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HIDDEN AGENDAS – *Coming Out of Hiding!*

MACRO INSIGHTS

Gordon T Long
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HIDDEN AGENDAS – *Coming Out of Hiding!*

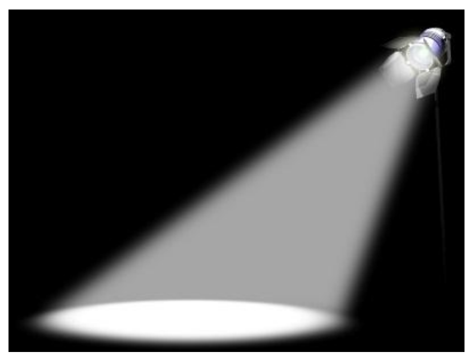
We have talked in our GMTP service and our Financial Repression video interviews about what we suspected was ahead for the developed economies as Macroprudential Monetary Policies continued to be hurriedly implemented.

I would like to discuss this in the context of the unfolding developments in Greece and Puerto Rico. I believe they give us some insights into:

1. REGULATORY ARBITRAGE II: Bank Bail-Ins versus Debt Relief
2. POST QE: NIRP and a Cashless Society
3. 2ND HALF LIQUDITY: Helicopter Money and Presidential Campaign Platforms,
4. RING FENCING: ATM Restrictions and Capital Controls as Weapons

The Central Banks, Government Bureaucrats and International Banks are being forced to tip their hands to what they see is coming. They know they simply can't take on more debt, guarantees and contingent liabilities.

The real global leaders (who are not the revolving political talking heads) are acutely aware the global economy is not growing fast enough to support revolving and new debt needs, which the debt addicted developed economies have become dependent on.

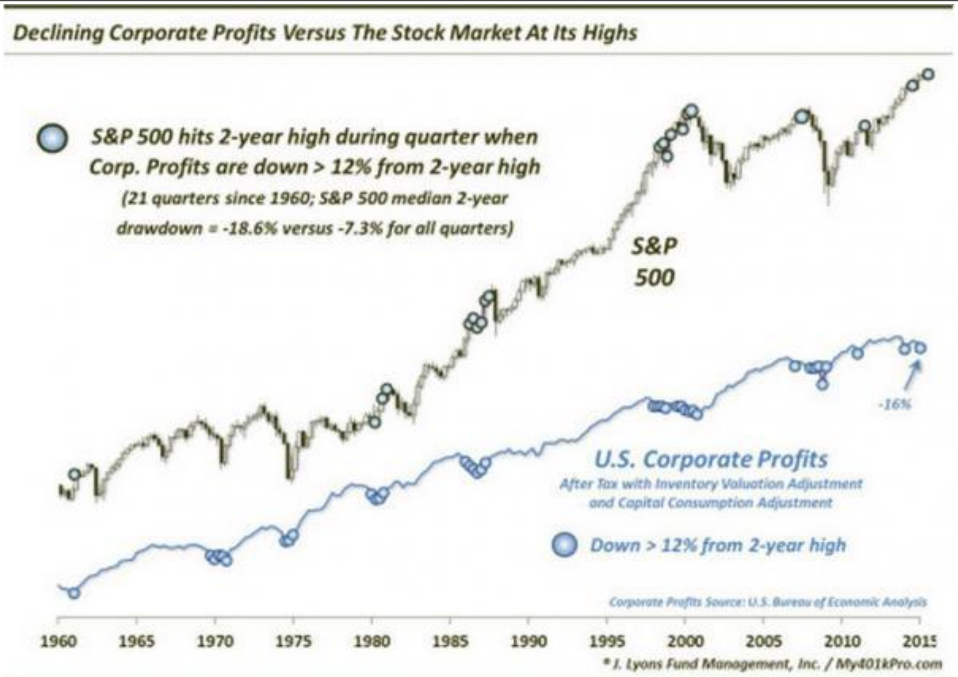


- Greece Referendum,
- Chinese Market Collapse,
- Puerto Rico's Announcement on Debt Obligations,
- Developed Economies and Recessionary Signals,

EXTREMES

I think we should first consider the environmental backdrop these very serious developments are occurring against.

