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Volume 14 Issue 19 – March 29, 2015

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Bonds


500
SERIES EE
INTEREST CEASES 30 YEARS
FROM ISSUE DATE
03
2000
ISSUE DATE

- *Last week was again all about the US Federal Reserve & what they plan to do regarding rate hikes*
- *On Friday, Fed Head Janet Yellen said the Fed planned to raise interest rates more slowly than in past recoveries because of the unusually fragile condition of the American economy*
- *The Fed has kept short-term rates at near **0%** for the past 6 years, trying to 'encourage' banks to lend to businesses & consumers*
- *What they do not seem to understand is that businesses & consumers do not want to take out loans when they are not optimistic about the economy*

- *The key numbers the Fed is looking at now are employment & wage growth*
- *Too often the mass media spouts out the declining unemployment numbers*
- *But the reality is that most of these new jobs are* ***part-time***
- *What we really need to see is <u>wage growth</u>*
- *We have received many queries as to why the US Federal Reserve would consider raising rates, especially given that already this year, 24 countries have lowered their rates*
- *The reality is that the Fed is looking for some ammunition for the future*

- *We believe that the Fed wants to raise rates now, so that they have room to lower them when deflation hits America*
- *As we head into the last week of the 1st qtr of 2015, things are going to start to really ramp up*
- *We want our subscribers to understand how **volatile** the markets are going to become*
- *There are going to be a number of 'fake out' moves, which will throw the mass investors totally off track*
- *Although the Fed is talking about raising short-term rates, we will be watching for a correction in the equities to send capital flowing into bonds… short-term*
- *Ultimately, a rush into bonds will trigger the **bond bubble** that we are calling for later this year*

- *As we say, things are going to start to get wild as the year progresses*
- *The mass media will declare that the $US rally is over*
- *The mass media will declare that the equity bull market is over*
- *The mass investors will follow these leads & get taken to the cleaners*
- *The reason that we have expanded our weekly issues is to give our readers current information*
- *In the next 5 years, we are going to see **massive changes***
- *Beginning with a Sovereign Debt default, likely to start late this year*
- *Hang on to your hat & stay tuned!*

- *US 30 year bonds seeing capital rush in*
- *This is setting up perfectly to our model's forecast of a coming bond bubble crash*

- *We continue to draw your attention to the chart on the next page*
- *It shows the spread in yields of all the Euro bonds vs the US bonds*
- *Other than Greece, every Euro 10 year gov't bond is paying a lower yield than the US 10 year*
- ***This trend will change soon***
- *The first sign of a Sovereign Debt Default will send bond holders running to safety, out of Euro bonds*

Country	Latest yield	Spread vs bund	Spread vs T-bonds
Australia	2.41%	+2.20	+0.45
Austria	0.37%	+0.16	-1.59
Belgium	0.48%	+0.28	-1.48
Canada	1.38%	+1.17	-0.58
Denmark	0.33%	+0.12	-1.63
Finland	0.36%	+0.15	-1.60
France	0.51%	+0.30	-1.45
Germany	0.21%	--	-1.75
Greece	11.09%	+10.88	+9.13
Ireland	0.80%	+0.59	-1.16
Italy	1.35%	+1.14	-0.61
Japan	0.38%	+0.17	-1.58
Netherlands	0.30%	+0.09	-1.66
New Zealand	3.29%	+3.08	+1.33
Portugal	1.76%	+1.55	-0.20
Spain	1.32%	+1.11	-0.64
Sweden	0.39%	+0.19	-1.57
Switzerland	-0.04 %	-0.24	-1.99
UK	1.54%	+1.34	-0.42
US	1.96%	+1.75	--

- *Later this year we expect to issue a BUY signal in our **Short US bond trade***
- *Remember, these are Exchange Traded Funds (ETFs) that we use, so no subscriber needs to trade in options, or futures*
- *These ETFs trade just like stocks*
- *We will issue that BUY signal when triggered by our model*
- ***We repeat:** European bonds are <u>extremely bloated here</u>*
- *If **inflation** were to actually materialize, <u>Euro bonds would implode</u>!*
- *We continue to warn…**stay away from long-term Euro bonds!***

Equity Markets

- *The S&P 500 remains in its 3 year uptrend channel*
- *Near-term support sits @ 1990*
- *If 1990 is breached, then the next support is @ 1862 (dotted green line), the previous low*

