PRIVATE WEALTH ADVISORY

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Market Update: 3-5-15

Stock soared to new record highs over the last week based on the announcement of a new Greek debt deal and the upcoming QE program from the ECB (to begin next week).

Regarding the first point, as usual, investors bought first and actually put some thought into it later. The Greek deal is in fact not complete. Greece *was* granted a four-month extension on its current bailout program, but even this issue may fall apart depending on how the political winds shift in Greece.

The bigger issue is the fact that a *Director* of the IMF actually said *on camera* that the previous Greek deals had nothing to do with helping Greece and everything to do with helping French and German banks that owned Greek debt.

> *… **"They gave money to save German and French banks, not Greece,"** Paolo Batista, one of the **Executive Directors of International Monetary Fund** told Greek private Alpha TV on Tuesday. Batista strongly criticized not only the euro zone and the European Central Bank but also the IMF and the Fund's managing Director Christine Lagarde for defending Europe much too much.*
>
> http://www.keeptalkinggreece.com/2015/03/04/imfs-director-batista-greek-bailout-was-to-save-german-french-banks-video/

As I've noted previously, the Greek issue is not about Greece but is in fact about propping up the sovereign bond bubble. Greece will be the template for later debt restructurings for Spain, Italy, and ultimately France. And so the ECB, Germany, and the IMF will do everything they can to pressure Greece into NOT restructuring their debt in any meaningful way (a real restructuring would implode the large European banks).

Predicting how to invest in Europe in a specific sense is all but impossible because everyone involved at the higher levels of negotiations are happy to both lie to the public and break the law to get what they want: NO debt restructuring. Neither I nor

anyone else can tell you exactly now this will play out. We can only focus on the larger themes: individual EU sovereigns need to restructure their debt vs. the ECB and EU Government do NOT want any real deb restructuring because it would implode the European banking system.

The secondary item in Europe concerns the ECB's QE announcement. This is allegedly going to save Europe from debt deflation but I don't see it. European corporations don't rely on debt to the same extent that their US counterparts do. And the QE program, as large as it sounds (€1 trillion), really boils down to a measly €50 billion a month.

To put this into perspective, the Fed was spending more than this on a banking system that is less than 30% the size of Europe's. The impact for the EU will have more to do with investors ***front-running*** the ECB than the actual QE program itself.

On that note, the bond yields in Europe are now at multi-century lows. German bunds are negative meaning investors are *paying* to lend money to Germany. Spain's bonds yields are at record lows. Ditto for Italy.

The fact is that all of these countries are insolvent by any reasonable accounting standards. Europe is a giant house of cards built on fraud. I cannot predict when it will collapse, but we are getting signs that it's not too far off.

Holger Zschaepitz is a reporter for the German newspaper *Die Welt*. He commented last week that ECB President Mario Draghi openly admitted in the EU parliament that QE was the "only remaining instrument" the ECB had left. It's also worth noting that Draghi was openly heckled in Parliament.

The political tides are turning in Europe. When the financial tides turn as well we're back into the crisis.

