Creative Global Investments

Morning market commentary & charts

Tuesday, October 18th, 2016

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Objectivity

Integrity

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Global Macro Commentary

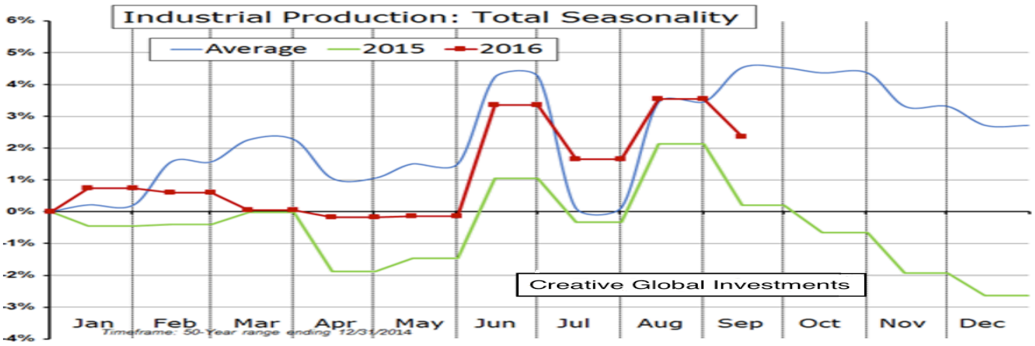
***In Asia,* Chinese banks extended Yuan 1.22 TRN in new loans in September, vs. consensus expectations for new lending to increase modestly to Yuan 1 TRN in September**, after more than doubling in August to Yuan 948.7 BN. Loans over the 9-months in 2016 were a record Yuan 10.16 TRN according to central bank data today capping a record nine-month lending spree despite growing concerns about the risks from the country's ballooning debt. Much of the loan growth in recent months has been driven by a rapid rise in home mortgages, as China's sizzling housing market drives a buying frenzy that authorities are now trying to clamp down on without triggering a price collapse. China's credit growth has been "very fast" by global standards, and without a comprehensive strategy to tackle the debt overhang there is a growing risk it will have a banking crisis or sharply slower growth or both, the IMF said in a working paper last week. Consensus expectations were for new lending to increase modestly to Yuan 1 TRN in September, after more than doubling in August to Yuan 948.7 BN. Loans over the first nine months of the year were a record Yuan 10.16 TRN according to central bank data on Tuesday.

***In Europe,* economic activity is expected to accelerate slightly over the forecast horizon (+0.3% in Q3 2016 then +0.4% in Q4 2016 and Q1 2017) on the back of a strengthening of external demand and a stabilization of private-consumption growth**. The latter should be mainly driven by the gradual improvement of labor market situation and buoyant growth in real disposable income due to low inflation. Investment is forecast to rebound in H2 2016 albeit at a slow pace. Under the assumptions that the oil price stabilizes at $47/brl and that the EUR/USD exchange rate fluctuates around 1.12, headline inflation is expected to remain well below 2% (+0.7% in Q4 2016 and +1.3% in Q1 2017). The Brexit referendum in the UK is unlikely to have any significant short-term impact on trade flows with the Eurozone but would put some limited downward pressure on investors' confidence if political prospects in the European Union became cloudier.

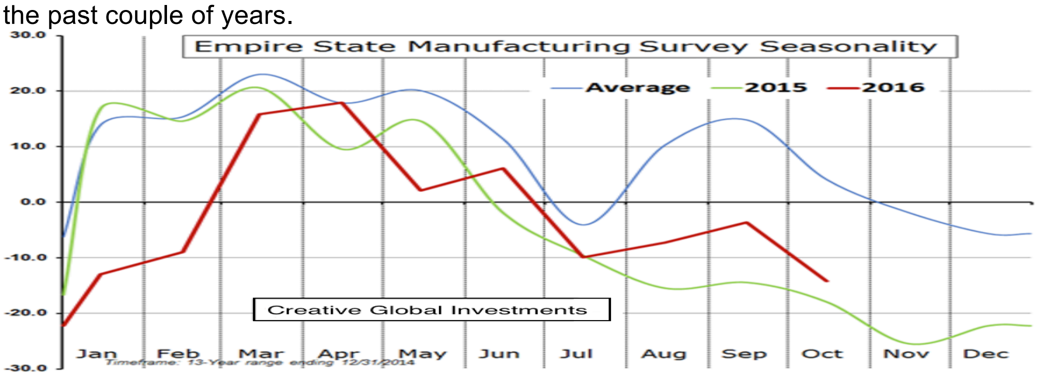
***In the Americas,* the US FED has grossly overestimated growth rates of the economy, and it appears that it the economic growth has slows down considerably**. We start seeing in various leading indicators for the November and December 2016 data to likely be worsening.

