PRIVATE WEALTH ADVISORY
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Weekly Market Update: 9/22/15

Dear Subscribers

Because this month has five Wednesdays in it, this is a short weekly market update. The longer monthly issue of ***Private Wealth Advisory*** will go out next week. My apologies for any confusion this might have caused.

The single most important chart in the world today is the US Dollar/ Euro pair (more on this later). Currently we are in a falling bullish wedge pattern. When this breaks out to the upside, the next round of REAL deflation will hit the markets.

First, a bit of context…

As you know, I believe the US Dollar has entered a multi-year bull market. The biggest, most significant consequences of this market are:

1) A crisis in Emerging Market currencies and stocks (many firms in these economies borrow in US Dollars).

2) A collapse in US corporate revenues (over 30% of annual revenues come from abroad) and US profits (higher debt servicing costs).

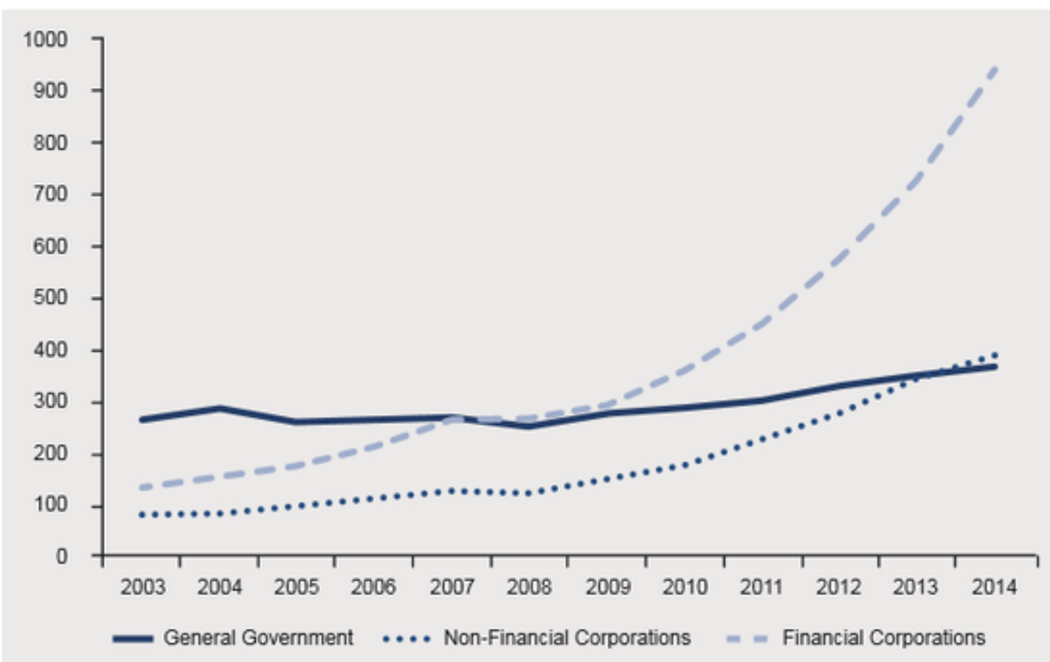
3) An end to the 30+ year credit cycle/ Bond Bubble bursting.

We are well into #1. I believe #2 has only just begun. And #3 is on the way.

Regarding #1, the Emerging Market space has been on a massive US Dollar borrowing binge since 2008. Put another way, Emerging Market economies/ corporations have been issuing bonds at a rapid pace. **Much of these bonds have been denominated in US Dollars.**

When you borrow in US Dollars you are effectively shorting US Dollars against your own currency. This means that if and when the US Dollar strengthens against your own currency, you blow up/ default very quickly.

Figure 1: International Bond Issuance by Emerging Market Economies



Note: Emerging market includes Argentina, Brazil, Chile, China, Colombia, India, Indonesia, Israel, Korea, Malaysia, Mexico, Philippines, South Africa, Thailand, and Turkey. Financial corporations include banks and other financial corporations.
Source: BIS.

When the US Dollar bull market began in July 2014, the first wave of defaults hit as the US Dollar carry trade began to blow up. This, combined with the collapse in commodities (many Emerging Market economies are based on commodities) resulted in a massive amount of money fleeing Emerging Markets.