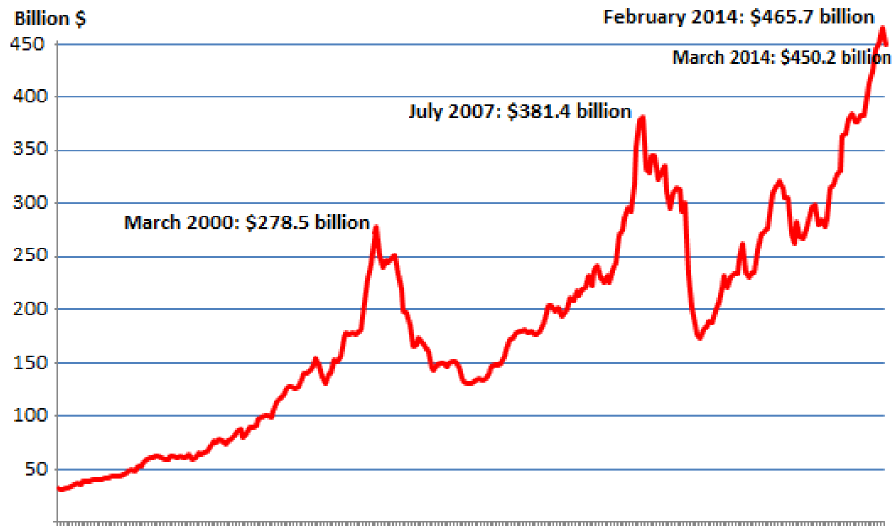
Valuations by any measure are at historical levels as are corporate profit levels. It is difficult to see how both can be sustained much longer. We have talked extensively about this with many charts in previous sessions.



The broad array of technical indicators, oscillators, patterns etc that we follow also suggest markets are due and in need of some level of correction and consolidation.

The length of time since we have had any meaningful market pullback has fostered speculative fever in terms of Margin Debt, seldom seen before. These are margin debt levels not seen even prior to historic market crashes.

Margin Debt 1990 - 2014



Source of data: NYSE Data

We have Geo-Political event risk that is dominating the daily headlines which on the surface appears to be having no affect on complacent investors.

- ✓ China
- ✓ Greece
- ✓ Puerto Rico
- ✓ Illinois & Chicago

We have talked previously about major issues in the areas of liquidity, collateral, velocity of money and custodial risk. None seem to matter. At least not yet anyway!

1. LIQUIDITY
2. COLLATERAL
3. VELOCITY OF MONEY
4. CUSTODIAL EXPOSURES

The problem is that in addition to regulations, central banks' distortion of markets has reduced the heterogeneity of the investor base, forcing them to be the "same way round" over the past four years to a greater extent than ever previously. This creates markets which trend strongly, but are then prone to sudden corrections. It also leaves investors more focused on central banks than ever before – and is liable to make it impossible for the central banks to make a smooth exit.

There is a widespread notion that the problem is solely due to regulators having raised the cost of dealer balance sheet, and could be ameliorated if only there were greater investment in e-trading or a rise in non-dealer-to-non dealer activity. To be sure, we see the growth in regulation – leverage ratio and net stable funding ratio (NSFR) in particular – as one of the main reasons why rates markets are now starting to be afflicted, and indeed we expect further declines in repo volumes to add to such pressures. But illiquidity is a growing concern even in markets like equities and FX, which use barely any balance sheet at all, and where e-trading is the already the norm rather than the exception.

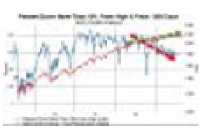
Worse still, it is vulnerable to a sharp correction given stretched valuations, the weak economy and contracting corporate earnings.

What all of this has done is left us in suspended animation which I outlined two months ago!

MARKET TURMOIL

Though the markets are clearly in turmoil nothing has yet “un-nerved” the momentum and speculative investors. Many are warnings and heading for the sidelines but “fear" has not yet gripped the markets. I again stress yet. The headlines are there every day – they are presently being ignored.

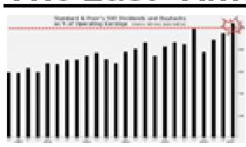
What Bull Market? 42% Of Stocks Are In Correction



Submitted by Tyler Durden on 06/27/2015 - 20:15

A correction is generally defined as any stock that is at least 10% off a recent high. If we look at a price performance over the past 200-days, **42% of all the stocks in the MSCI World Index are in a correction**. Higher than you might have thought, right?

