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MARKET UPDATE: 1-14-15

The main story continues to be the US Dollar.

As I keep asserting, the US Dollar carry trade (well north of $9 trillion) has begun to blow up. This is decimating emerging markets and boosting US stocks.

The first wave of this impacted those economies that are based on commodities (Brazil, Australia, Russia).

Russia was hit first as it is basically an Oil play. With Oil cutting in half over the last six months, Russia has taken out support dating back to 2009:

Brazil was next in line. As the largest producer of most agricultural commodities Brazil's economy is closely linked to global growth. On that note, the Brazilian market has been in a downtrend since 2011.

However, the US dollar rally will be accelerating this process. I believe we'll see Brazilian stocks back at the 2008 lows before the end of the year. We are shorting them using the **UltraShort Brazil ETF (BZQ).**

The final player to get hit will be Australia. Australia is effectively the metals supplier for China's economic growth. For this reason, the Australian market has held up reasonably well as most of the investment world continues to believe that China is growing at 7% or so (it isn't but that's a story for another time).

However, the US Dollar rally will end this. China has borrowed between \$2 and \$ 3 trillion in US Dollars and plunged them into all kinds of garbage investments. With the US dollar now rallying, these investments are beginning to explode (see the looming bankruptcy of China developed Kaisa)

I think Australia's market will be taking a dive very soon. We are already shorting it.

These markets are likely just the tip of the iceberg. On the whole, I expect that the Emerging market space will underperform for some time going forward.

One of my favorite gauges for global markets is to price the S&P 500 in Emerging Markets (EEM).

This chart shows how the S&P 500's performance compares to that of the Emerging Market ETF (EEM). When the chart falls, Emerging markets outperform the S&P 500. When the chart rallies, the S&P 500 outperforms Emerging Markets.

From the late '90s until roughly 2011, emerging markets generally outperformed American stocks. This trend now appears to have reversed with a bottom forming in 2011 and the S&P 500 outperforming Emerging Markets ever since.

This trend will likely continue with US stocks outperforming as capital flees Emerging Markets and moves into safe havens such as the US (particularly Treasuries which we are currently long via the **ProShares Ultra 7-10 Year Treasury ETF, symbol: USD).**

This is NOT to say that US stocks will be *rallying* while the rest of the world *falls*. It is simply stating that US stocks will outperform Emerging Markets (EMs could fall 10% while US stocks only fall 5%).

At the end of the day, we are entering an era in which cash will be king.

On that note, I've received emails from subscribers concerning the possibility of the US Dollar being replaced by the SDR (a type of currency issued by the IMF). I'm looking into this issue, but at the very basic level, the fact is that globally there is an extreme abundance of borrowed US Dollars.

We are in a deleveraging cycle that will see the number of Dollars outstanding drop significantly through both defaults and refinancing.

All of this is US Dollar positive. And the IMF, which has failed to even solve the Greek problem, isn't going to be able to solve the $9 trillion carry trade nor the $100 trillion bond bubble.

I'll have more on this issue later this month. But for now, the US Dollar remains the reserve currency of the world. And the world is in desperate need of actual capital as opposed to borrowed US Dollars/debt.

Until next week.

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