- ***We repeat:***
- ***Longer-term*** *we are still very <u>bullish for US equities</u>*
- *There will be corrections, but overall we expect to see* ***global capital flow into US equities***
- *As the problems in Europe ramp up, foreign investors will move their capital to the deepest capital markets in the world – the US equities, especially large cap stocks*
- *Big American corporations, especially those who derive most of their revenue <u>domestically</u>, will thrive*

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Canadian market testing near-term support here

The Australian market trying to form a base above green support level

German market levels off, making lower highs & lower lows, after strong run since October

The French CAC40 also retreating after big rally

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Spanish IBEX index cooling off after big rally
Could be a temporary high

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Italian stocks testing near-term support

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Continued huge volatility in London FTSE
Big up & down moves each week

- *For the past few weeks we have been warning of a break down in India's Sensex index*
- *Remember, emerging market companies have a great deal of $US denominated debt to pay off*

Japanese Nikkei fades with near-term rally in Yen

- The Shanghai index continues to be strong
- Remember, China has a lot of room to add stimulus, <u>without going into debt</u>
- That gives it a big advantage going forward

Global Currencies

- *As we have been highlighting in recent weeks, while the US Fed is contemplating raising interest rates, **24 countries** have now lowered interest rates, to devalue their domestic currency*
- *In 2002, we forecast this exact situation when we called for the coming **"great race to the bottom currency game"***
  - *Today, the US is the only country contemplating raising rates*
  - *This will continue to result in the $USD getting stronger against all other currencies*
- *But as we have been warning, the $US was overbought & due for a correction*

- *We are already starting to hear mass media talking heads proclaiming that the $US rally is over*
- *A sizable correction in the $US would provide us with another great opportunity to again go long the $US, and short the Euro & Yen*

