PRIVATE WEALTH ADVISORY

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Market Update: 4-16-15

Before we read too much into this week's market moves we need to consider the following:

1) This week is options expiration week.
2) This week is oil options expiration week.

Options expiration week is *THE* week in which Wall Street traders try to gun the markets to shred as many options contracts as possible.

The Fed is in on the scheme. This is not some conspiracy theory. Despite the fact that the Fed's QE program allegedly ended in late October 2014, the Fed continues to provide liquidity boosts on regular intervals.

Below is a table laying out the Fed's balance sheet activity since QE ended.

- Weeks with gray backing are options expiration week.

- The font for weeks in which the Fed's balance sheet grew is black.

- The font for weeks in which the Fed's balance sheet *SHRANK* is red.

You'll note that the largest increases (liquidity pumps) occur during options expiration week.

Indeed, this has been the case in four of the last five months. This is not coincidence. I've actually gone back and tracked the Fed's actions from 2010 onwards. **Over 90% of the time, the Fed pumps the markets for options expiration week. And it is always the largest liquidity pump of the month.**

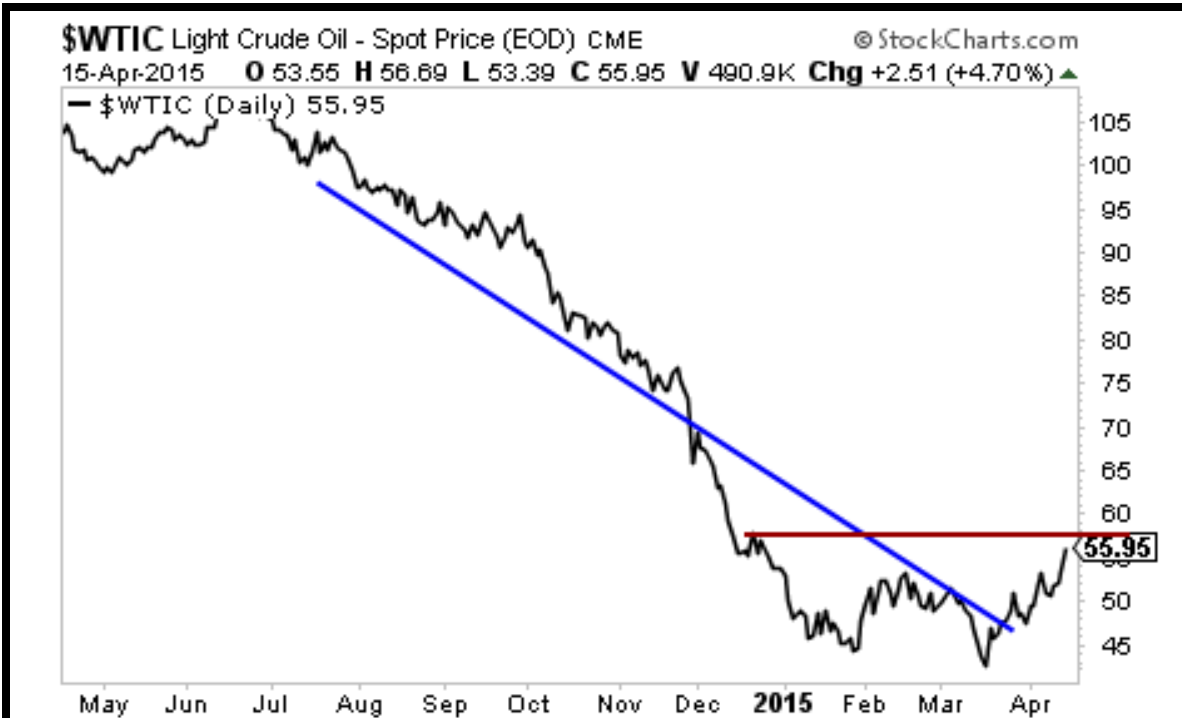
Date	Balance Sheet Changes (in Millions)
4/9/15	1,620
4/2/15	1,196
3/26/15	-15,285
3/19/15	6,609
3/12/15	1,696
3/5/15	858
2/26/15	10,126
2/19/15	**4,834**
2/12/15	1,337
2/5/15	284
1/9/15	12,872
1/22/15	3,141
1/15/15	**16,553**
1/8/15	1,864
1/2/15	11,802
12/29/15	7,215
12/18/14	**13,382**
12/11/14	2,675
12/4/14	259
11/28/14	6,828
11/20/14	**3,864**
11/13/15	2,310
11/6/15	169