Industrial production in the US showed some rather weak results when looking below the headline print. The seasonally adjusted data showed that industrial production increased by 0.1% last month, missing estimates calling for a 0.2% rise. The manufacturing component, on the other hand, did show a 0.2% climb, which edged estimates calling for a 0.1% gain. Both data-points were accompanied by downward revisions to previous months. Stripping out seasonal adjustments, industrial production actually declined by 1.1%, a significant divergence versus the average gain in September of 1.0%. Only 30% of Septembers over the past 50 years have shown a contraction, making last month's result a rather rare outcome. The manufacturing component also showed a contraction, albeit minor, at 0.06%. Manufacturing tends to gain 2.1%, on average, in the month of September as producers ramp up activity ahead of the big consumer and business-spending season into year-end. Only 10% of Septembers over the past 50 years have shown a decline, the last year included. The most notable decline was recorded in 2008 when manufacturing contracted 2.8% in

September as the global economy drifted into recession. The historical precedent is certainly concerning. Both industrial production and manufacturing tend to hit their highs for the year in September/October, but last month's result puts this average tendency at risk. The most concerning contraction realized in the report was for the production of business equipment, which was lower by 0.3%. The average change in this component for the month of September is +2.9%. The lackluster result provides a poor read-through to Q4 business spending/investment, a result that could take its toll on GDP readings for the last few months of the year.



Another regional manufacturing survey suggests that activity isn't destined to improve in the near future. The General Business Conditions Index of the Empire State Manufacturing Index came in at –6.8 for October, missing estimates calling for +1.0. Stripping out seasonal adjustments, the actual level was –14.2. Manufacturing conditions in the New York region remain well below average and with the US$ remaining elevated and commodity prices still seemingly constrained, it may take a catalyst to get this segment of the economy out of the rut in which it has been stuck for the past couple of years.



Again, we keep our initial 1.6% GDP growth estimate for 2016 for the US as per our 2016 Global Outlook & Investment Strategy publication since December 2015 (lowest US GDP estimate on the sell-side) although, we see increasing risks for our target to be too high.

Clearly, as we had been discussing, the perception of superior US GDP growth in 2016 ended up being just that, a perception, as reality now shows that the US economy in 2016 had likely grown even less than that one of the "Brexit" struck Eurozone.

So, then several questions should concern investors:

- Why is there a strong US$?
- Why does the majority of economists still see the FED to hike rates?
- Why are interest rates (government bonds) in the US at a +100bps premia over European equivalent averages?
- Why are US equity market valuations higher by at least 4 to 5 PE multiple points?
- Why are US equities yielding so much less than European equities, despite a worse macro and currency outlook?

Currencies Commentary

The US$ touched a 7-months high, but based on what? Macro fundamentals for the US being stronger? Interest rate differentials for the US looking better? Don't think so! We are expecting for the US$ to roll over and retrace towards 93.

The Japanese Yen completed a double bottom pattern on a move above 100, and we are expecting for the Yen to weaken towards 107 to 111 range by year-end 2016.

Short term, we expect EUR/USD to maintain 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.

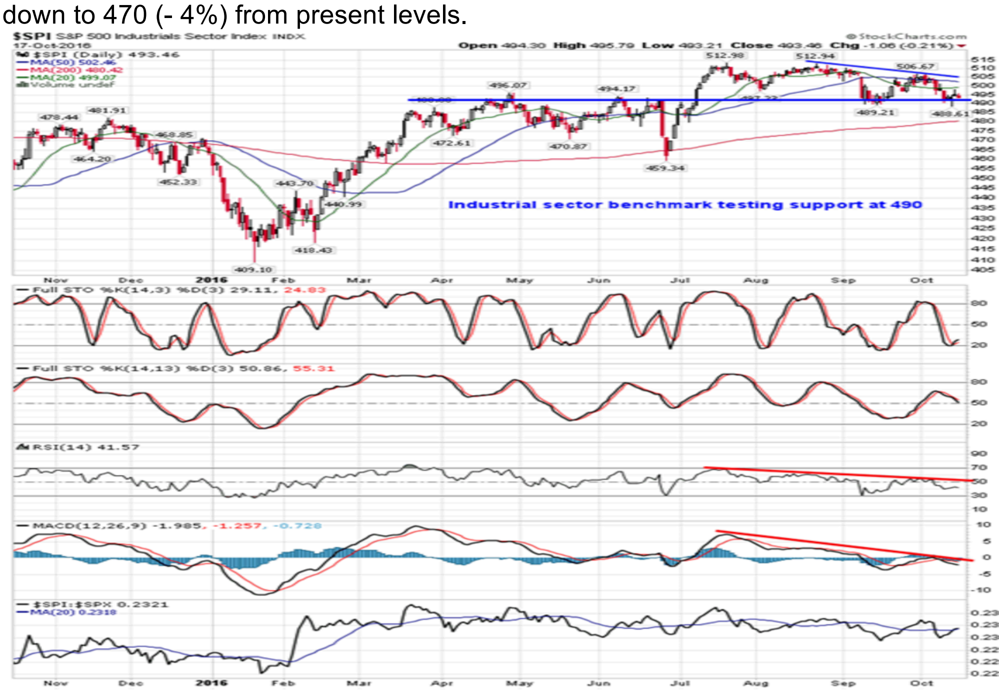
Equities Commentary

The S&P 500 Index was lower by-.3%, dragged lower by consumer discretionary stocks as investors continue to digest Friday's retail sales report.