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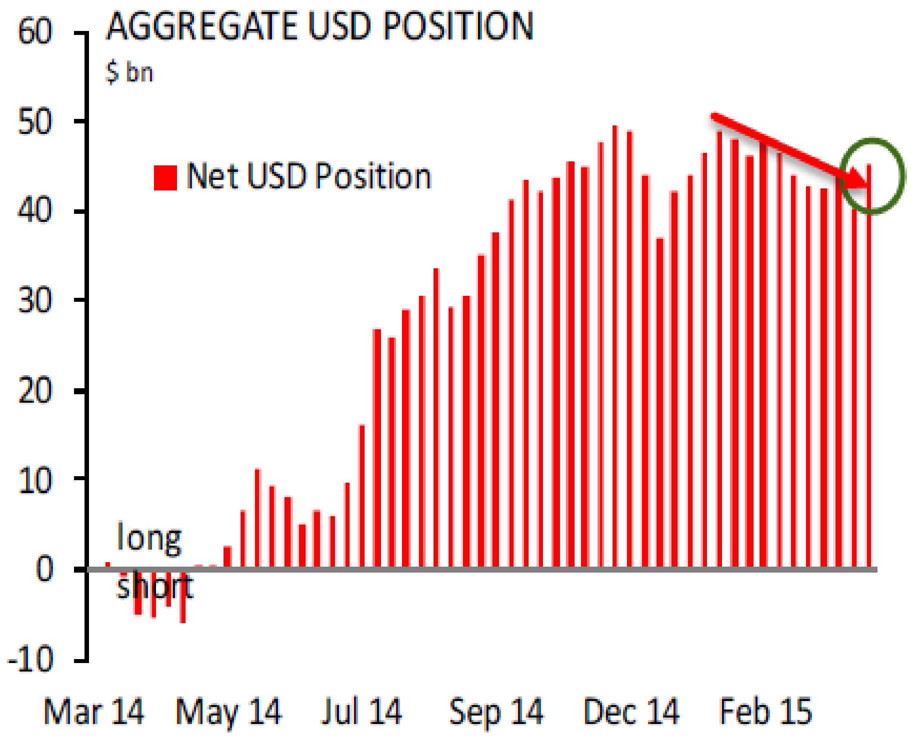
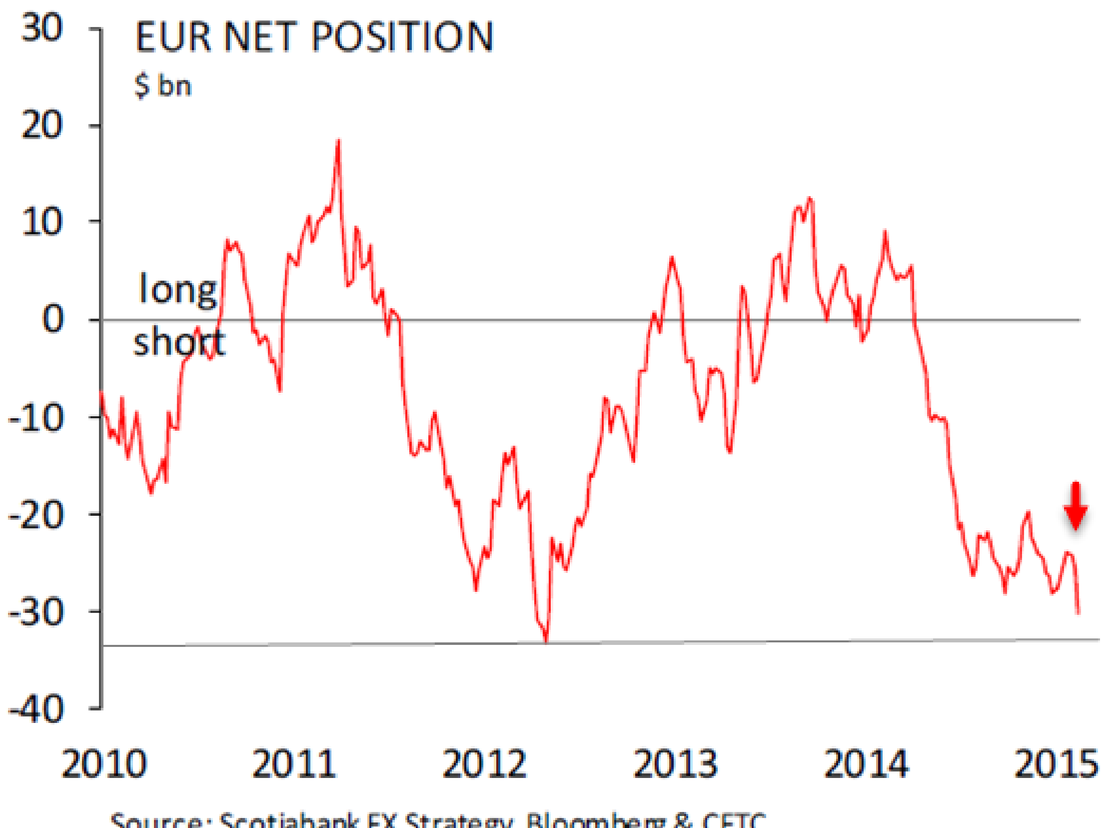
- *Commitment of Trader (COT) data is up to date as of Tues each week*
- *In last week's data, $US position jumped, **reversing** the 2 previous weeks' trend*



Source: Scotiabank FX Strategy, Bloomberg & CFTC

- *The $US has near-term support @ the current level of 97.50*
- *Next support is @ 94.95*

- *For the Euro, recent COT data shows that short traders added $4.5 bln to their bearish position*
- *The is the largest short position since 2012*



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- We booked **gains of 55%,** on half of our short Euro trade
- Hopefully, the Euro can rally up to the **115** (black dotted line), or even **117.80** (red line) resistance
- These would give good entry points for additional short positions

- Australian dollar continues to try to form a base here
- Resistance @ 79

- *Canadian dollar continues its struggles*
- *Has not been able to break resistance @ 80*