As you can see, with only one exception, the Fed expanded its balance sheet by the largest amount in a month **on options expiration week.**

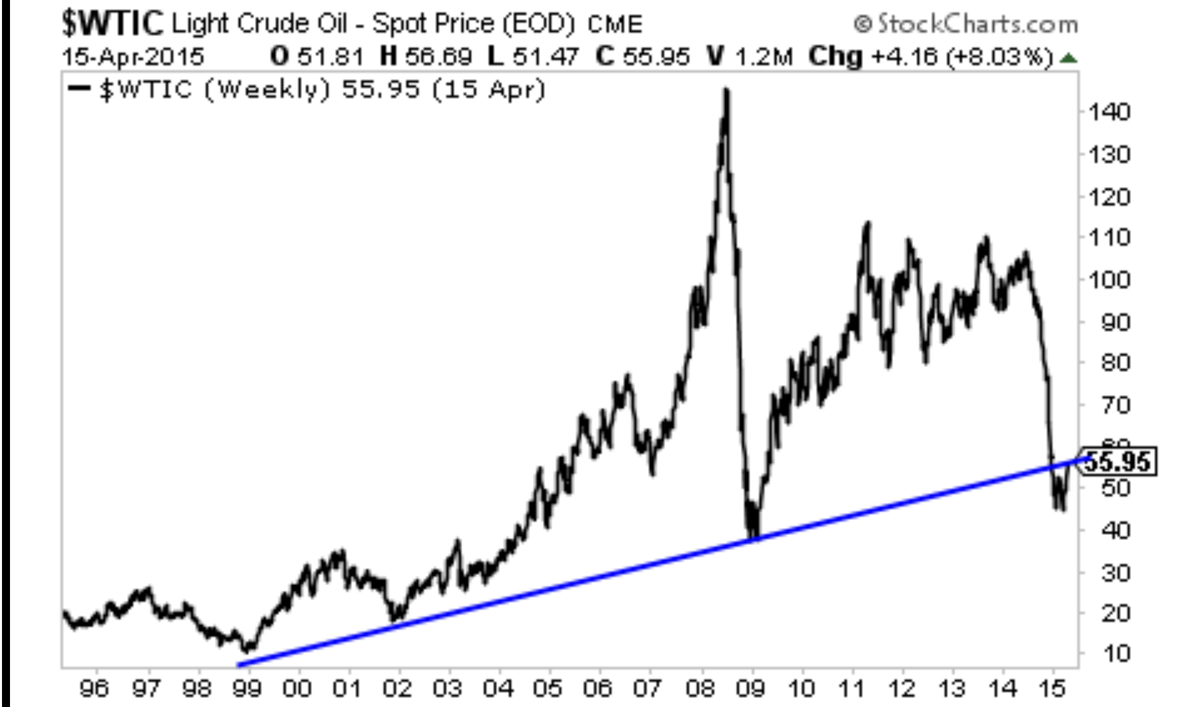
Any claims of Fed independence are totally bogus. The Fed is actively in the business of aiding Wall Street.

Having said that, this week's moves in stocks and Oil are not to be trusted as there is most certainly manipulation taking place.

In terms of Oil, the commodity is in the midst of a dead cat bounce. We've yet to really break above any resistance of note… and are finally coming up against a line of significance at $58 per barrel.



