Creative Global Investments

Morning market commentary & charts

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Objectivity

Integrity

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US economic "roll-over" accelerating

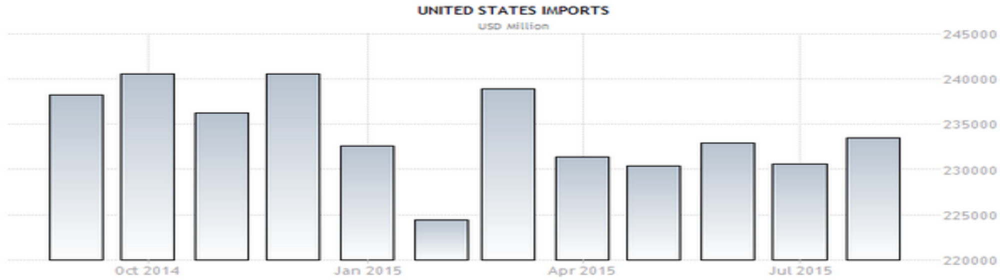
Let's look how that "strong dollar" has been doing so far for the US

When the US$ started to rise in June 2014, we had warned investors that there would be dire consequences of such, and that contrary to popular belief at that point, a strong US$ was not going to be good for the US economy (as it has never helped the US economy in the past 50 years). As per our 2015 Global Investment Strategy Outlook, we had seen clear signs of the US Economic slowdown starting in late 2014, and accelerating into early 2015, partly due to the effects of a strengthening US$. (Most other economists are just now starting to realize that US economic growth is declining). But we have been commenting in multiple "Weekly Commentary's", and our Q2 and Q3 Global Investment Strategy Outlook's it has actually been falling on an accelerating rate since the start of 2015. Y-o-y growth as shown in multiple broad economic indicators, including GDP, employment, income and sales, has fallen to an 18-months low. The reality is that growth has been slowing all year, and that's a fact, not any longer just our forecast. Our forecasts have been way ahead of other sell-side global macro and strategy teams, and well ahead of the "Johnny-come-lately's" like IMF and OECD, which both in the past 10 days have revised global and US GDP growth downwards closer towards ours, but insufficiently in our opinion, both for 2015 and for 2016.

Global trade is still decelerating, in spite of massive and accelerating currency devaluation schemes by most G-10 members. Now, with increasing and sufficient macro economic evidence of US GDP slowing, the FED is caught in a quagmire, which we have been predicting steadfast since March 2013. Funny how now suddenly the Goldman Sachs's, Deutsche Bank's and alikes are joining our thought camp, which we have been defending under highly critical attacks for the past 2 years, namely that there will NOT be a rate rise by the FED in 2015, and as we came to conclude as of spring this year, we see no chance for a rate hike by the FED in 2016 either. On the contrary, with the deflation spiral accelerating, and also under increased foreign currency pressures and their impacts, we do see an increasing case and likelihood of the FED in need to stimulate via QE 4 in 2016.

As documented in the charts below, US exports have been collapsing, and inversely US imports have been rising. The rest of the world has just been fortunate to benefit from weakened currencies and lowest shipping rates, to enable them to dump their excess production and inventories into the US for now. It is very worrisome to us that the global trade, but particularly US trade is shrinking so rapidly, and that with not even any of the G-7 economies in recession yet. US exports decreased -2 percent to US$ 185094 MN in August from US$ 188807 MN in July of 2015. It is the lowest exports since October 2012 due to lower oil prices and strong dollar. Exports in the US averaged US$ 48164.13 MN from 1950 until 2015, reaching an all time high of US$ 197759 MN in October of 2014 and a record low of US$ 772 MN in March of 1950.

US imports increased to US$ 23342 MN in August from US$ 230615 MN in July of 2015. Imports in the US averaged US$ 61243.89 MN from 1950 until 2015, reaching an all time high of US$ 240524 MN in December of 2014 and a record low of US$ 577 MN in March of 1950. The trend is clearly up.

