Creative Global Investments

Morning Market Commentary

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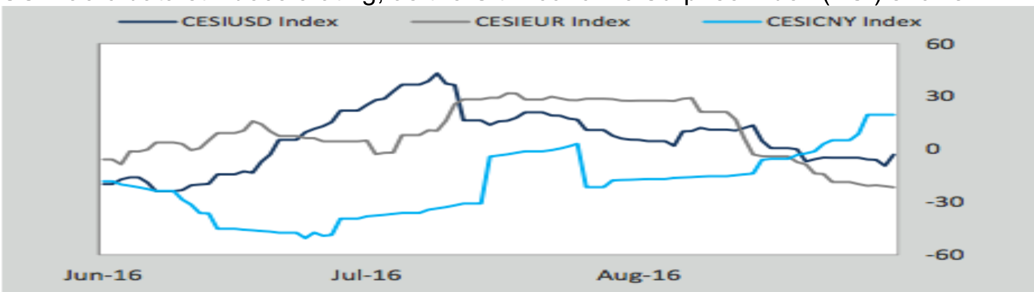
Objectivity

Integrity

Creativity

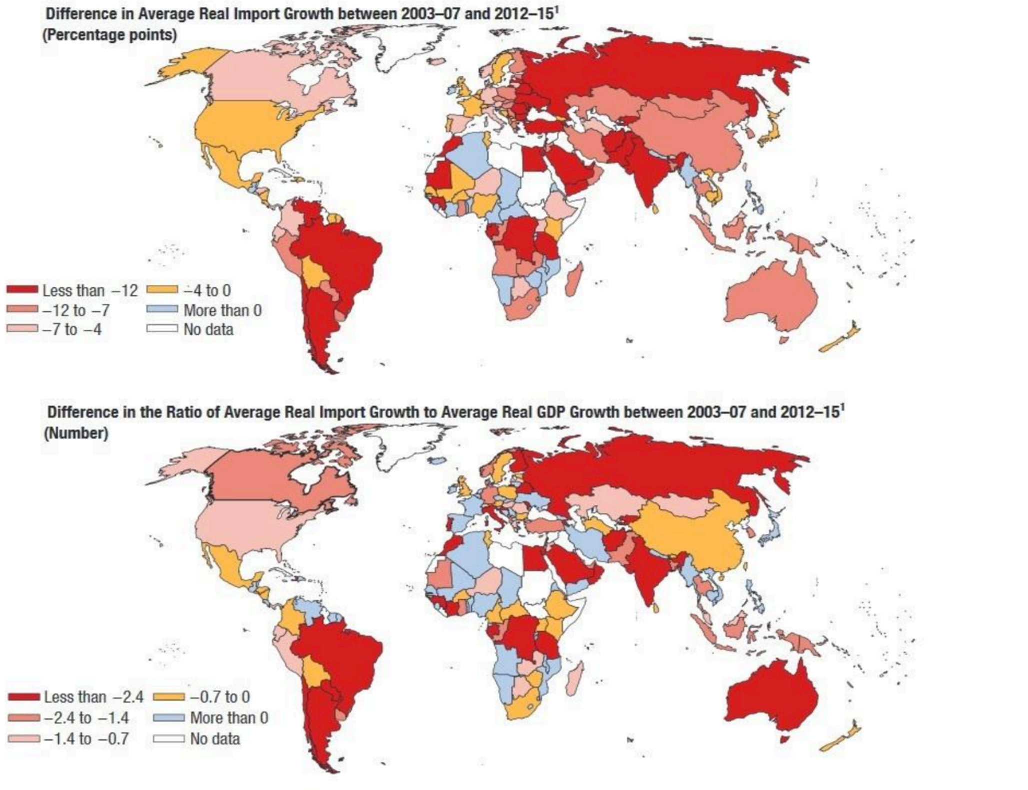
Global Macro Commentary

US macro data still decelerating, as the Citi Economic Surprise Index (ESI) shows.



source: Bloomberg

Zhang Ji, a Chinese assistant minister stressed that global demand remained sluggish and "impossible" to change fundamentally this year, though January-August trade figures showed positive signs latest figures from a recent report from the World Trade Organization (WTO) also showed global trade is struggling. The WTO estimated global trade volume is set to grow just 1.7 percent in 2016, a much lower forecast compared with April's 2.8%. It marks the first time in 15 years that international commerce has grown more slowly than the world economy. World trade has been in decline since 2H 2014 (totally coincides with the parabolic rise of the US$ since June 2014).

