WALL STREET MARKETPLACE VIOLENCE

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"Ain't you hungry for success, success, success, success?
Does it matter? (Shattered) Does it matter?
I'm shattered." "Shattered", The Rolling Stones

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CONCLUSION

The long-running bull charge in the broad real trade-weighted United States dollar, and particularly its recent assault on major resistance established in March 2009, played a critical role not only in creating and sustaining emerging stock (and commodity) marketplace bear moves, but also in the recent bloody toppling of the once-mighty S+P 500 from its lofty May 2015 record peak. Interest rate levels and trends of course remain important to stock marketplace battlefields, but US dollar movements will maintain their substantial influence. The broad real trade-weighted dollar probably will remain relatively strong.

Moreover, the S+P 500's decline since its 5/20/15 pinnacle at 2135 indicates that its major trend probably will no longer diverge as significantly from those of emerging equity marketplaces. Compare the pattern of the past few years, during which the S+P 500 exceeded its spring 2011 peak but emerging stock marketplaces in general (Morgan Stanley's MSCI Emerging Stock Marketplace Index benchmark) did not. The S+P 500 probably will not surpass its May 2015 height by much (if at all); instead, it probably will continue to travel lower.

As "Shakin' All Over: Marketplace Fears"; 8/13/15) noted: "Despite about seven years of highly accommodative monetary policies such as yield repression and money printing (and frequently bolstered by hefty deficit spending), the foundations of worldwide growth increasingly look shaky." Substantial debt and leverage problems continue to confront today's interconnected global economy. The Federal Reserve Board of course focuses on all sorts of domestic and international factors and their interrelations. However, nowadays the level and trend of the S+P 500 will continue to strongly influence its policy rhetoric and decisions.

THE (RELATIVELY) TRIUMPHANT US DOLLAR

Rancid sings in "Cash, Culture and Violence":
"Sword, the jewel, imagination
Cash, culture and violence
Violence, wealth and, and knowledge
Cash, culture and violence"

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Marketplace history need not repeat itself, either entirely or in part. Nevertheless, in regard to recent and potential financial marketplace price trends, keep 2007-09's worldwide economic disaster in mind.

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The rally in the broad real trade-weighted United States dollar ("TWD") since mid-2011 played a key part in undermining strength and creating (confirming) bear trends in emerging stock marketplaces and commodities "in general". The TWD's recent ascent to new highs in its bull trend not only propelled emerging marketplaces and commodities even lower, but also helped spark the S+P 500's fearful retreat from its summit.

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The broad real TWD (Federal Reserve H.10; monthly average, March 1973=100) advanced from a major trough around 84.2 in April 2008 (just before the S+P 500's 5/19/08 final high at 1440) to 88.8 in September 2008. It spiked up to 93.9 in October 2008. The S+P 500 shattered, plummeting from around 8/11/08's 1313 and 9/19/08's 1265. The TWD's March 2009 peak at 96.9 arrived around the time as the S+P 500's 3/6/09 major low at 667.

The broad real TWD established a major (and record) bottom at 80.5 in July 2011. Over the past several months, it soared to levels beyond the important October 2008 elevation and ultimately attacked March 2009's pinnacle. In November 2014, it reached 88.8, the September 2008 signpost, rising to 90.6 in December 2014. The July 2015 TWD (calculated prior to China's renminbi depreciation) stood at 95.5. The broad real TWD's 18.6 percent bull leap from its July 2011 trough at 80.5 to July 2015's 95.5 height exceeded its 15.1pc climb from April 2008 to March 2009 during the global financial disaster.

Although the broad real TWD is not reported daily, the nominal TWD is. The nominal TWD's recent low, 5/15/15 at 112.8, occurred shortly before the S+P 500's 5/20/15 high at 2135.

Bordering the time of the August 2015 price collapse in the S+P 500, the broad real TWD for August 2015 to date probably broke above March 2009's major top at 96.9. For August 2015 through 8/21/15 (the most recent available statistic), the nominal TWD averaged 119.2. This gains 1.78pc versus July 2015's 117.1 nominal TWD monthly average. Adjusting July 2015's broad real TWD average for that is 95.5*1.0178, or about 97.2, a new high. The S+P 500 cratered following 8/19/15's 2096 height.

Daily statistics probably will reveal the nominal TWD achieved its August 2015 high on or around the day the S+P 500 touched its lows.