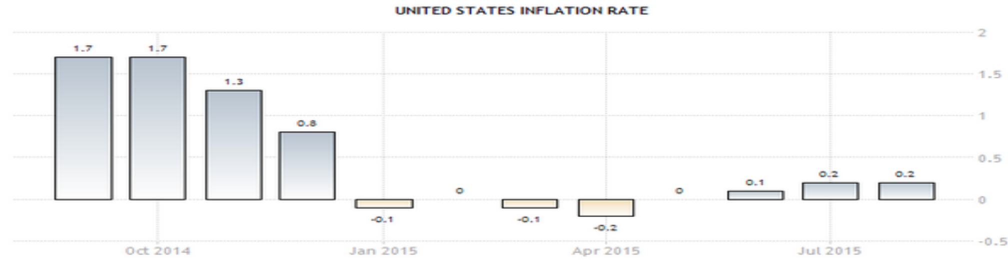


The price index for US exports declined -0.7 percent in September, following a -1.4 percent drop the previous month, as both agricultural (-1.1 percent) and nonagricultural (-0.6 percent) prices decreased. With the embedded strength of the US$ (particularly when compared on a weighted monthly basis) we see the trend to remain negative for export prices. The drop in agricultural prices was mostly due to -8.3 percent fall in soybean cost while excluding agriculture was effected by industrial supplies and materials, consumer goods, and automotive vehicles. Y-o-y, export prices fell -7.4 percent, the largest decrease since July of 2009. Export Prices in the US averaged 107.40 Index Points from 1983 until 2015, reaching an all time high of 135.30 Index Points in September of 2011 and a record low of 82.40 Index Points in September of 1986.

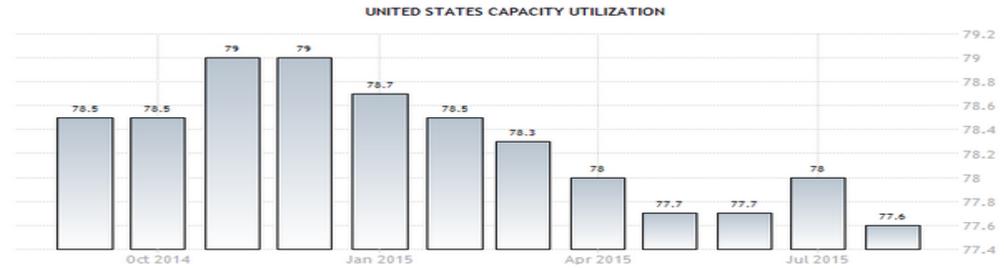
The last time export price deflation was this intense, not only was Chinese GDP growth even weaker than it is today, but also every G7 economy was in recession. And this isn't about low oil prices: following a post-GFC pop, export price growth turned negative in 2012, and has remained there. As we have warned since September 2014, we see increasing evidence that the temporary and parabolic strength of the US$ is killing all hopes of inflation to rise in the short to medium term.

US import prices also fell -0.1 percent in September, following declines of -1.6 percent in August and -1.0 percent in July. Unlike the decreases the 2 previous months where falling fuel and nonfuel prices each contributed to the decline, the September drop was entirely driven by lower nonfuel prices. The price index for overall imports decreased 10.7 percent between September 2014 and September 2015 and has not recorded a 12-month increase since the index rose 0.9 percent for the year ended July 2014, and we see the trend clearly to remain below average, mainly due to the still prevailing strong US$. Import Prices in the US averaged 107.01 Index Points from 1982 until 2015, reaching an all time high of 147.50 Index Points in July of 2008 and a record low of 75 Index Points in March of 1986

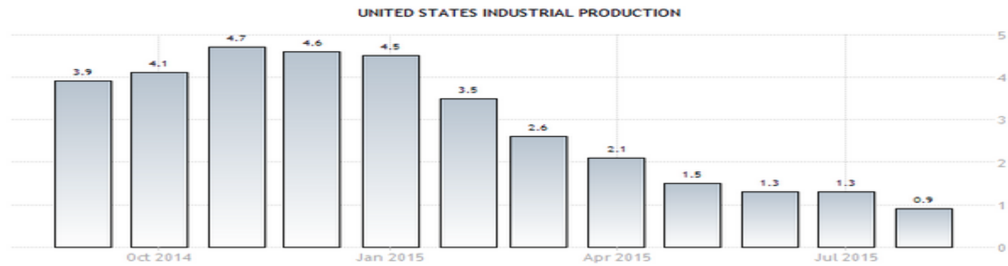
Consumer prices in the US increased by a mere 0.2 percent y-o-y in August of 2015, the same pace as in July and in line with market expectations. On a monthly basis, consumer prices fell -0.1 percent, the first drop in seven months. The trend has been down, and with the currently still prevailing strength of the US$, we cannot see a trend reversal in the short term to be likely. Inflation Rate in the US averaged 3.32 percent from 1914 until 2015, reaching an all time high of 23.70 percent in June of 1920 and a record low of -15.80 percent in June of 1921



