PRIVATE WEALTH ADVISORY

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Weekly Market Update 6-6-19

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Last week I noted that the markets were at a crossroads.

The two options for risk assets were:

1) Either a sudden shift towards a weak-$USD environment… in which Gold, Silver, Copper, and Emerging Markets rally…

Or…

2) A massive deflationary crash, RIGHT NOW.

One week later, it appears the markets chose option #1… though I would caution that the move has not been confirmed just yet.

The $USD broke down out of the wedge formation I noted last week (red lines in the chart below). However, as I write this today, it has just bounced at support (blue line in the chart below).

For the financial system to truly enter a weak-$USD environment, we need to see the $USD roll over soon and continue to fall.

The recent $USD weakness has benefitted precious metals, Emerging markets, and Copper… but the moves here are not fully confirmed just yet.

Gold broke out of its descending wedge formation (red lines in the chart below) to the upside. It succeeded in breaking above resistance (blue line in the chart below), but has yet to hit a new high for 2019 thus far.

Similarly, Emerging Markets broke out of their descending channel (red lines in the chart below) and have bounced off of support (blue line in the chart below). However, they've just been rejected at resistance (purple line in the chart below).

So that's two "weak-$USD" plays showing us that there might be something to this move… **<u>but again we've yet to get confirmed breakouts.</u>**

In order for this to be the real thing, we need to see Gold rise above $1,350 per ounce… and EEM break above $41.00.

The one "weak-$USD" asset that makes me cautious is Copper. The industrial metal *did* bounce off support (blue line in the chart below), but has yet to stage a real breakout of its descending channel (red lines in the chart below).

This is a warning… and one I'm paying close attention to. Here again, we need to see a sustained breakout… preferably to $2.775… in order for us to have confirmation that the financial system is moving into a "weak-$USD environment."

Meanwhile, the bond market continues to suggest that the US economy has fallen off a cliff.

The Long-Term Treasury bond ETF (TLT) is perhaps the single most deflationary asset in the financial system.

This ETF rallies for one reason and for one reason only…

Because investors fear a dramatic economic downturn.

With that in mind, take a look at the recent price action in TLT.

As you can see, TLT is up nearly 10% since mid-April. And in the last two weeks, TLT has gone absolutely vertical to a new high.

TLT is now within 2% of the all-time high established back in mid-2016.

This is a MASSIVE warning that something BIG is blowing up in the financial system right now.

The two most likely candidates are either China or Deutsche Bank (DB).

China's stock market has not participated in the recent bounce in risk assets… at all.

We did get a bounce off of support (blue line in the chart below)… but it was an EXTREMELY weak one. And already FXI is rolling over the retest support.

It is going to be VERY difficult for the financial system to move into a "weak-$USD" environment that sees "weak-$USD" plays stage a major rally if China continues to implode.

FXI needs to hold that blue line. If it cannot… and FXI rolls over again, then China is in VERY serious trouble.

The long-term chart for China shows how serious this is. The bull market trendline (red line in the chart below) has not only broken but FXI failed to reclaim it during the early 2019 rally.

If we cannot hold support here (first blue line in the chart below), there is nothing but air pockets down to $36.

I believe FXI will be falling to that level at some point this summer. The issue is whether it comes NOW or later… likely after the G-20 meeting (June 28th-29th) proves to failure in terms of China/ the US reaching a trade agreement.

I'm watching this closely. If China continues to implode, it's going to be very difficult for the financial system NOT to experience a deflationary collapse right now.

The other area of concern is Deutsche Bank (DB).

Shares of the German banking giant continue to fall with no end in sight. DB shares recently fell to all-time lows in the $6 range.

Why is this important?

DB sits atop the largest derivatives book in the world, over $40 trillion.

Yes, trillion… with a "t."

DB claims that the true counter party risk for its derivatives book is only $100 billion (still a massive number but nowhere near as large as $40 trillion)…

However, as we found out with Lehman Brothers in 2008… when a major bank collapses, the net exposure for its derivatives book is usually MUCH larger than it claims.

DB shares need to find support right here and right now.

Those are the two primary risks I see in the financial system right now… *they* are the reason we might not get a sustained bounce.

However, as I noted last week… if we DO get a bounce, it is NOT the start of something major… rather it will be short-lived…possibly lasting into late June.

Why?

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…

Certain areas of the markets have already shown us what's coming.

As the largest private shipping/mail company in the US, Fed Ex (FDX) is incredibly sensitive to

the real economy.

When the economy is booming, FDX makes more money as shipping/mailing volumes increase.

When the economy is contracting, FDX makes less money as shipping/mailing volumes drop.

