



# PRIVATE WEALTH ADVISORY

A Phoenix Capital Research Publication

## **Special Market Update: 7-6-15**

The EU Crisis has developed a new twist. Greece's referendum was a landslide "NO" to the EU Creditors' latest offer.

We are now at a historic moment.

Previously all negotiations between the EU and various troubled European countries (Spain, Portugal, etc.) have been resolved via a deal that heavily favored the EU... usually featuring additional austerity measures in exchange for extensions on debt repayments.

The negotiations for this process have usually involved the ECB inducing a certain degree of pressure on the specific country's financial system with the idea that at some point the local Government will back down due to the "pain."

Not this time.

This time, Greece decided to go over the cliff despite the ECB all but shutting down the Greek banking system two weeks ago. Despite a bank holiday, capital controls, and more, Greece chose to default on its debts to the IMF.

This card has NEVER been played before. The fact that thus far it has succeeded (the EU is willing to discuss a new deal with Greece despite the fact that Greece is officially in default), represents a significant shift in negotiation power from the creditors to the debtors.

**What's happening today in Greece changes the "template" for all future debt negotiation strategies between the EU and individual EU countries.**

**Remember, NONE of the troubled PIIGS countries have actually lowered their debt levels during the "recovery" of the last two years. All that happened was that their bond yields fell so their debt was more serviceable. So all of them will be entering new debt crises in the coming months.**

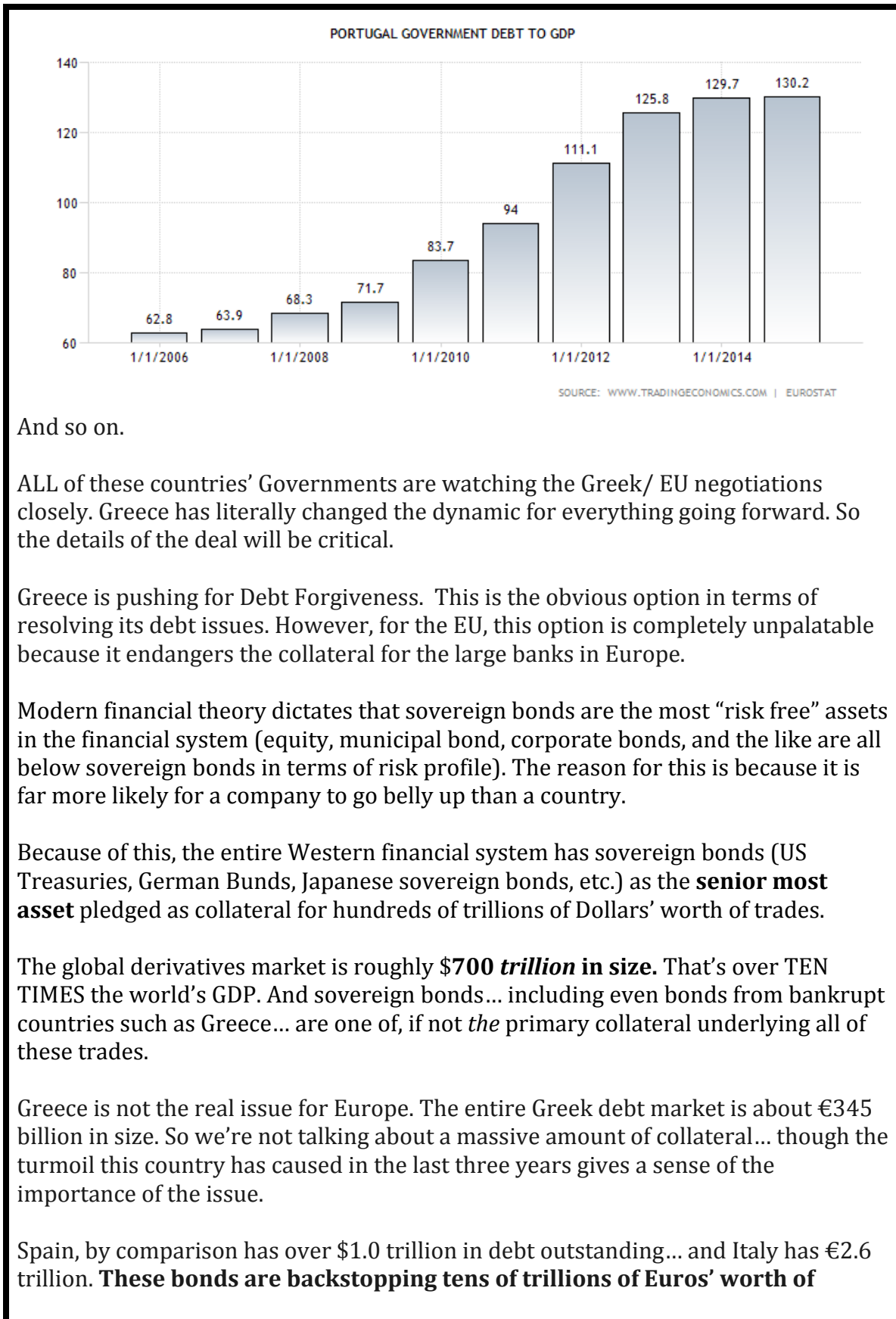
Spain's Debt to GDP has risen from 69% to 98%.



