Creative Global Investments

Morning market commentary & charts

Thursday, October 13th, 2016

Carlo R. Besenius
Chief Executive Officer
cbesenius@cg-inv.com

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

Objectivity

Integrity

Creativity

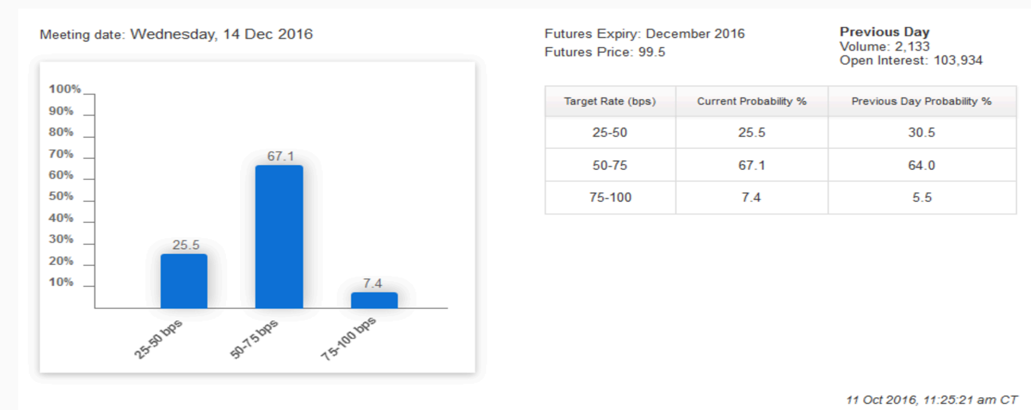
Global Macro Commentary

In Asia, Chinese exports and imports in September missed expectations, with exports down -10% in US$-terms y-o-y and imports down -1.9%. Economists had been expecting 3% drop in exports and a 1% rise in imports. In Yuan terms, exports were -5.6% lower on the year, while imports were up 2.2%.

In Europe, rumors circulated about the ECB to discuss technical changes to its asset-buying scheme next week but a decision could be deferred until December when the bank will also decide whether to extend the scheme beyond March. Compromise proposals could include relaxing, on a temporary and partial basis, a rule forcing the ECB to buy debt in proportion to the size of each Eurozone economy, which could potentially reduce the ECB's purchase of German debt, risking renewed conflict with Berlin, which has already argued that the ECB is subsidizing indebted countries. Other proposals may include buying a limited amount of bonds yielding less than the deposit rate, which the ECB currently rules out, and buying a bigger share of any individual bond issue, the sources added. The ECB is looking for ways to ensure it can continue buying EUR 80 BN worth of bonds every month even if it decides to extend the program beyond its current end-date in March. The asset purchase scheme was launched in March 2015 as part of efforts to revive growth and inflation in the Eurozone.

In the Americas, investors in the US are awaiting the minutes of the FOMC meeting are supposed to show the FED taking a clearer stand on when they are going to raise rates. The market is getting more convinced, one more time, like it did for the past 2 years so many times, only to be wrong, over and over again. The odds of a December rate hike increased yet again to 74.5% from 69.5%. The odds of two hikes increased from 5.5% to 7.4%.

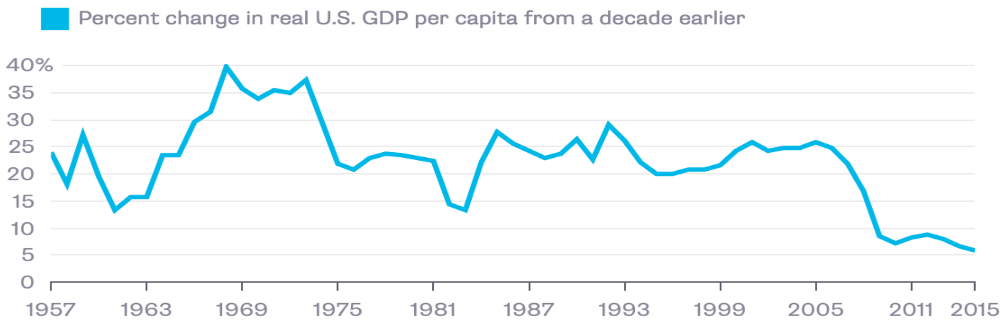
This degree of conviction seems quite premature given some key reports coming out later this week: Import and export prices on Thursday, and retail sales and producer prices on Friday.