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China's recent devaluation and its aftermath capture much attention from marketplace warriors and media ranks. The high for the Chinese renminbi against the US dollar was over eighteen months ago, at 1/14/14 around 6.04. The slide to 8/12/15's 6.45 depth is about a 6.8pc move. China's deliberate renminbi depreciation represents a shot fired in ongoing currency wars (competitive devaluations) and trade battles.

However, in assessing China's currency policies, and although recent Chinese policy bulletins turned the spotlight on the dollar/renminbi cross rate, one also should focus on broader Chinese currency measures. According to the Bank for International Settlements, China's broad real effective exchange rate ("EER", 2010=100; 8/17/15 release) reached a new peak at 132.1 in July 2015 (data goes back to January 1994), inching over March 2015's 131.7.

Compare the EER for China's trading competitors such as Japan. Japan's June 2015 EER of 68.2 established a new low for the 1994-present span; July 2015's was 69.1.

In August, China spent money defending the renminbi against further depreciation. However, China's real GDP rate probably will continue to slow. So unless growth picks up notably, China is not necessarily finished devaluing. China's currency and stock marketplace policies of course are not the same. However, note that China has abandoned its large-scale share acquisition program as a means to boost equity prices (Financial Times, 8/31/15, p1). Will it eventually choose to cease supporting the renminbi at around 6.45 versus the US dollar?

BULLS VERSUS BEARS: TRENCH WARFARE IN STOCK MARKETPLACES

"Weapons change, but strategy remains strategy, on the New York Stock Exchange as on the battlefield." Edwin Lefevre, "Reminiscences of a Stock Operator"

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THE USA FRONT

The army of US stock marketplace bulls (including "investors") suffered significant casualties in the recent violent price drop.

	S+P 500	Dow Jones Industrial Avg	Nasdaq Composite	Wilshire 5000	Apple
Recent High	2135	18351	5232	22537	134.54
	(5/20/15)	(5/19)	(7/20)	(6/22)	(4/28)
Recent Low	1867	15370	4292	19717	92.00
	(8/24/15)	(8/24)	(8/24)	(8/25)	(8/24)
Percent Fall	**12.6pc**	**16.2**	**18.0**	**12.5**	**31.6**

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The Wilshire 5000's initial high occurred about a month before and almost at the same price as its 6/22/15 one, on 5/20/15 at just under 22537 (rounding up). The timing of its summit thus fits closely with those in the S+P 500 and DJIA. The Wilshire's final high on 7/20/15 at 22457 aligns with the final tops in Nasdaq and Apple.

Apple is a very large, profitable, and widely-watched corporation currently seen by many as a stock marketplace trend leader. Other recent Apple highs stand alongside the 4/28/15 one. These include 2/24/15's 133.60, 5/22/15's 132.97 (about the same day as S+P 500 and DJIA tops), and 7/20/15's final high at 132.97.

The VIX volatility index rocketed up to 53.3 on 8/24/15 (it rested peacefully at 11.8 on 7/31/15).

The low close in the S+P 500 during its recent slide was 1868 on 8/25/15. The low at 1867 neighbors 10/21/14's important interim low at 1821.

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Despite America's robust 2Q15 growth (3.7 percent annual rate), recent US and global equity marketplace declines probably reflect (confirm) slowing worldwide growth rates and suggest that substantial US corporate profitability probably will not persist.

Foreigners were net sellers of US stocks over the first six months of 2015, averaging net sales of about $8.1 billion per month (US Treasury, TIC data).

OTHER STOCK MARKETPLACE BATTLEFIELDS

Let's next review recent price statistics from the combat within seven other notable stock marketplace territories around the globe. The SXXP, DAX, FTSE, SPTSX, and Nikkei represent advanced economies; the MXEF and Shanghai Composite are emerging marketplace stock weathervanes. In the table below, "SXXP" is the STOXX Europe 600 European Stocks Index. "SPTSX" is Canada's S+P/Toronto Stock Exchange Composite Index. The MSCI Emerging

Stock Marketplace Index (from Morgan Stanley; "MXEF") is a key yardstick for emerging marketplace stocks. Note the gains surrendered in recent months by these various indices.

