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The G-20: Deal or No Deal?

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The G-20: Deal or No Deal?

All eyes are now on the G-20 meeting in Osaka Japan.

The Fed June meeting came and went. And while the financial media has proclaimed that the Fed is about to ease and ease aggressively, neither the Fed FOMC statement, nor Fed officials' statements have confirmed this.

Instead, it appeared as if the Fed was adopting a "wait and watch" mentality on the economy... with Fed Chair Jerome Powell stating, the Fed would "*like to see more going forward*" before implementing any changes to its monetary policies.

This was all before the President went ballistic on the Fed.

Over the last two weeks, President Trump has openly and repeatedly attacked the Fed both in interviews and via social media.

The President has stated that the Fed "blew it" on the economy, that the Fed "doesn't know what it is doing," and even compared the Fed to a "stubborn child."

As if that were not aggressive enough, the President stated yesterday that he "made" Fed Chair Jerome Powell, "that nobody ever heard of him before" and that Powell isn't easing because he "wants to show how tough he is."

The President then stated he would gladly trade Fed Chair Powell for the European Central Bank's President Mario Draghi, based on the latter's commitment to ease and provide stimulus anytime the EU economy slows.

June 27 2019

SHORT-TERM ISSUES

- Waiting on the G-20 meeting.
- Markets not confirming a US/ China deal is coming.
- Gold set to correct.

INTERMEDIATE-TERM ISSUES

- 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.





Let's be clear here... the President of the United States is at war with the Fed. This is not a one-sided war either... there are rumors that the Fed is actively trying to sabotage the economy out of spite for the President.

To wit, last week former vice chairman of the Fed, Stanley Fischer, strongly hinted during a private talk in Israel, that the Fed might not have raised rates last December if President Trump had not been so critical of the Central Bank's policies.

Fischer also said there was a good chance the Fed wouldn't have raised borrowing costs in December if Trump had been less vocal, adding: "It's not a desirable thing to have the president pronouncing on monetary policy."

<https://www.bloomberg.com/news/articles/2019-06-16/stanley-fischer-says-powell-out-if-trump-re-elected-in-2020>

Fed officials are typically guarded about the Fed's inner workings during public speeches. So the fact that Fischer is suggesting this means the reality is likely far worse... **that the Fed definitely raised rates in December out of spite for the President.**

Remember, this was the rate hike decision that kicked the junk bond market... and the stock market off a cliff.

Junk Bonds:





Stocks:



Put simply it is clear both the Fed and the President dislike one another immensely... and this animosity has become clearer in the last week.

The economic data has worsened in the last few weeks, with the Fed's GDPNow (a Fed metric that tracks the economy in real time) clocking in below 2% for the second quarter of 2019.

A drop of this magnitude after first quarter's 3.1% growth rate is highly noticeable. Between this and the clear signals from the bond market that the real economy is weakening rapidly, the onus is on the Fed to ease monetary policy, or at the very least verbally intervene.

The Fed has done neither.

In the last few weeks, Wall Street has been calling for the Fed to make a 0.5% rate cut at its July meeting on July 31st.

On Tuesday, James Bullard, the single most dovish Fed official in recent history, quashed this idea.

*Federal Reserve Bank of St. Louis President James Bullard said an "insurance cut" **of 25 basis points to interest rates would be enough** to protect against a sharper-than-expected slowdown in economic growth.*



“I think 50 basis points would be overdone,” Bullard said in an interview with Bloomberg Television’s Kathleen Hays from the bank’s headquarters. “I don’t think the situation really calls for that. But I would be willing to go 25.”

<https://www.bloomberg.com/news/articles/2019-06-25/fed-s-bullard-says-quarter-point-cut-is-enough-for-insurance>

This is James Bullard we’re talking about... the Fed President who has made it a point to publicly push for extreme monetary easing every chance he got for the better part of the last decade...

And he now is saying that a 0.5% rate cut would be “overdone.”

Bear in mind... Trump administration officials have been pushing for a 0.5% rate cut for the last three months. So Bullard is openly rebuking the Trump administration by doing this.

