Davos, Dollars and Dead Men Walking

We have talked at length on the sinking Dollar and at Davos the "Mnuch" stated that "the weak dollar is good for the U.S. as it relates to trade and opportunities." Gee thanks Mr. Secretary , but what do you guys really mean? We will tell you what it means…it means that **the FED cannot have its cake and eat it too.** It cannot on one hand raise rates and on the other have sit- idly by with an ever sinking U.S. Dollar.

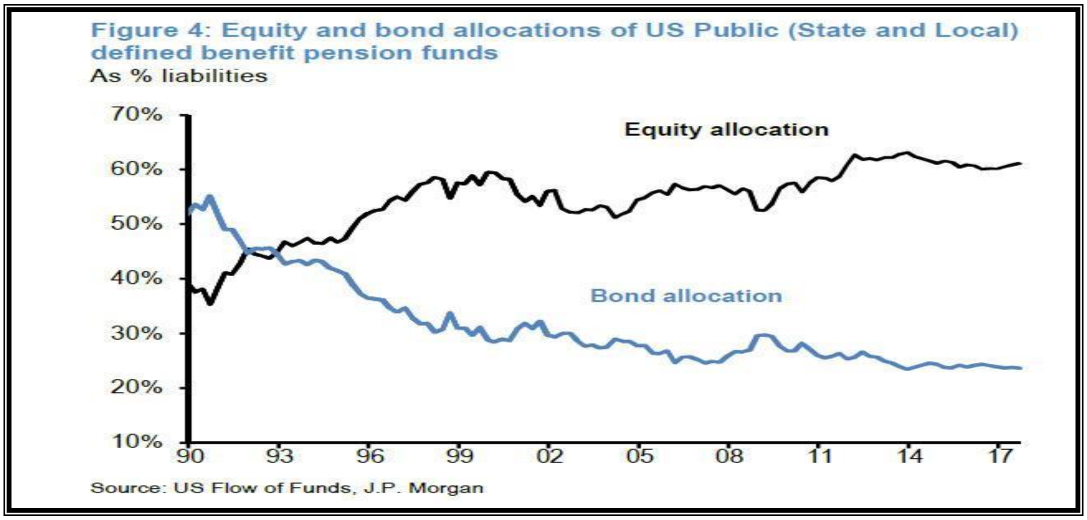
Now all econ fundamentals aside, one should be asking, **why is the dollar moving lower when our rates are moving higher.** Shouldn't that make our debt more attractive on yield a level vs another countries debt? One would think but in a central bank, in a globally coordinated central bank world you have to realize that the central banks are not working independently **but in unison**. We will dig deeper into that at another time, but the crux of the statement is **every nation cannot be an exporter and when countries go to war with their currencies; the outcomes globally are usually disastrous and swift**. Are we there yet? **Yes** we tend to think we are and how long the markets will continue to ignore this is anyone's guess. Anyway the problem with the FED raising rates coupled with the U.S. fiscal support, means a **whole bunch of debt is going to have to be swallowed and higher rates have to attract such unwilling participants.**

The last decade will go down in the history books as the decade the central banks hijacked global financial systems and decided that it's in everyone's best interest to work together. That is, obviously until it is not. Who will be the first to balk? Our guess is the Chinese. They have the most to lose, domestically and internationally and it's why they have been so reticent in shoring up their gold reserves and trying to internationalize their financial exchanges. However their underlying distrustful fiscal policies and their too good to be true WMPs, no not WMDs of the good ole Bush era, but potentially a synonymous acronym none the less as these WMPs will be like economic weapons of mass destruction. WMPs are Wealth Management Products, which basically package deposits and attract buyers with higher rates of interest, we hate to say it, but they sure do look a bit Ponzi in nature. Then again, isn't the entire leveraged, rehypothecated, fractional reserve system, exactly just that? So let's get to some other market news this past week:

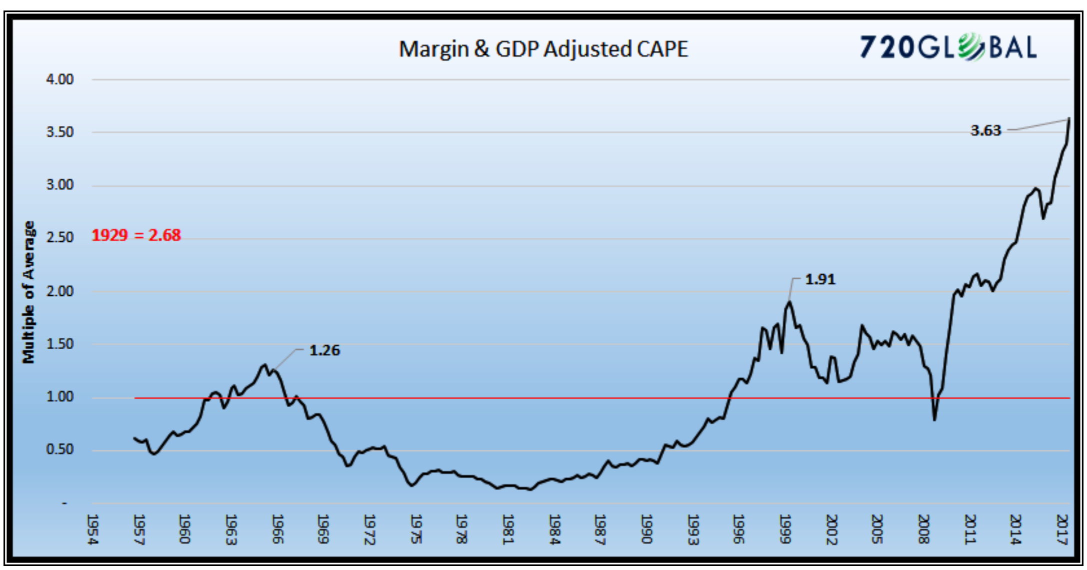
- **Starbucks** was out this week saying it's going to spend $250m on new employee benefits.

