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The ECB Unveils the Blueprint For What's to Come

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The European Central Bank (ECB) just revealed the blueprint for the next round of central bank monetary easing.

This morning, the ECB revealed:

1) It will soon be cutting interest rates again (whether it be in September or later this year). This means EU rates going even DEEPER into negative territory from -0.4% where they sit today.

2) It might introduce "tiering" or a process through which interest rates are tiered so that banks won't be charged as much on their reserves.

3) More QE is coming, possibly as early as September. And this time it will involve other assets besides bonds.

Regarding #1, the ECB first cut interest rates to NEGATIVE in 2014. It then cut them into deeper negative territory from 2014-2016 until they reached -0.4%.

They've since remained there.

Put another way, the ECB has now maintained negative interest rates for five years. And now they want to cut rates even DEEPER into negative territory.

Which brings us to #2.

Negative rates have been a disaster for EU banks,

July 25 2019

SHORT-TERM ISSUES

- The ECB prepares the next round of easing.
- Markets relatively quiet as they wait on the Fed
- Gold and bonds correcting.

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.

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which are forced to PAY for sitting on cash in the form of banking reserves.

Now that the ECB has made it clear that negative rates are here to stay, it makes sense that the ECB would consider alleviating some of this stress by allowing banks to pay lower rates than those required by the official negative rate.

Taken together, #1 and #2 tell us that the ECB has no intention of ending negative rates soon, if ever. The last time the ECB raised interest rates was in 2008. And five years into its experiment with negative interest rate policy (NIRP) they're opting to cut rates even DEEPER into negative territory.

There are many implications for this but the key ones are:

- LOWER bond yields on EU bonds.
- The continued financial repression of the European economy.
- Continued duress in EU banks.
- Gold, Bitcoin, and other non-traditional means of currency will begin to explode higher in the old world.

It's absolute insanity. But that is the reality we are dealing with today in Europe. As I write this, the entire bond curve for Switzerland is negative.

Which brings us to #3 in the original list: More QE is coming, possibly as early as September.

In this particular case, the ECB is tasking a commission to examine ***"options for the size and composition of potential new net asset purchases."***

In plain speak, the ECB is considering QE of various sizes (most likely MASSIVE) and targeting different assets.

That last point is key.

Thus far the ECB has been targeting sovereign and corporate bonds. Because of this, the entire EU landscape is moving towards negative yields. Indeed, things are so out of control that companies with JUNK BOND ratings are now being PAID by investors for the right to lend them money.

Junks bonds… not investment grade… but JUNK, as in the company will likely go bust at some point.

In this context, for the ECB to suggest it might buy "new assets" means it will soon be buying non-debt instruments, as in STOCKS, ETFs and other assets.

Let's take a step back here a moment.

The last ECB QE program ended in December 2018. That program was so massive that the ECB's balance sheet now sits at 40% of Europe's GDP (by way of contrast, the Fed's balance sheet is at 23% of US GDP).

So it's been roughly only seven months, and already the ECB is talking about introducing a NEW QE program that would target NEW assets (stocks).

The lesson from all of the above is simple: **once a Central Bank commits to EXTREME monetary policy, it can never escape.**

NIRP and large-scale QE programs are NEVER temporary; they are permanent.

NIRP leads to deeper NIRP. And QE leads to larger and more diverse QE programs (in terms of assets being bought). **Put simply, the ECB is prepared to go nuclear with its next round of monetary easing.**

And all of this will eventually be coming to the US's shores as soon as we enter a downturn in the business cycle/ a recession.

We've seen this now with Japan, and now Europe. Once a central bank embarks on truly extraordinary monetary stimulus, it never escapes.

Put another way, once you start introducing things like NIRP or massive QE programs that make your central bank's balance sheet large enough to be its own country, **you cannot normalize monetary policy EVER.**

The US, as a more dynamic, capitalist economy than either of the other two has managed to put off this insanity for now. However, the Fed has already revealed that policy normalization is impossible. So we all know what's coming: NIRP and massive QE programs.

Indeed, multiple Fed officials have already begun talking about introducing NIRP, endless QE, targeting bond yields, and more… and we're not even in a downturn yet!

Put simply, the ECB has revealed the blueprint for where things are heading from a monetary policy perspective. SO with that in mind, we need to consider how their markets reacted.

First and foremost, Gold, priced in Euros, exploded upwards and is now approaching its all-time highs.

As far as stocks and bonds, Europe is VERY different from the US so I'm going to focus on Germany, which is the closest proxy to a capitalist country the EU has to offer.

Based on the ECB's recent announcements, the German stock market, the DAX (here represented by an ETF) sold off but remains in an uptrend.

The picture isn't as exciting as Gold, with stocks over 15% off their all-time highs, but the bull market remains intact for now.

Meanwhile German bond yields have fallen to new all-time lows. It will now COST you nearly 0.4% per year to lend money to Germany for ten years.

What does this tell us?

That when the next round of easing comes out of the Fed, we can expect Gold and Precious Metals to erupt higher and bond yields to fall lower.