The Last Time This Happened, The Bull Market Ended



Submitted by Tyler Durden on 06/26/2015 - 15:00

Individual Stocks Struggling To Keep Up With Nasdaq Rally

Submitted by Tyler Durden on 06/25/2015 - 08:08

With 10% declines following the past 5 occurrences, **the after-effects of this development have not been kind to the Nasdaq.**

How serious are some of the issues? Let’s look at some of the financial markets individually.

In the International markets we need to look no further than China which is experiencing a crash which is the worst or presently very nearly the worst (excluding 2008) it has ever experienced.

CHINA FOLDS

MCHUGH'S MARKET FORECASTING & TRADING REPORT

China's key stock market Index, the Shanghai Composite Index, topped at 5,178 on June 12th, 2015, and has since crashed 1,402 points, or 27 percent, to 3,776 on July 6th, 2015, losing nearly $1.0 trillion in value in less than a month (See chart on page 21).

To put the importance of this in perspective, China is the world's third largest economy, with a Gross Domestic Product of $10.4 trillion in 2014 (according to the International Monetary Fund), as compared to the second largest economy, the United States at a $17.4 trillion annual GDP, and the largest economy, the European Union with a GDP of $18.5 trillion. Japan is fourth at a $4.6 trillion GDP.

Given the interconnectedness of international trade, this is a serious development for the world economy to see the third largest economy's stock market getting slammed in just a little over 3 weeks! Greece's GDP is 44th at $0.24 trillion. Who should we be more worried about, China or Greece? Neither are good events, and are likely the sparks of future economic collapse throughout the world.

Alibaba Group Holding Ltd. is also crashing, down 33 percent from its high of 120 on November 13th, 2014 to 80 today, July 6th, 2015. The stock has declined 20 percent from its high-profile initial public offering price of 100 in September 2014. Alibaba was the largest IPO ever back on September 19th, 2014. It is a Chinese e-commerce company and investors actually own units of a holding company located in the Cayman Islands, instead of owning stock. The chickens have come home to roost.

Looking at the Currency Markets there are many stories to be seen but the Euro risk stands out.

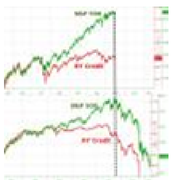
EURO ON THE EDGE

The resolution to the Greek debt negotiations potentially has dramatic ramifications to the value of the Euro Currency. We currently feel the Euro could test parity with the US dollar in 2015 in a trend that could take it much lower over the next few years. The decisions taken over the next few months or even days and weeks are likely to set that course.

The Credit market are also sending signals which get brief headlines and then ignored and forgotten.

Credit Market Warning

Submitted by Tyler Durden on 06/21/2015 - 19:15



There are large signs of stress now present in the credit markets. You might not know it from today's multi-generationally low interest rates, but other key measures such as liquidity and volatility are flashing worrying signs. While some may hope that rising yields are signaling a return to more rapid economic growth, or at least that the fear of outright deflation has lessened, **the more likely explanation is that something is wrong and it's about to get... wronger.**

Collapsing CDS Market Will Lead To Global Bond Market Margin Call

Submitted by Tyler Durden on 06/28/2015 - 16:00

As we previously noted, **liquidity is there when you don't need it, and it promptly disappears once it is in demand. Consider it "cocktease capitalism."** If liquidity lasts longer than 4 hours, call the CFTC because you may be experiencing a spoof. Right now, the ultimate spoof is setting up as the credit default swap market collapses, and a global bond market margin call is just around the corner.

I updated this grid which is part of the GMTP's Aggregate Risk Assessment Index.