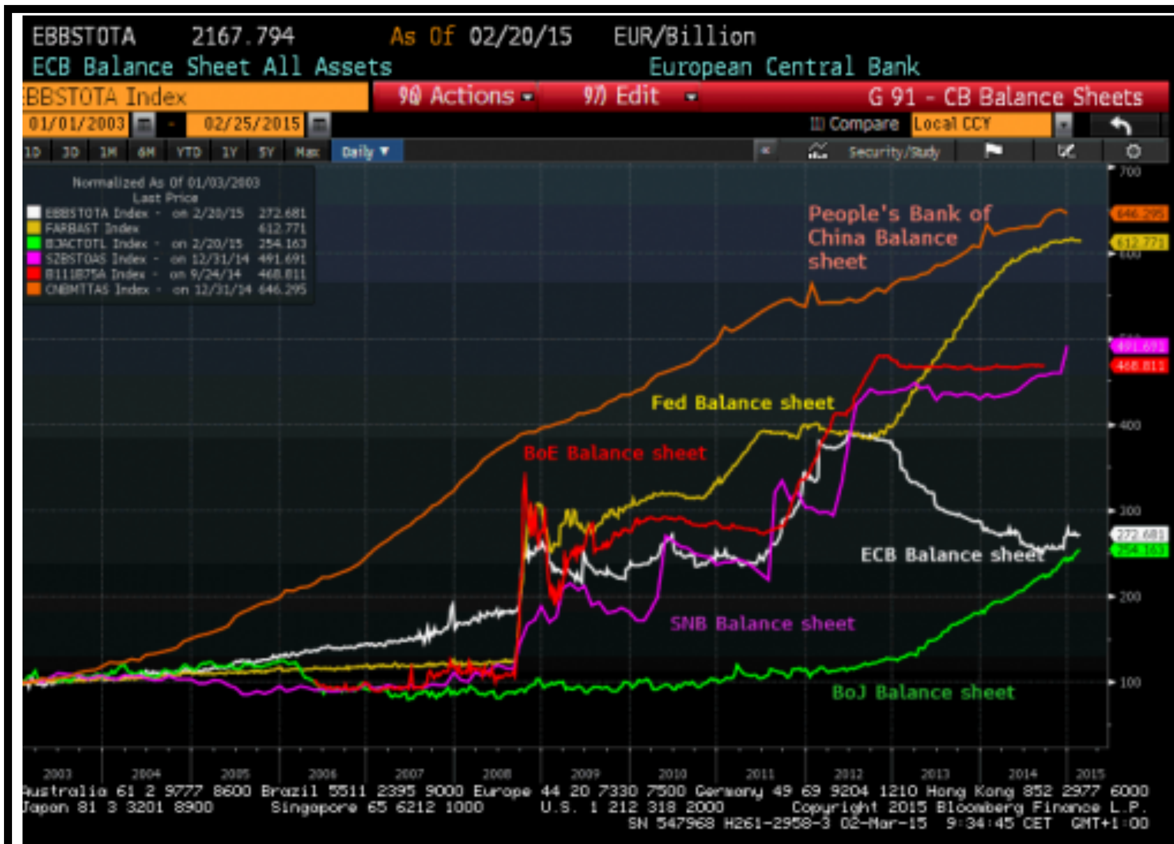
In the meantime, the Euro has hit my short-term price target of 110. Ultimately I think we'll see the Euro go below parity. But right now the currency is sharply oversold and at critical support.

Let's take our profits (roughly 10%) on the **UltraShort Euro ETF (EUO).** We'll short the Euro again down the road once the inevitable bounce is over.

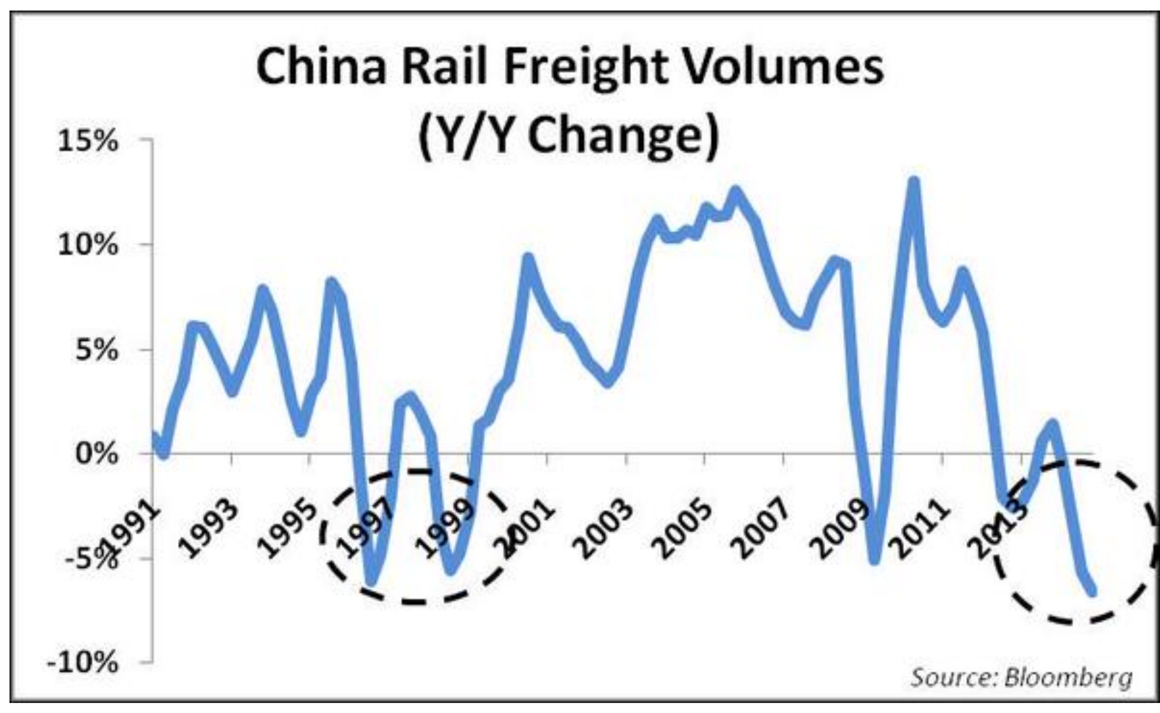
Action to Take: Sell the UltraShort Euro ETF (EUO).