Target Rate (bps)	Current Probability %	Previous Day Probability %
25-50	25.5	30.5
50-75	67.1	64.0
75-100	7.4	5.5

In the meantime, GDP estimates by the Atlanta and New York Fed staff have been sinking like a rock. The GDPNow forecast is 2.1% for Q3; the FRBNY Nowcast is 2.2% for Q3 and 1.3% for Q4.

IMPORTANT DISCLAIMER: As a company purely focused on research, CGI LLC has no business relationships with the company covered in this report, be it investment banking, consulting or any other type of relationship. In addition, CGI LLC does not seek and does not intend to seek in the future any such businesses, maintains complete independence and has no conflicts of interest related to the companies in its research universe. Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of CGI LLC or any of its affiliates. In addition, CGI LLC and its employees, including the analyst who wrote this report, hold no equity, debt or other linked derivative investments, the value of which is related in any way, directly or indirectly, to the operating and stock price performance of the company covered in this report. No such investment positions are held in any of the competitors, suppliers or customers of the companies in our coverage universe. This report is provided for information purposes only. It should not be used or considered as an offer of securities and it does not represent a solicitation to either buy or sell any securities or derivatives thereof.

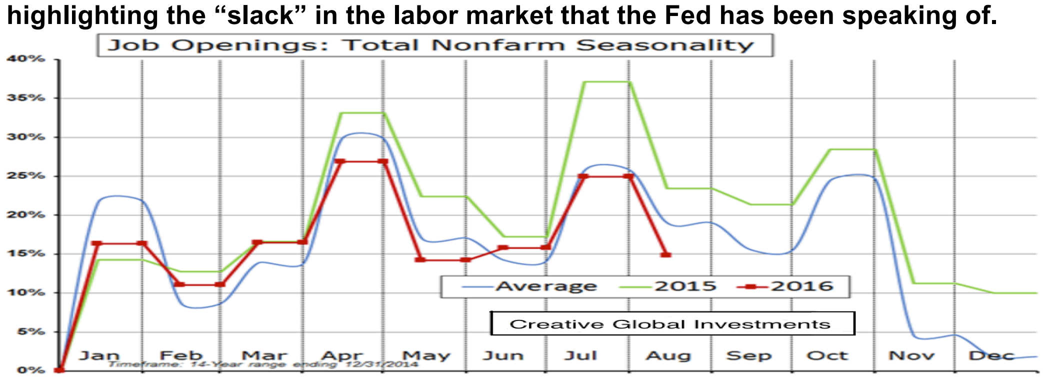


Source: Bureau of Economic Analysis

The survey of consumer expectations, an increasingly influential gauge of prices for the US central bank, found that median year-ahead inflation expectations tumbled to 2.5% last month, its lowest recorded level, from 2.8% in August. Three-year ahead expectations slid to 2.6%, (from 2.7 percent), to near a record low. Both of the price measures have been gradually declining since the online survey began in mid-2013.

Other national price measures have edged higher in recent months, though inflation remains below a Fed target. The Fed, looking to raise interest rates before year-end, wants to see signs of inflation pressures before acting. The New York Fed survey, in which an outside group taps a rotating sample of 1,200 households, also found that median one-year ahead earnings growth decreased to 2.0% last month, (from 2.4% in August).

US Job Openings and Labor Turnover Survey (JOLTS) was released during Wednesday's session. The headline print indicated that Job Openings fell by -6.7% in August to 5.443Mn. Stripping out the seasonal adjustments, openings actually fell by -8.1% from the month prior, a significant drawdown versus the average decline in August of 5.2%. But the drop in openings does not appear to be attributed to robust hiring in the month. The level of hires increased by only 1.2%, which is better than the average change in August of –0.8%, but does account for the decline in available positions. The y-t-d change in both openings and hires continues to lag the seasonal trend as momentum in the labor market shows signs of slowing. The rather downbeat result is accompanied by a higher than average change in the level of layoffs/discharges, which was higher in the month by 12.2%. The change is almost double the average increase for the month of August of 6.9%. The y-t-d change in layoffs is now inline with the seasonal norm. As for quits, the level was up by 12.8% in August, which is better than the average increase of 10.8%, but the lag in the y-t-d change versus the seasonal norm is still very much evident. The level of quits is a key gauge to the strength of the economy as it indicates the confidence amongst employees to leave positions in pursuit of better opportunities. With the change on the year continuing to underperform the historical norm, the suggestion is that these insiders to the economy are not all that confident, choosing instead to remain in current positions. **Overall, the report continues to show some concerning trends, highlighting the "slack" in the labor market that the Fed has been speaking of.**



Currencies Commentary

The US$ touched a seven-month high.

The Japanese Yen completed a double top pattern on a move below 95.86.

