



PRIVATE WEALTH ADVISORY

A Phoenix Capital Research Publication

Market Update: 2-11-15

Not much has changed since last week as far as the US stock market is concerned. Indeed, going back to December, we've had some swings, but overall, nothing has happened.

I'm beginning to think the S&P 500 is forming a sloppy Head and Shoulders pattern. For certain stocks are struggling to stage a significant rally which is telling. Between the usual "Santa rally," start of the year buying, and end of the month performance gaming (January) we should have seen a more bullish move occur.



If we do take out the neckline of this Head and Shoulders then we're going to 1,800 in very short order. I continue to believe this is the most likely scenario.

Elsewhere in the world, China has become the last stock market bubble in the world courtesy of yet another stimulus plan and a handful of rate cuts.



We have a clear rising wedge pattern forming here. It's too early for a prediction on which way this will breakout, but Chinese officials have indicated that the latest stimulus will be a "one off."

The universal reserve requirement ratio (RRR) cut on Thursday is not the start of a strong stimulus for the economy, a senior official of China's central bank told Xinhua on Thursday.

The cut was an ordinary policy operation by the People's Bank of China (PBOC) based on liquidity conditions and the economic situation, Lu Lei, head of the PBOC's research department, said in an interview.

The central bank lowered the RRR, the minimum level of reserves banks must hold, by 0.5 percentage points from Feb. 5, the first universal RRR cut since May 2012.

http://www.shanghaidaily.com/article/article_xinhua.aspx?id=267148

China's real problem concerns its currency. The Yuan is pegged to the US Dollar. China is an export-focused economy. So if the US Dollar rallies (which it has been), the Yuan ALSO rallies, which destroys export profits.

If the US Dollar continues to strengthen, **China will be forced to either revalue the Yuan or allow it to float.** This has the makings of a Black Swan that no one is talking about.

The Yuan looks like it's bottomed after a decade long drop:

CNY per 1 USD

14 Feb 2005 00:00 UTC - 11 Feb 2015 17:12 UTC
USD/CNY close: 6.24396 low: 6.04370 high: 8.27836



This will be a MASSIVE trade when it comes.

In terms of short-term issues, all eyes are on Europe where the new Greek Government is engaged in a game of "Chicken" with the ECB and the German Government.

It is impossible to forecast how this situation will unfold because we are dealing with political game theory, not rational ideas. From a financial and economic perspective, Greece should have left the EU or restructured its debt three years ago.

Instead, we've had three bailouts, none of which addressed the central problems. The political theater continues today with various unnamed "officials" from both sides of the equation making unsubstantiated claims.

Brussels officials 'infuriated' by 'wildly misleading' Greek claims that Juncker and U.S. Treasury are backing Syriza plan to alleviate debt; EU official says Greeks are 'digging their own graves;' Lazard criticized by EU side

*The carefully orchestrated dance between the new Greek government and its European creditors appeared to crack Tuesday, with top Brussels officials infuriated by what they see as **wildly misleading claims coming from Athens.***

Apparent claims from Athens officials to other governments and media suggesting that the U.S. Treasury supports a plan by the Syriza-led government to alleviate Greece's debt, and that the European Commission president Jean-Claude Juncker either backed the plan or had an alternative himself, have enraged senior economic officials in Brussels.

*A senior European official, who spoke on condition of anonymity, described the **situation as "berserk" and said, "there is no plan."***

He added that the European Commission and U.S. Treasury were both perturbed at the way they had apparently been represented externally by Greek officials. A team from the U.S. Treasury led by Daleep Singh, deputy assistant secretary for Europe & Eurasia, was in Athens late last week.

"The Greeks are digging their own graves," the EU official said.

<https://euroinsight.mni-news.com/posts/597>

Ultimately, the real story for Europe concerns Spain. Greece represents a mere 2% of the EU's economy. Spain is the fourth or fifth largest country in the Euro (depending on whether you count the UK) and likely the next domino to drop.

Spain's economy is in the toilet. The official data shows a pick up in economic activity, but the data is massaged beyond question. Moreover, most of the "recovery" is based on Spain's bond yields falling... making it cheaper to borrow... which doesn't actually do anything for the bankrupt country (again, you cannot solve a debt problem with more debt)

Politically, Spain is overheating. Over 100,000 people turned out for a rally for the far left political party Podemos. With both Spain's former Treasurer and Prime Minister implicated in a range of corruption including tax fraud and bribery, tensions are high and there is room for political upheaval similar to that occurring in Greece today.

Spain will have elections in 15 of its 17 regions this year. These regional elections will be followed by general elections. Moreover, the region of Catalonia is staging a referendum about leaving Spain. Politically, the atmosphere is ripe for some major changes... none of which would be pro-Euro.

Spain is too big to bailout. It is too political splintered to be cornered into a simple debt deal. Spain is where the action will be for Europe in 2015.

Indeed, the Spanish Ibox peaked out in mid-2014 and has since entered a downwards trending channel. If we take out support (the green line) then we're going to 8,500 easily. Spanish stocks **do not believe the economy is in recovery.**



For now, the markets are in a waiting game. All eyes on our Greece. We've had some significant moves in multiple asset classes thus far in 2015, but the BIG moves are yet to unfold.

I'm watching the markets closely and will issue updates as needed. Otherwise, you'll next hear from me next week.

Until then...

Best Regards

Graham Summers
Chief Market Strategist
Phoenix Capital Research

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