Market Musings

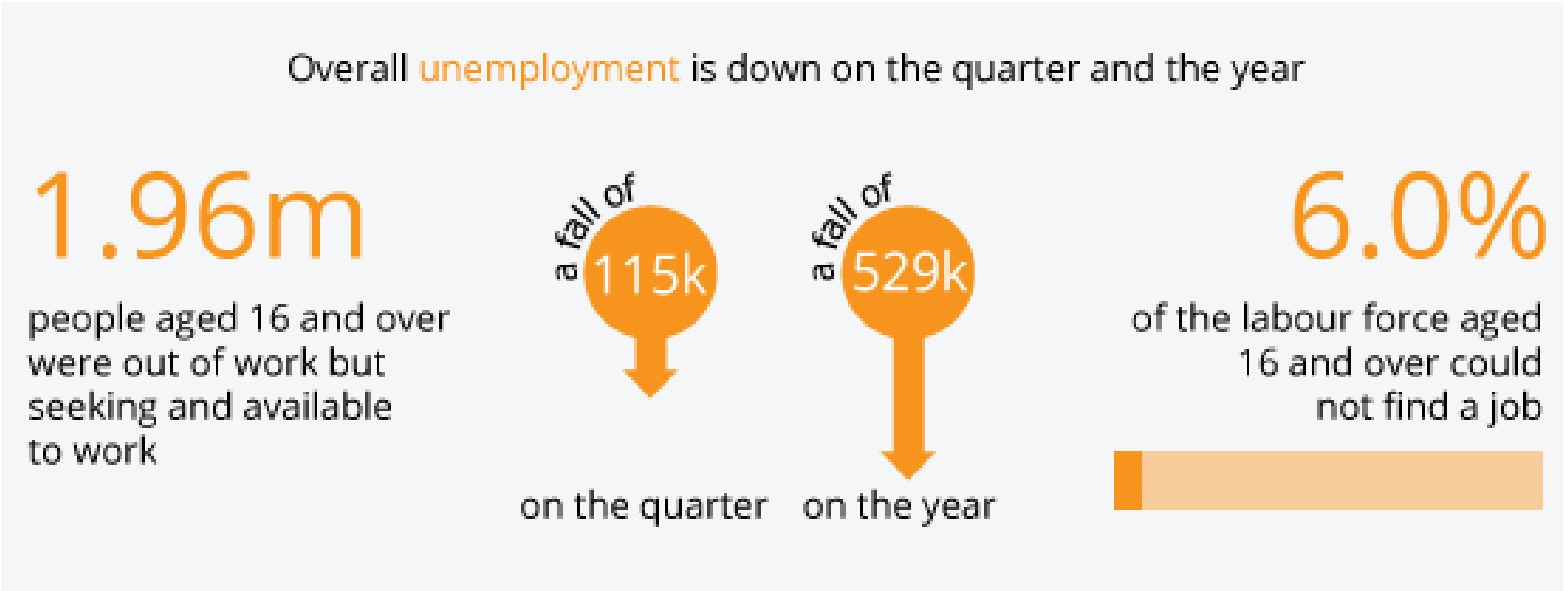
November 13, 2014

Topics include:

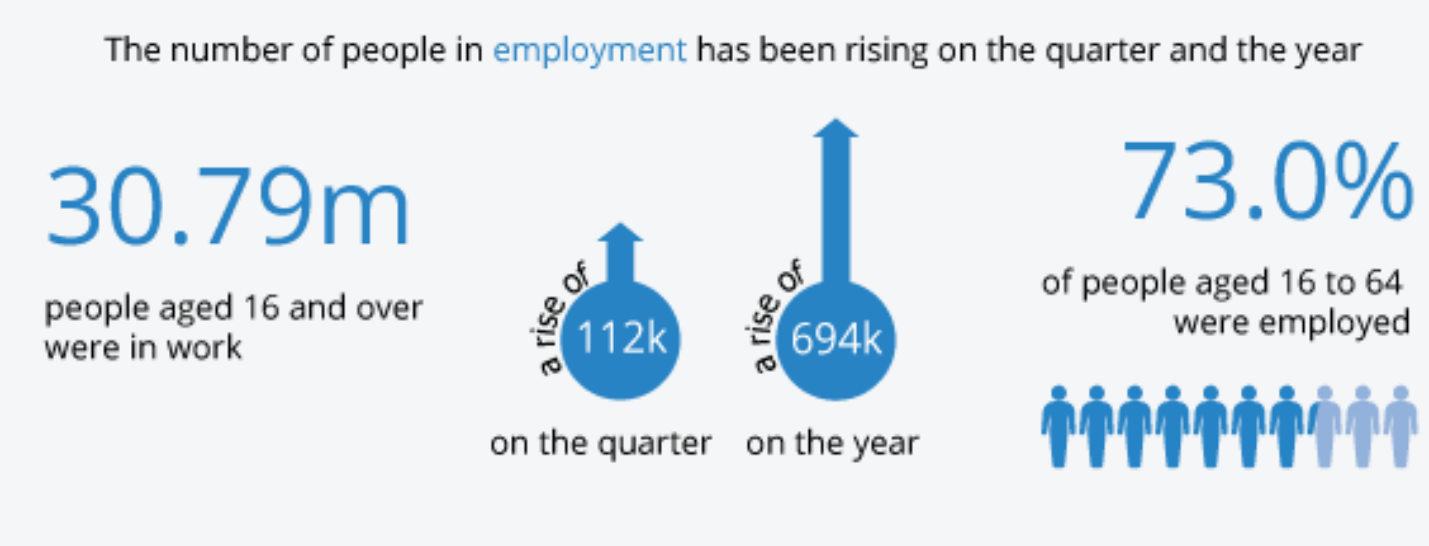
- *UK economy…is it improving?*
- *How Empires crumble*
- *Watch the Global Flow of Capital*
- *War Tensions Rising*