	Europe 600 **SXXP**	**German** **DAX**	**UK** **FTSE**	**Canada** **SPTSX**	**Japan** **Nikkei**
Recent High	415.2 (4/15/15)	12391 (4/10)	7123 (4/27)	15685 (9/3/14)	20953 (6/24/15)
Recent Low	332.0 (8/24/15)	9338 (8/24)	5768 (8/24)	12705 (8/24)	17714 (8/26)
Percent Fall	**20.0**	**24.6**	**19.0**	**19.0**	**15.5**

Canada's key summit in early September 2014 preceded the spring 2015 ones in the United States, Europe (SXXP, DAX, FTSE), and Japan. However, its second top, 4/15/15's 15525, occurred alongside European (especially) and American marketplaces.

The SXXP's 2015 top pierced its 2007 Goldilocks Era major high, 7/13/07's 401, but it did not sustain a rally over it. The close connection in stock trend and timing for the SXXP in the current era mirrors that for the Goldilocks Era and the ensuing global economic crisis. The July 2007 SXXP crest occurred alongside the initial summit in the S+P 500 (7/16/07's 1556). The final top that year in the SXXP, 10/11/07's 391, coincided with the S+P 500's 10/11/07 major high at 1576. The SXXP's major bottom was 3/9/09 around 155, the S+P 500's 3/6/09 at 667.

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	MXEF	**China** **Shanghai Composite**
Recent High	1104 (9/4/14)	5178 (6/12/15)
Recent Low	763 (8/24/15)	2851 (8/26)
Percent Fall	**30.9**	**44.9**

The MXEF made a second and lower high on 4/27/15 around 1069. This second plateau's timing thus occurred near in time to the spring 2015 ones in many advanced nations and China.

Compare the time of Canada's stock pinnacle on 9/3/14 with the MXEF's key one on 9/4/14.

As noted above, China admitted the defeat of its massive spending scheme aiming to support its stock marketplace.

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What's the bottom line? Reviewing these various US and diverse international stock marketplace scorecards together, spring 2015's similar time for highs followed by significant price declines is noteworthy. This underlines the likely slowing of worldwide growth in general. It also shows that stock trend benchmarks for America are nowadays rather closely connected to those elsewhere, including emerging marketplaces. The similar timing of lows in August 2015 emphasizes that worldwide equities in general currently are "trading together". Renewed roughly simultaneous retreats in emerging and advanced nation stock benchmarks would be an ominous sign to equity bulls and for world GDP growth rates.

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Emerging marketplace stocks (MSCI Emerging Stock Marketplace Index; "MXEF") and commodities "in general" have endured murderous bear trends for quite some time. Despite the worldwide economic recovery, the MXEF never exceeded 4/27/11's 1212 peak (which in turn hovers beneath the 11/1/07 Goldilocks Era resistance at 1345). The MXEF's bear retreat from its April 2011 top is about 37.0 percent, that from its November 2007 apex 43.3pc. The long-running declines in emerging marketplace stocks and tumbles in commodities warn of (confirm) slowing worldwide growth.

In regard to the MXEF's 4/27/11's 1212 height, underscore the TWD's mid-2011 peak. The continued rally in the TWD after end-year 2014 (recall November 2014's 88.8) intertwined with emerging stock marketplace feebleness. Weakness in the MXEF thus may interconnect with (confirm) strength in the broad real TWD. Such MXEF weakness warns of (can lead or confirm) a S+P 500 decline.

COMMODITIES "IN GENERAL"

"Gonna leave this brokedown palace
On my hands and my knees, I will roll, roll, roll
Make myself a bed by the waterside
In my time, in my time, I will roll, roll, roll". "Brokedown Palace", the Grateful Dead

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To underline the growth slowdowns in emerging marketplaces in general, why not review commodities alongside the MXEF stock indicator? There are various commodity benchmarks. The broad Goldman Sachs Commodity Index is heavily petroleum-weighted.

	MXEF	**Broad GSCI**
Peak 2011	1212 (4/27/11)	762 (4/11 and 5/2/11)
Recent High	1104 (9/4/14)	673 (6/23/14)
Recent Low	763 (8/24/15)	334 (8/24/15)
Percent Fall From the 2014 High	**30.9**	**50.4**

Like the MXEF, the broad GSCI has not exceeded its spring 2011 highs. The GSCI slumped down 56.2 percent from that lofty 2011 pinnacle (and many miles from 7/3/08's 894 major top). The GSCI renewed its withering bear trend following 6/23/14's interim top at 673. Compare the date of the $110.48 high in OPEC's crude oil basket, 6/20/14. Brent/North Sea crude oil established its final top on 6/23/14 around $115.7 (nearest futures continuation). NYMEX crude (nearest futures continuation) attained its final plateau about $107.7 on 6/20/14.