- **Credit Suisse** was out stating the **Pension Funds** sector should be a natural seller when it rebalances this month. No doubt equity outflows will benefit bond inflows, but in realty how big of a dent will this be?

JPM commented upon this and gave us this nice chart below. When we looked at this chart what stood out to us as odd was that the Pension Funds have flat lined their bond purchases, seems a bit odd considering the fixed payment obligations they have. This made us think pensions have been overreaching for yield for decades and in return receiving massive convexity risk. none the less we feel that if Pensions decide that equity risk is too much, we could see some massive reallocation into bonds and lower yields would beckon and equities will have a few less fools, anywhere here is the chart:



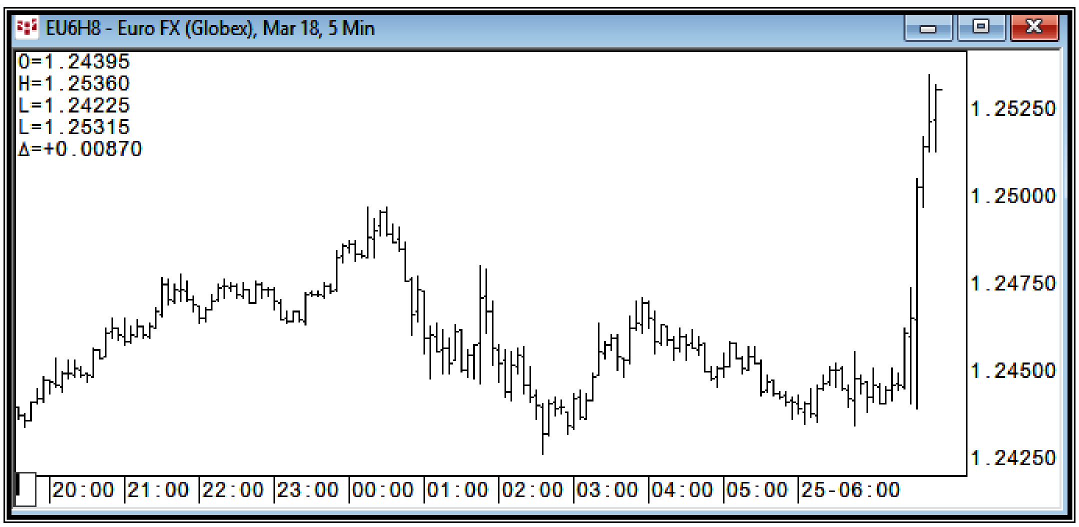
- **720Global** was out this week with some charts of their own fitting Margin, GDP and Schillers CAPE, we think the following chart is shocking and from a value perspective in owning equities here, if you're scared of Bitcoin, well Caveat Emptor:



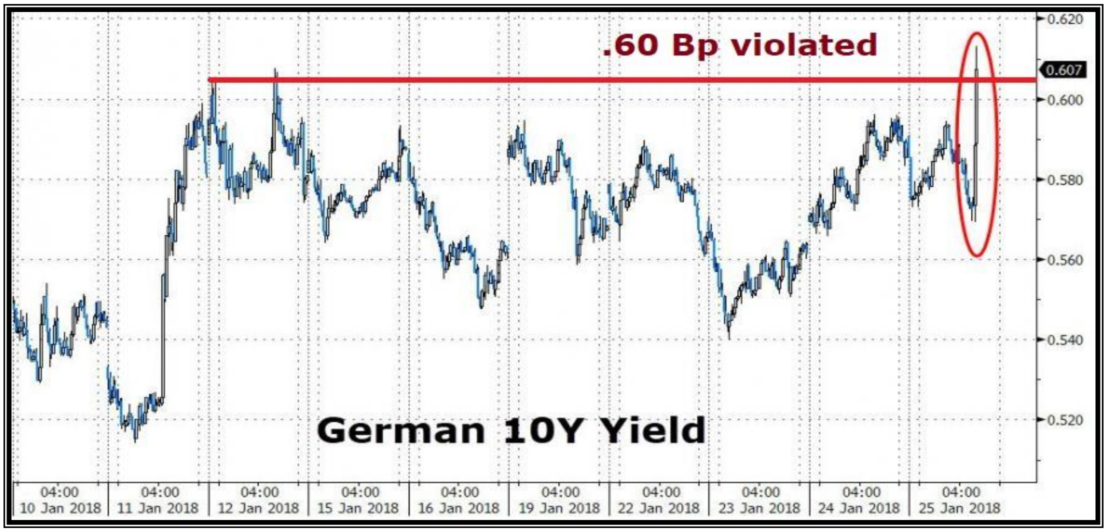
- **Goldman** out with an economic report which covered the equities growth and its relationship to increasing GDP. The report focused upon a sharp correction where stocks fall 20% in Q1, hmm some interesting timing considering the rebalancing coming up. Also of note we noticed Goldman's year end SP500 level is 2850 a level that is lower than Friday's settlement price.
- **ECB** meeting produced some interesting developments as Draghi was calling out the U.S. for currency manipulation rhetoric…see the wars have already begun…anyway here are the headlines from the ECB and Draghi:

  - VERY FEW CHANCES OF A RATE HIKE THIS YEAR
  - SOMEONE ELSE'S FX TALK DOESN'T COMPLY WITH AGREED TERMS
  - SAYS STRUCTURAL REFORMS MUST BE STEPPED UP SUBSTANTIALLY
  - URGES OTHER POLICY ACTORS TO CONTRIBUTE MORE DECISIVELY

The results of such rhetoric, well a surging Euro of course:



As for German 10 year yields seems as if 60 basis points some 212 basis points lower than corresponding 10 year U.S. yields is the line in the sand, here's the chart:

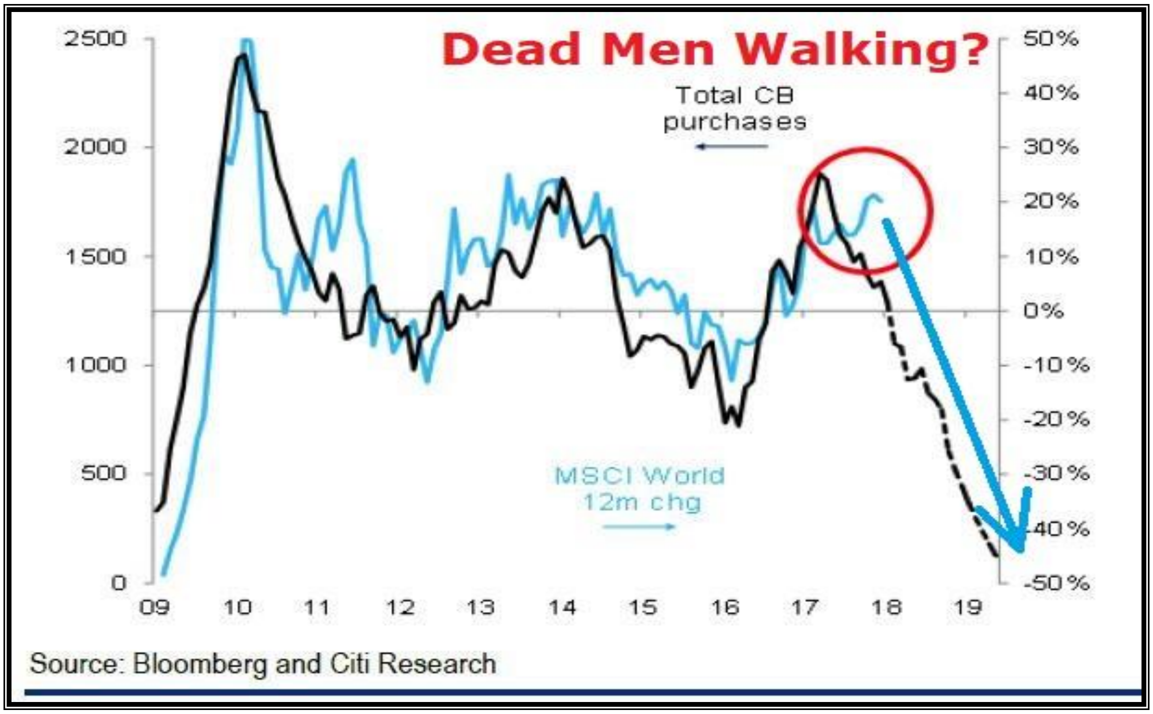


So an astute observer asked, why not just buy U.S. and sell German 10 years? Well good point and if we were the likes of G&G (Gross & Gundlach) we most likely are, but we can't telegraph it right. Anyway there are other forces at play, most notably the currency risks and a whole host of short term basis funding issues, not only with the Euro but the Yen as well. But hey at least some are thinking astutely! So we simply replied to their question with this, "Cross basis currency swaps are expensive meaning dollar funding is expensive and there is no compensation for yield pickup for foreign investors and the flip side to QE is dollar weakness which should continue and **if they don't** get ahold of the short rate from rising to far too fast, the **dollar will get smoked** and U.S. 10s will be plus 3%.

We also believe the crypto space is pulling some real capital out of leveraged markets and into the global economy, so money is being funneled out of the U.S. and who knows where it goes from there...so if this continues than leverage has to fall because the banking system is being drained of cash, so it will be interesting to see how raising rates into a cash shortage moves markets...our assumption would then be the dollar falls vs all other fiats...this would be the natural progression and **of course U.S. equities would be the next likely culprit to tumble**, they will lose 30% by summer is our guess if they continue to raise rates.

- **BofAML** put out their "Bull & Bear" indicator this week which has a 100% successful hit rate on its signals since 2002, with the average peak to trough of 12%. They warn that the SP500 has a potential pullback area of 2686 by March or some 10% lower from last week's highs.