The EUR/USD has continued to grind lower in a move which in our view is driven by two factors:

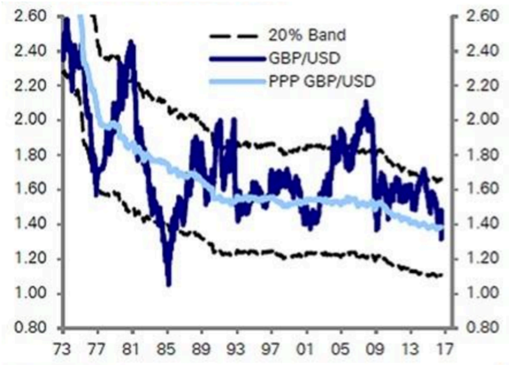
(1) Rising political uncertainty in the Eurozone following the signals from Theresa May that the UK will opt for a hard Brexit. The Brexit negotiations are going to test the EU's cohesion with different parts of the EU having diverging priorities.

(2) The market is likely to remain focused on the Fed raising rates in December and with no major data this week, these expectations will drive USD strength. Technically, a downside break of 1.1050-1.11 will open for a test of 1.0950 -1.1000.

Short term, we expect EUR/USD to keep 1.0950 support; medium term we continue to expect EUR/USD to move a lot higher towards 1.18 in 12 months on valuation and C/A differentials.

One of our highest conviction trades among major currencies was that the British pound (GBP) would weaken this year from GBP/USD 1.48 since the year began towards 1.30. As per our Q4 Global Investment Strategy, which we published 2 weeks ago, we are expecting for the GBP/USD to drop towards 1.00 over the coming 6 – 12 months.

Fair Value in GBP/USD

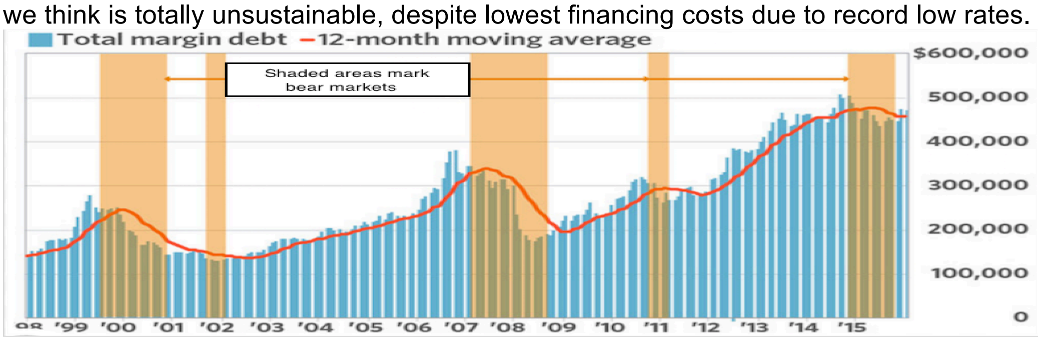


Fair Value in EUR/GBP

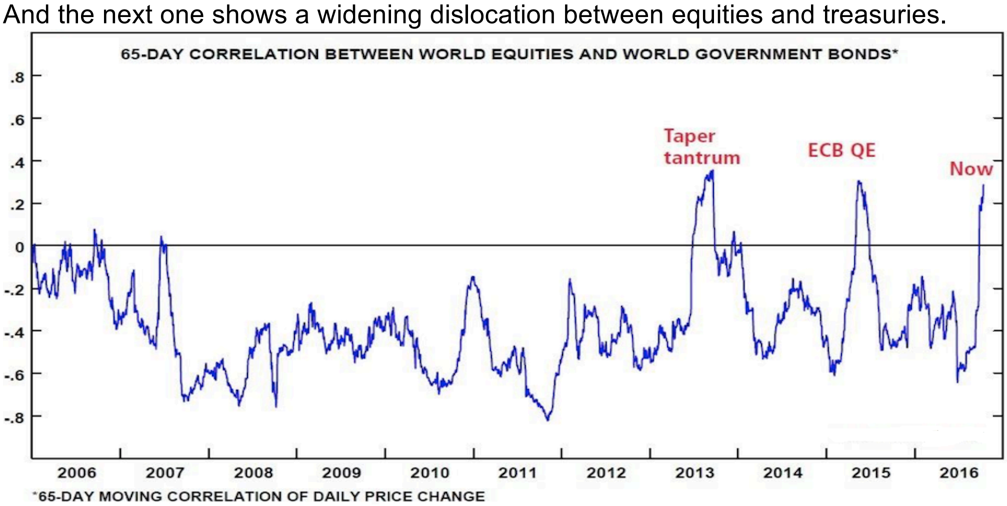
Equities Commentary

Two charts to consider, when making asset allocation decisions:

The first one is of biggest concern, as margin debt has risen to its highest levels, which we think is totally unsustainable, despite lowest financing costs due to record low rates.