Incidentally, this area (the high $50s) coincides with a retest of Oil's long-term former bull market trendline:



It is not unusual for a security to retest a former bull market trendline after taking it out. If Oil can reclaim this line, then we could see a move to $70. However, given than 1) most of this week's action is trader games and 2) Saudi Arabia just boosted

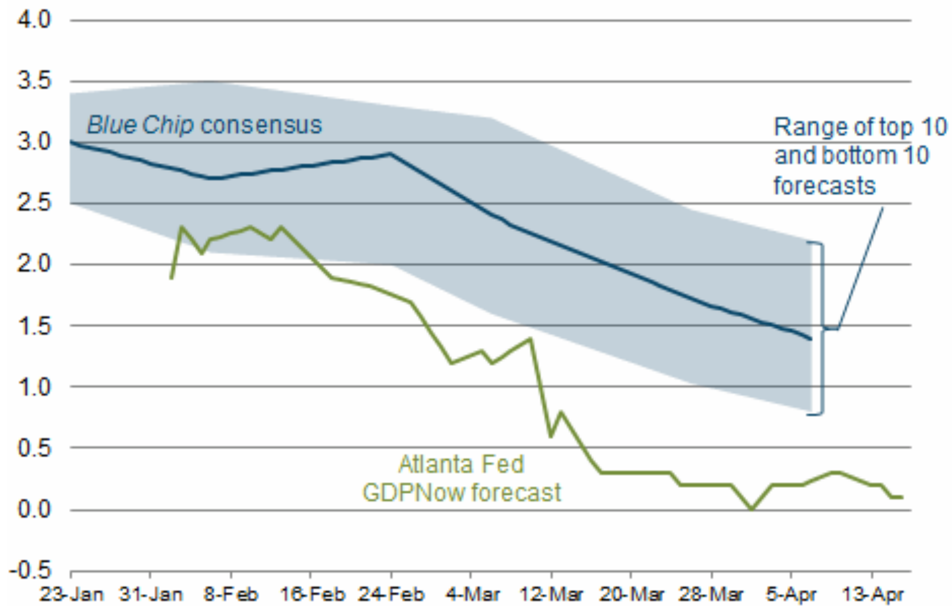
supplies, the **fundamentals favor Oil turning back down shortly**.

As for US stocks, the S&P 500 remains in a wedge pattern. Traders are desperately trying to force an upwards breakout here, but so far they're finding little follow through as there are few REAL buyers in the market.

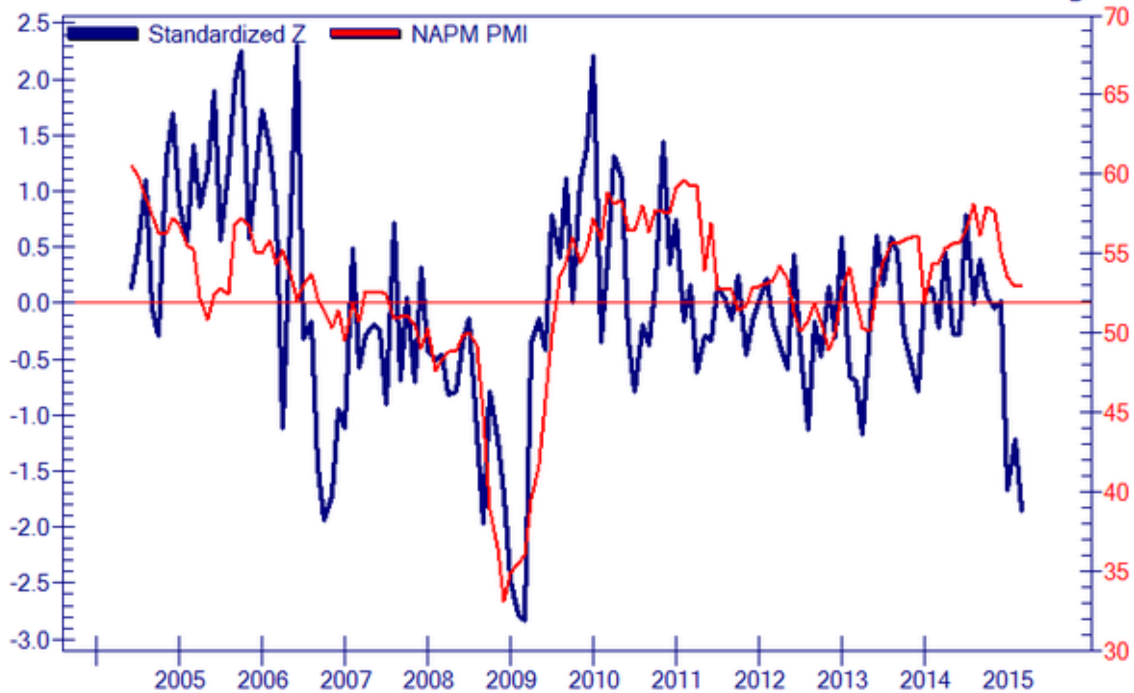
Stocks have been in a range since November. That range is being determined by the clear signals that the economy is weakening (bearish) along with hype and hope of more Fed liquidity in the future (bullish). Both forces are vying for control of stocks. So far neither side is winning.

