



# PRIVATE WEALTH ADVISORY

A Phoenix Capital Research Publication

## **Special Market Update: 7-15-15**

Dear Subscribers

The Greek mess continues to prove just how inept the “financial media” is.

There are numerous deceitful and misleading news articles in the financial media claiming that a “Greek bailout” deal has been made. **It has not.**

All that was agreed upon was that Greek Prime Minister Alexis Tsipras has three days (we’re now on day three) to get Greece’s Parliament to agree to a massive new austerity program in which, among other things, Greece will hand over assets worth 25% of Greece’s GDP to EU/ German control.

***IF*** Tsipras can get Greece’s parliament to agree to this, the next steps are:

- 1) Germany’s parliament must issue a mandate giving Chancellor Angela Merkel the right to negotiate a new bailout deal with Greece.
- 2) Finland’s, the Netherland’s, Slovenia’s, Estonia’s, and Austria’s Parliaments also must agree to let their Finance Ministers negotiate a new deal with Greece.
- 3) EU Finance Ministers must negotiate a new bailout deal with Greece.
- 4) Germany’s parliament must sign off on the new deal.
- 5) Greece must accept the deal.

Anyone who claims a deal is within sight is out of his or her mind. This process will take weeks and weeks if not months to occur... assuming it DOES occur. Indeed, there are numerous issues any of which could derail the whole process.

Here are the reasons that we currently know of:

- 1) The IMF has already stated that Greece needs debt forgiveness, NOT another bailout. The IMF has signaled it would walk away from the deal given that it already violated its rules twice by participating in financing a country whose debt is unsustainable (Greece).
- 2) EU Finance Ministers have failed to decide a bridge financing agreement for Greece. While all of the political machinations play out, the fact is that Greece is bankrupt and continues to default on its debts. Germany's Finance Minister Wolfgang Schauble has suggested Greece issue IOUs for its current bills... but this would be akin to Greece launching a second currency besides the Euro... which calls into question the need for a third bailout.
- 3) The UK does not want to participate in another Greek deal. There is the possibility of a Brexit if Germany insists on pushing for a new Greek bailout.
- 4) Greece's population is opposed to another Bailout. Some 61% of Greeks voted against a LESS onerous deal two weeks ago. There is the possibility of complete civil unrest disrupting any deal EU/ Greece leaders agree upon.
- 5) Finally and MOST importantly... according to ex-Greek Finance Minister Yanis Varoufakis, *"The Eurozone can dictate terms to Greece **because it is no longer fearful of a Grexit.** It is convinced that its banks are now protected if Greek banks default."*

This last issue is the most critical.

The ONLY reason Greece has not been kicked out of the Euro already is because German and French banks had significant exposure to Greek bonds. According to ex-Greek Finance Minister Yanis Varoufakis who was present at closed-door EU meetings at the highest levels for the last five months, **this is no longer the case.**

Moreover, German Finance Minister Wolfgang Schauble has stated Germany's Government is "split" on whether it would be best for Greece to remain in the Euro. Previously Germany was united on wanting Greece in the Euro. This is no longer the case.

This means that at any point in the negotiations Germany might simply throw up its hands and walk out on the deal. Indeed, there are some rumors that Germany actually WANTS a Grexit to terrify France into ceding more control to Germany (France itself is bankrupt and will be following in Greece's footsteps in the coming years).

**Anyone who claims they know how this situation will play out is lying.** Not even the Finance Ministers in Greece or Germany know what will happen.

Moreover, the longer this process takes, the more variables enter into the picture. My estimate is that even if **everything** goes perfectly for all negotiations, a new Greek Bailout wouldn't be completed for 6-8 weeks.