And the next one shows a widening dislocation between equities and treasuries.

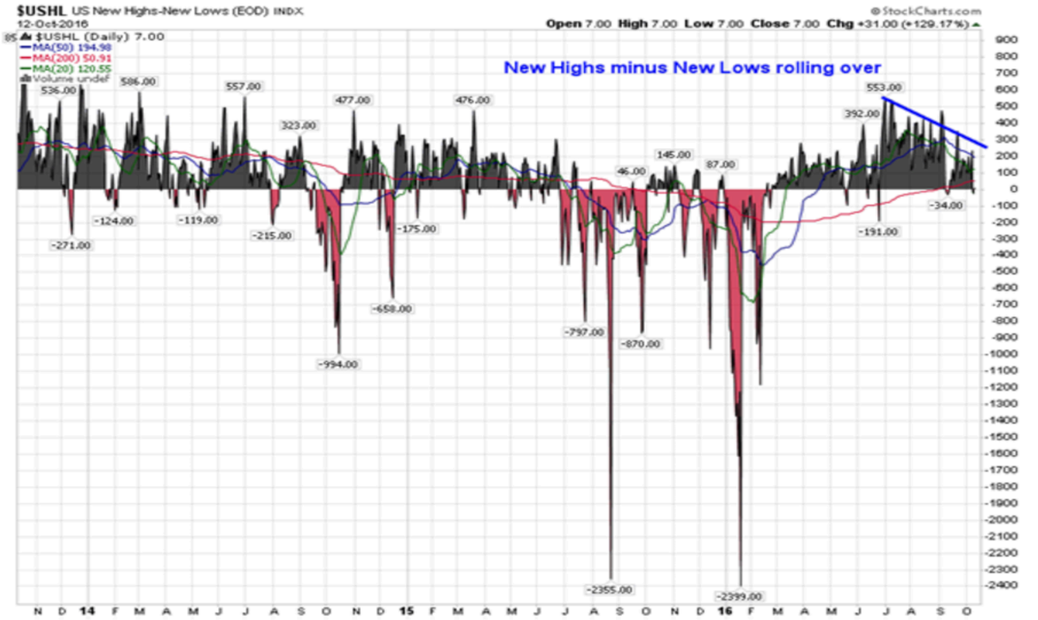


The technical outlook for US equities is taking a drastic turn for the worst. Stocks closed marginally higher yesterday as investors digested the latest FOMC minutes. The S&P 500 Index was higher by a mere 0.1%, testing yesterday's broken level of support at the highs of the session. While still remaining above critical support at 2120, momentum indicators are rolling over and price is looking heavy, increasing the chances of a downside resolution. Reaction to earnings in the days ahead will be key.

The benchmark broke below trend line support during Tuesday's session, similar to the breakdown in healthcare, suggesting the start of a new trend. Combined with trend line resistance, a narrowing range gave the appearance of a rising wedge, a bearish setup that is confirmed by a break below the lower limit of the pattern. Theory has it that a retracement back to where the pattern started could follow. Watch the reaction around support at 2120, or, with a little room, down to 2100, to gauge buying demand as a break below this horizontal range could see a quick washout to the benchmark's 200-day moving average around 2060.

Breadth measured by the percent of stocks in the S&P 500 Index that are trading above their 200-day moving averages is falling. Breadth peaked for the year (so far) at the end of August and has since fallen lower towards 60 as an increasing number of stocks break this pivotal moving average level. As downside pressures grow with the indicator moving below 60, typically it doesn't stop until it reaches oversold levels at 20 or below, then allowing for appealing buying opportunities in equity markets. The indicator traded below its 50-day moving average around the start of September, triggering concerns that upside momentum had been exhausted. Similar indications are being provided by the various advance-decline lines, which are also curling lower. The risk is that the weight of the market collapses downwards until investors find appealing levels in which to buy, realigning supply and demand for stocks. Further monitoring is warranted.