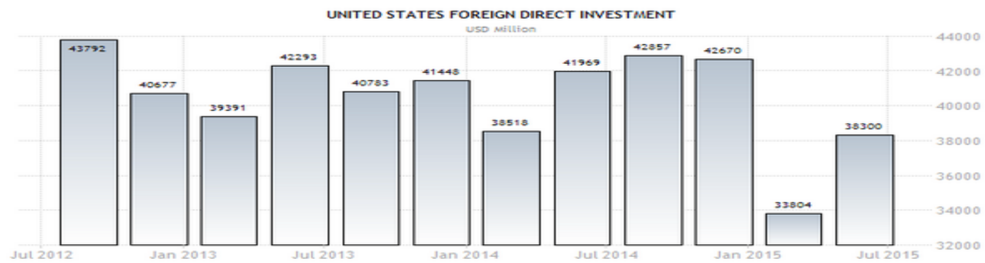
Another key metric for evaluating macro economic conditions is the basic capacity utilization rate. Capacity Utilization in the US decreased to 77.60 percent in August from 78 percent in July of 2015. The trend as shown on the chart below is clearly down. Capacity Utilization in the US averaged 80.48 percent from 1967 until 2015, reaching an all time high of 89.40 percent in January of 1967 and a record low of 66.90 percent in June of 2009



Industrial Production Industrial Production in the US increased 0.90 percent in August of 2015 over the same month in the previous year, slowing from a 1.3 percent rise in July. It is the lowest gain since January of 2010, and the trend accelerates towards the downside. Industrial Production in the US averaged 3.85 percent from 1920 until 2015, reaching an all time high of 62 percent in July of 1933 and a record low of -33.70 percent in February of 1946



Foreign Direct Investment in the US increased to US$ 38300 MN in Q2 of 2015 from US$ 3380 MN in Q1 of 2015. The chart shows a clear downwards trend. Foreign Direct Investment in the US averaged US$ 22246.36 MN from 1994 until 2015, reaching an all time high of US$ 46165 MN in Q2 of 2011 and a record low of US$ -9988 MN in Q4 of 2001.



Another massively negative affected macro area by the recent and unsustainable strength of the US$ is tourism. Tourist Arrivals in the US increased to 5870732 in March from 4708924 in February of 2015. However, as the chart shows, the trend is downwards. Tourist Arrivals in the US averaged 4056285.44 from 1996 until 2015, reaching an all time high of 8381604 in August of 2014 and a record low of 2095665 in November of 2001.Given pre-set tour operator seasonal prices, the bigger negative impact of the 16 months strength of the US$ will be affecting only 2015 and 2016 foreign tourist arrivals in the US.

So, by looking in aggregate at these above mentioned factors, it is a mystery to us how FED and other sell-side economists and strategists could envisage an intelligent case for a FED rate hike in 2015, and beyond, as all metrics are showing a slowing/deceleration for the past 6 months, and no evidence of a bottoming yet.

Central Bank Models are no longer working. As we have been commenting for two decades, central bank models, and particularly the FED's models don't work for forecasting cyclical ups and downs in growth and inflation.

Proof of this was when we were predicting the turning point for the US into the subprime crisis in 2005/2006, well ahead of the herd, which at that point was still in hype-bullish mode. The danger that comes with these models became particularly obvious in 2003, when Bernanke championed a rate cut to 1% as insurance against deflation, which our framework showed to be a non-issue at the time.

The "Philips Curve" failed to identify that world export growth is near zero while prices collapse. We pointed out since January 2014 that the US was no longer an insular economy to the rest of the world's growth changes, against a lot of heavy intellectual assault from clients. Nevertheless, when Ms. Yellen mentioned during the last FOMC meeting that the FED was increasingly monitoring their "third mandate", namely outside macro-economic factors impacting the US, and the fact that the global economy has long been a driver of underlying inflation pressures in the US, we were proven right finally.