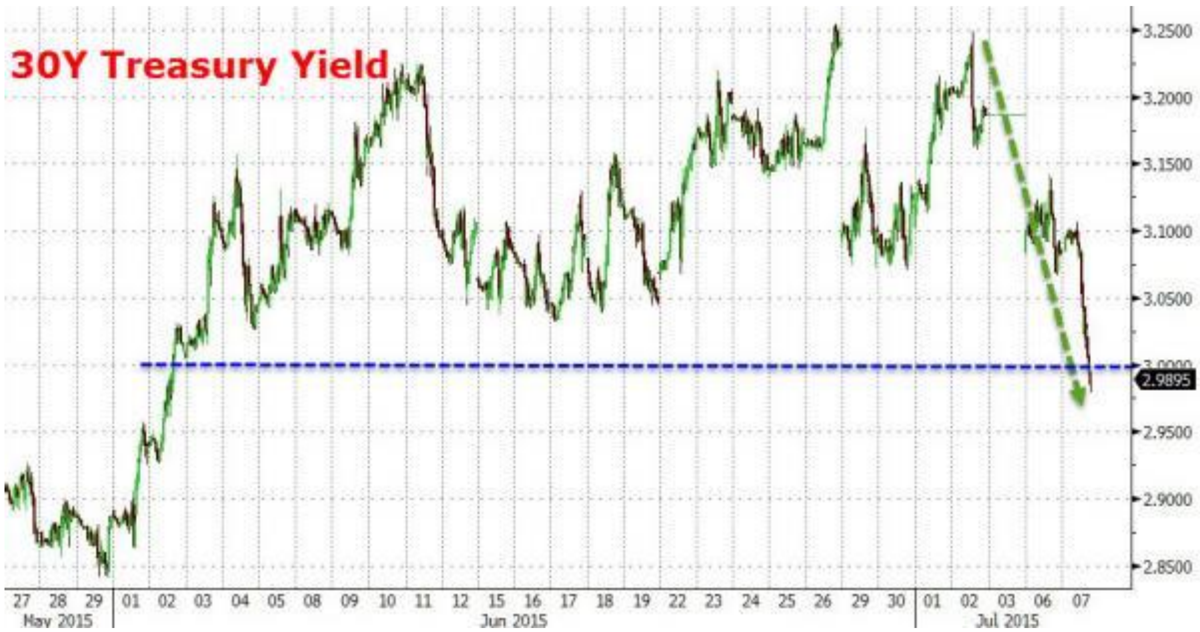
We have seen a dramatic increase in Credit Default Swap prices across Europe. In the cases of Greece, Hungary, Italy, Portugal and Spain their increase percentages have not been seen before. Their levels have been higher but the dramatic swing is clearly evident.

CDS AND SPREADS

	CDS-5-YR	2012 JULY	2012 OCT	2013 FEB	2013 JUNE	2014 JUNE	2014 OCT	2015 MAR	2015 JULY
EU									
AUSTRIA	AUT	173.96	70.08	44.06	33.08	30.50	28.67	29.72	33.00
BELGIUM	BEL	261.83	117.37	74.54	59.68	41.73	57.06	45.60	47.00
DENMARK	DEN	118.64	55.35	30.64	29.34	24.32	24.05	19.85	23.00
FINLAND	FIN	80.66	38.06	29.50	25.88	24.32	28.50	22.47	27.45
FRANCE	FRANCE	197.33	109.36	85.50	65.76	41.23	56.26	41.44	40.50
GERMANY	GER	101.29	50.51	40.98	29.15	20.00	19.30	16.95	15.00
GREECE	GRE	11284.90	11515.60	4483.60	1025.55	455.04	721.48	2314.13	6325.18
HUNGARY	HUN	529.40	384.12	274.00	282.50	167.01	179.38	133.19	160.00
IRELAND	IRE	639.58	276.95	183.63	145.00	45.50	63.85	50.49	62.50
ITALY	ITA	513.61	325.57	236.47	250.54	91.64	141.39	20.99	158.38
NETHERLANDS	NED	112.02	62.18	50.27	51.08	31.32	94.94	134.00	18.00
PORTUGAL	POR	908.62	473.90	380.68	307.86	155.05	201.13	43.00	240.00
SLOVAKIA	SVK	244.99	142.33	93.25	88.50	42.50	49.50	44.50	47.50
SPAIN	ESP	574.15	359.62	256.40	233.78	64.19	100.16	91.91	129.50
SWEDEN	SWE	61.40	30.01	18.50	19.50	12.87	15.50	14.22	15.00

In the US Treasury Bond market, Bond Yields Are Plunging - 30Y Treasury are now Under 3.00%

With near record shorts in Treasuries once again, yields are collapsing as both a flight to safety and short squeeze have sent **30Y back below 3.00% for the first time in a month...**



German Bund yields are tumbling as well.

As is the entire US bond complex.

What is not followed as closely, but needs to be is the Muni Bond Insurers or what is referred to as Monolines.

Prior to the 2008 Financial Crisis they were the Canary in the Coal Mine as insurers of CDO's .

Today they insure CLO's and Muni bonds like those under fire in Puerto Rico and Illinois and Chicago.