Speaking of economic weakness, the Fed's real-time GDP tracker now shows 1Q15 growth at a dismal 0.1%, down from 0.2% a week ago.

This is incredible as the model was predicting quarterly growth of 2.2% a mere **two months ago**. Now we're down to 0.1%. So much for the claims that the economy finally "turned a corner" at the end of 2014.

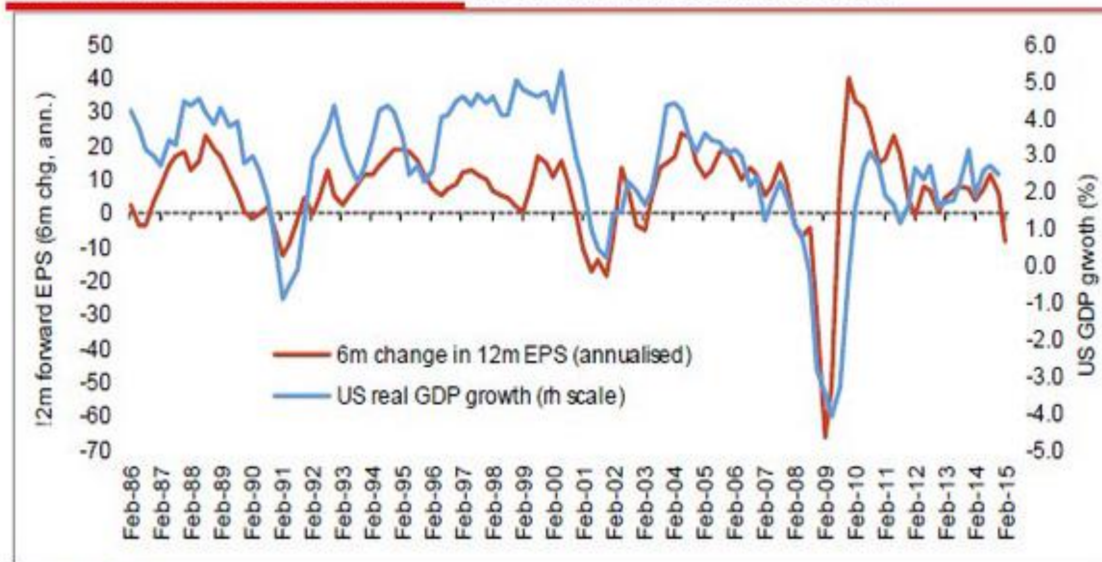


This is just the latest round of data to suggest the US is in a recession again. The Dallas Fed Index Orders Less Inventory is in recessionary territory (h/t Not Jim Cramer).



The current collapse in US corporate profits is also occurring at a pace usually associated with recessions (h/t Societe General).

The current rate of US profits deterioration is clearly associated with recession



Source: SG Quant

Finally, credit is showing recessionary readings. Below is an excerpt from the *National Association of Credit Management* that shows that credit applications are being rejected at a pace not seen since the "start of the recession" (2007-2008).