Italy's Debt to GDP has risen from 116% to 132%.



Portugal's has risen from 111% to 130%.



**derivatives trades. A haircut on them would trigger systemic failure in Europe.**

In short, the EU's worst nightmare is a debt haircut or debt forgiveness for Greece because it opens the door to Spain or Italy asking for similar deals down the road. The EU would much prefer a bail-in or some other non-haircut oriented bailout.

How this situation will play out remains to be seen. But I'm watching it closely and will issue updates as things unfold.

On to the markets.

The S&P 500 has been rejected at its lower trendline. We have a confirmed breakdown of the rising wedge we've been following since November.



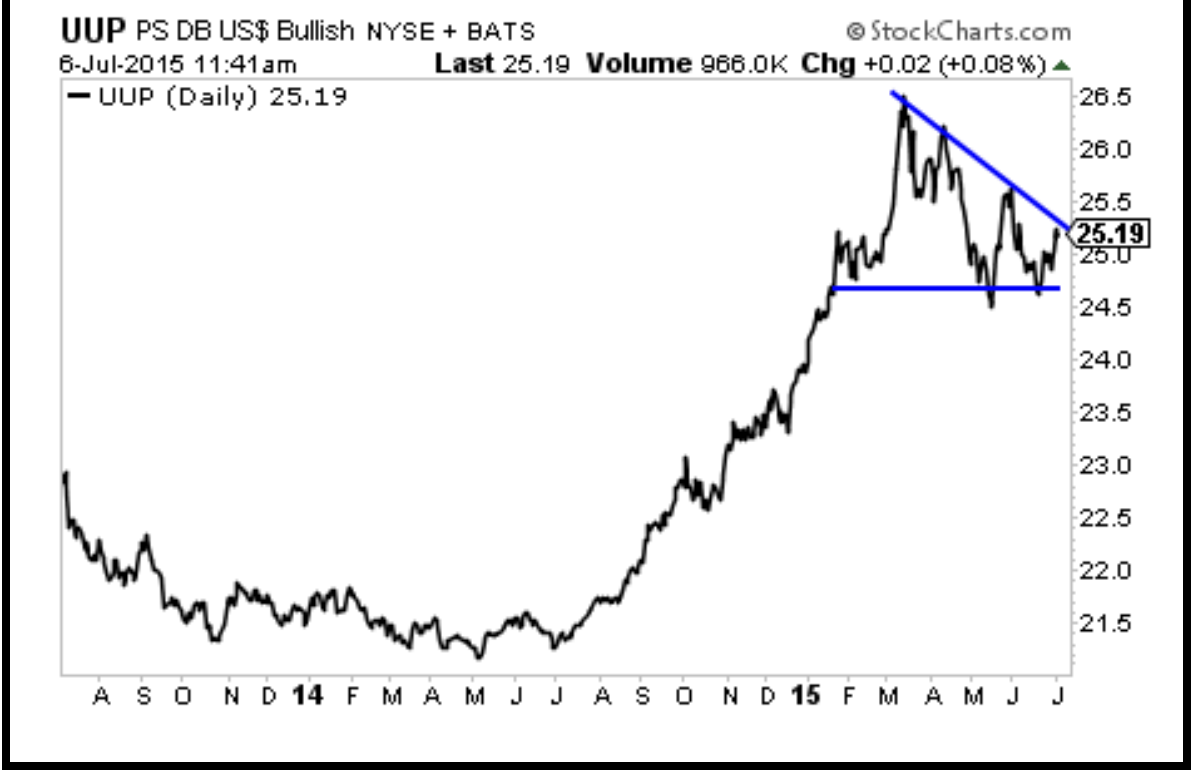
It is HIGHLY likely a short-term top is in place. Whether or not it's THE top remains to be seen.

We're bouncing at support right now. If we take out this line the next real line of support is around 2,005. If that doesn't hold, the door is open to an all out Crash to 1700.