MONOLINE COLLASPE

Everywhere we look we see mounting problems with few solutions and an apparent absence of concern from investors. Greed blinds! But also does Fear when it inevitably and abruptly appears.

'HIDDEN AGENDAS – Coming Out from Hiding

I mentioned at the beginning that all these developments are resulting in signals being sent that give us some indication and sense of what may lie ahead regarding policy decisions. These are potential policies which will impact investment decisions and portfolios.

The impasse in Greece was Pension payouts and the implementation of a VAT Tax. The problem is Puerto Rico Is Pensions and tax revenues. The same story can be seen across America at the State, City and Local levels.

When the Greek Prime Minister on Sunday June 28th shocked the EU by calling a national referendum we saw him forced to reverse his position by Wednesday July 1st after ATM were restricted and more importantly Pension withdrawals were announced to be limited. No one was more shocked to see the Greek people suddenly and abruptly shift from a majority supporting a YES vote (to ensure access to their ATM's and Pensions) to a NO vote out of anger and rebellion to the heavy handed tactics of the banks and their EU controllers. A 60% majority emerged within one week even though it meant possibly even worse draconian measures. But at least they would be free and not living under what they perceived as German dominion.

NEW WORLD

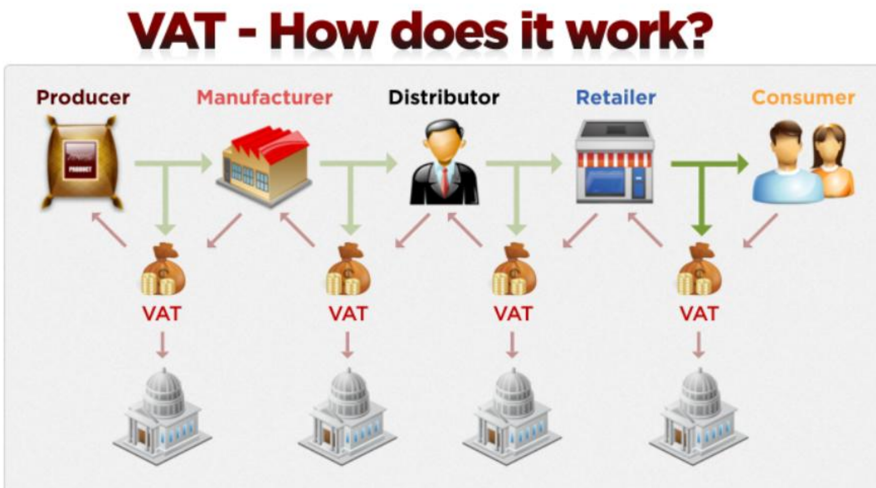
Tsipras backs down on bailout demands

Greek prime minister vows to accept almost all the creditor conditions

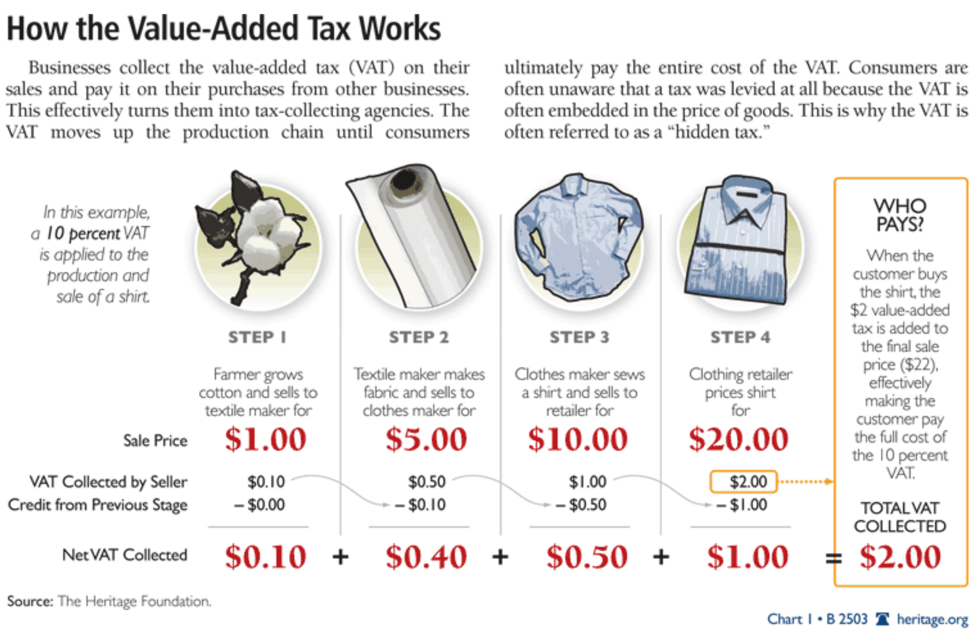
- Explainer How to contain Greek contagion
- All eyes on ECB as Greece's time runs out
- Payment failure pitches IMF into uncharted territory