Stocks remain something of a tossup. It's difficult to believe the ECB will let European stock markets collapse, but for now, the bond bubble takes priority in Europe.

I bring all of this up because at some point this year the Fed is going to enter its next round of monetary easing. And when it does, it will eventually find itself inducing NIRP and massive QE programs of its own.

Put simply, this is the blueprint for what's coming to the US in the intermediate to long-term. We'll be revisiting it as the year progresses.

Now let's see what the markets are telling us this week.

Gold is currently correcting. I expect we'll be in the upper mid-$1300s sometime next week.

This is why we sold out of all of our Gold positions.

Given the tight correlation between Gold and Treasuries, this will mean bond prices falling/ bond yields rising. The below chart of the long-Treasury ETF (TLT) and Gold illustrates this point well.

By the way that is why we sold out of all of our Treasury positions.

Stocks are breaking down. The S&P 500 will likely find itself at the red line next week going into the Fed's meeting.

None of these moves are really significant. We're talking about US stocks dropping a few percentage points and Gold correcting $20. So there's not much downside potential here for now. As a result we're not shorting Gold or the S&P 500 just yet.

However, Gold Mining Juniors (GDXJ) are a different story. We have the makings of a 10% drop here in the next week or so. That'd be a nice gain in a short time frame.

Action to Take: Short the Gold Mining Juniors ETF (GDXJ)

In terms of stocks, one market that does look really interesting for a short is Brazil (EWZ)

The uptrend here is broken (red line) and we're *just* hanging on to support (blue line). If we take out support this is a GREAT short to ride down. Likewise, Singapore (EWS) is on the ledge of a giant cliff. Here again I want to use us break support (blue line) before going short.

Outside of these opportunities, the markets are relatively quiet as the entire investing world waits on the Fed's meeting next week. This is the single most important Fed meeting since early 2018.

If the Fed cuts rates, then we're entering an easing cycle and everything I forecast earlier is moved forward. If the Fed *doesn't* cut rates, I expect we'll see the markets fall HARD and possibly flash crash.

Put simply, the entire financial landscape is waiting to see what the Fed announces next Wednesday. So outside of shorting Gold Mining Juniors, there really aren't any clear setups.

This concludes this week's market update 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 usual weekly market update of ***Private Wealth Advisory.***

In the meantime, if you are looking to get into day trading for larger, more rapid gains, our weekly options trading service, ***The Crisis Trader***, just opened its EIGHTH STRAIGHT WINNER on Tuesday.

Since inception, this newsletter has returned average annual gains of over 50%.

I don't mean gains of over 50% on one trade, I mean TOTAL PORTFOLIO gains of over 50%, every year for the last FOUR years.

We just closed out a 12% gain yesterday on a trade we held just 24 hours.

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

LONG PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Energy ETF	XLE	3/21/19	$67.08	$62.81	-6%
Uranium ETF	URA	1/17/18	$14.93	$11.06	-26%
Emerging Markets ETF	EEM	5/1/19	$44.00	$42.66	-3%
European Financials ETF	EUFN	5/1/19	$19.62	$17.97	-8%
Short-Term Volatility ETF	VXX	5/16/19	$28.10	$21.93	-22%
Silver		3/17/10	$15.44	$16.46	2%
Oil Fund	USO	7/11/19	$12.53	$62.81	-6%
Gold Mining Juniors ETF	GDXJ	7/25/19	$38.87	NEW	SHORT

SHORT PORTFOLIO (KEEP POSITIONS SMALL)

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Japan ETF (SHORT)	EWJ	1/3/19	$51.08	$54.76	-7%
UltraShort Russell 2000 ETF	TWM	1/3/19	$18.24	$14.72	-19%
JP Morgan	JPM	1/10/19	$99.89	$115.84	-16%
Itay ETF (SHORT)	EWI	2/7/19	$25.71	$27.85	-8%
Wayfair (SHORT)	W	5/23/19	$144.01	$137.01	5%
ServiceNow (SHORT)	NOW	5/23/19	$266.26	$288.04	-8%
Shopify (SHORT)	SHOP	5/23/19	$271.54	$335.60	-24%
UltraShort China ETF	FXP	5/23/19	$70.52	$61.66	-13%

Prices as of 7/25/19 at 2:15PM.
***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%**
Gold		3/17/10	$1,120	7/1/19	$1,392.00	**24%**
Long Treasury ETF	TLT	6/27/18	$120.24	7/11/19	$130.07	**11%**
1-3 Year Treasury ETF	SHY	2/7/19	$83.68	7/11/19	$84.51	**2%**
7-10 Year Treasury ETF	IEF	3/21/19	$105.66	7/11/19	$108.93	**4%**
Netflix (SHORT)	NFLX	3/7/19	$352.60	7/18/19	$321.00	**9%**
Amazon	AMZN	6/13/19	$1,864.00	7/18/19	$1,981.00	**6%**
US Steel	X	7/11/19	$13.79	7/18/19	$14.84	**8%**