British Pound also struggles to form a base

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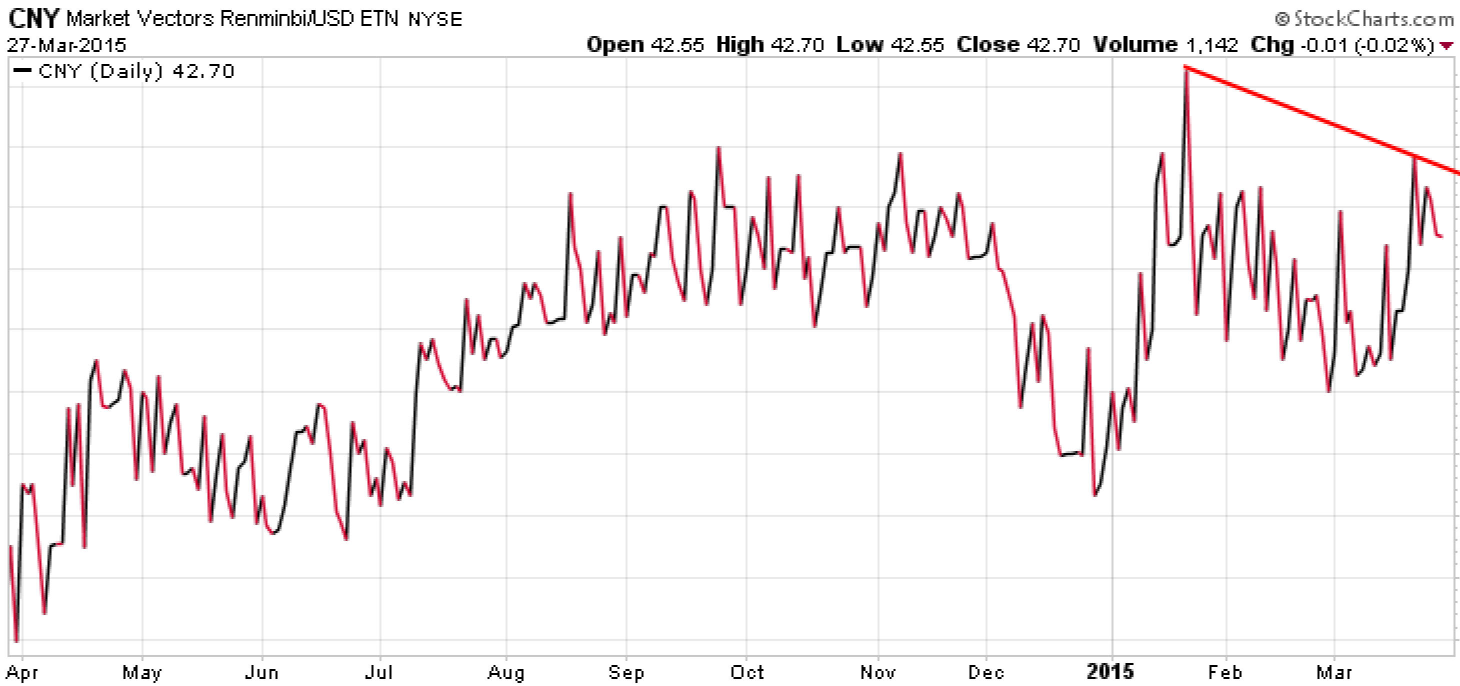
- *Indian Rupee still in wedge pattern*
- *Watching to see if it breaks down below near-term low*

- *Singapore dollar remains very weak*
- *New lows likely*

Although the Chinese central bank (PBOC) likes a weak Yuan for exports, they want it to be stable for international transactions



- *The Yen continues recent rally*
- *Again, we see this as simply a correction in a bear market trend*