For further evidence to back up BofAML we present this chart from Citi and Bloomberg, what it will show is the correlation of the 12 month change in the MSCI World Index with total Central Bank purchases, it's pretty obvious to us…can you say **DEAD MEN WALKING**, oh yea that is our blue line straight down projection**:**



- Not to add more fuel to the bearish fire, but then there is this from John Hussman which is a must view for our readers and we will link it HERE but we will indulge you with the following quote, *"I expect the **S&P 500 to lose approximately two-thirds of its value** over the completion of this cycle. My impression is that future generations will look back on this moment and say "… and this is where they completely lost their minds."* –John Hussman
-We certainly won't disagree with his thesis!

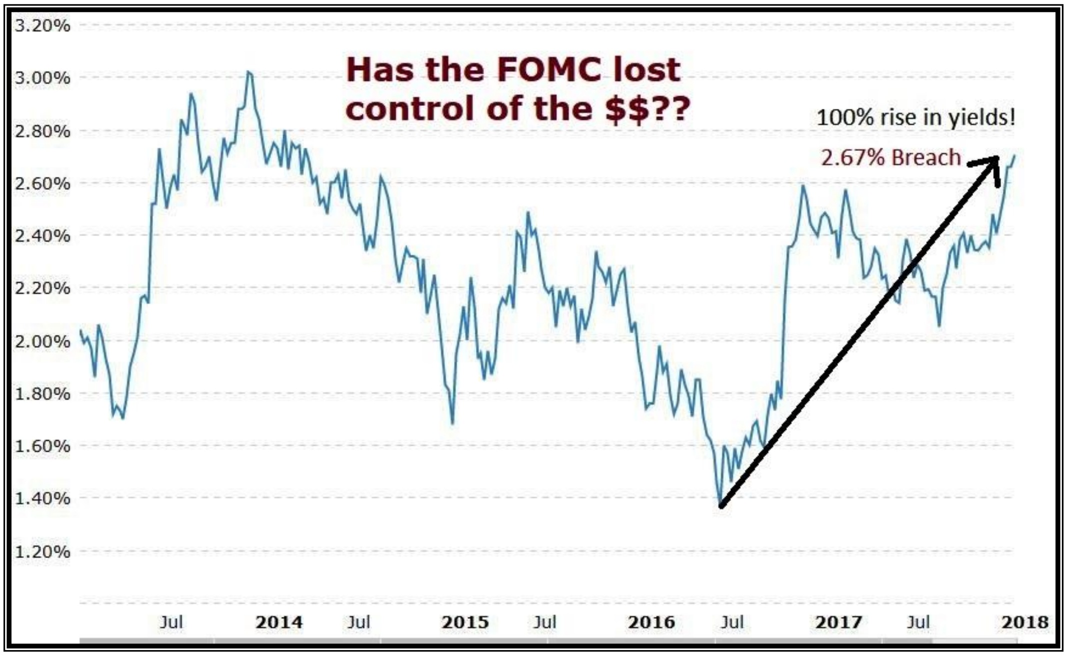
- **Q4 GDP** missed expectations of 3%, rising only 2.6% as imports surged. Overall 2017 was decent with a 2.3% rise in GDP on the heels of good consumer and business spending.

- **The U.S. DOJ, CFTC and FBI** worked together, and charged 3 European banks (DB, UBS & HSBC) and 8 individuals in an alleged "spoofing" case with total fines reaching $46.6 million. We kind of have to laugh at that considering the banks involved and the amount of money they made off of these trades. The penalty doesn't fit the crime, that we are certain. Anyway it is good to see at least that some justice is being served, the markets in question were gold, silver, platinum or palladium futures, as well as in S&P E-mini futures.

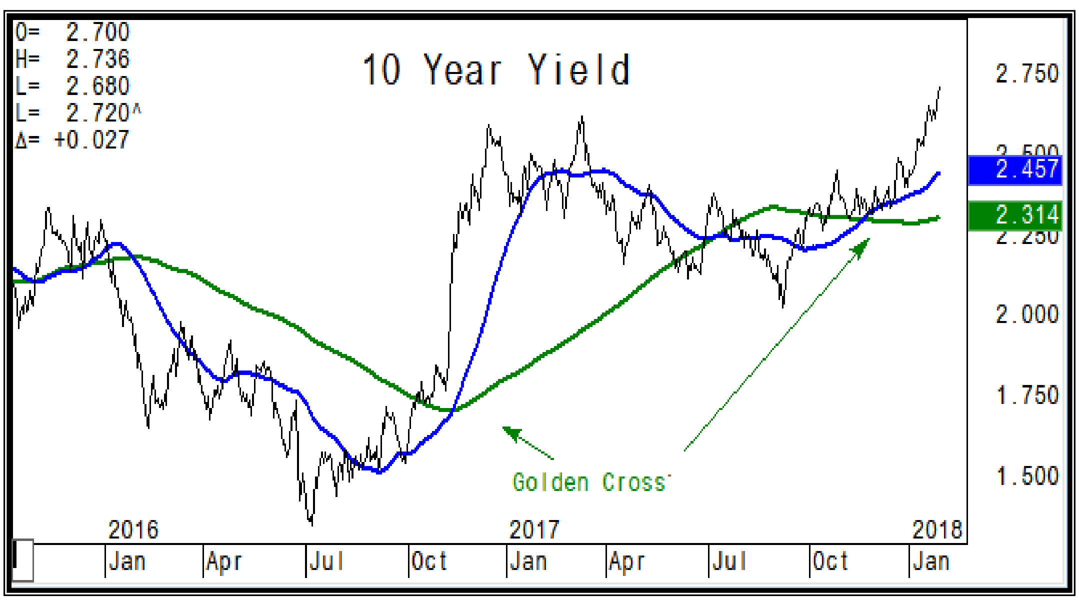
- We read somewhere of a plan that Illinois wants to issue $103 Billion in bonds to pay for pensions…hmm well why not? I like the idea and in a world where a country like Greece is paying 1.27% I don't blame the Democrat who came up with this idea…I would first call Draghi and make sure the ECB amends their monetary policy to enable for purchase, US Munis…Illinois must first remove the inherent structural problem of the state's constitution however, which bans any reduction in worker retirement benefits, then again, nobody ever accused a congressman of too much logic.