In their 11/27/14 meeting, OPEC oil ministers decided to maintain their production quotas. The terrifying GSCI collapse accelerated after that gathering, stopping on 1/29/15 at 372 (down

51.1pc from the April 2011 peak). It bravely climbed up to 459 on 5/6/15 (compare the low in the nominal TWD on 5/15/15). However, it thereafter resumed its crushing descent, making a 334 low on 8/24/15 (Brent/North Sea low $42.23 on 8/24/15; NYMEX crude low $38.16 on 8/25/15) before explosively rallying.

The OPEC basket reached a low of $40.5 on 8/25/15. News reports since have erupted. These state: "OPEC concerned by oil drop, ready to talk to other producers" (for example, see Reuters, 8/31/15, citing a recent OPEC Bulletin as evidence). Is OPEC now altering its strategy? Will non-OPEC producers such as Russia agree to output cuts?

OTHER MARKETPLACE FORCES: INTEREST RATES

Note not only important recent movements in key interest rate securities marketplaces, but also their links to trends in equity fields.

If US stocks recently reached "too high" levels due to subdued interest rates, rising interest rates (or growing fears of them) can be a factor inspiring those equities to retreat (pop their bubble). The S+P 500's 5/20/15 top at 2135 followed a period of rising UST 10 year note yields. The recent high in the European stock marketplace (STOXX Europe, 600 stocks; SXXP") was about 415 on 4/15/15, around the day the Bund yield spike commenced.

The United States and German debt security price bull trends reversed a few months ago (a so-called bubble burst). The 10 year US government note established an important yield bottom at 1.64 percent on 1/30/15, above 7/25/12's major bottom at 1.38pc. The 30 year UST bond's low was 2.22pc on 1/30/15. Since January 2015's valley, the US 10 year rate shot up roughly 50 percent to 6/11/15's 2.50pc. The 10 year German government note made a key bottom on 4/17/15 close to zero, at .05 percent. This occurred not long after the UST 10 year note made a minor low at 1.80pc on 4/3/15. Bund yields thereafter blasted higher, reaching 1.06pc on 6/10/15.

June 2015's American and German government note yield highs did not endure. As the S+P 500, SXXP (and DAX), and other stock marketplace benchmark declines accelerated, yields ran lower. The 10 year UST's 8/24/15 low at 1.90 percent and the Bund's 8/24/15 trough at .51pc occurred around the time of lows in various stock marketplaces.

The Japanese government 10 year JGB made a significant bottom in 2015 shortly before the UST's, on 1/20/15 at .20 percent. It hopped up to .55pc on 6/11/15, yet fell to .35pc on 8/24/15.

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Tacticians should monitor yield trends in US (and other) corporate bonds and credit spread relationships between government and corporate debt. Moody's Baa index of corporate bonds established a low at 4.29pc on 1/30/15, the day of the UST 10 year's low. The Baa index motored up to 5.30pc on 6/26/15 and 5.32pc on 7/10/15. Though it dipped to 5.08pc on 8/3/15, it rose to 5.38pc on 8/26/15. (Fed, H.15). Widening US credit spreads can confirm weakness in the S+P 500.

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Inflation of course is not the only source of rate jumps. The history of junk bond marketplaces and sovereign debt crises (including the current Greek situation) shows that creditworthiness fears (lack of confidence in ability to pay debt obligations) can ignite rate rises.

CENTRAL BANKS

In the famed 1987 movie “Wall Street” (Oliver Stone, director), Gordon Gekko declares: “Now you’re not naïve enough to think we’re living in a democracy, are you, buddy? It’s the free market. And you’re a part of it. You’ve got that killer instinct. Stick around pal; I’ve still got a lot to teach you.”

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In practice, how free is the beloved “free market”, whether on Wall Street or elsewhere in commerce? In practice, are central banks and politicians always devoted to so-called free markets? To what extent do they restrict themselves from entering into and manipulating (influencing; maneuvering) marketplaces?

“Playing Percentages: Stock Marketplace Games” (7/13/15) discussed in detail the probabilities of Federal Reserve policy rhetoric and actions if the S+P 500 fell five, ten, or twenty percent or more from its May 2015 peak.