$NYUD NYSE - Advance-Decline Volume INDX
12-Oct-2016
Open 13368.05 High 13368.05 Low 13368.05 Close 13368.05 Chg +49.14 (+0.37%)
$NYUD Cumulative 13368.05
MA(50) 13867.45
Volume undef
NYSE Advance-Decline
Volume line rolling over
$SPX 2139.18


$USHL US New Highs-New Lows (EOD) INDX
12-Oct-2016
Open 7.00 High 7.00 Low 7.00 Close 7.00 Chg +31.00 (+129.17%)
$USHL (Daily) 7.00
MA(50) 194.98
MA(200) 50.91
MA(20) 120.55
Volume undef
New Highs minus New Lows rolling over


$NYHGH NYSE - New 52-Week Highs INDX
12-Oct-2016
Open 35.00 High 41.00 Low 15.00 Close 41.00 Chg +11.00 (+36.67%)
$NYHGH (Daily) 41.00
MA(50) 122.78
MA(200) 119.26
MA(20) 78.55
Volume undef
Number of stocks charting new 52-week highs in decline.
$SPX 2139.18

Q3 earnings report season is off to a rough start, with Alcoa Q3 results disappointing and investors were punishing the stock. Shares of AA dropped over -11% as results came in lighter than expected, setting a sour note to start the reporting period. AA shares are testing the lower limit of a 7-months trading range that spans between $27 and $33. A break of support could see a measured move lower to $20, testing the lows charted earlier in the year.

US Aerospace and Defense stocks are rolling over and developing new intermediate downtrends.

Share price weakness by the US home building sector is showing a slowdown in the US Intermediate downtrend was confirmed yesterday on a move by ITB below $26.92

Healthcare stocks, particularly biotech, took a hit on the headline as investors priced in the risks attributed to greater regulation given the scrutiny surrounding drug prices. The S&P 500 Healthcare sector index was lower by 2.5% on the session, the worst performing sector benchmark on the day. The index broke below a rising trend channel that spans back to the February lows. Horizontal support is apparent at 790.

Seasonally, the health care sector typically rises through December.

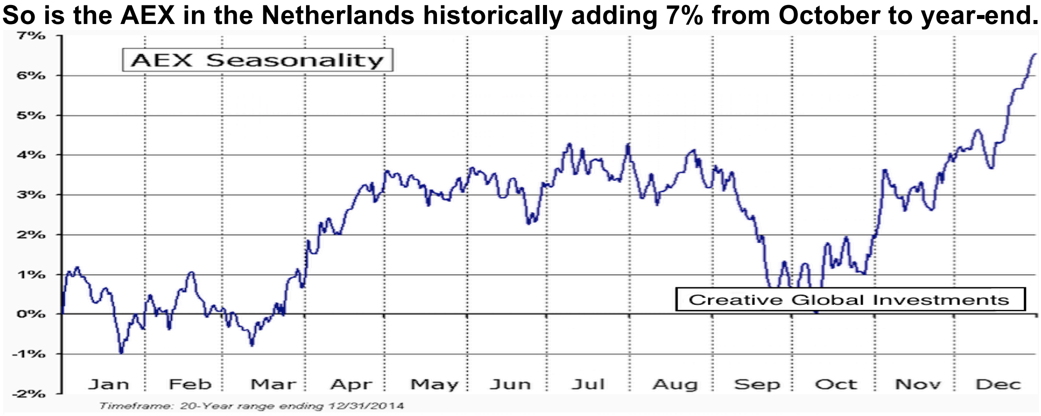
Whilst October is the second highest month on volatility characteristics, it is the beginning month for some equity indices major periods of seasonal strength. Below are the countries equity indices, which historically have recorded the biggest percentage moves since the beginning of October until year-end.

To no surprise, Germany's DAX 30 index is amongst the biggest seasonal performers, with an annual October – year-end performance of 8%.

Monthly Averages over past 20 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	0.4%	0.6%	0.8%	3.5%	0.6%	0.3%	1.1%	-2.6%	-2.0%	2.5%	3.0%	2.5%
Gain Frequency	60%	50%	50%	75%	55%	60%	55%	55%	55%	70%	80%	80%
Max Return	9.3%	11.5%	9.5%	20.0%	8.9%	7.9%	15.9%	3.4%	6.2%	14.6%	9.4%	16.8%
	2012	2000	2010	2003	1998	2003	1997	1999	1997	2002	2001	1999
Min Return	-15.7%	-11.6%	-8.8%	-6.7%	-7.5%	-9.9%	-15.4%	-20.4%	-28.2%	-12.9%	-10.2%	-13.1%
	2008	2009	1995	2002	2012	2008	2002	2011	2002	2008	2000	2002