The signal here is that debt levels have moved to the point where borrowers can no longer afford to pay them due to mounting pension obligations, Central Banks and Federal Governments can no longer afford to guarantee more debt and the International Banks simply cannot afford to take write-offs which due to their leverage would mean insolvency, massive counter-party risk and insufficient collateral to support the $550T SWAPS market.

We also see that it appears that future debt payments may be extracted via the VAT Tax. Many already have felt it. It certainly guarantees price inflation while questionably believed to deliver increased tax revenues.



What we need to learn here is that inflation and higher taxes are ahead to pay the ever increasing debt levels. Debt forgiveness, haircuts and right downs are not in the cards. The public will pay as the governments, central bankers and International Bankers all win if it does.



The next signal we are seeing is the threat of Greek Bank Bail-ins being on deposits as low as 8,000 Euros. Previously a $100K US Bail-in was considered the low watermark. How quickly the dialogue changes as new trial balloons are placed on the table.

We can now expect any US Financial Banking Crisis to be framed in a similar fashion.

What would it mean if we were operating as a cashless society when this occurred? We would all be under the control of the banks and government.

Greek Banks Considering 30% Haircut On Deposits Over €8,000: FT

"Greek banks are preparing contingency plans for a possible "bail-in" of depositors amid fears. ***The plans, which call for a "haircut" of at least 30 per cent on deposits above €8,000, sketch out an increasingly likely scenario for at least one bank, the sources said."***

What we are seeing is that ATM's have become political weapons and potentially a tool to control society during a crisis. A crisis unforeseen or 'heaven forbid', planned!

DECAY VORTEX – Potential Earnings Recession Ahead

OVER-SUPPLY

What is driving all this, as we discussed in a recent GMTP report, is that we have global over supply based on excessive cheap capital for an excessive period of time. That is the consequence of 6 years of Quantitative Easing and ZIRP.

We read:

> **Copper Crashes, In Danger of Breaching 15-Year Support Level – Why?**
>
> ***Copper is probing again the 15-year trend line support (5550 levels).***
>
> *From SocGen*
>
>> *After hitting the multi-year channel upper limit a month ago (now at 6330), Copper has embarked on a steady yet steep downtrend and is now probing again the 15-year trend line (5550 levels, monthly log chart). Copper tested that trend line support during last January sell-off but eventually did not close below on a monthly basis.* ***In the event of a definite close below, the down trend would regain bearish momentum and therefore extend towards 5250/5170 (2007 lows) and***

possibly even towards the channel support (5000) which has encompassed the down move over the last 2/3 years.

Near term, the down trend in force since early May looks relentless and vivid as underlined by the bearish channel (5710-5460) but, as such, is starting to look overstretched. Daily RSI has indeed achieved a multi-month support (blue line).

Thus, 5550 (excess possible at 5460 intraday) appears to be a key and pivotal support. It will however take a break above the graphic resistance at 5630/40 and more importantly above the channel resistance at 5710 for a meaningful rebound to materialize.

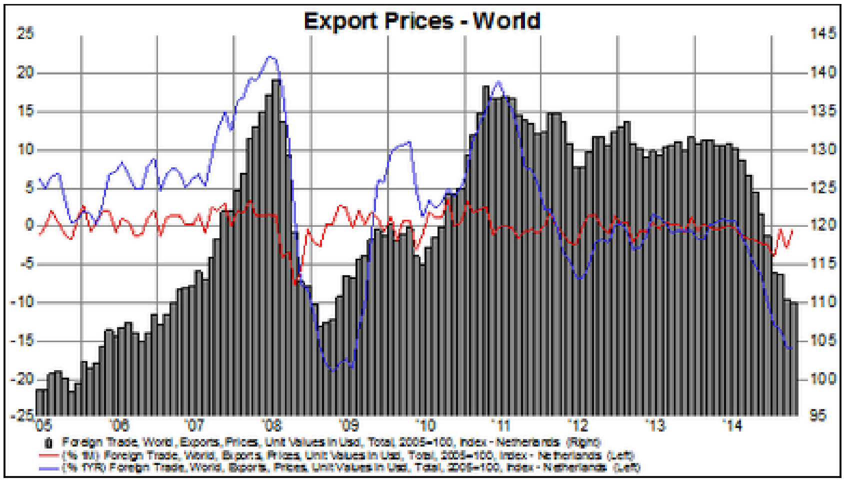
The FT reports in [Emerging Markets Trading Blow]