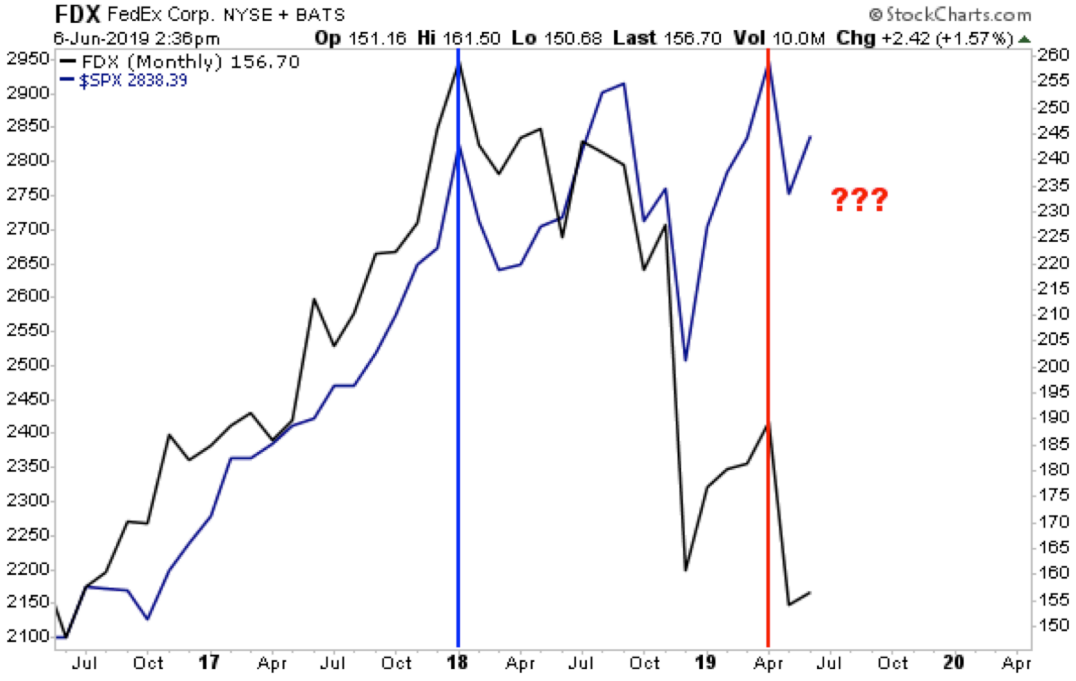
Because of this, FDX typically picks up on major economic developments long before the rest of the market does. I've marked historical FDX's peaks with blue vertical lines on the chart below. The S&P 500's historical peaks are marked with red vertical lines.

During the Tech Bubble, FDX shares peaked in April 1999 while the rest for the market peaked in September 2000.

During the Housing Bubble, FDX shares peaked in May 2006 while the rest of the market peaked in October 2007.

Put another way… **FDX shares typically peak 16-17 months before the rest of the market**.

Which is why, I note with some concern, that FDX shares most recently peaked in January 2018… which would mean that the rest of the market would likely peak in April-May 2019…



I have to admit… this is pretty ridiculously accurate…

So where does FDX tell us the broader market should be trading now? 2,350 on the S&P 500…

We will be heading to that level in the coming months… likely in late summer. The first REAL sell-off will see the S&P 500 drop to 2,650 which is where the Dow Jones Transportation Index (also closely linked to the real economy), suggests things are today.

To conclude…

The markets are attempting to enter a "weak-$USD" environment in which precious metals, emerging markets and copper outperform.

The question now is if this move will be confirmed by breakouts in these assets (and a breakdown in the $USD). If this happens, the "weak-$USD" bounce will last into month end…

The two big issues that could stop this from happening are China and Deutsche Bank. Provided the Powers That Be can keep those potential disasters under control… we should see a decent bounce in risk assets into the G-20 meeting on June 28th-29th.

That is the BEST-CASE scenario for the markets… because at that point reality will return in the form of China/US relations breaking down. Starting in July, I expect we'll see the markets drop hard, with the initial downside target on the S&P 500 around 2,650.

After that, things will continually worsen… right now I believe we're going to see the S&P 500 back at the December lows, if not lower come by September… but I'll revisit that forecast later this summer…

For now… we are watching to see what happens with the $USD for indications that a "weak-$USD" driven bounce in risk assets is confirmed. I have a trade to profit from this… but I need to see a confirmed breakout in Copper first. As soon as that hits, I'll send out a trade alert telling you what to buy.

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 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 over 50%.**

We just closed out a gain of 21% earlier today… on a trade we held for less than a week.

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	$61.02	-9%
Uranium ETF	URA	1/17/18	$14.93	$11.69	-22%
Emerging Markets ETF	EEM	5/1/19	$44.00	$40.86	-7%
European Financials ETF	EUFN	5/1/19	$19.62	$18.33	-7%
Short-Term Volatility ETF	VXX	5/16/19	$28.10	$27.84	-1%

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Long Treasury ETF	TLT	6/27/18	$120.24	$130.61	11%
1-3 Year Treasury ETF	SHY	2/7/19	$83.68	$84.48	2%
7-10 Year Treasury ETF	IEF	3/21/19	$105.66	$108.80	3%

PRECIOUS METALS/ MINERS PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Gold		3/17/10	$1,120	$1,338.00	19%
Silver		3/17/10	$15.44	$14.86	-8%
First Majestic Silver	AG	5/12/17	$6.59	$6.49	-2%
Gold Mining ETF	GDX	6/6/18	$21.38	$22.87	7%
Gold Mining Juniors ETF	GDXJ	6/6/18	$30.59	$31.05	2%

Prices as of 6/6/19 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	$53.73	-5%
UltraShort Russell 2000 ETF	TWM	1/3/19	$18.24	$16.08	-12%
JP Morgan	JPM	1/10/19	$99.89	$109.70	-10%
Itay ETF (SHORT)	EWI	2/7/19	$25.71	$26.86	-4%
Netflix (SHORT)	NFLX	3/7/19	$352.60	$357.13	-1%
Wayfair (SHORT)	W	5/23/19	$144.01	$153.29	-6%
ServiceNow (SHORT)	NOW	5/23/19	$266.26	$268.49	-1%
Shopify (SHORT)	SHOP	5/23/19	$271.54	$297.06	-9%
UltraShort China ETF	FXP	5/23/19	$70.52	$70.31	0%

Prices as of 6/6/19 at market's close.
***Gains include dividends**