UK Economy

- *UK unemployment **fell** by **115,000** between July and September to 1.96 million, (Office for National Statistics)*
- *It was the 18th consecutive fall in the total*
- ***529K** fewer unemployed for the year*
- *Unemployment rate @ **6.0%***



- *Number of **employed** up to a new <u>record high</u> of **30.79 million***
  - *That's up **505,000** for the year-to-date*
    - *And up **1.78** million since 2009 low*
  - ***73%** of those aged 16-64 were <u>employed</u>*



- *UK wage reflation picks up & more importantly, it is broad based over multiple sectors*
- *The Private Sector & Services are leading the pack, with Services up double since June*

UK Earnings 3 Month Year-Year % Change

	September	August	July	June
Private Sector	1.6%	1.2%	1.1%	0.9%
Retail	0.6%	0.5%	1.1%	1.7%
Services	1.2%	0.8%	0.7%	0.6%
Manufacturing	1.8%	1.7%	1.7%	1.9%
Finance	1.2%	0.4%	(-)0.3%	(-)0.6%
Construction	1.3%	1.0%	0.4%	(-)1.0%

- *But, while the employment numbers looked good, the inflation numbers overrode the unemployment #s. From the Bank of England….*

*"The UK domestic expansion has continued largely as expected, but the global backdrop has weakened. Some asset and commodity prices have fallen, as have market interest rates. CPI inflation has fallen to **1.2%**, in part reflecting falls in energy, food and other import prices, and it is more likely than not that CPI inflation will temporarily fall below 1% at some point during the next six months."*

"Wage and unit labor cost growth remain weak"

"CPI inflation has fallen more sharply than expected over the past three months, reaching 1.2% in September. The low level of inflation in part reflects global developments: commodity prices have fallen and import prices more broadly have declined following the previous appreciation in the sterling exchange rate. But domestic price pressures — in particular, unit labor cost growth — also remain low. Based on the same conditioning assumptions, the Committee judges that inflation will remain subdued for the next year before higher labor cost growth and a modest rise in global inflation return it to the target."

"Relative to expectations in August, inflation is projected to be lower in the near term"

*"The UK expansion has continued, but the global backdrop has weakened, particularly in the euro area. That weakening was associated with falls in market interest rate expectations. The projections in this Report are therefore conditioned on a notably **lower path for Bank Rate** than those in August."*

- *Note on chart below, in August the BOE forecast rates meeting targeted inflation (2%) in 2016 Q4, but the November forecast doesn't see it happening before the end of 2017*

Per cent

	2014	2015				2016				2017			
	Q4[b]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
November	0.4	0.5	0.6	0.7	0.8	1.0	1.1	1.2	1.4	1.5	1.6	1.7	1.7
August	0.6	0.7	0.9	1.1	1.3	1.5	1.7	1.9	2.0	2.1	2.2	2.3	

- *In addition to delaying any rate hikes, the BOE expects that UK households will continue to draw down savings to support spending, until wage reflation exceeds **2%***

*"The household saving rate is projected to fall sharply in the near term as households continue to increase spending steadily ahead of an expected recovery in income growth. It drifts down further over the forecast period, and in 2017 is expected to be **4%**, which would be its lowest annual rate since 1988 on the new ONS definition. That lower household saving is consistent with the continued low level of interest rates."*

- *Notwithstanding the relatively good employment data, the currency markets clobbered the Pound further, on the BOE's very **negative** inflation forecasts*