- “Emerging markets have shifted from being a major support to world trade growth to a significant drag,”
- “The slowdown in China and other emerging markets represents a significant negative shock to world growth”.
- “We would be more confident that the world could ride this out if it were not for the fact that growth in advanced economies is still rather moderate,”

Demand simply cannot catch up and pricing power is not there to sustain current elevated profit margins.

Plunge In Export Prices Is Now Worse Than The Great Financial Crisis

Spot The Recovery... According to the World Trade Monitor, **world export prices declined by -15.8% year-over-year** in April and are back at **level last seen in 2009**. World import prices have declined by -15.1% year-over-year as well.



In the developed world, export prices are down-16.6% year-over-year. **<u>This a larger drop than what occurred in 2009 and is the largest year-over-year decline since 1990</u>** (when this series began). Import prices have declined by -17.5% year-over-year. The drop it 2009 was slightly larger.

Basically the global economy is stalling from too much debt and excessive supply from too cheap money for too long a period of time.

What we have is a Decay Vortex which I will write about in the upcoming GMTP report.

There is a potential recession scare coming which I have written about previously. Minimally we likely will see an Earnings Recession.

WHY QE IS FAILING

"Sustained cheap money increases supply much more than it does demand. We presently have over investment resulting in global over supply. This is not being matched by what is only moderate global demand (based almost exclusively on consumerism). This mismatch leads to a lack of pricing power, which eventually defeats policies of Quantitative Easing and ZIRP that were never intended by their academic architects to be sustained."

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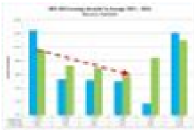


Earnings Growth To Collapse Most Since 2009 In Q2

Submitted by Tyler Durden on 06/22/2015 - 13:17

"The estimated earnings decline for Q2 2015 is -4.7%. If this is the final earnings decline for the quarter, it will mark ***the first year-over-year decrease in earnings since Q3 2012 (-1.0%), and the largest year-overyear decline in earnings since Q3 2009 (-15.5%)."***

Goldman Just Crushed The "Strong Fundamentals" Lie; Cuts EPS, GDP, Revenue And Profit Forecasts

Submitted by Tyler Durden on 06/30/2015 - 22:15

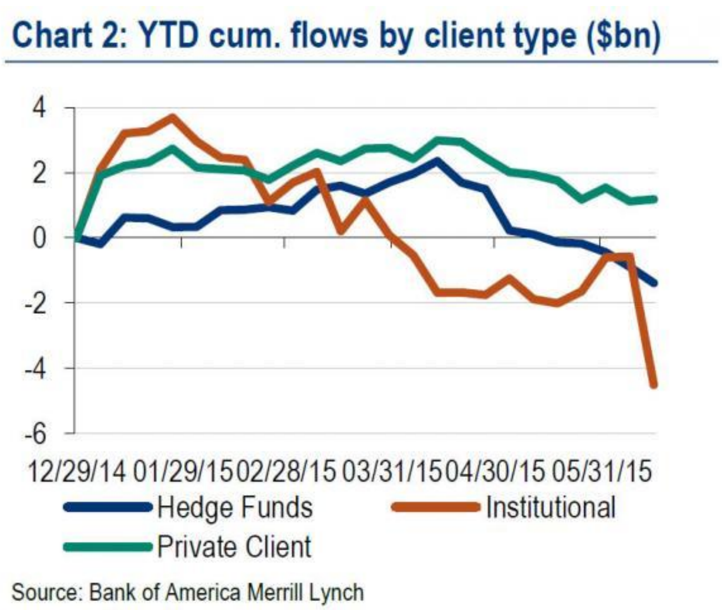
To summarize: the first revenue drop for the S&P in 5 years, a major downward revision in EPS now expecting just 1% increase in 2015 EPS, a 25% cut to GDP forecasts, a machete taken to corporate profits and 10 Yields, and not to mention double digit sales declines for some of the most prominent tech companies in the world. And that, in a nutshell, is the "strong fundamentals" that everyone's been talking about.