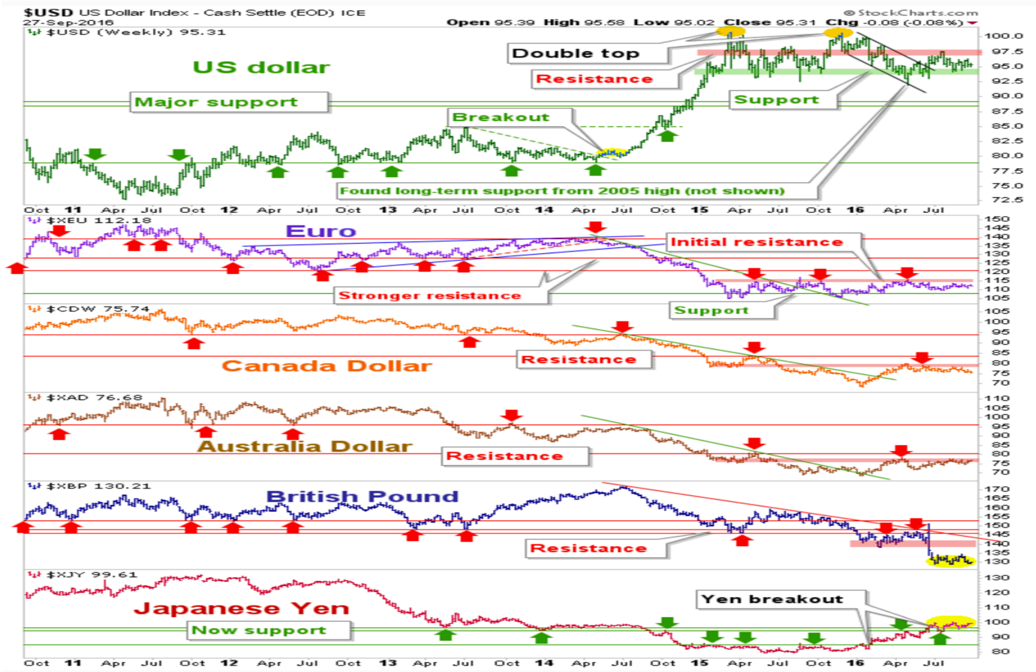


Sources: CPB Netherlands Bureau for Economic Policy Analysis; and IMF staff calculations.
[1]Different intervals, shown as different shades, correspond to quartile ranges that are calculated based on the distribution across countries that experienced a decline in real import growth (panel 3) or in the ratio of average real import growth to average real GDP growth (panel 4).

Currencies Commentary & Charts

Further evidence of the US$ continuing to roll over against an increasing number of currency pairs is given by looking at the following charts:

Again, the USD is showing increasing weakness against a broadening range of currencies, and not only commodities backed currencies.



Commodities Commentary & Charts

Oil prices climbed sharply on Wednesday in the US, after Reuters reported OPEC members had reached an agreement to limit production to a range of 32.5 MN to 33.0 MN barrels per day, down slightly on August's output of 33.2 MN barrels a day. Pundits had been looking for a "bottom line" coming out of Algiers, one that would telegraph an agreement to freeze (or cap) oil production. This was never how it was going to play out.

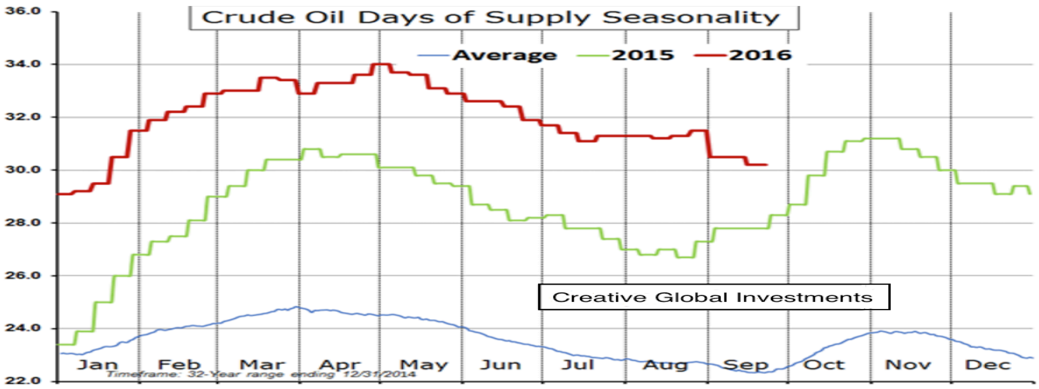
With national priorities varying across the board among both OPEC members and primary non-OPEC producers (led by Russia), no consensus on a final accord could possibly be worked out during just three days of meetings. So the media have reacted, and declared that Algiers was a complete failure. But that's not true either.