The real damage is showing up in the unfavorable categories. By far the most disturbing is the rejection of credit applications as this has fallen from an already weak 48.1 to 42.9. This is credit crunch territory—unseen since the very start of the recession. Suddenly companies are having a very hard time getting credit. The accounts placed fo collection reading slipped below 50 with a fall from 50.8 to 49.8 and that suggests that many companies are beyond slow pay and are faltering badly. The disputes category improved very slightly from 48.8 to 49, but is still below 50. This indicates that more companies are in such distress they are not bothering to dispute; they are just trying to survive. The dollar amount beyond terms slipped even deeper into contraction with a reading of 45.5 after a previous reading of 48.4. The dollar amount of customer deductions slipped out of the 50s as it went from 51.8 to 48.7. The only semi-bright spot was that filings for bankruptcies stayed almost the same—going from 55.0

Source: http://web.nacm.org/CMI/PDF/CMIcurrent.pdf

All of these items point towards the US being in recession… and this is occurring at a time when pressure is growing on the Fed to *RAISE* interest rates!

Guessing when or even *if* the Fed will raise rates is pointless. Any rate hike that does occur is likely to be primarily symbolic (say raising rates from 0.25% to 0.3%) and short-lived. Indeed, if the US does in fact enter another recession, rates would likely collapse as the economy implodes following whatever symbolic rate hike the Fed makes.

Looking at the long-term chart for the yield on the 10-Year Treasury, we're in a clear downward trending channel. The few times we've poked above the upper trendline were times in which the economy was roaring (late '90s and 2005-2006). The chart suggests the yield on the 10-year will be down below 1.5% if not below 1%.

I realize that sounds ridiculous, but in today's worlds of negative bond yields, *anything is possible.* All we need is a few more recessionary data points and US bonds will be roaring higher, pushing yields to record lows.

Speaking of record low bond yields, across Europe, 41% of ALL Government bonds now have negative yields.

Mind you, this is the average across the EU... several countries actually have the *MAJORITY* of their bonds with negative yields**. In the case of Germany, it's an incredible 77% of total bonds outstanding!**

Negative Bond Yields By Country

Country	
Austria	60%
Belgium	46%
Finland	61%
France	60%
Germany	77%
Ireland	32%
Italy	6%
Latvia	0%
Lithuania	26%
Luxembourg	52%
Netherlands	59%
Portugal	8%
Slovakia	35%
Slovenia	5%
Spain	13%