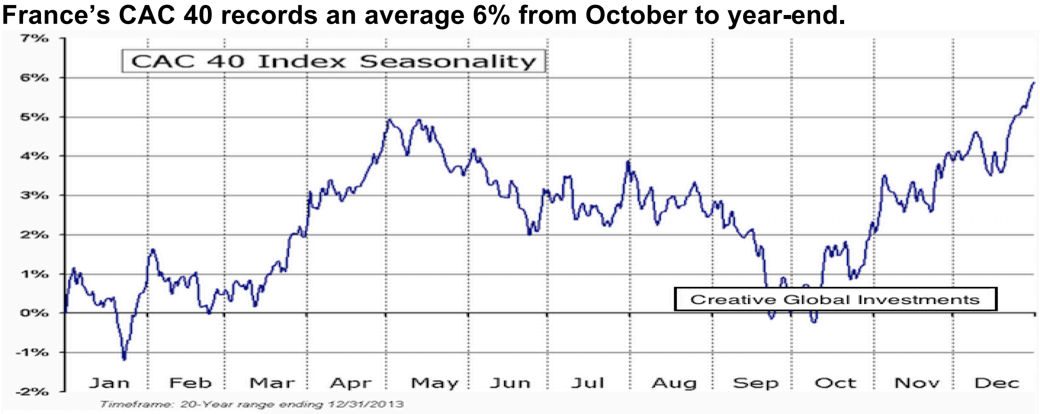
So is the AEX in the Netherlands historically adding 7% from October to year-end.



Monthly Averages over past 20 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	-0.4%	0.4%	0.6%	2.4%	0.2%	-0.1%	1.1%	-1.1%	-2.7%	1.5%	1.8%	2.7%
Gain Frequency	60%	60%	50%	75%	50%	60%	50%	50%	50%	70%	65%	80%
Max Return	4.7%	11.3%	8.1%	13.4%	7.8%	8.6%	13.5%	4.7%	6.1%	15.7%	10.6%	11.0%
	1998	1998	2010	2003	2009	1997	1997	2009	1997	2002	1998	1999
Min Return	-14.9%	-11.9%	-6.4%	-5.9%	-6.9%	-12.9%	-17.2%	-11.9%	-21.5%	-18.1%	-7.5%	-11.1%
	2008	2009	2001	2005	2010	2008	2002	1997	2002	2008	2007	2002

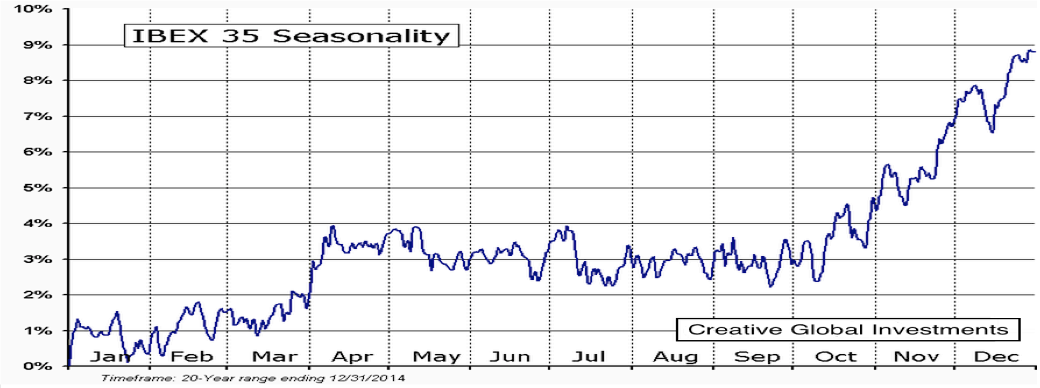
France's CAC 40 records an average 6% from October to year-end.



Monthly Averages over past 20 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	0.7%	-0.3%	1.5%	2.7%	-0.8%	-0.7%	0.8%	-1.4%	-2.5%	2.3%	1.6%	1.9%
Gain Frequency	65%	45%	65%	70%	50%	50%	55%	35%	50%	80%	65%	80%
Max Return	8.5%	9.3%	12.6%	12.4%	5.2%	10.3%	9.4%	6.6%	8.4%	13.7%	9.0%	11.1%
	1997	2000	1998	2003	2005	1997	1994	2009	1997	2002	1999	1999
Min Return	-13.6%	-11.0%	-7.1%	-6.0%	-7.5%	-12.1%	-11.9%	-11.2%	-18.2%	-11.5%	-7.4%	-8.0%
	2008	2001	1994	2012	2010	2008	2002	2011	2002	2008	2000	2002