HEADLINE

Wall Street braced for profit declines

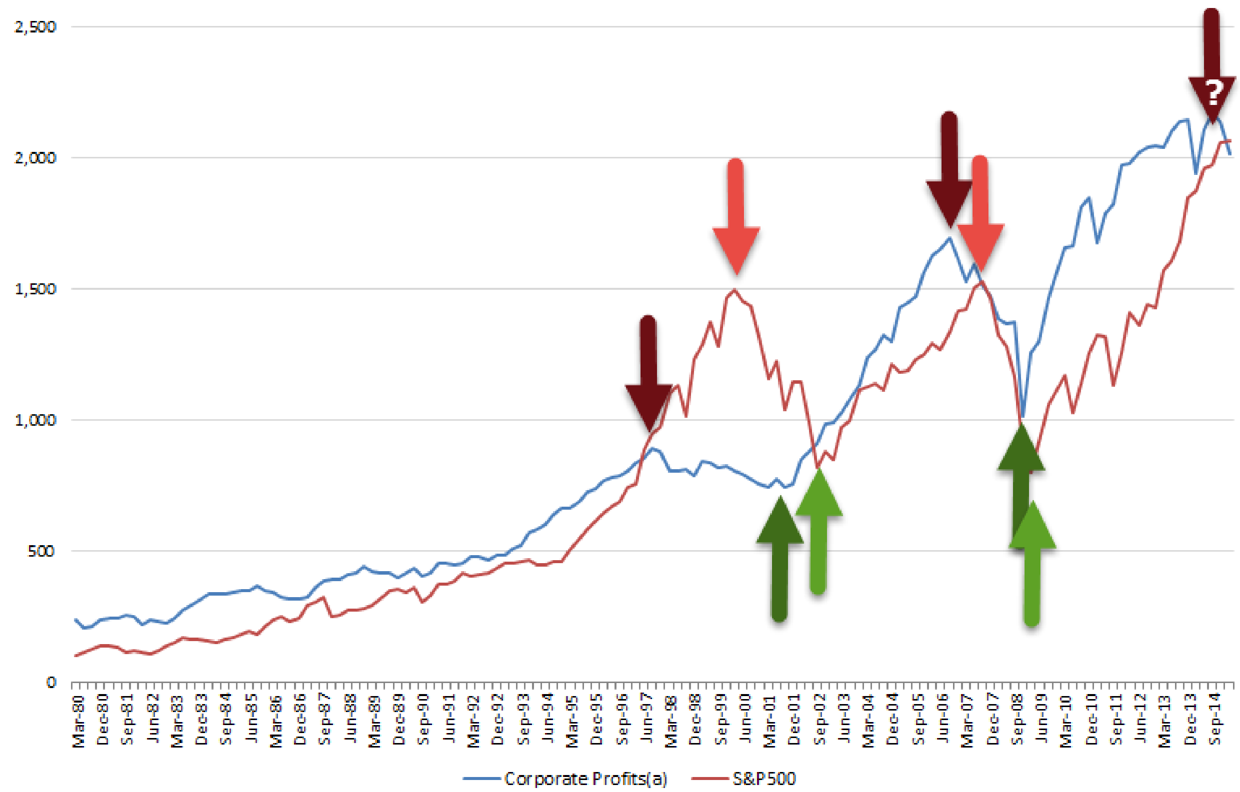
HEADLINE

The -Smartest Money- Is Liquidating Stocks At A Record Pace- -Selling Everything That's Not Bolted Down-



HEADLINE

The Corporate Earnings Cycle Has Just Turned Negative in the US



The Coming US Recession Charted

The idea of an imminent US recession may seem moot as all the self-proclaimed experts and talking heads still acts as we are well into a recovery and patiently waiting for the forthcoming escape velocity which will take care of all ills plaguing today's over-indebted society. Never do they stop to think about why things looks as dismal as they do.

The **sheer scale of the backwardness** shown in such gross economic illiteracy suggest to us there is ulterior motives behind so-called Keynesian economic theories. *Comparing GDP with cumulative goods sold and inventory accumulation since 2000 should tell you everything you need to know.*

The US economy is now on the verge of a new recession.

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