Fed Chair Jerome Powell was even more explicit in his disdain for the President, in a thinly veiled jab to the President’s push for monetary easing...

*The Fed is insulated from short-term political pressures — what is often referred to as our ‘independence,’” Powell said in prepared remarks. **“Congress chose to insulate the Fed this way because it had seen the damage that often arises when policy bends to short-term political interests.** Central banks in major democracies around the world have similar independence.”*

<https://www.cnbc.com/2019/06/25/feds-powell-warns-against-short-term-political-interests.html>

Do these sound like the words of a Fed Chair who is ready to ease monetary policy?

Putting all of this together, the stage is set for a real debacle between the Fed and the White House.

President Trump has made it clear he is open to demoting or firing Jerome Powell.

Conversely, if the rumors are true, the Powell Fed is perfectly willing to sabotage the economy and the President’s beloved stock market out of spite.

And against this backdrop, the economy is slowing.

This has all the makings of a Crash.



So why aren't stocks breaking down already?

Because attention has turned away from the Fed to the China/ US trade deal.

US and Chinese officials will be meeting in some capacity at the G-20 meeting in Osaka Japan, tomorrow and Saturday. As it currently stands, President Trump is scheduled to meet with China's President Xi Jinping.

However, all of this is subject to change.

The fact is that the odds of a deal being made at the G-20 are EXTREMELY low.

In the last 24 hours China has leaked to the media that it intends to hit the US with a list of demands at the G-20 meeting.

The two demands we know of are:

- 1) For the US to drop ALL tariffs on Chinese goods.
- 2) For the US to lift its ban on Chinese telecom Huawei as part of any trade agreement.

China might as well ask the US to change its currency from the Dollar to the Yuan.

Regardless of one's personal views on President Trump, it is clear he is a tough negotiator who is perfectly willing to play "hardball" to get what he wants.

In this context, the odds of the President walking back on tariffs is low and the odds of him allowing the Chinese telecom Huawei to have access to US markets is even lower.

Regarding Huawei, it is clear the company openly steals trade secrets (lawsuits have settled this issue) and uses its technology to spy on customers. Numerous Trump administration officials have openly declared the company a "threat to the US's national security."

In this light, what are the odds President Trump is going to sign off on Huawei being granted access to US markets? Next to none.

Conversely, President Trump has already declared he has a "Plan B" if China won't give him the deal he wants.

*In a wide-ranging interview with Fox Business's Maria Bartiromo Wednesday morning, **Trump suggested that he's happy to receive import duties from China if efforts to reach a***



detente between the world's largest economies fails to result in a concrete trade deal.

"My Plan B with China is to take billions and billions a month...and we'll do less business with them," Trump said. Wall Street is eagerly waiting for a meeting with Trump and China President Xi Jinping on the sidelines of the Group of 20 gathering that is set to take place in Osaka, Japan, over the weekend.

The U.S. already has imposed 25% tariffs on some \$200 billion of Chinese goods, and Trump has threatened to impose the same levy on over \$300 billion of Chinese products.

<https://www.marketwatch.com/story/trump-today-president-threatens-tariffs-on-china-as-he-jokes-draghi-should-lead-fed-2019-06-26>

Let's be clear here... no deal is coming between the US and China at the G-20 meeting... if ever. The security interests of the two countries are completely at odds with one another. And both countries' leaders think they have the upper hand.

On China's side, President Jinping believes that he can outlast President Trump who would leave office in 2024 assuming he is re-elected in the 2020 election (Jinping, by way of contrast, has no term limit).

On the US's side, President Trump and his team see China as the #1 threat to the US's national security. If they were interested in making a political deal for appearance's sake, they would have done so already. If anything, the President is preparing to wage economic warfare with China for the remainder of his Presidency.

To conclude, what are the odds all of the above differences can be settled within the next 48 hours?

Next to zero.

Having said all of this, let's see what the markets have to say.

First and foremost, the China ETF (FXI) has made ZERO progress in the last week. Given the degree to which governments leak to financial insiders, if a trade deal were coming, FXI should have skyrocketed higher by now.