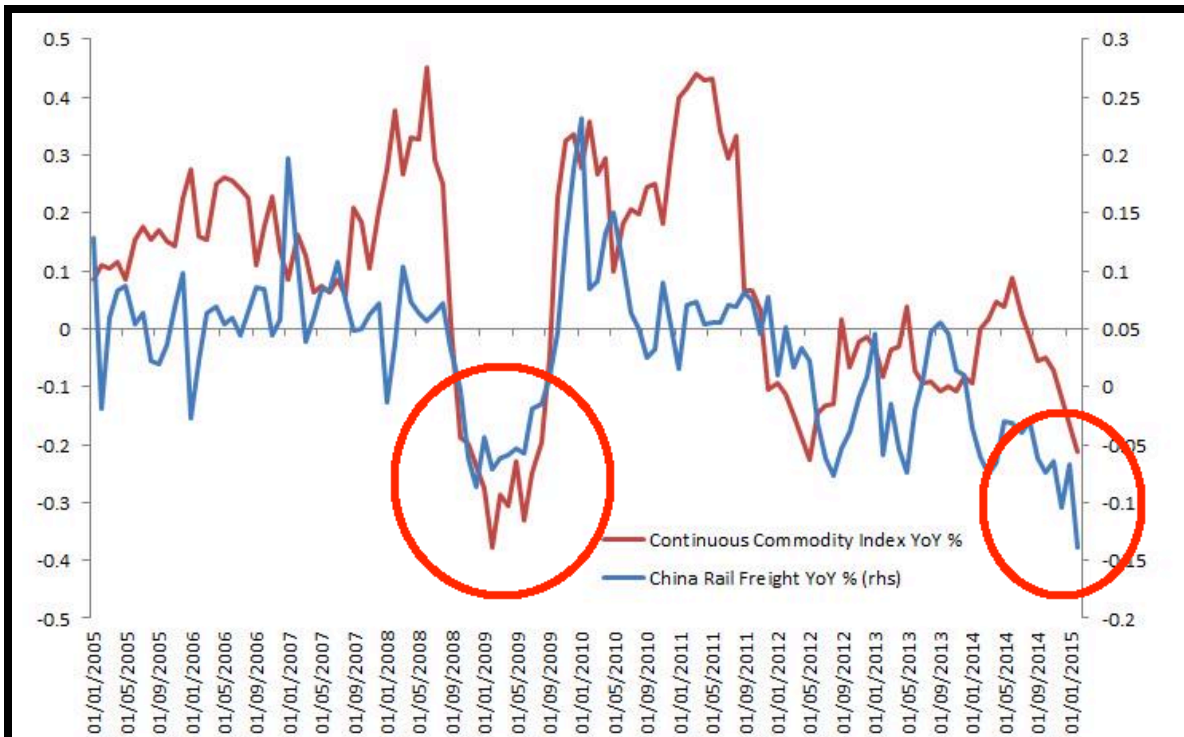
In short, yields are at record lows and likely to be going lower whether it be due to a crisis, a recession, or both.

The Central banks have effectively cornered the bond market. This is going to end terribly, but timing how and when is impossible. All one can say is that the entire financial system is mispricing risk. Europe will likely prove to be ground zero for the inevitable bond revolt when it finally hits: speaking of which the markets are now predicting a 90% chance of Greece defaulting in the next five years.

Finally, let's turn to China.

The People's Republic posted a 7% GDP growth rate for the first quarter of 2015. This is the lowest GDP reading in SIX years (effectively post-2009).

The worst part is that this number is dramatically OVER-stating China's real GDP growth. China's rail freight volume Year over Year is collapsing at a pace not seen since the DEPTH of the 2008 collapse!



This ties in with the incredible collapse in China's trade data, with imports and exports showing the worst drops since… again the depth of the 2008-2009 collapse.

> ***According to data released Monday by the General Administration of Customs, Chinese exports fell 15% and imports fell 12.7% last month in dollar terms as weak domestic and foreign demand weighed heavily on Chinese factories.***
>
> ***The decline surprised many economists,*** *who expected exports to rebound after February's Lunar New Year holiday.*
>
> http://www.wsj.com/articles/china-trade-slumps-on-weak-demand-1428893964

Against this backdrop, China's stock market is back in bubble territory with "dumb" money not only moving into the market… **but actually opening margin debt accounts (margin debt is money borrowed to buy stocks)!!!**

The below chart shows that the number of stock purchases made using margin debt in China is at an all-time high

There is over $264 billion in margin debt in China's stock market today. **<u>This represents an amount equal to almost 10% of China's total market cap!</u>**

China's regulators are moving to crack down on the practice since A) it's out of control and B) we're talking about investors with little if any financial knowledge driving the bubble.

We're right around the point at which I believe China's market will burst. Of course, timing when a bubble bursts is impossible, but with regulators now actively trying to defuse the situation, we're close.

This concludes this week's market update. The wheels seem to be coming off the cart on markets around the world. I don't know when or where exactly we'll start seeing some fireworks, but the most likely area is Europe's bond market where the ECB has induced a bond bubble far greater than anything the modern world has seen.

Never before has so much debt been priced at *negative* yields (meaning investors are LOSING money just to own it). This cannot and will not end well. But I cannot say precisely when things will get ugly.

I'm watching the markets closely and will issue updates as needed. Barring any new developments you'll hear from me next week in our weekly market update for ***Private Wealth Advisory***.

Until then…

Best Regards

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Phoenix Capital Research

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