Ok let's move to some market moving technical charts shall we:

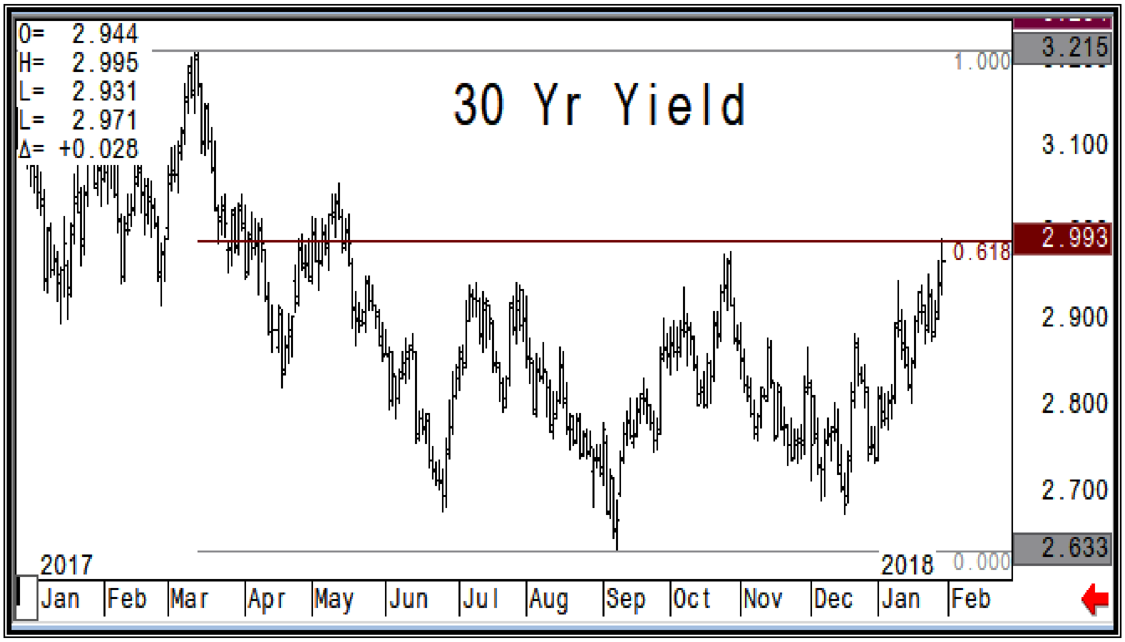
US 10yr yields have risen over 100% since mid-2016 and now are over 2.7%:



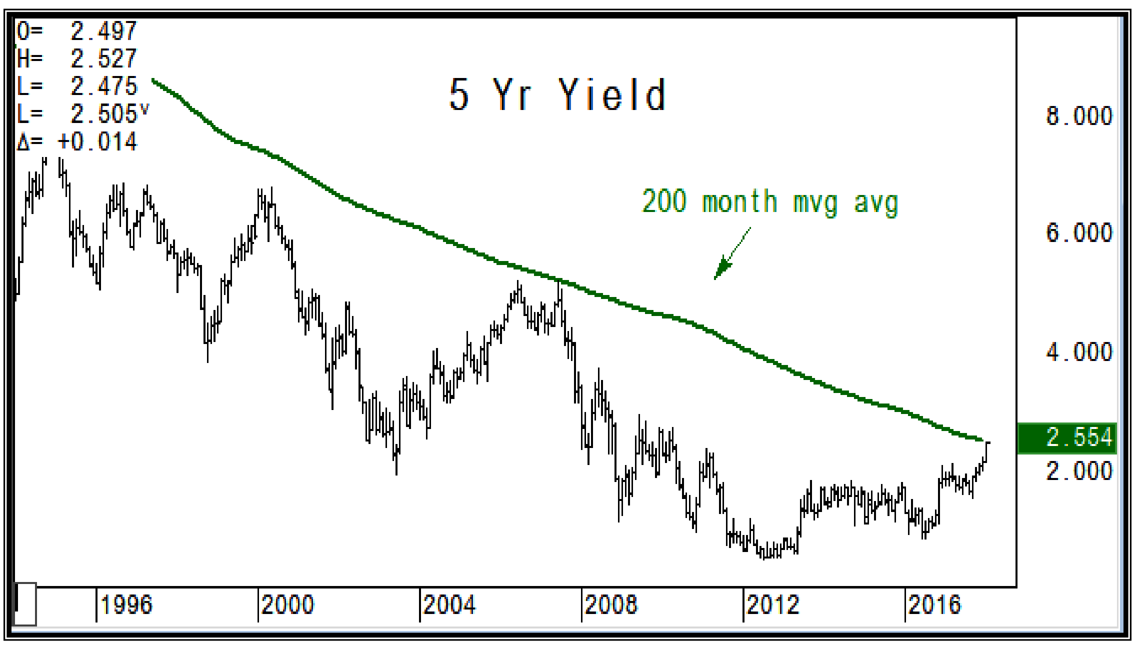
Updated chart from Keystone Charts on the US 10yr today with the Golden Cross:



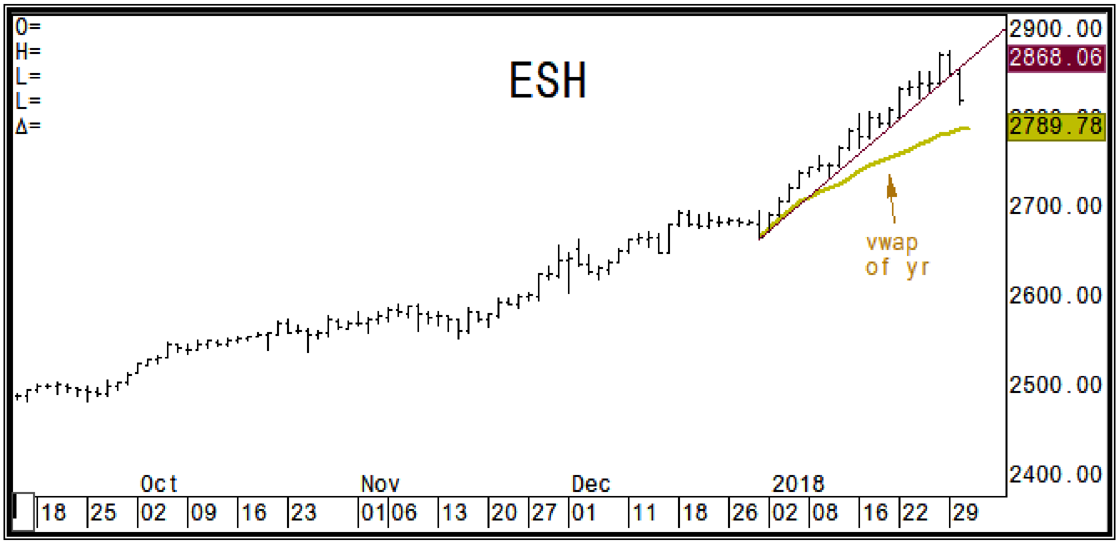
Sticking with the US Treasuries, here is the 30yr pushing 3%:

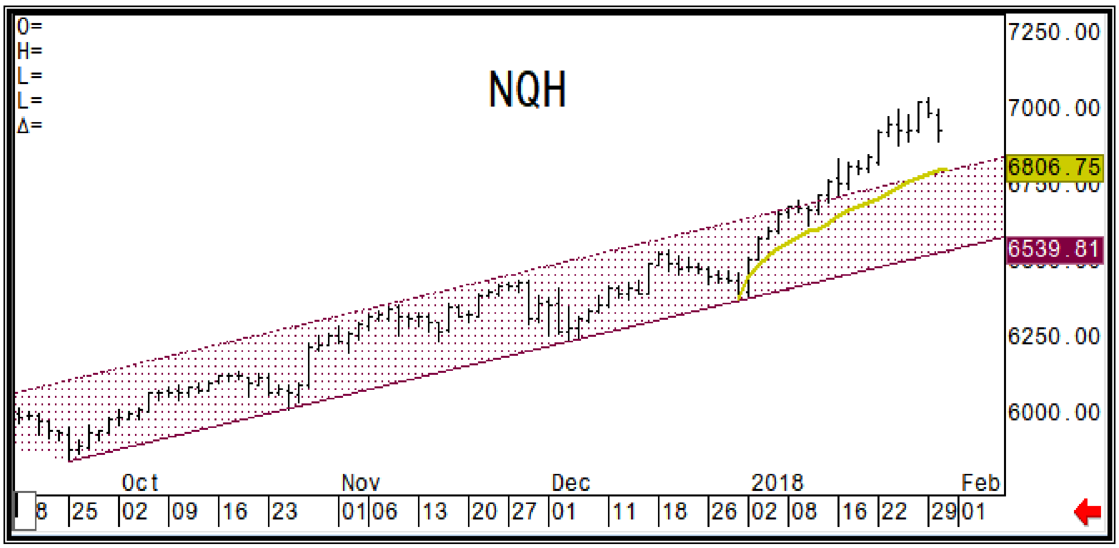


We would tend to think that the 200 month moving average in this US 5yr yield chart will entice both pension funds and insurers alike; if not well, we would gladly replace your existing PMs and do their job for them:

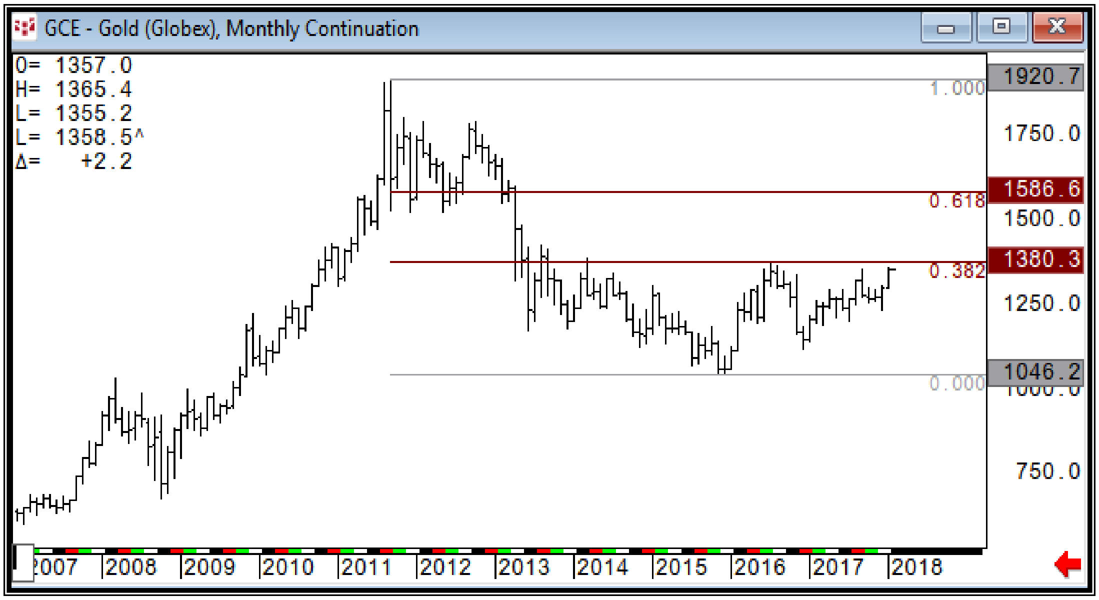


Moving over to US Equity Index land we can see both the SP500 and the NASDAQ had a rare 1% down day today as of this writing. We suppose the Spectre (Capitalized and spelled intentionally for those inquisitive minds) of inside intel at Davos, all the bearish Inv. Bank reports and portfolio rebalancing sent the MOMOs in sell mode, anyway here are the latest charts with VWAP supports:

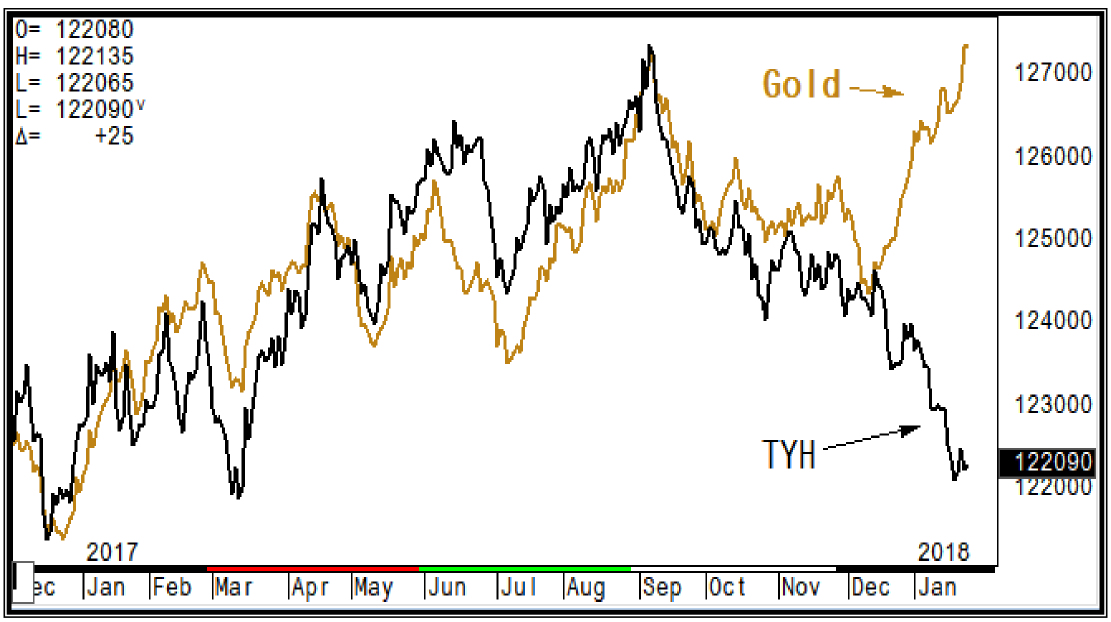




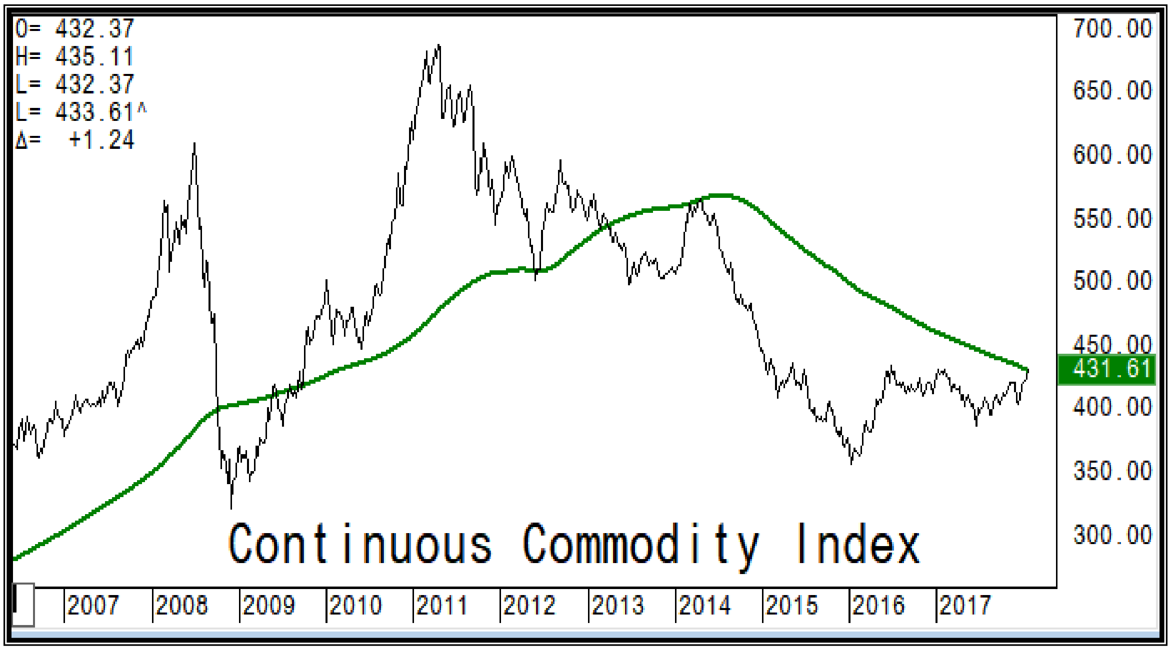
Moving to the metals, it seems Gold has run into some nice 38.2% resistance:



So much for the gold correlation with the US 10yr, risk parity what?



With all this bearishness abound where do we see some positive light, is there anywhere to hide? Well we present this chart:



* The Continuous Commodity Index (CCI) is a broad grouping of 17 different liquid commodity futures, which is a benchmark of performance for commodities as an investment. We thank Keystone Charts for pointing this out, we know where Jeff Gundlach stands on this area, so due your diligence.

Weekly Settles for Friday January 26th 2018

26-Jan Instrument	Price/Yield	Weekly Net Change	Weekly % Change	YTD % Change
US 30yr Govt	2.91	-0.3	0.1%	-5.5%
US 10yr Govt	2.66	2.7	-1.0%	-10.4%
US 5yr Govt	2.47	3.7	-1.5%	-13.3%
MAR Bond	148-24	-0'06	-0.1%	-2.8%
MAR Ten Yr	122-02	-0'07	-0.2%	-1.6%
MAR Five Yr	114-31	-0'057	-0.2%	-1.0%
MAR SP500	2874.50	63.50	2.3%	7.4%
MAR DOW	26604	558.00	2.1%	7.6%
MAR Nasdaq	7030.25	184.50	2.7%	9.7%
MAR Nikkei	23745	(115.00)	-0.5%	4.4%
MAR Dax	13329.5	(99.50)	-0.7%	3.2%
Shanghai Comp	3558.13	70.27	2.0%	7.6%
MAR Crude	$66.14	2.83	4.5%	9.4%
FEB Gold	$1,352.10	19.00	1.4%	3.3%
MAR Silver	$17.44	0.40	2.4%	1.7%
MAR Dollar Index	$88.89	(1.48)	-1.6%	-3.2%
MAR EURO	124.60	1.85	1.5%	3.2%
MAR YEN	92.270	1.58	1.7%	3.5%
{CryptoCorner}				
Bitcoin (BTC)	$10,970.81	($335.79)	-3.0%	-24.5%
BCash (BCH)	$1,621.40	($144.45)	-8.2%	-35.5%
Ethereum (ETH)	$1,039.13	($13.26)	-1.3%	40.4%
Litecoin (LTC)	$174.70	($14.71)	-7.8%	-27.8%
Ripple (XRP)	$1.24	($0.27)	-17.9%	-33.7%
Dash (DASH)	$788.07	($49.16)	-5.9%	-31.1%
Zcash (ZEC)	$456.19	($49.67)	-9.8%	-21.0%
Monero (XMR)	$313.17	($11.61)	-3.6%	-19.2%

Finally, we will decidedly end our notes with our reaffirmation of the growing need for alternative strategies. We would like to think that our alternative view on markets is consistent with our preference for alternative risk and alpha driven strategies. Alternatives offer the investor a unique opportunity at non correlated returns and overall risk diversification. We believe combining traditional strategies with an alternative solution gives an investor a well-rounded approach to managing their long term portfolio. With the growing concentration of risk involved in passive index funds, with newly created artificial intelligence led investing and overall market illiquidity in times of market stress, alternatives can offset some of these risks.

It is our goal to keep you abreast of all the growing market risks as well as keep you aligned with potential alternative strategies to combat such risks. We hope you stay the course with us, ask more questions and become accustomed to looking at the markets from the same scope we do. Feel free to point out any inconsistencies, any questions that relate to the topics we talk about or even suggest certain markets that you may want more color upon.

Capital Trading Group, LLLP ("CTG") is an investment firm that believes safety and trust are the two most sought after attributes among investors and money managers alike. For over 30 years we have built our business and reputation in efforts to mitigate risk through diversification. We forge long-term relationships with both investors and money managers otherwise known as Commodity Trading Advisors (CTAs).

We are a firm with an important distinction: It is our belief that building strong relationships require more than offering a well-rounded set of investment vehicles; a first-hand understanding of the instruments and the organization behind those instruments is needed as well.