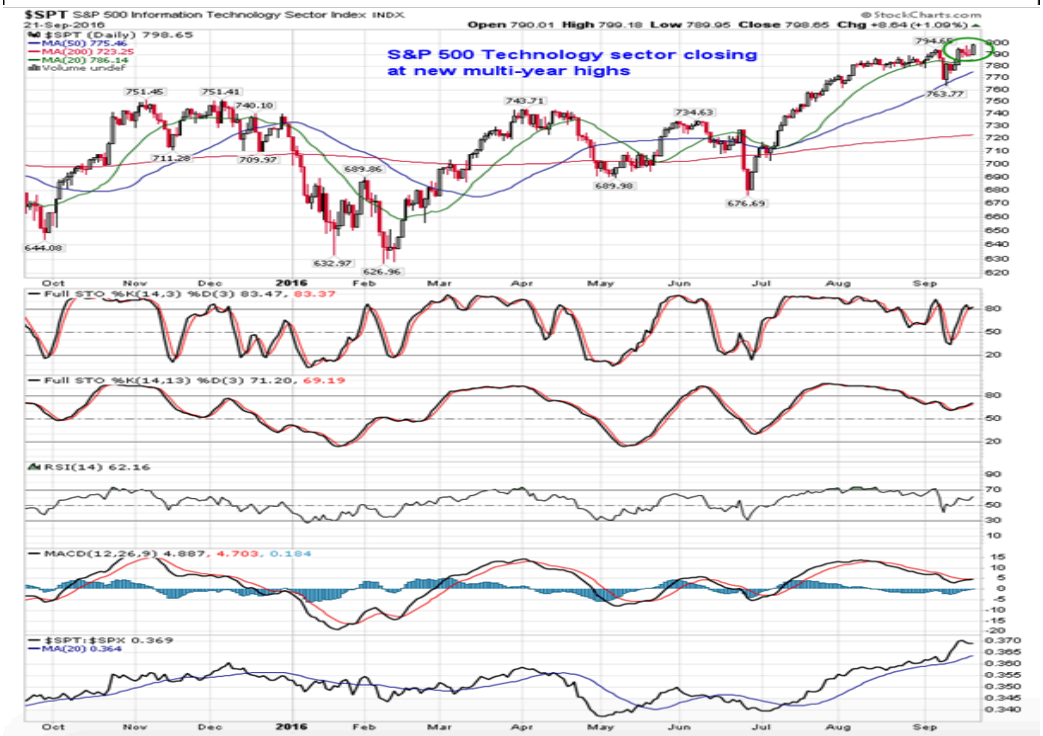


The period of seasonal strength for the technology sector is between the start of October and the middle of February, on average.



Monthly Averages over past 20 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	1.9%	-1.0%	1.0%	2.6%	0.1%	0.2%	1.2%	-0.4%	-0.8%	3.3%	3.1%	0.6%
Gain Frequency	60%	50%	60%	70%	55%	50%	55%	50%	55%	70%	75%	45%
Max Return	17.9% 2001	13.5% 2000	12.1% 2009	16.9% 2001	8.4% 1997	11.8% 1999	19.0% 1997	11.2% 2000	13.3% 1998	22.3% 2002	17.0% 2001	20.0% 1999
Min Return	-12.5% 2008	-28.0% 2001	-12.7% 2001	-12.4% 2002	-10.5% 2000	-12.2% 2002	-8.3% 2002	-16.4% 1998	-19.7% 2001	-17.8% 2008	-20.6% 2000	-14.4% 2002



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