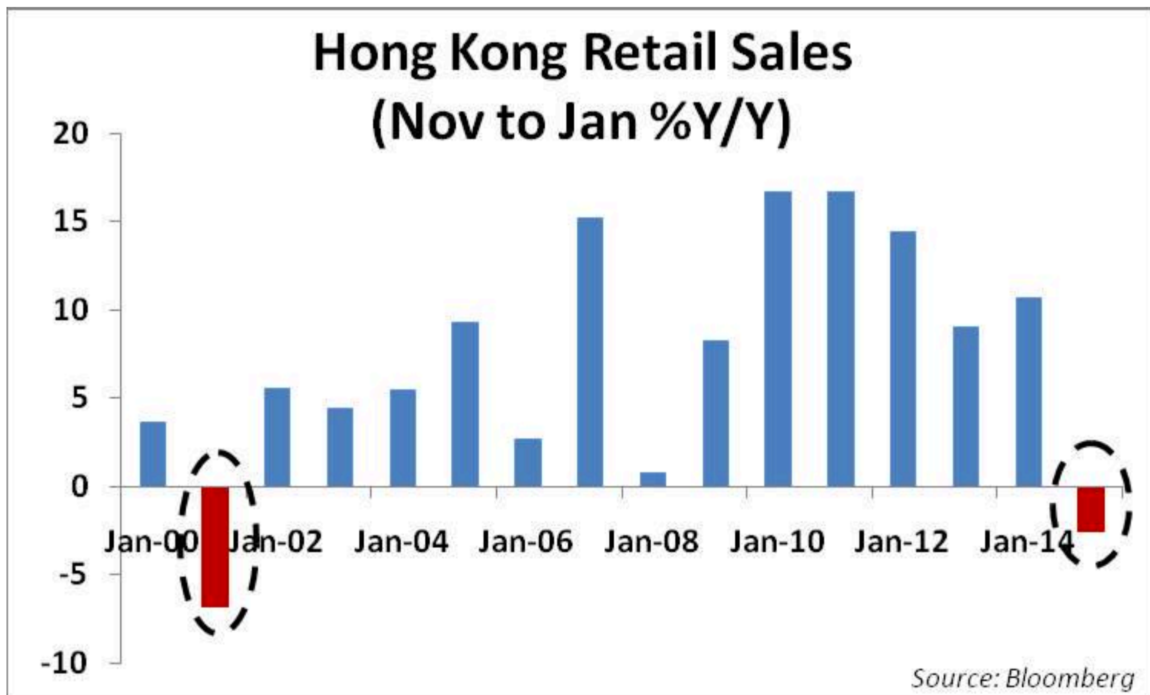
One item that few investors have noted is the fact that while the Fed, the ECB and even the Bank of Japan have been printing money day and night, it is CHINA that takes the cake as world leader in printing currency.

Take a look at the below chart (h/t Holger Zschaepitz**). It's simply stunning:**



Despite this rampant money printing, the Chinese economy is rolling over. Chinese rail traffic and retail sales to Hong Kong are both collapsing at rates not seen since Asian Financial Crisis (h/t RBS Economics).





Rail traffic is particularly important because it is one of the few reasonably reliable economic metrics from China. Indeed, back in 2007, current First Vice Premiere 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."

With this in mind, it would appear China's economy is growing much more slowly than the official 7% GDP numbers claim. Indeed, China *might* be growing at 3%... but it wouldn't be outlandish for real economic growth to be **negative**.