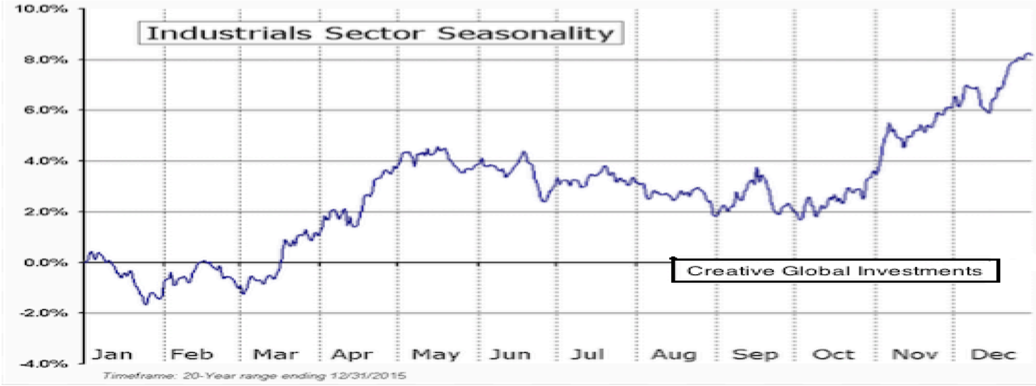
Monthly Averages over past 20 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	-0.5%	1.9%	3.6%	1.9%	0.8%	-0.4%	0.7%	-0.2%	-0.3%	3.1%	2.8%	1.2%
Gain Frequency	45%	65%	75%	65%	55%	50%	50%	50%	50%	75%	80%	55%
Max Return	12.4%	11.7%	16.6%	15.6%	9.3%	9.3%	11.3%	12.6%	15.4%	16.3%	14.3%	13.0%
	2001	1998	2009	2009	2005	1999	1997	2008	2010	1998	2001	1999
Min Return	-15.6%	-9.1%	-5.0%	-7.5%	-7.2%	-13.0%	-12.6%	-12.1%	-9.7%	-17.0%	-12.6%	-8.4%
	2000	2008	2014	2005	2012	2010	2002	1998	2002	2008	2008	2002

Industrial stocks were little changed following the release of the two reports with the S&P 500 Industrial Sector Index shedding around -0.2% The $SPI continues to hold support around 490, however, resistance is becoming apparent at the 50-day moving average, which is presently curling lower. Momentum indicators have also been waning since the stock hit its high in July. A break of near-term support could cause a move down to 470 (- 4%) from present levels.



The sector seasonally rises, on average, between now and the start of the new year.

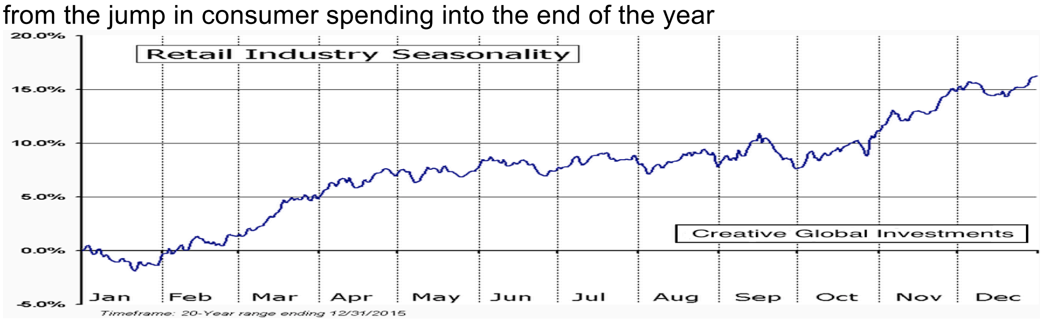


Monthly Averages over past 20 years:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	-1.1%	-0.1%	2.2%	2.9%	0.3%	-0.9%	0.1%	-1.3%	-0.2%	1.6%	2.3%	1.8%
Gain Frequency	45%	55%	80%	65%	65%	40%	55%	40%	55%	70%	80%	75%
Max Return	6.9% 2012	6.2% 1998	13.4% 2000	17.7% 2009	7.3% 1997	6.6% 1999	10.3% 2010	9.0% 2000	11.2% 2010	13.9% 2011	9.2% 2001	10.1% 1999
Min Return	-12.7% 2009	-18.0% 2009	-8.4% 2001	-9.4% 2002	-9.8% 2010	-12.5% 2008	-7.0% 2011	-13.2% 1998	-12.4% 2001	-18.9% 2008	-7.6% 2008	-4.8% 2002

The SPDR S&P Retail ETF shed 0.97%, breaking below support at $43. A head-and-shoulders pattern on the chart of the retail ETF suggests downside potential of around $3, possibly testing the lows charted this past summer. Rising trendline support could be argued around present levels, standing in the way of the downside setup.

Seasonally, the retail industry tends to gain through October and November, benefitting from the jump in consumer spending into the end of the year



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