PRIVATE WEALTH ADVISORY

INVESTMENT RESEARCH THAT CONVERTS

Either We Bounce Now… or It's CRASH Time

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The Fed just announced its next incarnation of Quantitative Easing (QE).

> U.S. FED WILL REINVEST PRINCIPAL PAYMENTS ON AGENCY DEBT, MORTGAGE-BACKED SECURITIES INTO TREASURIES THROUGH SECONDARY MARKET PURCHASES, **STARTING OCTOBER 2019**~ NY Fed.

The Fed currently owns $2 billion in agency debt and $1.5 TRILLION in mortgage backed securities.

What the above announcement means is that starting in October 2019, as these debts come due, the Fed will take the proceeds and use them to buy US Treasuries.

Effectively, this was the Fed announcing that it will have $1.5 trillion in firepower to buy US debt starting in October 2019.

This marks the Fed's first official move towards implementing monetary easing.

The Fed is Still Tightening

While the whole world believes that the Fed started easing back in December 2019, the reality is that the Fed is currently still tightening policy to the tune of $15 billion per month in Quantitative Tightening.

This is when the Fed allows the debts it owns to come due, and then simply returns the money to the US Treasury… thereby shrinking its balance sheet… and liquidity from the financial system.

The below chart shows the Fed's balance sheet…

May 30 2019

SHORT-TERM ISSUES

- The Fed announces its next monetary program.
- Multiple asset classes signaling a violent move is coming.

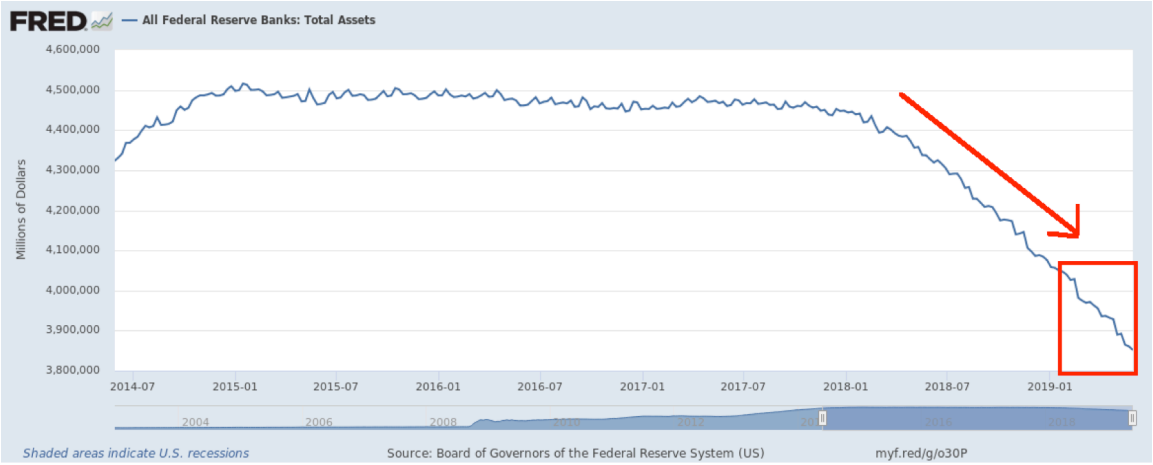
INTERMEDIATE-TERM ISSUES

- China/US Trade Deal to formally collapse by mid-summer.
- Inflationary pressures to build shrinking profit margins.
- A retest of the December '18 lows.

LONG-TERM ISSUES

- A Crisis worse than 2008.
- Eventual market collapse of 50%+ in real terms.
- Central Banks to implement NIRP, Nuclear QE, and Cash Bans.

the red box represents what has happened thus far in 2019. As you can see, the trend remains DOWN.



This will stop in September 2019 when QT formally ends. And now the Fed has announced that the following month (October 2019) its balance sheet will flat-line (the proceeds from its debt coming due will be used to buy Treasuries).

I expect this is just the beginning… as the global economic contraction that began earlier this year accelerates, the Fed will be forced to begin cutting rates AS WELL as launching new formal QE programs that will see its balance sheet expand.

I believe we'll see at least one rate cut this year… and QE will be announced sometime in the first half of 2020.

The reason for this is simple…

The global economy is starting to shrink.

The pundits and financial media gurus will blame what's coming on the trade war (which will be getting much worse shortly)… but the REAL story is that the business cycle has turned and the global economy is now shrinking.