When this happened, Emerging Market Central Banks began to burn through their reserves in an effort to stabilize their currencies against the US dollar. The biggest example of this is China, which has burned through hundreds of billions of Dollars, **but across the board Emerging Markets have spent roughly $1 TRILLION in foreign exchange reserves in the last year.**

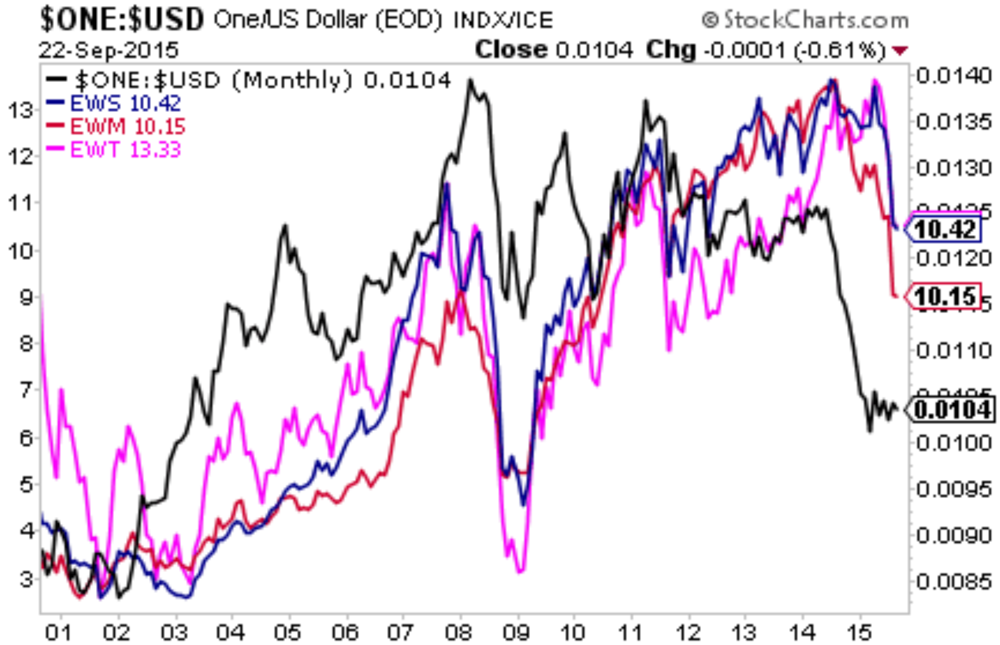
This is resulting in a sell-off in Emerging Market bonds. Indeed, the Emerging Market bond index is close to breaking its six-year trendline:

When this line breaks, the bull market in Emerging Market bonds is over and the $9 trillion US Dollar carry trade will implode bringing another round of deflation.

As far as Emerging Market *stocks* are concerned, the US Dollar rally is CRUSHING them across the board. **The biggest problems are in Asia particularly countries that do not have massive foreign reserves to defend their currencies.**

The below chart shows an inverted US Dollar (meaning when the US Dollar strengthens, the black line falls) against Singapore's (blue line), Malaysia's, (red line) and Taiwan's (pink line) stock markets.

As you can see, the US dollar strength is leading all of them down. And there's still a LONG ways to go!



On an individualized basis, Singapore's and Malaysia's stock market bounces look to be complete. The next leg down is coming soon.

Action to take: Short the Singapore ETF (EWS).

Action to take: Short the Malaysia ETF (EWM).

Across the board for Emerging Markets, we are right at THE line for the bull market begun 1999. I think there's a good chance we break through this shortly and begin to work our way down to 15 in the coming months. However, it's too soon to go short just yet.

Outside of Asia, the single worst Emerging Market in the world is Brazil right now.

The Brazilian economy is closely aligned with commodities, which are taking it on the chin due to the US Dollar rally. Throw in an inordinate amount of Government corruption and crumbling infrastructure and Brazil is an absolute basket case.

The Bovespa (the Brazilian stock market) has already taken out its bull market trendline.

We'll be falling for some time here. Let's play for this with the **UltraShort Brazil ETF (BZQ).**

As far as the developed world is concerned, corporate revenues and profits have already taken a hit courtesy of the US Dollar's strength (2014 market the first time annual revenues and profits fell since 2009). However, developed world stocks are remaining relatively buoyant because of the Euro.

The Euro comprises 56% of the value of the basket of currencies against which the US Dollar trades. So if the Euro is strong, the Dollar will feel "weak" resulting in capital moving into risk assets like stocks.

Going into the start of 2015, being long the US Dollar was the most popular trade **in the world.** On top of this, the Euro was severely oversold due to traders front-running the ECB's efforts to devalue the currency.

As a result of this lopsidedness, 2015 has been something of a breather for the US Dollar/ Euro pair trades as traders cover their shorts in Euros and closed out their longs in the US Dollar.

However, the US Dollar/ Euro pair is now in a very clear bullish wedge pattern. Whenever we breakout to the upside of this pattern, the **next leg up for the US Dollar bull market will begin**.

At that point, the REAL fireworks will hit the developed world. As you can see, it's nearly here: I estimate we should hit lift-off in the next three months or so.

When this happens the financial markets will be hit with another round of deflation. This will be negative for Emerging Markets and commodities (including Gold) and even US stocks. It will be bullish for US bonds as well as the US Dollar. I am now positioning our portfolio to profit from this.

This concludes this Weekly Market Update. I'm watching the markets closely and will issue updates as needed. Barring any new developments, you'll next hear from me next week in our longer monthly issue of ***Private Wealth Advisory.***

Until then…

Best Regards

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