In all fairness to the FOMC and their macro-economic modeling, what we have been given as reasons and explanations from Ms. Yellen and team has been utterly unprofessional. As we have concluded two years back, neither the FED, neither the BoJ, neither the BoE, neither the ECB do have a clue of how to handle the current balancing act that they have to perform between keeping asset prices up via stimulative QE and ensuring their credibility as their balance sheets are rising to very dangerous levels. But, with a declining global trade, and particularly with a declining US trade and competitiveness, coupled with no revenue growth and declining earnings, we are getting very nervous for some asset classes, in particularly for equities, and mostly for equities in the US.

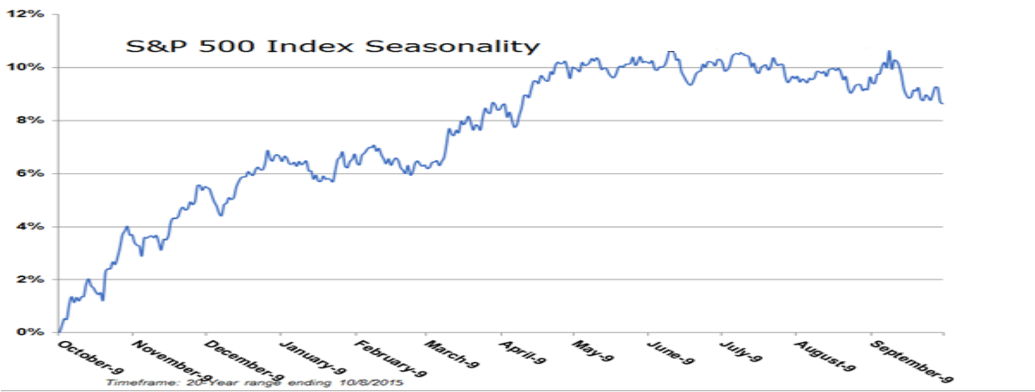
We believe that US equity valuations and the investment case for foreign investors to allocate new funds towards US equities, or even increase from current 67-year high US equity allocations is bordering insanity.

Nevertheless, looking at US equities from a short- medium term technical perspective, the decent -12% correction as we had predicted is for now giving indices like the $SPX and the Dow Jones sufficient new hope, and hype momentum to move yet higher again, albeit very likely not to new highs by end of the year.

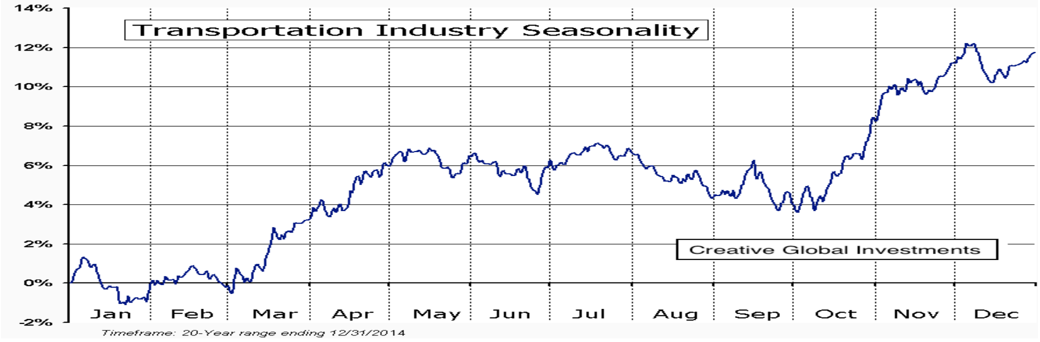
Equities Commentary & charts

The $SPX broke above the 20- and 50-day moving average. The next resistance is the 200-day moving average at 2068.