Let's start with the top four economies: the US, China, Japan, and Germany.

The US Economy is Flat-lining

The US GDP numbers show that first quarter GDP growth was 3.1%.

This is a lie.

This number was crafted by dramatically understating inflation.

Think of it this way, if the economy grows 5%... and inflation also rises 5%, then REAL GDP growth is 0% because all the growth was technically just inflation forcing prices higher.

But let's say that the economy grows 5%... and real inflation is 5%, but you understate it and claim it's just 1%...

BOOM! You've got GDP growth of 4%.

This is what the government just did… claiming that inflation was 0.48%... when the official inflation measure called the Consumer Price Index or CPI is 2%...

Using the CPI as an inflation metric, in the first quarter of 2019, the US economy is grew at a pace of…

1.1%.

That's not technically a contraction, but it's flat-lining.

Moving on to China.

China is in a Recession

China's economic data is total fiction.

That is not me being a conspiracy theorist, it's an open secret in China. Back in 2007, the current Premiere of the State Council of China, Li Keqiang, admitted to the US ambassador to China that **ALL** Chinese data, outside of electricity consumption, railroad cargo, and bank lending is for "reference only" i.e. "fiction."

According to China's official data, its economy is growing by over 6%.

Now let's take a look at what China's trading partners are saying…

China's imports the greatest amount of most goods and services from Korea, Japan, the US, and Germany in that order.

- Korea just posted a 15.9% decline in exports to China.

- Japan just posted a 6.3% decline in exports to China.
- The US just posted a 26% decline in exports to China.
- Germany just posted a 5% increase in exports to China.

What are the odds that China's economy is growing over 6% when three of its biggest trade partners saw massive declines in exports to China?

The Trade War can be blamed for the massive drop in US exports to China (26%)… but given the other numbers, it's save to assume China is in SERIOUS trouble regardless of its issues with the US.

Moving on…

Japan… the Devil's in the Details

Japan's official GDP numbers show it posting a strong growth (for Japan) of 0.5% in the first quarter of 2019.

I'm not buying it…

Prime Minister Shinzo Abe is currently pushing to raise Japan's consumption tax…

What are the odds that Japan would post a terrific quarter of GDP growth at the precise time when its government needs those results to warrant raising taxes?

Indeed, when we dig deeper into Japan's economic data we find that…

Private consumption fell 0.1%... and private nonresidential investment fell 0.3%...

And the ENTIRE uptick in GDP growth came from a boost in **net** exports… which is because imports fell… a LOT.

Net exports = exports minus imports.

So let's say exports fall (they did), but imports fall even more (ditto), then NET exports rise… and you can count it as GDP growth…

Put another way… the entire "growth" Japan experienced was an accounting gimmick.

Which brings us to Germany…

Germany Avoids Recession… Just Barely…

The latest data shows Germany's economy grew by 0.4% in the first quarter of 2019.

This came on the back of a six-month contraction…

And is entirely due to the fact that President Trump postponed hitting Germany with tariffs.

47% of the German economy is exports… and its two biggest trading partners are…

The US and China… which are both seeing their economies weaken rapidly.

I have a feeling that uptick in German growth will be short-lived.

So… to recap, the US is flat-lining, China is in recession… as is Japan… and Germany is a few bad weeks away from joining them.

No amount of QE, or rate cuts for that matter, from the Fed will change this, which is why the markets are primed for a major crash later this year…

Indeed, it might be at our doorstep.

Market Forecast:

The markets are preparing for a violent move.

That move will either be a sudden shift towards a weak-$USD environment… in which Gold, Silver, Copper, and Emerging Markets rally…

OR we will see a massive deflationary crash, RIGHT NOW.

I say this because every major risk asset class is oversold and RIGHT at critical support today.

Either these bounce here and now… or we get a full-scale crash in the next few weeks.

Let me explain…

Crashes happen, when the market is already trading at an extreme state of oversold…

You never… I repeat, NEVER see the markets crash under normal conditions…

Consider the 1987 crash… at that time, stocks had already taken out critical support (blue line)… and were already oversold with a relative strength index (RSI) of sub 30 (blue circle)… TWO DAYS before Black Monday hit.

Again, stocks NEVER crash when they are trading normally… they only crash from already oversold conditions…

With that in mind… take a look at the following charts.

The $USD is right at the top of its triangle formation. Either it reverses now and breaks down (igniting a risk on event in precious metals and emerging markets) OR it explodes upwards and we get a deflationary collapse.