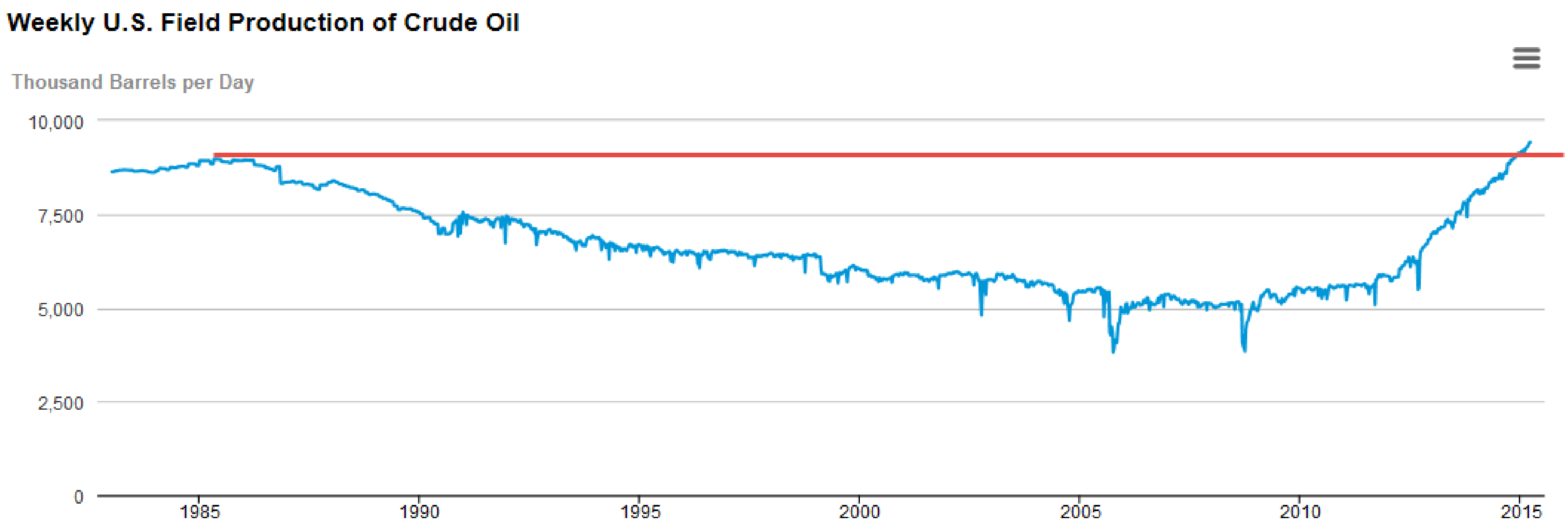
- *Do not lose sight of our long-term view with currencies:*
  - *Strong $US through to 2017*
  - *Weak Euro*
  - *Weak Yen*
- *The theme is that global capital will continue to flow to the $US, via bonds (originally due to their higher yield than other countries), but ultimately via equity markets*
- *Remember, to invest in US equities, foreign investors must purchase $US*

Key points:

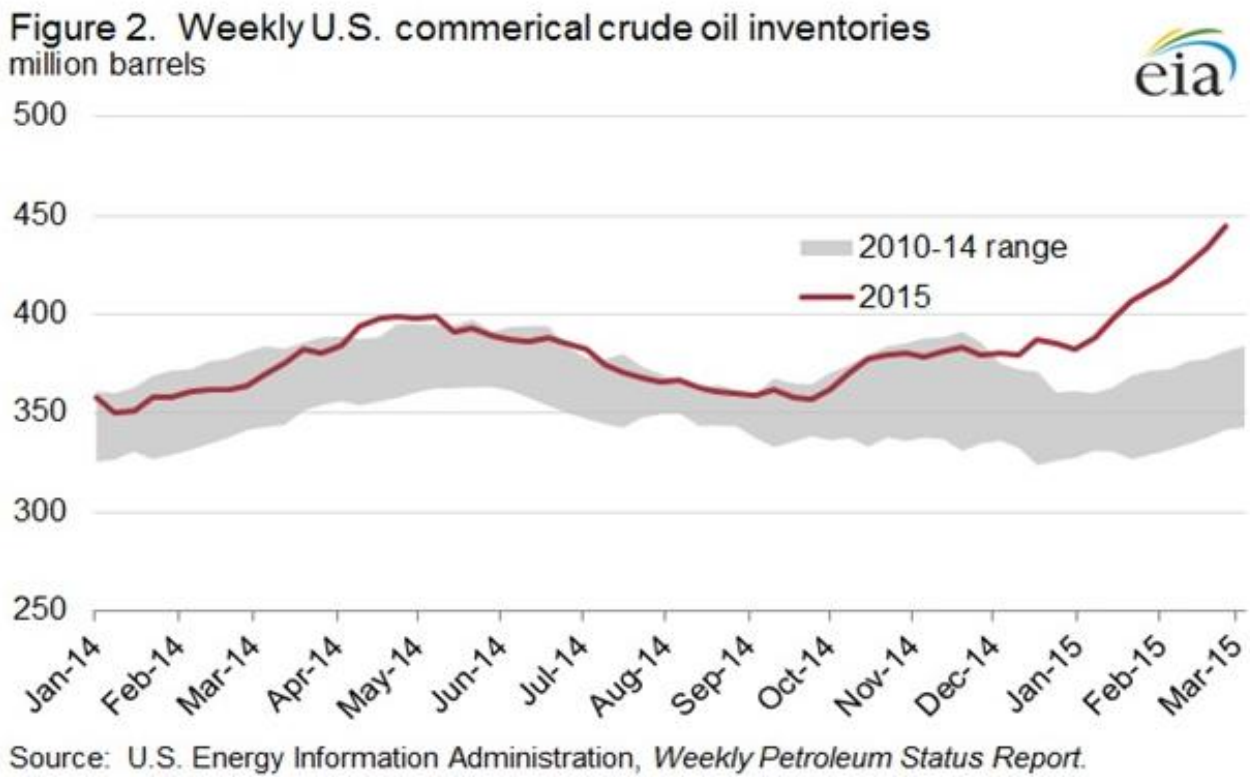
1. *The $US will rise due to rising global tensions*
2. *Although the US has huge debt problems, these are not on the front burner; Europe & Japan are the near-term trouble spots*
3. *Ultimately, a strong $US will cause great pain to emerging markets, due to their $US denominated debt*
4. *A strong US dollar will also cause great pain to the US economy, as US exports become <u>too expensive</u>*
5. *This will eventually be a crushing blow to the US economy, resulting in **deflation** & leading to a **global recession***
6. *But for the next 2 years, <u>the trend is for a strong $US</u>*