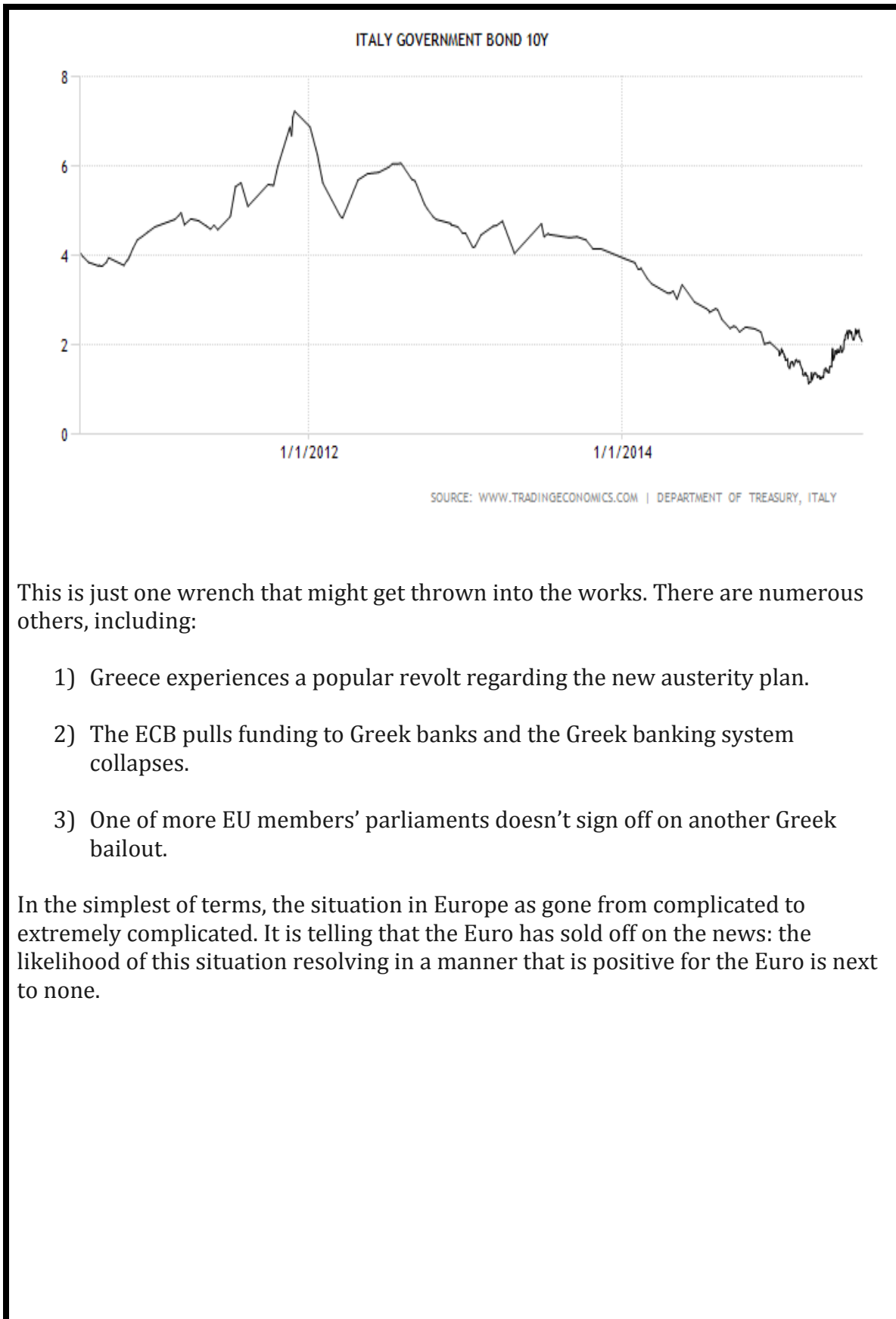
That would mean two months of negotiations... during which time any number of things could develop to derail the process.

For instance, Spain is issuing €12.5 billion worth of debt this week. This represents the largest weekly sale of Spanish debt in over two years (since the Spanish banking system nearly imploded in 2012).

Spain's bond yields have moved higher since the Greek crisis began anew. If this trend continues... and Spain has difficulty issuing large quantities of new debt (the country's debt load has exploded in the last two years and it will need to roll over much of this in the coming months), Spain might begin making noise about wanting debt forgiveness too.



The same is true for Italy.



This is just one wrench that might get thrown into the works. There are numerous others, including:

- 1) Greece experiences a popular revolt regarding the new austerity plan.
- 2) The ECB pulls funding to Greek banks and the Greek banking system collapses.
- 3) One of more EU members' parliaments doesn't sign off on another Greek bailout.

In the simplest of terms, the situation in Europe as gone from complicated to extremely complicated. It is telling that the Euro has sold off on the news: the likelihood of this situation resolving in a manner that is positive for the Euro is next to none.



The Euro has found temporary support at 107-110. However, if we take this line out (quite likely) we're eventually going to parity and then somewhere in the 80-90 range.



Elsewhere in the world, the bounce in China's stock market seems to be over.



As you can see, FXI was rejected at former support. China's primary response to its stock market bubble bursting has been to freeze stocks and ban short-selling.

Obviously Chinese officials didn't pay attention to what happened to US financials back in 2008 when the SEC banned short-selling them: they rallied for about a week before they continued to fall an incredible 73%.



The Chinese stock market will be working its way down to its long-term bull market trendline (green line) in the coming weeks. We will be profiting from this with our **UltraShort China ETF (FXP)** position.



Elsewhere in the world, analysts believe the Fed will be raising rates sometime this year. Given the situation in Greece and China, I have trouble believing this will occur. The markets are predicting no rate increases until 2016. I tend to agree with them.

The yield on the US 10-Year Treasury is at key resistance. Bond yields should start falling sharply soon (likely driven by safe-haven buying). The chart predicts the yield on the 10-year Treasury will be plunging to below 1.5% during the next leg down.)

### \$TNX 10 Year Treasury Note Yield INDX

© StockCharts.com

15-Jul-2015 2:26pm **Op** 24.39 **Hi** 24.61 **Lo** 23.49 **Last** 23.50 **Chg** -0.67 (-2.77%) ▼



It's too rates might rise a bit more to overshoot the upper trendline (like the time yields briefly broke above resistance back in 2007 at the peak of the last stock bubble). But I think yields overall will be moving lower in the coming months.

The chart for the 30-year Treasury is even cleaner.

### \$TYX 30-Year T-Bond Yield INDX

© StockCharts.com

15-Jul-2015 2:30pm **Op** 32.19 **Hi** 32.41 **Lo** 31.30 **Last** 31.37 **Chg** -0.72 (-2.24%) ▼





We're already long the 10-year. Let's add the 30-year to this.

**Action to Take: Buy the 20+ Year Treasury ETF (TLT).**

In terms of US stocks, we have a confirmed breakdown from the rising wedge pattern (blue lines) running back to November 2014.



The S&P 500 now seems to be developing a downward channel (green lines). This pattern predicts that the S&P 500 will be moving sharply down to 2025 in the next few weeks. If this happens, the pattern is confirmed. At that point it would be clear that a top of some sort is in and it will be time to open some US-based shorts.

This concludes this week's market update. I'm watching the markets closely and given the speed of things, I'll likely have another update to you towards the end of the week.

Until then...

Best Regards

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Phoenix Capital Research

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