The S+P 500’s vicious fall from its May 2015 pinnacle reached and exceeded the important ten percent landmark. Horrifying crashes in other key worldwide equity marketplaces accompanied the S+P 500’s breathtaking drop. Fears of economic weakness in America and around the globe soared. As “Playing Percentages” forecast, the ferocious Federal Reserve force mobilized rapidly, rushing to the rescue with rhetoric aiming to steady stock prices and mitigate worries. A top gun, the President of the New York Fed, William Dudley, proclaimed on 8/26/15 (during the “Economic Press Briefing”) that the case for a September rate rise “at this moment” had become “less compelling to me than it was a few weeks ago” (reported in the NYTimes, 8/27/15, ppB1-2). However, he says: “Normalization [in September’s meeting] could become more compelling” depending on US economic performance and “more information on international and financial market developments”. His misty reference to “financial market developments” surely includes stock marketplace trends and levels. He hopes for a rate move later this year even if the Fed hesitates now.

Related declarations from several other Fed generals in regard to the current economic situation do not all exactly mirror Dudley’s. They likewise are not crystal-clear, and they generally reflect adherence to the bank’s beloved data dependence doctrine. However, Fed talk of Federal Funds rate increases encouraged weakness in the S+P 500. Thus all else equal, Fed wordplay hinting that it may postpone rate escalation can rally the S+P 500, at least for a while. The timing and substance of the verbal barrage from these worthy sentinels on balance therefore indicates an effort to bolster the S+P 500 via a willingness to postpone tightening (if circumstances warrant a delay).

For example, see the speech by the Fed Vice Chairman, Stanley Fischer (“U.S. Inflation Developments”, 8/29/15; Kansas City Fed’s Jackson Hole Economic Symposium) at the end of the recent tumultuous week. He remarked: “we need to consider the overall state of the U.S. economy as well as the influence of foreign economies on the U.S. economy as we reach our judgment on whether and how to change monetary policy. That is why we follow economic developments in the rest of the world as well as the United States in reaching our interest rate decisions”. The Fed is paying especially close attention to China.

The Fed Vice Chairman also heralded “it’s [too] early to tell” whether there will be a rate hike in September (CNBC interview, 8/28/15). The NYTimes assembled a variety of opinions of Fed leaders regarding the timing of normalization (8/29/15, ppB1, 7). The article trumpets “Fed

Officials Don't Seem In the Mood To Wait". Yet the assorted remarks from Fed sheriffs nevertheless indicate they await more information regarding whether to boost rates in September. Marketplace "volatility" (particularly the extent of a decline in the S+P 500) probably will significantly influence whether this occurs then or sometime later in 2015 (or at all).

As the S+P 500 collapsed, other influential economic players also trotted on to the rhetorical battlefield to fight against Fed tightening (normalizing). Former US Treasury Lawrence Summers (Financial Times, 8/24/15, p1), shouted that "The Fed looks set to make a serious mistake" by raising rates, whether in September or by year end. "But a reasonable assessment of current conditions suggest that raising rates in the near future would threaten all three of the Fed's major objectives—price stability, full employment and financial stability."

Watch signals such as the US five year forward inflation expectation rate (St. Louis Fed). Since the start of 2010, it approximately has ranged between slightly under two percent to around three pc. This signpost made initial lows at 1.93pc on 1/29/15 and 3/17/15 at 1.94pc. It thereafter gradually edged up, reaching 2.19pc on 6/25/15. It fell to 1.87pc on 8/24/15 (around the time of stock marketplace lows). This arguably worried the Fed since it penetrated first quarter 2015 depths, although it edged up to 1.96pc as of 8/27/15.

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In any case, the more (and longer) the S+P 500 decline from its peak exceeds ten percent, and especially if other international stock benchmarks and the US and other important economies are weakening, the greater the chance of Fed easing wordplay, Fed delays in raising rates, and even other Fed easing action.

The greater the S+P 500 decline, particularly around 20 percent or more from its pinnacle, the greater the chance of dramatic Federal Reserve easing, including using such ammunition as another round of money printing. In a scenario of global economic weakness, the European Central Bank and Bank of Japan may expand their quantitative easing schemes.

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The Fed assembles September 16-17, October 27-28, and December 15-16, 2015. Suppose the Fed raises rates, whether in September 2015 or later (and perhaps again thereafter). Yet any given rate increase does not preclude renewed Fed easing, including bringing out QE from its arsenal, if the Fed later decides the economic landscape has deteriorated enough to warrant such easing.

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