Bear in mind… the $USD is rallying at a time when the markets are forecasting THREE rate hikes over the next 12 months.

Why is this happening?

Because the world is facing a MASSIVE $USD shortage, courtesy of the Fed's QT program and the rest of the world's printing their own currencies by hundreds of billions...

Remember, the $USD is the lubrication that makes the global economy work.

The $USD:

1) Is used in over 90% of currency transactions.
2) Comprises 62% of global foreign reserves.
3) Is the currency denomination for 40% of total global debt.
4) Is formally pegged to currencies that contribute 33% of global GDP

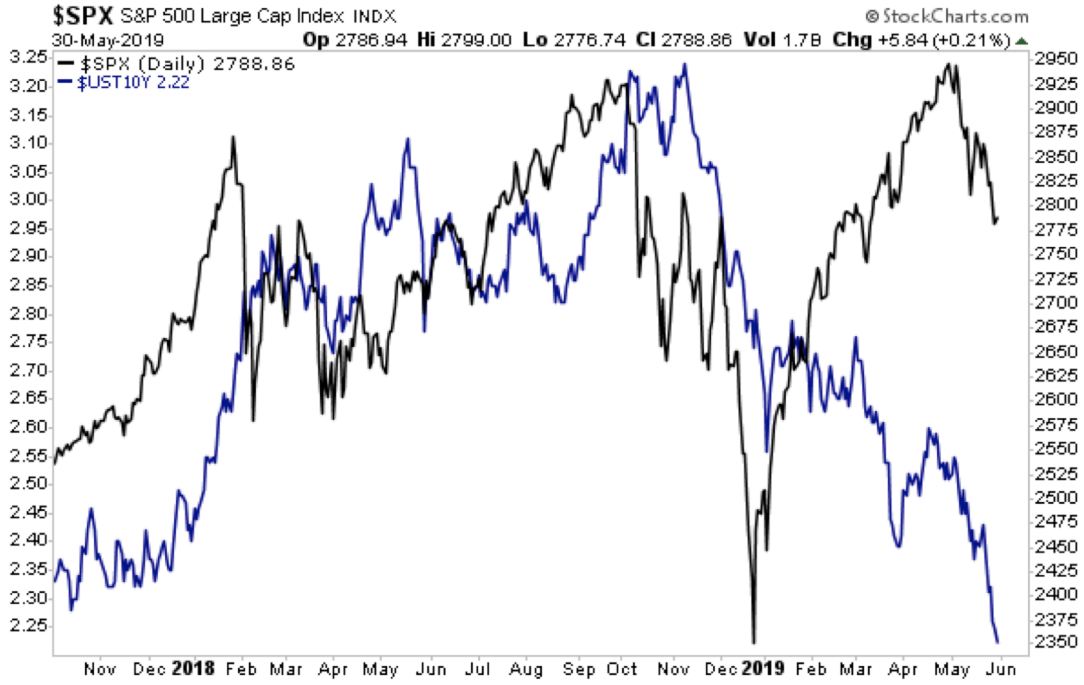
The world is desperate for US Dollars… and unless the Fed acts soon to weaken the US currency, the $USD will explode higher out of that formation in the chart above, and we'll have a deflationary collapse.

The bond market is confirming this.

Yields on US Treasuries have collapsed to the bottom of their trading ranges. Either these yields begin to rise (the financial system breathes a sigh of relief) of they crater to EXTREME lows as the financial market crash.

By the way, while US stocks rebounded from the December 2018 lows, bond yields never caught a bid.

Given that bonds are considered the "smart money" what does the below chart say about stocks right now?



Let move on to Copper, the commodity with a PhD in economics. Here again, we are at THE line. Either Copper bounces here and now… or that is indeed a Head and Shoulders pattern, and Copper is going to the 2016 lows…

By the way, the 2016 lows represent the last time the financial system nearly crashed… the only thing that saved the financial markets was the "Shanghai Accord" in which China, the US and every other major G-7 nation agreed to have their Central Banks flood the system with liquidity.

That won't be happening this time.

Which brings us to stocks…

The S&P 500 is RIGHT on CRITICAL support. Below this is NOTHING but air pockets down to the December lows…

Again… as I said before… either we bounce right here and now… or we CRASH.