In fact, the Algiers meeting may mark the beginning of something relevant. IEF summits happen once every two years, with energy ministers, officials, CEOs of national and international oil companies, and representatives from some of the world's largest banks meeting to discuss trends and prospects in global energy. That allows for informal meetings on the margins of the proceedings. These private sessions can have significant implications for the markets, especially when they deal with major policy issues or production moves. And that's exactly what happened this time, with OPEC and non-OPEC oil producers meeting to discuss oil prices and production levels.

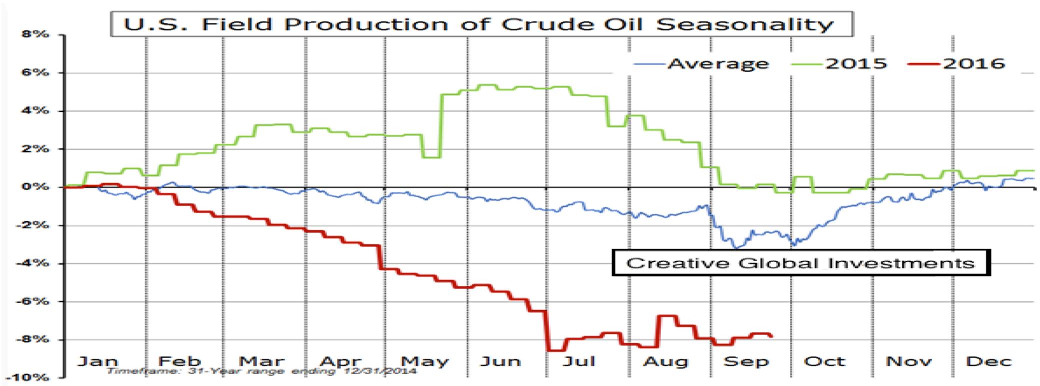
And although no deal was yet agreed on, the IEF was the first step to an Oil deal. The main focus in these sessions wasn't a final deal. Rather, these sessions were meant to lay the groundwork for the process. Fighting the global oversupply of oil by engineering a balance between expected levels of international demand on one hand, and the supply that is actually delivered to the market on the other, requires a complex coordination of national policies.

Traditionally, you would influence prices by managing production levels, as in the absence of huge spikes or interruptions in demand, cutting production would increase prices, and opening the taps would decrease prices. Under this approach, oil-producing countries would sell less oil, but their oil reserves would increase in value. That allowed producers (and even end-users) to use reserves as the basis for hedging and issuing derivatives.

The tide has also turned in the US when it comes to the supply of oil. The weekly petroleum inventory report from the EIA showed Oil inventories declined by 1.9 MN barrels last week, while gasoline reported a gain of 2.0 MN barrels. The impact on the days of supply of oil was negligible, unchanged at 30.2, while the days of supply of gasoline jumped six-tenths to 24.2.



Both US production of oil and oil imports were lower in the past week, as was the production of gasoline as refiners react to the diminished seasonal demand.



Evidence is growing that the supply of oil is converging back upon historical average. Supply of the raw input is now 7.83 days above average, the narrowest gap since early February. The gap versus the average trend had been continuously expanding since early 2015, reaching historic levels around the all-time high in April of this year. The early evidence of narrowing could suggest that the tide has turned, allowing for demand to finally have the chance to eat away at bloated inventory levels.

While imports remain the wildcard, the fact that they haven't snapped back in the past couple of weeks following the slowdown attributed to Hurricane Hermine could be indicative of a new trend; further reports would be required to confirm.

The price of WTI closed higher by over 5%, bouncing from intermediate trend line support around $45. Short term technical outlook is positive (Stochastics, RSI, MACD) for $WTIC and we can see $WTIC to rise and test the prior $52 highs in the coming 2 months ahead of the next OPEC meeting at the organization's Secretariat in Vienna on November 30.

We are likely to see a signal that a move on production levels is in sight before then. That likely will emerge as a call for an extraordinary session in four to six weeks, similar (but more successful) than April's Doha summit. Now, that event was convened to discuss a cap based on January's aggregate production levels. It failed when Saudi Arabia refused to move forward unless Iran (who was not even attending) would join in.

All of OPEC (and many beyond) have suffered through five months of financial pain between Doha and Algiers. However, we think that may end soon.