Oil

- *US oil production increased another **3K** barrels per day in the most recent week's data*
- *That took US production to another all-time high @ **9.422 mb***



As we noted last week, inventories in the United States have hit the highest level since '82 & they are headed higher, at a record pace.



- *We repeat:*
- *Look for one more **major decline** in the price of oil*
- *Bottoms typically form based on **fear**, not **greed***
- *With oil storage facilities getting full, oil prices are going to take another big hit*
- *Our models are calling for **$32** to be hit soon & a possible low of sub $20*
- *Last week oil got a boost from the Saudi's bombing in Yemen, and that could certainly give a <u>short-term</u> boost to oil prices*

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Near-term, a break above 54.40 would be bullish for oil

- *If oil breaks down below **$40,** then the **$32** low from 2009 is in sight*
- *If $32 support holds, we are looking for a rather quick rebound, up to the **$60 range** in late June, early July*
- *At that point, we may see yet <u>another decline</u>, even a test below that $32 support, before we get oil back on a strong bull run*
- *We will keep a close eye on these developments*

Gold

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- *Gold has really done nothing since November, trading in a $150 range*
- *Last week we said that the current rally is another short-term rebound, rather than the start of the next bull run*

- *If we get a nice correction in the $US, then gold, silver and most commodities could see a nice bounce here*
- *But understand that our models show that we are much more likely to see **sub 1100**, before a break **above 1300***
- *Remember, in April 2013, we targeted 1070-1090 as the low*
- *We have also published more recent work showing that a **sub 1000** gold is very possible*
- *We have a secondary target of **875-950***
- *If gold surprises and breaks its trend, we will respond*
- *But today, we are not expecting any real surprises*

- *As we have been saying for a while now, gold's day will come, but it first needs to flush out the die-hard gold bugs*
- *Ultimately,* ***gold will rise along with the $USD***
- *This will occur when the level of confidence in governments breaks down globally*
- *It will happen when investors no longer trust governments to make good on their debts*
- *Gold will rise as* ***capital flows*** *out of public investments (gov't bonds) & into private investments (stocks, commodities, precious metals etc)*
- *It is all about timing*