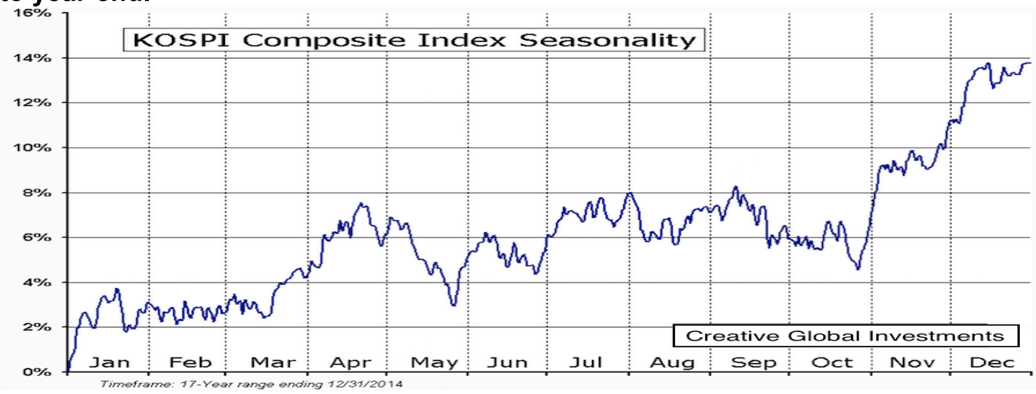
In Spain, the IBEX adds over 5% from October to year-end.



Monthly Averages over past 20 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	0.3%	1.2%	0.1%	2.1%	-0.8%	0.3%	0.1%	-0.7%	0.2%	1.9%	2.0%	2.1%
Gain Frequency	60%	55%	45%	65%	50%	55%	40%	50%	60%	65%	70%	80%
Max Return	10.7%	15.3%	13.9%	15.0%	6.6%	15.9%	12.8%	10.3%	10.8%	14.7%	11.9%	10.3%
	2001	2000	1998	2009	1997	2012	2010	2012	1997	1998	1999	1996
Min Return	-13.0%	-10.0%	-5.4%	-12.8%	-13.7%	-13.6%	-9.0%	-23.2%	-16.3%	-15.7%	-15.2%	-10.0%
	2008	2009	2012	2012	2012	2002	2002	1998	2002	2008	2010	2002

Over in ASIA, Korea's KOSPI gains the most with an average of 8% from October to year-end.



Monthly Averages over past 17 years:

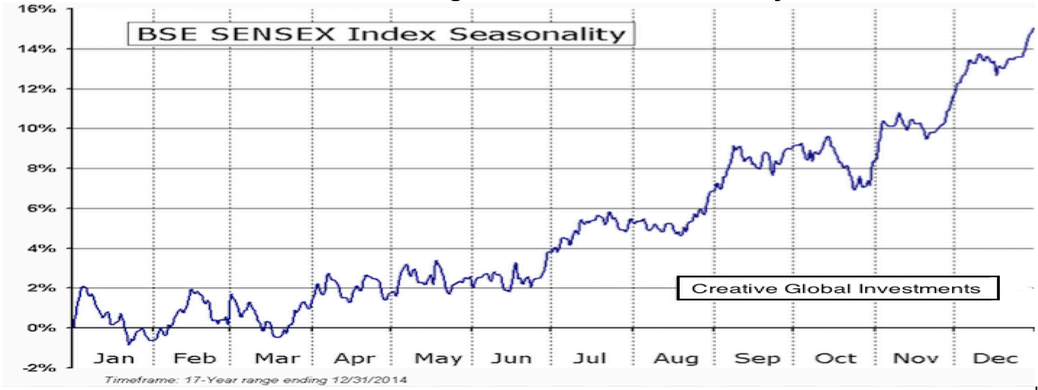
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	3.1%	-0.6%	1.5%	2.0%	-1.1%	0.4%	2.4%	-0.7%	-1.2%	0.5%	4.5%	2.9%
Gain Frequency	59%	47%	47%	53%	53%	47%	71%	47%	53%	59%	71%	65%
Max Return	41.9%	9.6%	17.9%	20.2%	9.9%	19.1%	15.5%	9.0%	12.1%	22.6%	18.5%	23.5%
	1998	2002	1999	1999	2007	1999	1998	2004	2005	1998	2001	1998
Min Return	-15.0%	-12.4%	-12.5%	-15.6%	-21.3%	-10.8%	-14.6%	-11.8%	-12.6%	-23.2%	-7.6%	-14.1%
	2008	2000	1998	2000	1998	1998	2000	2011	2002	2008	2007	2002

The Hang Seng records an average of 4% from October to year-end.