Given how high the stakes are…I lean towards a bounce hitting based on some kind of intervention…

After all, consider that the stock market is just 5% from its all time highs… and the Fed has been forced to announce that a new monetary easing/liquidity providing program is coming soon…

Let's think about that for a moment… stocks just posted one of their biggest rallies in history… rising for four months straight…

And the Fed can't even stomach a 5% drop in stock prices without announcing a new monetary program is coming to support the system.

This, combined with all of the charts I've just shown you, tells us something truly HORRIBLE is brewing in the financial system…

Either the Fed and the White House can put it off and ignite a bounce… or it's Crash Time.

I don't know which one it will be, but we have positions to profit from both…

And I want to stress… if we DO get a bounce, it will be short-lived…possibly lasting into late June.

After that, the Crash hits.

The global economy is contracting… war is on the horizon… and the two largest economies in the world are currently in an economic "fight to the death."

We know President Trump is framing his 2020 campaign around China. So the odds of him backing down are next to zero.

And China is NOT going to give in to the US… as doing so would mean crippling its primary sources of technological advancement (IP theft).

This is a powder keg that will explode this year… either right now… or later this summer.

So even if we DO get a bounce, it will be short-lived…

This concludes this month's issue for ***Private Wealth Advisory***. I'm watching the markets even more closely than usual and will issue updates as needed. Barring any new developments you'll next hear from me next Thursday in our regular weekly market update of ***Private Wealth Advisory.***

In the mean-time, if you are looking for a way to play short-term market moves or to get into day trading for larger, more rapid gains, I also run a weekly options trading service that typically holds positions for just 2-3 weeks at the most, and usually just a few days.

It's called ***The Crisis Trader*** and it uses options to trade highly predictable moves in stocks and ETFs for double-digit gains. **Since inception, this newsletter has returned average annual gains of 41%. We just closed out gains of 17%, 20%, 20%, and 21% in the last three weeks alone.**

Typically a subscription to this service costs $799. But I'd like to invite any of you to join at a discounted rate of $499 (35% off the usual market price).

You can try it for 60 days. If you find it's not what you're looking for, you can email us at support@phoenixcapitalresearch.com and we'll issue a full refund no questions asked.

To take out a 60 day $499 trial subscription to ***The Crisis Trader*** use the link below.

https://www.phoenixcapitalmarketing.com/tctrenewal499.html

Until Next Thursday…

Best Regards,

Graham Summers
Chief Market Strategist
Phoenix Capital Research

OPEN POSITIONS

STOCKS PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Energy ETF	XLE	3/21/19	$67.08	$59.82	-11%
Uranium ETF	URA	1/17/18	$14.93	$11.41	-24%
Emerging Markets ETF	EEM	5/1/19	$44.00	$40.57	-8%
European Financials ETF	EUFN	5/1/19	$19.62	$18.22	-7%
Short Term Volatility ETF	VXX	5/16/19	$28.10	$29.31	4%

BONDS PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Long Treasury ETF	TLT	6/27/18	$120.24	$130.20	11%
1-3 Year Treasury ETF	SHY	2/7/19	$83.68	$84.38	1%
7-10 Year Treasury ETF	IEF	3/21/19	$105.66	$108.19	3%

PRECIOUS METALS/ MINERS PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Gold		3/17/10	$1,120	$1,293.00	15%
Silver		3/17/10	$15.44	$14.50	-6%
First Majestic Silver	AG	5/12/17	$6.59	$5.74	-13%
Gold Mining ETF	GDX	6/6/18	$21.38	$20.77	-3%
Gold Mining Juniors ETF	GDXJ	6/6/18	$30.59	$28.50	-7%

Prices as of 5/30/19 at market's close.
***Gains include dividends**

Bear Market Portfolio

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Japan ETF (SHORT)	EWJ	1/3/19	$51.08	$53.29	-4%
UltraShort Russell 2000 ETF	TWM	1/3/19	$18.24	$16.54	-9%
JP Morgan	JPM	1/10/19	$99.89	$107.06	-7%
Itay ETF (SHORT)	EWI	2/7/19	$25.71	$26.17	-2%
Netflix (SHORT)	NFLX	3/7/19	$352.60	$351.85	0%
Wayfair	W	5/23/19	$144.01	$144.50	0%
ServiceNow	NOW	5/23/19	$266.26	$262.60	1%
Shopify	SHOP	5/23/19	$271.54	$277.05	-2%
UltraShort China ETF	FXP	5/23/19	$70.52	$69.12	-2%

Prices as of 5/30/19 at market's close.
***Gains include dividends**