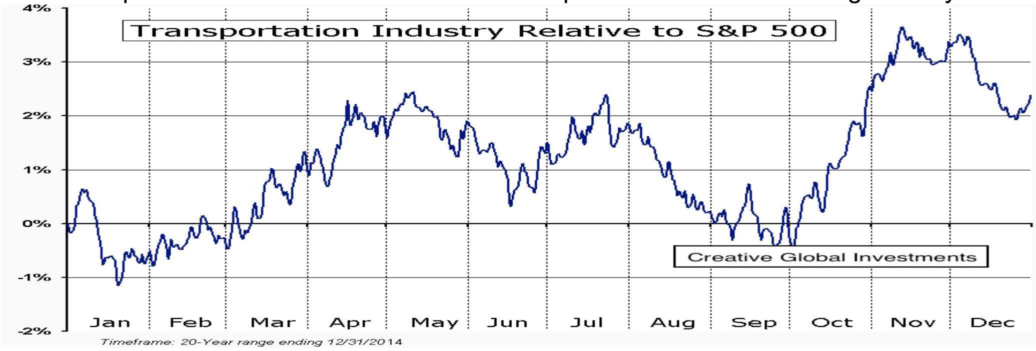
The $SPX, like many other equity markets around the world is entering its period of seasonal strength in late October, one of the reasons why we are advising for investors to add aggressively towards equities, although, we prefer foreign equities clearly over the US, due to the increasing headwinds resulting out of the past 16 months parabolic rise of the US$, as Alcoa has shown in its disappointing Q3 results yesterday.



Within US equities, we particularly like the Transportation sector, as the Dow Transports Index has been a clear leading indicator of the recent macro slowdown and consequent equities correction that we had predicted correctly over the past 56 months.



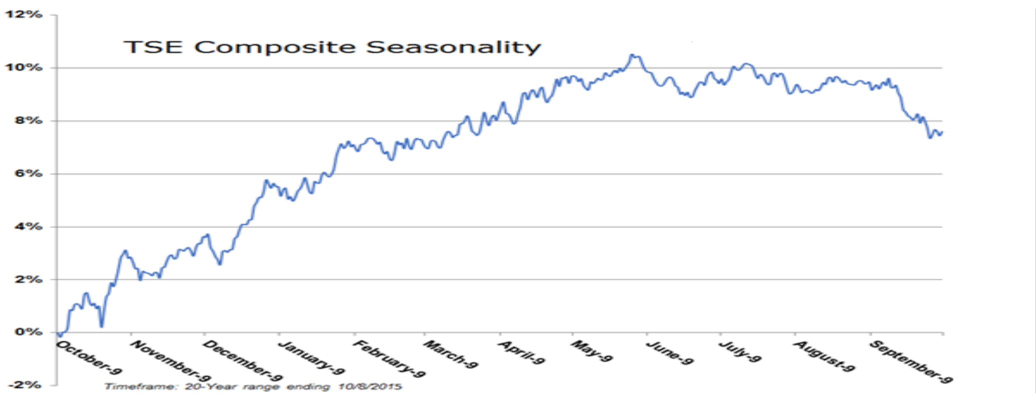
The Transportation sector in the US entered its period of seasonal strength today.



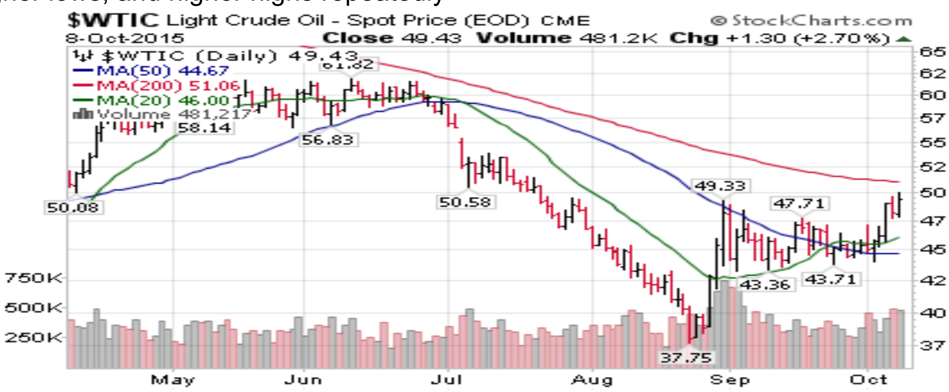
Foreign equity markets are offering investors just the better opportunity right now. The $SSEC has put a bottom in place too, and the higher lows & higher highs are giving us enough technical evidence to advise for investors to add aggressively towards Chinese stocks at this point.

The $SSEC is starting to enter its period of seasonal strength in October, just to accelerate all throughout the end of China's fiscal year (March 31st).

Same for the Canadian equity indices. Let's look at the $TSX and how it has shaped a tradable bottom over the past weeks.



As we pointed out over the last month, Oil seemingly has bottomed, with $WTI making higher lows, and higher highs repeatedly



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