We might get a burst higher to the gap (highlighted in blue box) based on some phony rumor of a trade deal hitting the wires over the weekend... but that's it.



Copper usually leads the China stock market to the upside. This time around Copper (black line) is trailing FXI (blue line) by a WIDE margin.





This also suggests a trade deal is not coming this weekend.

Some other areas of interest in no particular order...The \$USD: YEN pair is forming a bullish falling wedge formation.



If the \$USD:YEN pair breaks out of this formation to the upside, it's going to hit gold HARD. The below chart shows the \$USD:YEN pair (black line) overlaid with an inverted gold chart (blue line).



If this occurs, the downside target for gold is \$1,330 or so.

I'm watching this chart closely. Once we get that break, I'll have a trade for you to profit from gold's correction.

Elsewhere, breadth in the NYSE (black line) and Junk Bonds (blue line) are telling us that S&P 500 (red line) is at or near fair value. There is little value in going long stocks here.



Also, the \$USD is staging an extremely weak bounce. We might get to \$95.75 here, but this chart suggests more downside is coming.





That's it really. The markets are extraordinarily boring this week as the entire world is waiting to see what will happen at the G-20 meeting this weekend. No one is willing to commit to any position down or up in a big way. Indeed, today's volume was roughly that of THANKSGIVING... a holiday in which the market was closed after 1PM!

Put simply, the smart thing to do right now is "watch and wait" on the G-20 meeting. Once we get past this weekend, we'll have a much clearer picture of what's to come.

This concludes this month's issue for ***Private Wealth Advisory***. I'm watching the markets closely 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%.**

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	\$62.93	-6%
Uranium ETF	URA	1/17/18	\$14.93	\$12.00	-20%
Emerging Markets ETF	EEM	5/1/19	\$44.00	\$42.97	-2%
European Financials ETF	EUFN	5/1/19	\$19.62	\$18.07	-8%
Short Term Volatility	VXX	5/16/19	\$28.10	\$26.39	-6%
Amazon	AMZN	6/13/19	\$1,864.00	\$1,904.28	2%

BONDS PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Long Treasury ETF	TLT	6/27/18	\$120.24	\$132.90	13%
1-3 Year Treasury ETF	SHY	2/7/19	\$83.68	\$84.78	2%
7-10 Year Treasury ETF	IEF	3/21/19	\$105.66	\$109.97	4%

PRECIOUS METALS/ MINERS PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Gold		3/17/10	\$1,120	\$1,411.00	26%
Silver		3/17/10	\$15.44	\$15.30	-5%

Prices as of 6/28/19 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	\$54.40	-6%
UltraShort Russell 2000 ETF	TWM	1/3/19	\$18.24	\$15.11	-17%
JP Morgan	JPM	1/10/19	\$99.89	\$108.85	-9%
Itay ETF (SHORT)	EWI	2/7/19	\$25.71	\$27.38	-6%
Netflix (SHORT)	NFLX	3/7/19	\$352.60	\$370.02	-5%
Wayfair	W	5/23/19	\$144.01	\$147.65	-3%
ServiceNow	NOW	5/23/19	\$266.26	\$278.51	-5%
Shopify	SHOP	5/23/19	\$271.54	\$300.96	-11%
UltraShort China ETF	FXP	5/23/19	\$70.52	\$60.15	-15%

Prices as of 6/28/19 at market's close.

*Gains include dividends



RECENTLY CLOSED POSITIONS

Position	Symbol	Buy Date	Buy Price	Sell Date	Sell Price	Total Return*
Retail ETF (SHORT)	XRT	1/10/19	\$43.51	5/23/19	\$41.45	5%
Freeport McMoran	FCX	6/13/19	\$10.75	6/20/19	\$11.48	7%
First Majestic Silver	AG	5/12/17	\$6.59	6/20/19	\$7.40	12%
Gold Mining ETF	GDX	6/6/18	\$21.38	6/20/19	\$25.05	17%
Gold Mining Juniors ETF	GDXJ	6/6/18	\$30.59	6/20/19	\$34.23	12%