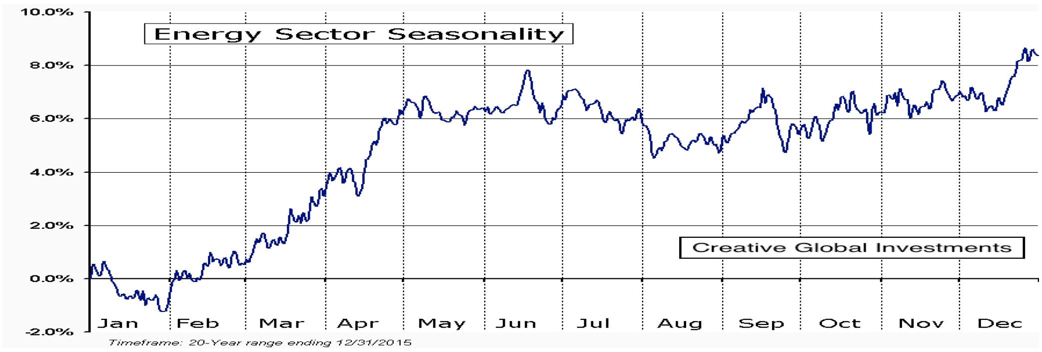
Global Equities Commentary & Charts

Stocks in the US jumped during the Wednesday afternoon trade as rumors flourished that OPEC had agreed to limit production starting in November.

The S&P 500 Energy Sector index closed back above its 20- and 50-day moving averages, which recently had been showing signs of rolling over, following a trend that is typical going into the fall.

With demand for energy commodities in decline coming off of the summer driving season, the price of oil typically falls through to early December, dragging on energy stocks as a result.

The sector benchmark tested support just above its 200-day moving average around 480 on Tuesday, keeping intact the intermediate-term trading range that peaks around 520. Momentum indicators are attempting to curl higher from oversold levels.



The S&P 500 Index closed higher by five-tenths of one percent, led by the energy sector, which surged by over 4%.

Deutsche Bank

"Wir sind nicht Lehman Br's. Und wir sind nicht insolvent"
"for Cryan out loud!"

"At no point did I ask the chancellor for support. Neither did I suggest anything like that" John Cryan, CEO of Deutsche Bank said on Monday.

In all seriousness, Deutsche Bank shares have lost -3.00% over the past 5% days and are down -51.07% y-t-d. DB shares have underperformed the DAX 30 Index by 65.4% last year, and the S&P 500 by 68.46% during the last year. DB shares today trade at US$12.30. That is -33% below its bottoming price in 2010, subsequent the consequences of the US sub-prime crisis leading towards the European Banking crisis. DB shares are trading at 35% of its value 20 years ago, in which time period DB has tripled its annual revenues. Banks historically have traded at a premium to their book value on the reasonable assumption that the business of lending would tend to increase profits over time. These days discounts to book value are the norm for big banks, however in the case of European banks, and particularly German banks, the current book values are reflecting bankruptcy-like conditions, and we believe are totally overdone.

Europe's banking system still has problems, which were not yet fully addressed since the 2008 banking crisis begun. A lot of banks still sit on enormous amounts of nonperforming loans, and some of the same banks, amongst others, have vast amounts of opaque derivatives exposure (listed on their financial reports as “off-balance sheet obligations.”) There are just two banks that list off-balance sheet obligations in excess of a quarter of their assets, one is Deutsche Bank and the other one is Credit Suisse Barclay’s Bank also has a big off-balance sheet book but is considered more conservative by the market.

Deutsche Bank clearly still has too much leverage. Is Deutsche Bank at a Lehman-like risk at this point in time? Could Deutsche Bank really bankrupt?

Yes, however, the more pertinent question is if Germany and/or Europe would allow this to happen?

No way! Never! Strategically speaking, Deutsche Bank is the premier European banking channel and growth engine for Europe’s champion global multinationals, and there is no way that Germany (Europe) will let this top positioned intermediary go bankrupt, and for the pieces and business lines to be picked by non-European banking entities. Talking about too big to fail, well Deutsche Bank is the European candidate, which will prove this stigma to stand correctly.

The crisis situation Deutsche Bank is in is amplified by a standoff with the US Department of Justice over the size of the penalty for mis-selling mortgage-backed securities in 2005-07. The current demand for $14bn could probably trigger a need for more capital, however, we believe the DoJ’s demand could fall from $14bn to well under $4bn, which would allow everybody to breathe more easily.

We rate DB shares a “buy” at current price of $12.30 a share.

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