The much bigger story concerns the US Dollar, which is bouncing on Greek situation. With Europe now officially in another round of its Crisis, this should open the door to the next leg up in the US Dollar's bull market.

With that in mind, the greenback is carving out a wedge pattern:



This could break either way. If the breakout happens to the upside, then the next leg up is here and the US Dollar is likely moving into the 110-120 range.



This will kick off a round of serious deleveraging in the world. The Global US Dollar Carry Trade is over \$9 trillion in size.

MANY of the players who have borrowed in US Dollars were hoping that the move from July '15- March '15 was a "one off" event. If the US Dollar begins to strengthen again we'll see widespread liquidations in risk assets, particularly commodities and emerging markets.

Elsewhere in the world, the China stock market bubble has crashed.

**\$SSEC** Shanghai Comp (EOD) INDX

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3-Jul-2015 O 3793.71 H 3927.13 L 3629.56 C 3686.92 Chg -225.85 (-5.77%) ▼

— \$SSEC (Daily) 3686.92 (3 Jul)



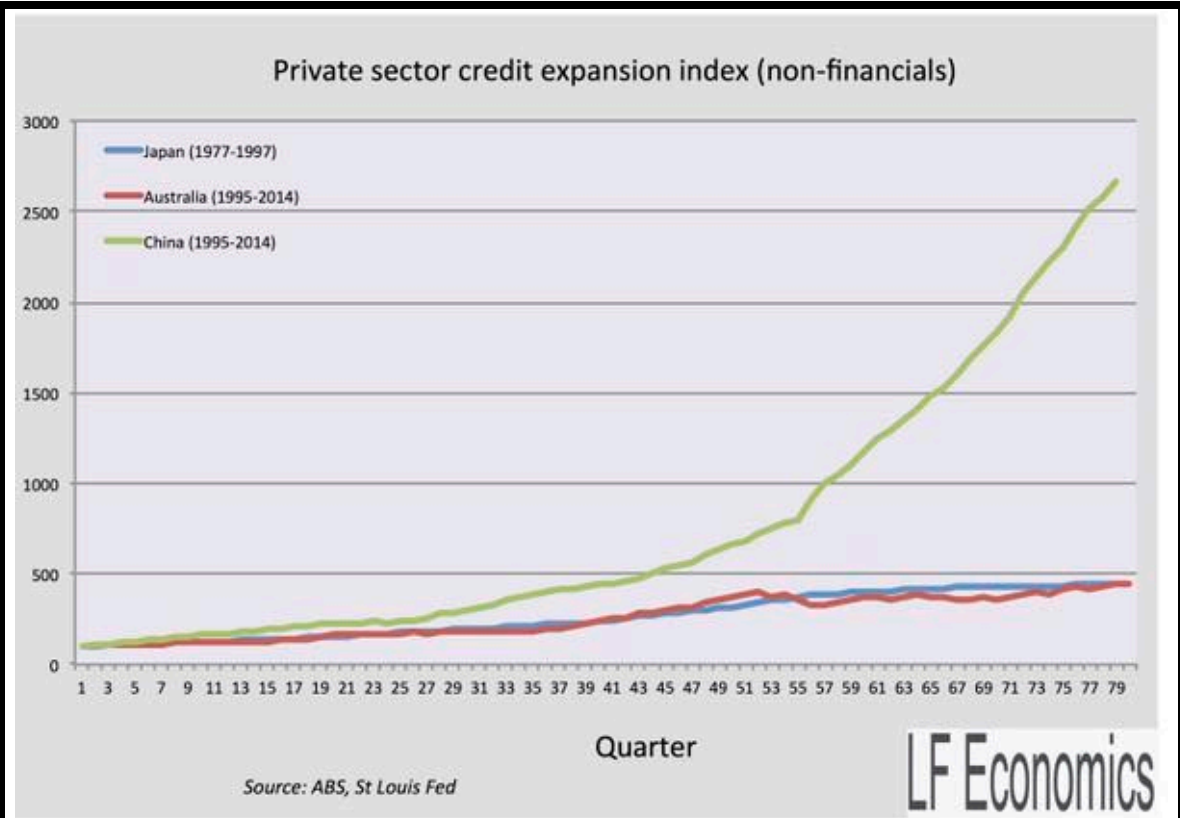
The Chinese Central Bank has completely lost control here. And you can smell the desperation. To wit, over the weekend, the Chinese Central Bank actually stepped in to buy stocks openly on the market.