Template review

Conservative Template

*BX up **22.06%** since Nov 9'14*

Dividend = 8.21%

Conservative Template

*PBP up **.48%** since Nov 9'14*

Dividend = 4.93%

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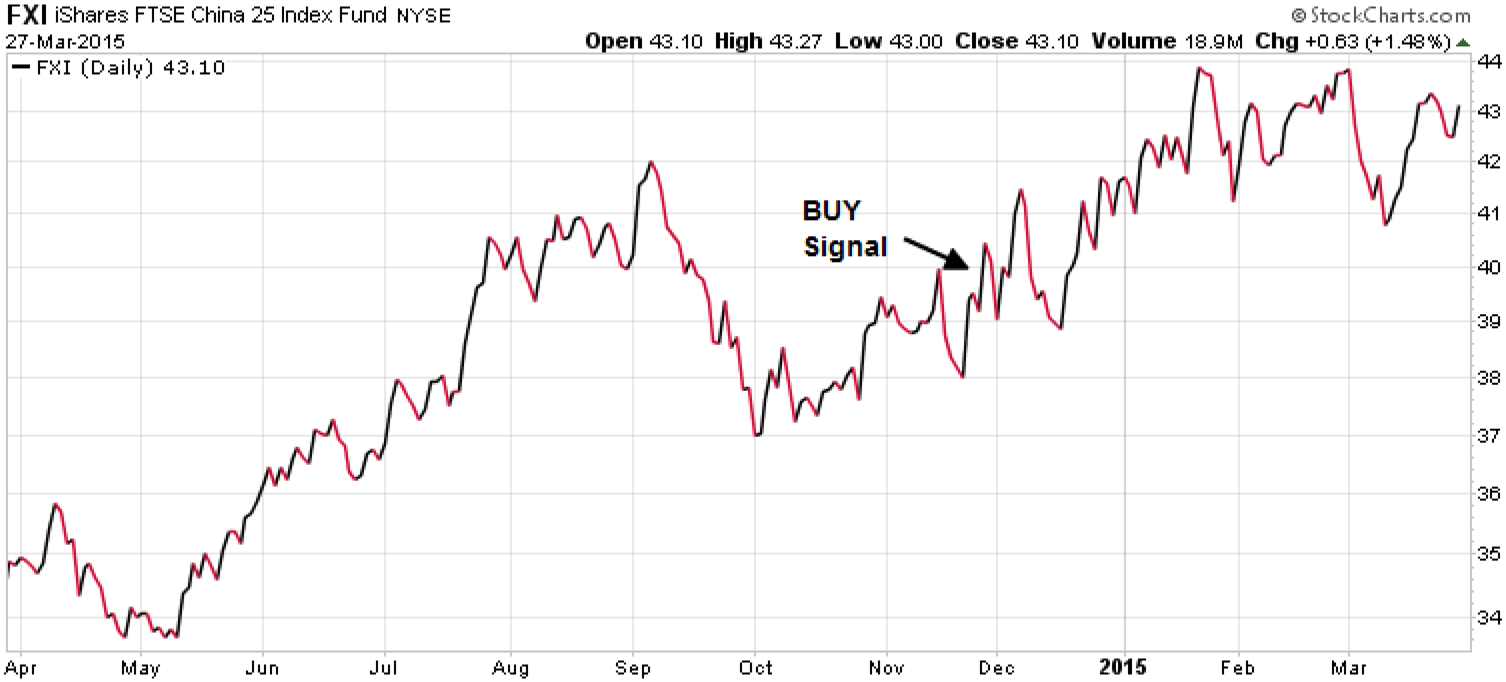
*FXI up **7.99** since Nov 23'14*

Dividend = 2.39%



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Aggressive Template

*UUP up **19.02%** since Feb 17'14*

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EUO up ***56.44%*** *since April 27'14*

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QQQ down ***1.30%*** *since Feb 15'15*

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Aggressive Template

*YCS down **2.65%** since Mar 8'15*

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Open Positions

29-Mar-15

1. Conservative - hold for long term growth

Notes	Stock	Symbol	Date Rec	Price Rec	Current Price	$ gain	% gain	Action	Sell Stop
	Blackstone Group	BX.NYSE	Nov 9/14	31.14	38.01	6.87	22.06%	Hold	35.90
	PS S&P Buy/write	PBP.NYSE	Nov 9/14	20.80	20.90	0.10	0.48%	Hold	19.90
	iShares China ETF	FXI.NYSE	Nov 23/14	39.91	43.10	3.19	7.99%	Hold	37.50
						avg	11.27%		

2. Moderate - higher risk

Notes	Stock	Symbol	Date Rec	Price Rec	Current	$ gain	% gain	Action	Sell Stop
						avg	0.00%		

3. Aggressive - shorter term - high risk

Notes	Stock	Symbol	Date Rec	Price Rec	Current Price	$ gain	% gain	Action	Sell Stop
	P/Share US Dollar Bull	UUP.NYSE	Feb 17/13	21.56	25.66	4.10	19.02%	Hold	24.50
Sold 50%	PS Ultra Short Euro	EUO.NYSE	April 27/14	16.76	26.22	9.46	56.44%	Hold	26.00
	PS Ultr long QQQ	QQQ.NASDAQ	Feb 15/15	106.91	105.52	-1.39	-1.30%	Hold	98.35
	PS Ultra Short Yen	YCS.NYSE	Mar 8/15	90.22	87.83	-2.39	-2.65%	Hold	84.50
						avg	17.88%		