Monthly Averages over past 20 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	-1.8%	2.7%	-1.3%	2.3%	0.0%	0.4%	2.4%	-1.6%	0.2%	1.9%	2.1%	1.3%
Gain Frequency	40%	60%	45%	75%	40%	60%	70%	40%	65%	75%	75%	70%
Max Return	12.2%	22.9%	10.8%	20.2%	16.3%	11.0%	11.6%	7.5%	12.6%	26.3%	15.1%	10.1%
	1996	1998	1999	1999	2009	1999	2009	2003	2007	1998	1999	1999
Min Return	-15.2%	-8.4%	-14.4%	-10.8%	-14.7%	-10.2%	-6.9%	-14.3%	-15.5%	-30.5%	-9.5%	-7.6%
	2008	2001	2001	2000	1998	2008	1998	1997	2008	1997	2011	2002

India's SENSEX also adds an average of 5% from October to year-end.



Monthly Averages over past 17 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	-0.6%	0.8%	0.8%	0.8%	0.8%	1.2%	1.7%	1.4%	2.1%	-0.7%	3.1%	3.7%
Gain Frequency	47%	59%	47%	53%	47%	71%	59%	71%	65%	47%	71%	76%
Max Return	10.8%	11.9%	15.2%	16.5%	26.8%	12.7%	9.5%	11.5%	12.3%	14.4%	10.9%	14.8%
	2012	1998	1999	2009	2009	2003	1999	2003	2007	2007	2005	2003
Min Return	-13.0%	-8.3%	-15.5%	-11.1%	-15.7%	-19.4%	-9.9%	-8.8%	-13.6%	-24.6%	-9.2%	-4.2%
	2008	2007	2001	1999	2004	2008	2000	1998	2001	2008	2011	2014

In the US, the $SPX ended lower in September by a mere 0.12%, matching the return recorded in August. The average decline in this last month of Q3, based on the past 50 years of data, is 0.6%. Nevertheless, US equity markets also ended Q3 on a high note with the S&P gaining 3.3% from the June 30 close to Friday's close. The $SPX got to 2168 two weeks into Q3 which is exactly where it ended on Friday, so flat from July 14 and woke up on September 30.

Four of the past five years have produced positive results between September 30 and October 31, with 2015 the most substantial increase of over 8%. Even though the S&P has been stuck near the same level for the past 2.5 months it still remains within easy striking range of its all time high. Looking back over the past five years, from September 30 to October 31, here's the results:

- 2011 - +3.6%
- 2012 - (-1.9%)
- 2013 - +4.4%
- 2014 - +2.3%
- 2015 - +8.2%

Today, in 1987 the $SPX suffered a major crash. Two consecutive doji candlesticks led to the October 1987 crash. A double doji setup going into October is not necessarily a bad omen, but rather the break of the previous two-candlestick range is likely to see follow-though, whether it be higher or lower. Caution for October this year might be a right strategy call.

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

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

Stjepan Kalinic, Market Technician
skalinic@cg-inv.com
office: 212 939 7256
mobile: +(385) 9152 95916
Kastel Sucurac, Croatia

Gary Schieneman, Managing Director,
Global Accounting and Finance
gschieneman@cg-inv.com
office: 917-868-6842
New York, NY, USA

Jennifer Crisman, COO
jcrisman@cg-inv.com
office: +(352) 26 25 86 40
Luxembourg/Europe

Steve Gluckstein, Global Strategist
sgluckstein@cg-inv.com
office: 212 939 7256
mobile: 732 768 8843
New York, NY, USA

Sabine CJ Blümel, Head of Global Automotive Research
sblumel@cg-inv.com
office: +44 (7785) 301588
London, UK

Feliks Lukas, Director of Corporate Consulting
flukas@cg-inv.com
office: 212 939 7256
mobile: +(385) 9848 8951
Kastela, Croatia

Allison M Cimon, Director of Sales & Technology
amcimon@cg-inv.com
office: 646 228 4321
Boston, MA, USA

IMPORTANT DISCLAIMER: As a company purely focused on research, CGI LLC has no business relationships with the company covered in this report, be it investment banking, consulting or any other type of relationship. In addition, CGI LLC does not seek and does not intend to seek in the future any such businesses, maintains complete independence and has no conflicts of interest related to the companies in its research universe. Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of CGI LLC or any of its affiliates. In addition, CGI LLC and its employees, including the analyst who wrote this report, hold no equity, debt or other linked derivative investments, the value of which is related in any way, directly or indirectly, to the operating and stock price performance of the company covered in this report. No such investment positions are held in any of the competitors, suppliers or customers of the companies in our coverage universe. This report is provided for information purposes only. It should not be used or considered as an offer of securities and it does not represent a solicitation to either buy or sell any securities or derivatives thereof.