It also has announced that it will:

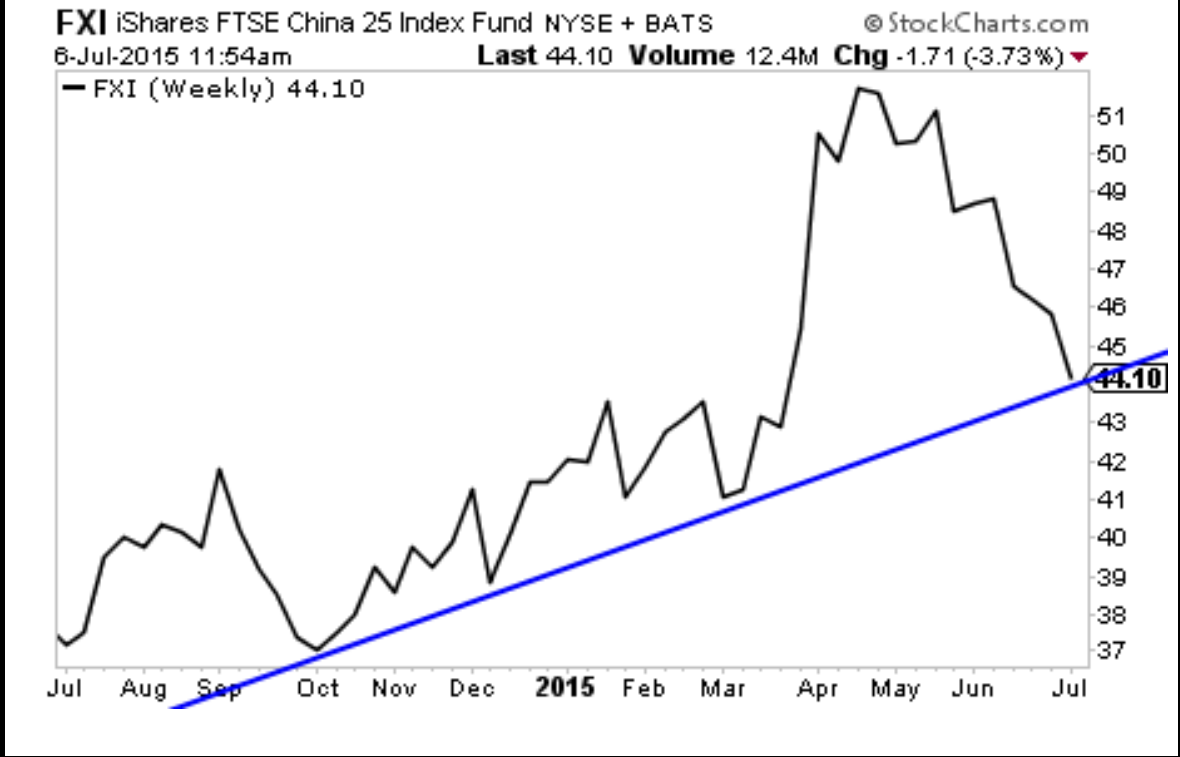
- 1) Halt all IPOs.
- 2) Ban short-selling in some companies.
- 3) Arrest those involved in undermining stock market stability (anyone it wants to arrest).
- 4) Create a “balance fund” backed by the Central Bank, 21 brokerages and the Chinese sovereign wealth fund. The fund will be used as a kind of Plunge Protection Team for China.
- 5) Issue a number of small bailouts of brokerages and financial firms.

All of these moves may cause temporary halts to the collapse, but it’s GAME OVER for China’s stock market. The bubble has burst. And what’s coming will be the Black Swan that 99% of analysts failed to see coming: the systemic collapse of China’s financial system.

Remember the below chart. China’s credit bubble is larger than ANYTHING ever seen in history. The Japanese bubble of the ‘70s and ‘80s was so massive that the land beneath the Japanese Imperial Palace was valued greater than the entire State of California. China’s current bubble (the green bubble) makes that bubble (the blue line) look like nothing.



The collapse in China has only just begun. Indeed, this leg down has only just returned us to the trendline from when the bubble first began:





We've got another 23% to go just to bring us in line with the long-term bull market trendline.



We'll ride this one all the way down. It won't be a straight line. As I've noted in earlier issues, when bubbles burst there is a lot of sharp collapses and relief rallies as it deflates.

Here's the Tech Bubble from the NASDAQ:



As you can see, there were many rallies as the bubble burst. It was a wild ride, but once the bubble burst the overall trend was DOWN.

These are the two big issues in the financial system today: Greece and China. Both are US Dollar positive and will involve deflation/ deleveraging... precisely what are our portfolio is designed to profit from.

I'll touch base with another market update later this week as things develop.

Until then...

Best Regards

Graham Summers  
Chief Market Strategist  
Phoenix Capital Research

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