How Empires Crumble

- *The US was the focal point of the post WWll "world order"*
- *Today we are seeing more and more of the West's adversaries coordinate against the US in a "my enemy's enemy, is my friend" viewpoint*
- *We need to look behind the curtain to determine why the West, and particularly the US continues to screw up foreign affairs*
- *Through history, when empires begin to crumble, when they run out of other people's money, they always look to raise more and more taxes & fees*
- *As we are approaching a cycle change, the Western politicians are taking these same actions*

- *When a crisis is around the corner, those on the inside, those in the know, start thinking about protecting **themselves**, rather than protecting the **masses***
- *The public message says one thing, while those behind the curtain are working toward profiting from the crisis to come*
- *Our big concern is that today we have a meltdown occurring in **Europe***
- *A similar story in **Japan***
- *Even **China** is seeing its growth sharply decline*
- *The **US** is growing, but very slowly, it has not come back to pre-crash levels*

- *While all these economies are suffering, the <u>politicians & bureaucrats</u> continue to do "**the same thing over and over again, expecting different results**" (Einstein's definition of insanity)*
- *They continue to spend enormous amounts of money that <u>they do not have</u>*
- *They continue to run up bigger and bigger **deficits & debts** that <u>cannot</u> be paid back*
- *The result is massive **unemployment** problems in Europe, especially for the <u>youth</u>*
- *Oceans of **unfunded promises** for Pensions, Social Security & Medicare that will either be rolled back dramatically, or scrapped altogether*

- *Today, the curtain is being pulled back, and the masses are starting to realize that these politicians & bureaucrats have created a situation that cannot end nicely*
- *The masses are now realizing that it is the politicians who have created this massive economic disaster & that they have* ***no Plan 'B'***
- *All debts either get paid off or are <u>defaulted</u> on*
- *When the masses realize that these debts are <u>unsustainable</u> & cannot be paid off, then we will see a* ***Sovereign Debt crisis***
- *We saw with Greece, how when a default seemed possible, soon investors looked around and said "Greece is not alone here, there are many other countries in the same boat"*

- *This is how a **contagion** occurs*
- *It may start with Greece, then spread to Spain, Italy, &/or Portugal*
- *What about France, even Germany?*
- *We have reminded readers many times, this is what happened in 1929. In 1929 Europe had…*
  - *High unemployment*
  - *Trade wars*
  - *Higher taxes*
  - *and then Sovereign Debt Default in **ALL** of the **17 major countries** in Europe*
- *We will see this spread to **Japan** & ultimately to the **US***

- *When does all this doom & gloom happen?*
- *Right now we are in a global **deflationary** period*
- *Gov'ts are massively raising taxes, which is adding to the deflationary forces by taking $$ away from the people*
- *We are already starting to see where gov't bond auctions are **not** being well bid, there aren't a lot of buyers*
- *We saw this in **France**, **Russia**, **Greece** & even **China***
- *Watch for when the first gov't cannot sell its debt*
- *These gov'ts never pay off the debt, they just keep re-issuing more*
- *At a point, we will see a **bond bubble**, which will push up inflation, which will exacerbate the bond bubble*

Watch the Global Flow of Capital

- *Most investors have no idea what is happening **globally***
- *Most US investors, worry about the US economy right now, but have no idea how all of the major markets are inter-connected, and that compared to most, the US is the '**least ugly**'*
- *Japan has massively ramped up their QE program to a level that is over **double** what the US Fed did, in relative terms*
  - *The ECB will feel forced to follow that insane lead*

- *As the **confidence** in governments continues to decline, we will see more and more capital flow **out of public** investments (gov't bonds) and **into private** investments (equities, precious metals, fine art etc).*
- ***Global capital** is already moving out of perceived falling economies such as Ukraine, Russia, Europe & Japan*
- *Look for serious trouble in **Japan** & **Europe** in 2015*
- *Look for US equity markets to do very **well** into mid 2015 – 2017*
- *Ultimately, the US debt problems will hit center stage, but not until Europe and Japan have dealt with their debt issues.*
- *It is all about timing!*

War Tensions Rising

- *NATO officials warned that Russia is sending several columns of tanks, troops, artillery, and air-defense systems across the border into eastern Ukraine.*
- *Artillery battles are raging near the city of Donetsk as well, suggesting the September cease fire is no longer in effect.*
- *Russia is about to conduct regular patrol missions from the Arctic Ocean to the Caribbean, and the Gulf of Mexico.*
- *The last time Russia engaged in such patrols was back in the Cold War*
- *Clearly Putin is showcasing a military a show of muscle*
- *We also have tensions between Pakistan and India heating up.*

- *Add these to the Middle East tensions, & China/Japan, plus a plethora of other tensions globally*
- *Starting tomorrow our models show **volatility** rising through next week*
- *We are sending out a preventative play to subscribers tonight*

Stay tuned!

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