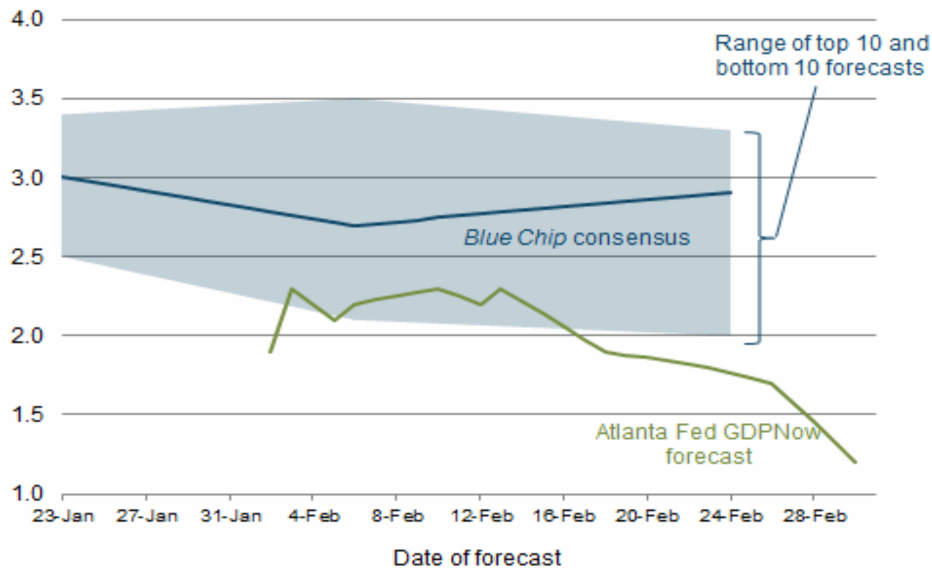
This is another Black Swan that the investing world is ignoring. I think we'll see the myth of the Chinese recovery broken sometime in the middle of 2015. For now, the China ETF (FXI) is severely overbought.

Once we break below the green line, it will be time to go short here.

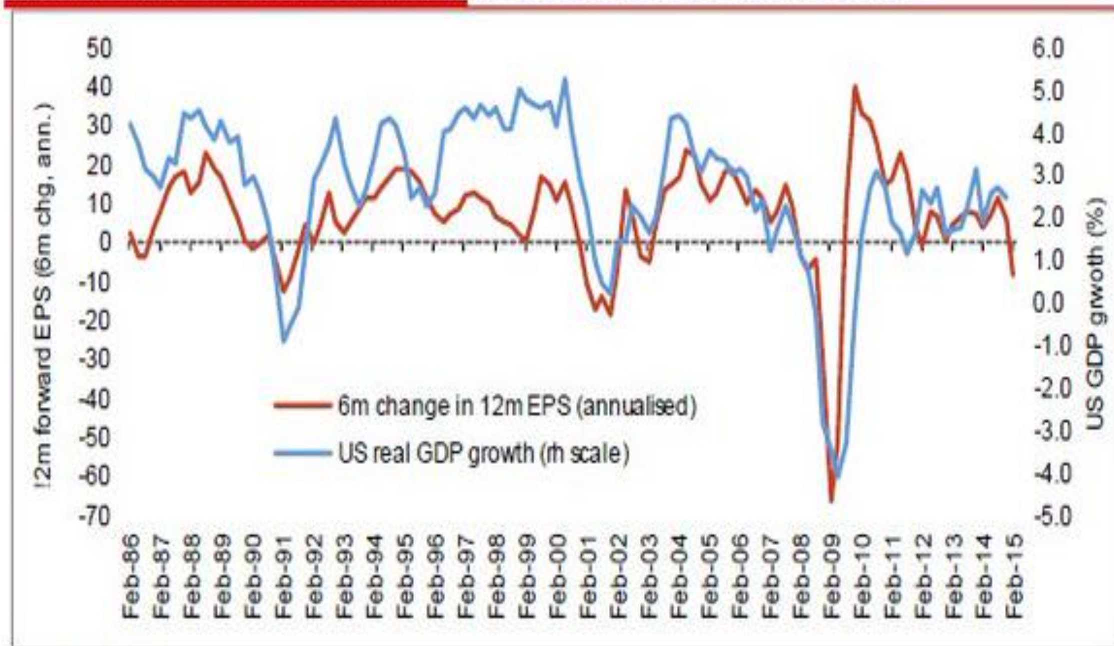
This leaves the US as a potential source of economic growth. Unfortunately, the data suggests that this will not prove to be the case.

The energy industry has been major contributor to US GDP growth in the last 24 months, contributing roughly 40% of all growth. With Oil prices having halved, rendering many of the energy projects bankrupt, this is going to hurt GDP growth going forward.

Moreover, the Atlanta Fed's "real-time" GDP model indicates that US GDP growth is in fact not at 3% but BELOW 1.5%.



The culprit for this is the US Dollar rally as I outlined in the last issue of ***Private Wealth Advisory***. Indeed, as Societe General recently noted, the current pace of collapse in corporate profits has historically been associated with recessions (early '90s, 2000-2001, and 2008-2009).



Stocks are completely unprepared for this. I expect we're going to see a correction to at least 2,000 on the S&P 500 in March (historically a month for mini-Crisie: 1907, 1929, 1987, 2000, 2001, and 2008). And once we finally take out the upward trending channel (blue lines), the target for the drop extends to 1,750.

I continue to monitor the markets closely and will issue updates as needed. Barring any major developments you'll hear from me next week in our weekly market update.

Until then…

Best Regards

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